



SIMPSON MANUFACTURING CO., INC.

2003 annual report



STRONG, CONSISTENT GROWTH

	1998	2003
Sales	\$279MM	\$548MM
Income from Operations	\$51MM	\$98MM
Operating Margin	18%	18%
Net Income	\$31MM	\$61MM
Diluted EPS*	\$1.28	\$2.42
Sales per Employee	\$209,000	\$244,000
Share Price* (at December 31)	\$18.72	\$50.86

*Adjusted to reflect two for one stock split in August 2002.



In this annual report, we show some of the innovative and creative ways that Simpson people have solved business problems, improved customer service, increased productivity and sales, and improved many other aspects of our business.

Our company culture encourages everyone to be involved in improving the way we do business.

We are very proud of the quality product that we make, and work hard to provide excellent levels of service to our customers. We believe that Simpson is successful because of its people.

Cover photo: Multi-story testing at our Research Lab, dedicated to Tyrell Gilb in April 2003.

STOCKHOLDERS' MESSAGE

This 2003 edition of the Simpson Manufacturing Annual Report is focused on the major reason why, every year since we went public in 1994, we have posted record sales and earnings - our people!

We attract and keep the very best due to a continuous effort to make this Company an excellent place to pursue a career, not just a job while looking for a better opportunity. One key element is that our horizon is long range. We invest in markets, products, and projects that may not pay immediate or even short range returns, but should lead to future sales and profits.

We hire and build strong people by, amongst other policies, one of decentralization. For example, our branches, which are located to serve the major markets in the U.S., Canada, and Western Europe, have their own manufacturing plants and sales forces. Before the start of a new year, each branch sets ambitious sales and profit goals that fit within the entire company's goals, and that the people in that branch feel are achievable. The stock options assigned to the people in a particular branch are not granted unless that branch makes its profit goals for the year. In 2002 and 2003, the majority of the branches, and the entire Company made their goals, so most of the possible options were granted. In 2000 and 2001, such was not the case and, despite the fact that sales and profits set records, less than 1/10th of the potential options were granted, and none of them to the people at the home office.

Informality is prevalent. Such things as first names, lack of assigned parking places, no dress codes (*but be covered!*), no organization charts, and respect for people at all levels are part of our culture. We promote from within; very seldom do we go outside to fill a key job. Aside from the usual benefits, we have scholarships and education programs for our people and their progeny, as well as an unusually high level pension plan, funded entirely by the Company, every year.

Everyone knows that superior performance is expected, but it is rare for us to lose anyone, except for retirement, or an infrequent bad match.

We had three key retirements last year:

Dick Perkins, who was the Simpson Strong-Tie Branch Manager in both Texas and Brea,

and finished his career as VP & General Manager of the newly formed Anchor Systems division. Dick has been an important player in the building and success of this Company for the past 22 years. His Sales Manager, Terry Kingsfather, replaced him, and already is proving yet another success story for promoting from within.

Another was Don Townsend, the President and CEO of Simpson Dura-Vent, who had been in charge of building Dura-Vent into a highly successful division of Simpson Manufacturing for 22 years. The IT manager at Simpson Manufacturing, Steve Eberhard, who has considerable other kinds of business experience also, replaced Don. Steve already has proven to be an outstanding choice. Dura-Vent's sales were up 7% for the 4th quarter, and 6% for the year. Considering the loss of the majority of business from Dura-Vent's biggest customer, both increases were somewhat surprising.

Yet a third retiree was Bill Leek, whose extraordinarily creative mind had designed a variety of new structural products over the past 20 years. His latest, a new kind of shearwall, should go into production this year.

To all three, we say, "Thank you," and the very best of what we know will be extremely active retirements.

We are also grateful for the contributions of Sunne Wright McPeak, who was one of the original four outside members of our Board of Directors. Sunne was selected by Arnold Schwarzenegger to be his Secretary of Business, Transportation, and Housing. Our loss is the State of California's gain.

Our thanks also to you investors, who have been kind enough to read the above about our people. Aside from the positive results mentioned above about Simpson Dura-Vent, and Anchor Systems, here are some other developments.

Home center business was strong, up 27% in the 4th quarter, and 20% for the year. Part of the reason was that an increasing number of outlets are stocking our epoxies. Also, quite a few of our connectors made out of ZMAX™, a coating on the raw steel double our usual thickness, are now being sold. These products have a much stronger resistance to corrosion, and are being specified wherever the elements - seacoasts for instance - or the chemicals

used to treat wood, are especially degenerative. Our ZMAX™ products were already being used to some extent, but the demand escalated when the chemicals used to treat some types of wood used in construction were changed. Our sophisticated testing facilities, including the \$12 million Tyrell Gilb Lab in Stockton, California, make us the industry leader in analyzing the effects of such changes, as well as those caused by forces of nature.

We are succeeding in building a brand name in Europe, as shown by the sales increase of approximately 20% in constant dollars. Included are our first revenues from Russia, sold from our Polish operation. We now have a 12 page catalog, printed in Russian. What we did not achieve in Europe was a profit last year. We think that we have the team in place to be in the black this year; however the health of the economies that we serve still is varied. Although building a strong brand name there, as we have in North America, has taken longer than first anticipated, Europe remains an important part of our future plans.

Our Canadian acquisition last year, MGA, has integrated well, and we now are the leading structural connector manufacturer in Canada, as well as the U.S. and Europe. MGA provided us with additional products, as well as a strong management team with considerable market knowledge.

Another important piece of our future plans, Anchor Systems, made considerable progress last year. Sales were up 33% in the fourth quarter, and 24% for the year. The deficit was less than \$1 million for the first time, as opposed to over \$3 million in 2002.

Despite increasingly strong competition for our Strong-Wall® shearwall, sales were up 20% in the fourth quarter, and 13% for the year.

And finally, our Board of Directors has declared a dividend of \$0.10 per share to shareholders as of April 5.

Sincerely,

Tom Fitzmyers
President & CEO

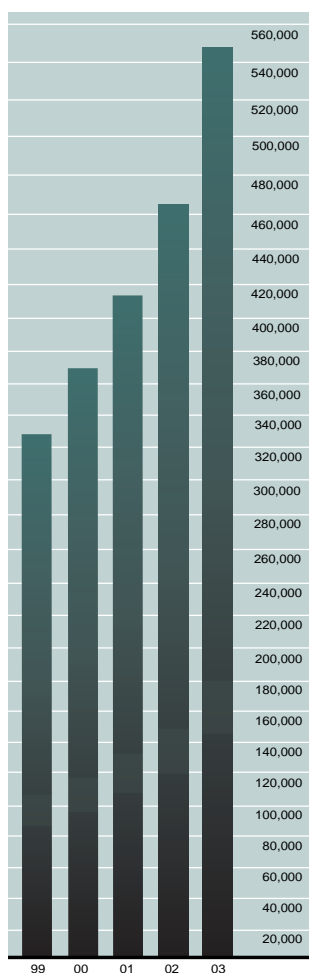
Barclay Simpson
Chairman

FINANCIAL HIGHLIGHTS

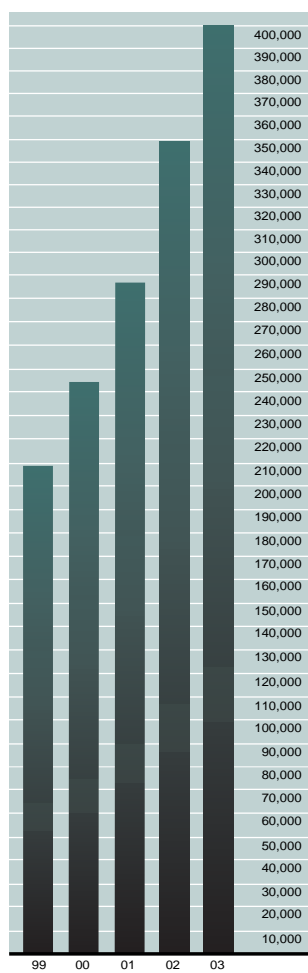
(dollars in thousands except per share amounts)

	2003	2002	Percent Change
Net Sales	\$548,182	\$465,474	17.8%
Income from Operations	\$98,073	\$86,083	13.9%
Net Income	\$60,562	\$51,934	16.6%
Diluted Earnings per Share*	\$2.42	\$2.09	15.8%
Total Assets	\$460,249	\$396,401	16.1%
Stockholders' Equity	\$400,304	\$349,184	14.6%
Common Shares Outstanding*	24,995,493	24,807,549	0.8%
Number of Employees	2,244	2,102	6.8%

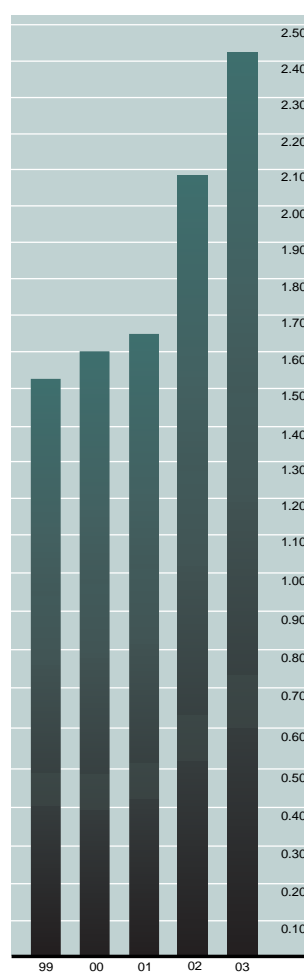
NET SALES



STOCKHOLDERS' EQUITY



EARNINGS PER SHARE*



*Adjusted to reflect two for one stock split in August 2002.

THE SUM OF OUR PARTS

To increase press capacity, and avoid product shortages, production of about four dozen products was moved from another plant to SST Brea. Tooling was quickly shifted to Southern California (and in some cases steel coil as well). Brea began production, and quickly became the supplying branch to the entire company for many products that had never been produced there before.



Left to right: Ruben Tafoya, Jorge Serrano, and Vicente Barragan inspect production of the HHUS46 being run in our 300 ton Komatsu press. (photo by Paul Larsen)



Left to right: Albino Mancilla and Ignacio Landa running the RTF2Z in our 400 ton Komatsu press. (photo by Paul Larsen)

From the five original employees who started our company in 1956 to the more than 2,000 who work for the Simpson companies today, one thing has never changed: our reliance on each employee to do his or her best as we work together to meet challenges, improve performance, and achieve successes. Some of the results of this success are presented in this report.

We prefer to promote from within our organization. Two excellent examples of this are Terry Kingsfather and Steve Eberhard. Together, they have shown exceptional versatility, talent and the ability to help the company grow.

Terry joined Simpson in 1979 as a sales representative for Oregon. In 1985, he was promoted to NW Regional Sales Manager for Simpson Strong-Tie's connector product line. After we moved into the Anchor Systems market, he was the first Anchor Systems sales representative (1996), and was promoted to National Sales Manager (1998) and Vice President of Anchor Systems in September 2003.

Steve joined the company in 1983. He was Simpson Strong-Tie's first Cost Accountant, and in 1984 was recruited to Simpson Dura-Vent as Controller (*being a Certified Public Accountant*) and Purchasing Manager. He returned to Strong-Tie (1987) in the newly-created position of MIS Manager. He was named Vice President of Information Systems (1993) and is now President and Chief Executive Officer of Simpson Dura-Vent.



Cell #1 in SST McKinney is the cellular manufacturing press line that produces all the LSTA and MSTA straps using fully-automated equipment to produce and package. The operator needs only to do quality inspections and ensure equipment performance. The Cell #1 Rebuild Team reconstructed the cell to improve production run times, and to decrease carton problems, operator handling, and customer complaints.

Left to right: Neil Bayes, Vince Brown, Dwayne Athey, Ron Earl, Max Strawn, Victor Reyna, Pedro Mendez, Mark Falco and Aaron Lee. (photo by Joe Ritchie)

SIMPSON STRONG-TIE

Two members of SST Canada played an integral role in the development of the new One Piece Tool. This has helped to dramatically extend the tool life in the manufacturing process of the Titen HD high strength screw anchor.

Left to right: Jai Naraine and Egisto Deluca. (photo by Rob Mendonca)



SST Columbus improved their inventory process by increasing training, improving warehouse rack labelling and introducing barcoding. The result? Labor and overtime savings, reduction in inventory time and improved employee morale.

Left to right: Ken Berninger, Tiffany Weethee, Phil Taylor, Doug Montgomery, Mary Poorman, Rick Nolan; Carl Moore. (photo by Dave VanCuren)



Richard Souza at the new 300 ton Minster press in SST Stockton, the first auto press in that facility. (photo by Rob Granzow)

CONNECTORS

We have seven new products in the Simpson Strong-Tie connector line-up. They include roof clips, hurricane ties and high capacity hangers, as well as strap ties and rigid corner brackets for the do-it-yourself market. The Architectural Products Group consists of aesthetically pleasing, pre-finished connectors and innovative concealed joist ties designed for exposed wood applications. These connectors provide structural performance and add a unique appearance feature to a project.

ANCHORS

Our new products have helped fuel sales growth. Our line of adhesives has expanded to include the new ETI crack injection epoxies for the repair of cracks in concrete. We've also introduced cost saving accessories to support the ETI products, including the new Opti-Mix™ mixing nozzles and E-Z-Click™ ports for crack injection application.

Our Powder Actuated Tool line has benefited from the introduction of two new tools. The first is a premium automatic tool ideal for longer fasteners. The second is also automatic, and features a fastener magazine that allows rapid fastening of shorter pins.

Anchor Systems continues to encounter success opening new distribution accounts on a regional and national level. One example is the conversion of 82 Orchard Supply Hardware locations to the Simpson anchor line.



Looking for help? The SST McKinney Group Leads and Die Setters Team now have red shirts to be more visible and available to support machine operators. This has increased our operators efficiencies by being able to readily see them and get the help that they need.

Left to right: Rey Grimaldo, Bobby Sutherland, Rafael Lopez and Frank Ochoa. (photo by Joe Ritchie)

SIMPSON DURA-VENT

Simpson Dura-Vent employs the Kaizen method to reduce waste from the manufacturing process. People on the production floor work together making decisions on how best to run equipment, set up production lines and improve the manufacturing process.



SDV Vacaville Paint Line has been mostly automated, with the exception of the packaging and spray paint. It has a biodegradable parts cleaner with a dryer, a spring station and a baking station. The Paint Line increased the output 10 to 15 fold. Vacaville's R&D lab, in conjunction with our paint vendor, developed a high-quality, water-based paint, that met all new environmental standards. This has proven to give a better quality, longer-lasting finish.

Left to right: Miguel Uribe, Sigifredo Barajas, Jorge Cobos, Maximino Ramirez and Noe Martinez. (photo by Sherry Terrell)



A dedicated line at SDV Vacaville was set up to produce tops at reduced cost and with fewer people. Set up time was cut by 75%.

Left to right: Arthur Moreno, Carolina Arriaga, Esther Manzo and Virginia Vasquez. (photo by Sherry Terrell)



The SDV Vacaville Small Pipe Line produces Direct-Vent and B-Vent pipe. The layout of the line was rearranged after the Kaizen event, increasing the efficiency and output of the line. It runs with fewer people and takes less time to set up.

Left to right: Lam Lai, Eulises Rojas, Hung C. Nguyen, Luat Nguyen, Virginia Valencia, Jose Andrade, Jose Lopez, Jose Rubalcava, Roberto Jimenez, Veronica Bejarrano and Yolanda Madrigal. (photo by Sherry Terrell)

VENTS

Simpson Dura-Vent employs the Rapid Continuous Improvement (RCI) and Tahkt Time manufacturing concepts, which are integral to Kaizen manufacturing management.

RCI utilizes production line worker input to organize traditional production line manufacturing into highly efficient cell manufacturing. Manufacturing cells provide compact, self-contained assembly areas that most efficiently utilize labor, floor space and equipment to achieve maximum efficiency thus reducing manufacturing costs.

Tahkt time is an extension of RCI that integrates cell manufacturing with precise inventory control of high volume, complex assembled finished goods. This process allows for continuous production of those items so that finished goods are immediately available to fill customer orders.

In support of both RCI and Tahkt Time implementation, in 2003 Simpson Dura-Vent deployed its first laser cutting equipment. This eliminates lost production time hand forming or farming out certain component parts required for many of the company's complex assembled items. Deployment of the laser equipment was instrumental in increased production efficiency in 2003.



The Automatic Elbow Line is now one of the most efficient lines at SDV Vacaville. Before the automation, everything was manual. The Automatic Elbow line has reduced the number of people and the set up time. The swivel on the elbow has also been automated and more equipment is being added to increase the capacity of the line. This has reduced costs, helped to produce a better quality part, increased output, and improved customer service.

Left to right: Froylan Bermudez, Hung M. Nguyen, Hung Van Ngo, Huong Nguyen, Isidro Ramirez, Luis Figueroa, Maria G. Ramirez, Maria I. Almanza, Marivel Vargas, Martha Birrueta, Ramiro Aguilar, Tehauna Garcia, Thuy Thanh Nguyen and Yolanda Hernandez. (photo by Sherry Terrell)

NEW FACILITIES



To automate the joist hanger packaging process, SST France worked with an outside vendor to develop a robot designed for the task. Some of our most experienced employees, such as operators, shift leaders and maintenance staff, were involved in the design and evaluation. The benefits of adding this new robotic machine are multiple—employee safety is increased and the production made more efficient and reliable.

Left to right: Gerald Hibon, Bruno Garnier, Jean-Pierre Douaud, Freddy Orth, Frederic Papin. (photo by Laurent Versluysen)



The Simpson Manufacturing Accounts Payable team in Dublin implemented the Automatic Clearing House (ACH) check handling system across the United States. Now, payment to vendors and employee expense reimbursements are made electronically, instead of using manual checks. This virtually eliminates check fraud, speeds up payments, and decreases our accounting management costs.

Left to right: Lillian Ramos, Laurel Isler and Julie Fernandez. (photo by Joe Way)



The Stockton Strong-Wall® Shearwall team moved from the original Manteca Strong-Wall® facility for more efficient, cost-effective production.

Left to right: Octavio Samano, Ashrat Ali, David Hernandez, Miguel Rosado, Mark Gunder, Ramon Alvares. (photo by Rob Granzow)

TYRELL GILB RESEARCH LABORATORY

Our most exciting addition was the opening of our new Tyrell Gilb Research Laboratory in Stockton, California. This facility was the result of a team effort by many of our R&D engineers working closely with the architect and contractors to build a one-of-a-kind laboratory devoted to testing the effects of earthquakes and high wind on multi-story light-framed residential and commercial buildings. We dedicated the building in April 2003 with many representatives from industry, academia and the media in attendance. The highlight of the open house was a demonstration of the shake table subjecting a 3-story wood frame wall to stresses simulating the force of the Northridge, California, earthquake and then the Kobe, Japan, earthquake.

STOCKTON MANUFACTURING PLANT

Literally across the road from the new lab is Simpson's newest connector and shearwall manufacturing plant. Opened on January 1, 2003, the new plant has over 415,000 sq.ft. of manufacturing and warehouse space and 25,000 sq.ft. of office space. The first of our automatic presses was moved into the facility towards the end of 2003. All of this expansion requires close co-ordination between construction, planning and production teams. In fact, so well coordinated was the move from San Leandro to Stockton, not one day's delay was evident in our customer service or delivery schedules.



SST Brea was having difficulty maintaining their customary 48 hour lead-time for the production of customer special products. Their existing NC turret presses were unable to keep up with the unexpectedly heavy volume. SST Columbus had an extra Amada Vela press in storage – which was trucked to Brea, set up and was running in 2 weeks. Brea is once again able to meet their commitment to their customers for the many special products that are ordered.

Left to right: Ismael Soto, Miguel Cota, and Martin Moreno with a special workorder at the Amada Vela workstation. (photo by Paul Larsen)

NEW CHALLENGES



The UK Technical Team shows off the new Safety Fast system. Recent amendments to the UK Building Regulations for thermal insulation placed more stringent controls on the amount of air leakage allowed through external walls—joists now may not be built directly into masonry walls. Also, UK contractors demanded improved and safer methods of supporting joists from masonry walls. The SST UK team developed the Safety Fast system, which provides safe and effective solutions for contractors while satisfying UK Regulation requirements.

Left to right: Sarah Drakeley, Paul Clayton, Paul Royal, Peter Wild.
(photo by Ian Harrison)



A team in SST McKinney engineered, installed and did the trouble shooting to get the PGT2 Auto Screw Insertion system running. This increased capacity by increasing production and providing a finished product that was "ready to go" for our customers. Customer complaints in the field have decreased, as the inserted screws are less likely to get lost.

Left to right: Max Strawn, Dwayne Athey, Neil Bayes, Mark Falco, Ron Earl, Victor Reyna, Vince Brown, Pedro Mendez and Scott Love.
(photo by Joe Ritchie)



IMPROVED QUALITY

Simpson Strong-Tie's continuing commitment to our ISO 9001 standards has led us to improvements in all areas of manufacturing, procurement and quality control. See the photos for some examples of these improvements.

IMPROVED CUSTOMER SERVICE

All contacts with our customers benefit from the team-oriented approach to customer service. This involves not just the inside sales staff, but also the production crews, marketing support, and sales people in the field.



A shipping team at SST Stockton created a dedicated National Accounts/ Home Center shipping area. Products slated for this market have been consolidated in a separate area and stacked appropriately to reduce carton crushing. Low stock items are now easier to identify and fill, and home center order efficiency has improved by 25%, with fewer hands involved.

Left to right: Juan Gonzalez, Rob Granzow, Terra Clarke-Watson.
(photo by Steve Jutras)

Arne Kolding checks one of the eight automatic machines at BMF-Simpson in Denmark.
(photo by Hendrik Bentsen)



The SDV Vicksburg shipping team handles it all - line pulling, getting inventory ready for outgoing shipments, making trucking arrangements and UPS shipments, as well as training team members on the forklift.

Left to right: Kenneth Preston, Walter Griffin, Leonard Claiborne, Michael Ellis (forklift driver); Loria Carter, Eddie McClendon and Gary Davenport
(photo by Christopher Barnett)



OFFICE

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USA

OFFICERS

Barclay Simpson

Chairman

Thomas J Fitzmyers

President and Chief Executive Officer

Michael J. Herbert

Chief Financial Officer, Treasurer and Secretary

Stephen B. Lamson

*President and Chief Operating Officer,
Simpson Strong-Tie Company Inc.*

Stephen P. Eberhard

*President and Chief Executive Officer,
Simpson Dura-Vent Company, Inc.*

BOARD OF DIRECTORS

Barclay Simpson ^{4}

Chairman

Thomas J Fitzmyers

President and Chief Executive Officer

Stephen B. Lamson

*President and Chief Operating Officer,
Simpson Strong-Tie Company Inc.*

Jennifer A. Chatman ^{4}

*Paul J. Cortese Distinguished Professor of Management
Haas School of Business, University of California, Berkeley*

Earl F. Cheit ^{{2}{3}{4}}

*Dean Emeritus of the Haas School of Business
University of California, Berkeley*

Peter N. Louras, Jr. ^{{1}{2}{3}{4}}

*Interim President,
John F. Kennedy University*

Robin Greenway MacGillivray ^{{2}{4}}

*President,
SBC, Business Communications Services -West*

Barry Lawson Williams ^{{1}{3}{4}}

*President,
Williams Pacific Ventures, Inc.*

{1} Member of Compensation Committee

{2} Member of Audit Committee

{3} Member of Governance and Nominating Committee

{4} Member of Growth Committee

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

(Mark One)

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the fiscal year ended December 31, 2003

OR

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the transition period from _____ to _____.

Commission file number: 0-23804

Simpson Manufacturing Co., Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

94-3196943

(I.R.S. Employer
Identification No.)

4120 Dublin Boulevard, Suite 400, Dublin, CA 94568

(Address of principal executive offices)

Registrant's telephone number, including area code: **(925) 560-9000**

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$0.01

(Title of each class)

New York Stock Exchange, Inc.

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

As of June 30, 2003, there were outstanding 24,638,087 shares of the registrant's common stock, par value \$0.01, which is the only outstanding class of common or voting stock of the registrant. The aggregate market value of the shares of common stock held by nonaffiliates of the registrant (based on the closing price for the common stock on the New York Stock Exchange on June 30, 2003) was approximately \$666,763,062. As of February 9, 2004, 24,269,290 shares of the registrant's common stock were outstanding.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes ☒ No ☐

Documents Incorporated by Reference

The information called for by Part III is incorporated by reference to the definitive Proxy Statement for the Annual Meeting of Stockholders of the Company to be held April 7, 2004, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2003.

This document contains forward-looking statements, based on numerous assumptions and subject to risks and uncertainties. Although the Company believes that the forward-looking statements are reasonable, it does not and cannot give any assurance that its beliefs and expectations will prove to be correct. Many factors could significantly affect the Company's operations and cause the Company's actual results to be substantially different from the Company's expectations. Those factors include, but are not limited to: (i) general economic and construction business conditions; (ii) customer acceptance of the Company's products; (iii) materials and manufacturing costs; (iv) the financial condition of customers, competitors and suppliers; (v) technological developments; (vi) increased competition; (vii) changes in capital market conditions; (viii) governmental and business conditions in countries where the Company's products are manufactured and sold; (ix) changes in trade regulations; (x) the effect of acquisition activity; (xi) changes in the Company's plans, strategies, objectives, expectations or intentions; and (xii) other risks and uncertainties indicated from time to time in the Company's filings with the Securities and Exchange Commission. Actual results might differ materially from results suggested by any forward-looking statements in this report. The Company does not have an obligation to publicly update any forward-looking statements, whether as a result of the receipt of new information, the occurrence of future events or otherwise.

PART I

Item 1. Business.

Background

Simpson Manufacturing Co., Inc. (the "Company"), through its subsidiary, Simpson Strong-Tie Company Inc. ("Simpson Strong-Tie" or "SST"), designs, engineers and is a leading manufacturer of wood-to-wood, wood-to-concrete and wood-to-masonry connectors and pre-fabricated shearwalls. SST also offers a full line of adhesives, mechanical anchors and powder actuated tools for concrete, masonry and steel. The Company's subsidiary, Simpson Dura-Vent Company, Inc. ("Simpson Dura-Vent" or "SDV"), designs, engineers and manufactures venting systems for gas, wood, oil and pellet burning appliances. The Company markets its products to the residential construction, light industrial and commercial construction, remodeling and do-it-yourself ("DIY") markets. The Company believes that SST benefits from strong brand name recognition among architects and engineers who frequently specify in building plans the use of SST products, and that SDV benefits from strong brand name recognition among contractors, dealers, distributors and SDV's relationships with original equipment manufacturers ("OEMs") to which SDV markets its products. The Company has continuously manufactured structural connectors since 1956. See Note 14 to the Company's Consolidated Financial Statements for information regarding the net sales, income from operations, depreciation and amortization, capital expenditures and acquisitions and total assets for the Company's two primary segments.

Connectors produced by Simpson Strong-Tie typically are steel devices that are used to strengthen, support and connect joints in residential and commercial construction and DIY projects. SST's Anchor Systems product line is included in the connector product segment. SST's connector products enhance the safety and durability of the structures in which they are installed and can save time and labor costs for the contractor. SST's connector products contribute to structural integrity and resistance to seismic, wind and other forces. Applications range from commercial and residential building, to deck construction, to DIY projects. SST produces and markets over 5,000 standard and custom products.

Simpson Dura-Vent's venting systems are used to vent gas furnaces and water heaters, gas fireplaces and stoves, wood and oil burning appliances and pellet stoves. SDV's metal vents, chimneys and chimney liner systems exhaust the products of combustion to the exterior of the building, and some products also introduce outside air into the appliance for more efficient combustion. SDV designs its products for ease of assembly and safe operation and to achieve a high level of performance. SDV produces and markets approximately 2,400 different venting products.

The Company emphasizes continuous new product development and often obtains patent protection for its new products. The Company's products are marketed in all 50 states of the United States and in Europe, Canada, Japan, Australia, New Zealand and several countries in Central and South America. Both Simpson Strong-Tie and Simpson Dura-Vent products are distributed through a contractor and dealer distributor network, home centers and OEMs.

The Company has developed and uses automated manufacturing processes. Its innovative manufacturing systems and techniques have allowed it to control manufacturing costs, even while developing both new products and products that meet customized requirements and specifications. The Company's development of specialized manufacturing processes has also permitted increased operating flexibility and enhanced product design innovation.

The Company has developed a quality management system that employs numerous quality-control procedures. Since 1996, SST's quality management system has been registered under ISO 9001. SST achieved registration under the new ISO 9001-2000 standard for its operations in North America and England in the first quarter of 2003 and is working towards registration for its operations in Denmark and France. The Company has 15 manufacturing locations in the United States, Canada, France, Denmark and England.

The Company is a Delaware corporation organized and merged with its predecessor company in 1999. The Company serves as a holding company for Simpson Strong-Tie and its subsidiaries, and for Simpson Dura-Vent.

Industry and Market Trends

Based on trade periodicals, participation in trade and professional associations and communications with governmental and quasi-governmental organizations and with customers and suppliers, the Company believes that a variety of events and trends have resulted in significant developments in the markets that the Company serves. The Company's products are designed to respond to increasing demand resulting from these trends. Some of these events and trends are discussed below.

Natural disasters throughout the world have focused attention on safety concerns relating to the structural integrity of homes and other buildings. The 1995 earthquake in Kobe, Japan, the 1994 earthquake in Northridge, California, the 1989 Loma Prieta earthquake in Northern California, Hurricanes Hugo in 1989 and Andrew in 1992 in the Southeastern United States, and other less cataclysmic natural disasters damaged and destroyed innumerable homes and other buildings, resulting in heightened consciousness of the fragility of some of those structures.

In recent years, architects, engineers, model code agencies, contractors, building inspectors and legislators have continued efforts to improve structural integrity and safety of homes and other buildings in the face of disasters of various types, including seismic events, storms and fires. Based on ongoing participation in trade and professional associations and communications with governmental and quasi-governmental regulatory agencies, the Company believes that building codes, such as the International Building Code 2000, are being more uniformly applied around the country and their enforcement is becoming more rigorous.

Recently, there has been consolidation among several of the Company's customer groups. The industry has experienced increased complexity in home design and builders are more aggressively trying to reduce their costs. The Company has responded to these trends by marketing its products as systems solutions in addition to individual parts. In some cases, systems marketing is facilitated by the use of sophisticated design and specification software.

The requirements of the Endangered Species Act, the Federal Lands Policy Management Act and the National Forest Management Act have reduced the amount of timber available for harvest from public lands. Over the past several years, this and other factors have led to the increased use of engineered wood products. Engineered wood products, which substitute for strong, clear-grained lumber historically obtained from logging older, large-diameter trees, have been developed to conserve lumber. Engineered wood products frequently require specialized connectors. Sales of Simpson Strong-Tie's engineered wood connector products have increased significantly over the past several years.

Concerns about energy conservation and air quality have led to increasing recognition of the advantages of natural gas as a heating fuel, including its clean burning characteristics. Use of natural gas for home heating has been increasing in the United States over a number of years.

The Company continues to develop its distribution through home centers throughout the United States. The Company's sales to home centers increased significantly in 2002 and 2003. See "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations."

Business Strategy

The Company designs, manufactures and sells products that are of high quality and performance, easy to use and cost-effective for customers. The Company provides rapid delivery of its products and prompt engineering and sales support. Based on its communications with customers, engineers, architects, contractors and other industry participants, the Company believes that its products have strong brand name recognition, and the Company seeks to continue to develop the value of its brand names through a variety of customer-driven strategies. Information

provided by customers has led to the development of many of the Company's products, and the Company expects that customer needs will continue to shape the Company's product development, marketing and services.

Specification in architects' and engineers' plans and drawings influences which products will be used for particular purposes and therefore is key to the use of the Company's products in construction projects. The Company encourages architects and engineers to specify the installation of the Company's products in projects they design and supervise, and encourages acceptance of the Company's products by construction contractors. The Company maintains frequent contacts with architects, engineers and contractors, as well as private organizations that provide information to building code officials, both to inform them regarding the quality, proper installation, capabilities and value of the Company's products and to update them about product modifications and new products that may be useful or necessary. The Company sponsors seminars to inform architects, engineers, contractors and building officials on appropriate use and proper installation of the Company's products. Additionally, the Company maintains relationships with home builders throughout the country to promote the use of its products.

The Company seeks to expand its product and distribution coverage through several channels:

Distributors. The Company regularly evaluates its distribution coverage and service levels provided by its distributors and from time to time modifies its distribution strategy and implements changes to address weaknesses and opportunities. The Company has various programs to evaluate distributor product mix and conducts promotions to encourage distributors to add Company products that complement the mix of product offerings in their markets.

Through its efforts to increase specifications by architects and engineers, and through increasing the number of products sold to particular contractors, the Company seeks to increase sales to channels that serve building contractors. The Company continuously seeks to expand the number of contractors served by each distributor through such sales efforts as demonstrations of product cost-effectiveness and information programs.

Home Centers. The Company intends to continue to increase penetration of the DIY markets by solicitation of home centers. The Company's Sales Representatives and Retail Specialists maintain on-going contact with home centers to provide timely product availability and product knowledge training. To satisfy specialized requirements of the home center market, the Company has developed extensive bar coding and merchandising aids and has devoted a portion of its research efforts to the development of DIY products.

Dealers. In some markets, the Company sells its products directly to lumber dealers.

OEM Relationships. The Company works closely with manufacturers of engineered wood products and OEMs in developing and expanding the application and sales of Simpson Strong-Tie's engineered wood connector products and Simpson Dura-Vent's gas, wood and pellet stove venting products. SST has relationships with several of the largest manufacturers of engineered wood products, and SDV has OEM relationships with several major gas fireplace and gas stove manufacturers. In 2002, SDV was informed by a significant gas appliance manufacturer that the customer planned to supply certain venting products from internal sources beginning in mid 2003. Sales of the affected products to this customer were approximately \$3.8 million in 2003, down from \$6.6 million in 2002. SDV expects minimal sales to this customer in 2004.

The Company is expanding its established facilities outside California to increase its presence and sales in markets east of the Rocky Mountains, although over the last three years, sales in the 37 states east of the Rocky Mountains have increased only with the market generally. Since 1993, the Company has established operations in the United Kingdom, opened warehouse and distribution facilities in Western Canada and the Northeastern United States, purchased anchor products manufacturers in Illinois and Eastern Canada and connector product manufacturers in France, Denmark and western Canada, and acquired the shares of the German company that it did not already own. The European investments are intended to establish a presence in the European Community through companies with existing customer bases and through servicing U.S.-based customers operating there. The Company is also developing its distribution in Chile, Japan, Australia and New Zealand. The Company intends to continue to pursue and expand operations both inside and outside of the United States (see Note 14 to the Company's Consolidated Financial Statements).

A Company goal is to manufacture and warehouse its products in geographic proximity to its markets to provide availability and rapid delivery of products to customers and prompt response to customer requests for specially designed products and services. With respect to the DIY and dealer markets, the Company's strategy is to keep the customer's retail stores continuously stocked with adequate supplies of the full line of the Company's products that

those stores carry. The Company manages its inventory to help assure continuous product availability. Most customer orders are filled within a few days. High levels of manufacturing automation and flexibility allow the Company to maintain its quality standards while continuing to provide prompt delivery.

The Company's product research and development is based largely on needs that customers communicate to the Company. The Company typically has developed 10 to 20 new products annually (some of which may be produced in a range of sizes). The Company's strategy is to develop new products on a proprietary basis, to patent them where possible, and to seek trade secret protection for others.

The Company's long-term strategy is to develop, acquire or invest in product lines or businesses that (a) complement the Company's existing product lines, (b) can be marketed through its existing distribution channels, (c) might benefit from use of the Simpson Strong-Tie and Simpson Dura-Vent brand names, (d) are responsive to needs of the Company's customers and (e) expand its markets geographically.

Simpson Strong-Tie

Overview

Connectors produced by Simpson Strong-Tie typically are steel devices that are used to strengthen, support and connect joints in residential and commercial construction and DIY projects. These products enhance the safety and durability of the structures in which they are installed and can save time and labor costs for the contractor. SST's connector products increase structural integrity and improve structural resistance to seismic, wind and other forces. Applications range from building framing to deck construction to DIY projects. SST produces and markets over 5,000 standard and custom products.

In the United States, connector usage developed faster in the West than elsewhere due to the low cost and abundance of timber and to local construction practices. Increasingly, the market has been influenced both by a growing awareness that the devastation caused by seismic, wind and other disasters can be reduced through improved building codes and construction practices and by environmental concerns that contribute to the increasing cost and reduced availability of wood. Most Simpson Strong-Tie products are listed by recognized building standards agencies as complying with model building codes and are specified by architects and engineers for use in projects they are designing or supervising. The engineered wood products industry continues to develop in response to concerns about the availability of wood, and the Company believes that SST is the leading supplier of connectors for use with engineered wood products.

Metal connectors, anchors and fasteners will corrode and lose load carrying capacity when installed in corrosive environments or exposed to corrosive materials. There are many environments and materials which may cause corrosion, including ocean salt air, fire retardants, preservative-treated wood, dissimilar metals, fumes and fertilizers. The variables present in a single building environment make it impossible to accurately predict if, or when, significant corrosion will begin or reach a critical level. This relative uncertainty makes it crucial that the specifiers be knowledgeable of the potential risks and select a product coating or metal that is suitable for the intended use. Changes in the preservative-treated wood industry have created additional concerns. Effective December 31, 2003, the preservative-treated wood industry voluntarily transitioned from Chromated Copper Arsenate ("CCA-C") used in residential applications to alternative treatments. Testing has shown that certain alternative replacement treatments are generally more corrosive than CCA-C. SST publishes technical bulletins on subjects such as this and others that affect the installation and use of its products and makes them available on its website at www.strongtie.com.

Products

Simpson Strong-Tie is a recognized brand name in the markets it serves. SST manufactures and markets products that strengthen the three types of connections typically found in residential and commercial construction: wood-to-wood, wood-to-concrete and wood-to-masonry. The Company's connector products, including its pre-fabricated shearwalls, are installed on the continuous load path from the foundation to the roof system. SST also markets specialty screws and nails for proper installation of certain of its connector products. These products have seismic, retrofit and remodeling applications for both new construction and DIY markets. Through its Anchor Systems product line, SST also offers a full line of adhesives, mechanical anchors and powder actuated tools for numerous anchoring applications in concrete, masonry and steel.

Most of Simpson Strong-Tie's products are listed by recognized model building code agencies. To achieve such listings, SST conducts extensive product testing, which is witnessed and certified by independent testing engineers. The tests also provide the basis for publication of load ratings for SST structural connectors, and this information is used by architects, engineers, contractors and homeowners. The information is useful across the range of applications of SST's products, from the deck constructed by a homeowner to a multi-story structure designed by an architect or engineer in an earthquake zone.

Simpson Strong-Tie also manufactures connector products specifically designed for use with engineered wood products, such as wood I-joists. With increased timber costs and reduced availability of trees suitable for making traditional solid sawn lumber, construction with engineered wood products has increased substantially in the last several years. Over the same period, SST's net sales of engineered wood connectors through dealer and contractor distributors and engineered wood product manufacturers have also increased significantly.

New Product Development

Simpson Strong-Tie commits substantial resources to engineering and new product development and the majority of its products have been developed through SST's internal research and development program. SST typically has developed 10 to 20 new products each year. SST's research and development expense for the three years ended December 31, 2003, 2002 and 2001, was \$3,599,000, \$3,199,000 and \$2,309,000, respectively. In late 2002, SST completed construction of its advanced testing facility in Stockton, California, and testing there of multi-story wall systems began in 2003. As part of the new product development process, SST engineers, in cooperation with sales and marketing staff, meet regularly with architects, engineers, building inspectors, code officials and customers. Several new products derived from existing product lines are developed annually. SST developed and introduced a line of pre-fabricated shearwall products primarily for the new construction market and has expanded its line of chemical and mechanical anchor products and powder actuated tools. The Company believes that existing distribution channels are receptive to product line extensions, thereby enhancing SST's ability to enter new markets.

Sales and Marketing

Simpson Strong-Tie's sales and marketing programs are implemented through SST's branch system. SST currently maintains branches in Northern and Southern California, Texas, Ohio, Canada, England, France and Denmark. Each branch is served by its own sales force, as well as manufacturing, warehouse and office facilities. Each branch is responsible for a broad geographic area. Branch managers have significant autonomy in managing their operations. Each is responsible for setting and executing sales and marketing strategies that are consistent with the markets that the branch serves and the goals of the Company. Each domestic branch is an independent profit center with cash profit sharing bonus and stock option programs based on its own performance. At the same time, the domestic branches closely integrate their manufacturing activities to enhance product availability. Branch sales forces in the U.S. are supported by marketing managers in the home office in Dublin, California. The sales force maintains close working relationships with customers, develops new business, calls on architects, engineers and building officials and participates in a range of educational seminars.

Simpson Strong-Tie sells its products through an extensive distribution system comprising dealer distributors supplying thousands of retail locations nationwide, contractor distributors, home centers, lumber dealers, manufacturers of engineered wood products, and specialized contractors such as roof framers. In recent years, sales to home centers have been one of the Company's fastest growing distribution channels. A large part of that growth was sales to The Home Depot which exceeded 10% of the Company's consolidated net sales in each of the last three years (see Note 14 to the Company's Consolidated Financial Statements and "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations"). SST's DIY and dealer products are used to build projects such as decks, patio covers and shelf and bench systems. The Company believes that SST's increasing diversification into new and growing markets has reduced its vulnerability to construction industry cycles.

Simpson Strong-Tie dedicates substantial resources to customer service. SST produces numerous publications and point-of-sale marketing aids to serve specifiers, distributors, retailers and users for the various markets that it serves. These publications include general catalogs, as well as various specific catalogs, such as those for its Anchor System products and the engineered wood and plated truss industries. The catalogs and publications describe the products and provide load and installation information. SST also maintains several linked websites centered on www.strongtie.com, which include catalogs, product and technical information, code reports and other general information related to SST's product lines and promotional programs.

Simpson Strong-Tie's engineers not only design and test products, but also provide engineering support for customers. This support might range from the discussion of a load value in a catalog to testing a unique application for an existing product. SST's sales force communicates with customers in each of its marketing channels, through its publications, seminars and frequent calls.

Based on its communications with customers, Simpson Strong-Tie believes that its products are essential to its customers' businesses, and it is SST's policy to ship products within a few days of receiving the order. Many of SST's customers serve contractors that require rapid delivery of needed products. Home centers and dealers also require superior service, because of fluctuating demand and to serve the needs of a broad base of customers. To satisfy these requirements, SST maintains high inventory levels, has redundant manufacturing capability and some multiple dies to produce the same parts. SST also maintains information systems that provide sales and inventory control and forecasting capabilities throughout its network of factories and warehouses. SST also has special programs for contractors intended to ensure the prompt manufacture and delivery of custom products.

Simpson Strong-Tie believes that dealer and home center sales of SST products are significantly greater when the bins and racks at large dealer and home center locations are adequately stocked with appropriate products. Various retailers carry varying numbers of SST products, and SST's Retail Specialists are engaged in ongoing efforts to inform retailers about other SST products that can be used in their specific markets and to encourage them to add these products to better meet their customers' needs. Achieving these objectives requires teamwork and significant inventory commitments between SST and the distributors and retailers. Retail Specialists play a significant role in keeping the racks full and extending the product lines at the large dealer and home center level. They help retailers order product, set up merchandising systems, stock shelves, hold product seminars and provide SST with information that is used to improve service and product mix.

Simpson Dura-Vent

Overview

Simpson Dura-Vent's venting systems are used to vent gas furnaces and water heaters, gas fireplaces and stoves, wood and oil burning appliances and pellet stoves. SDV's metal vents, chimneys and chimney liner systems exhaust the products of combustion to the exterior of the building and have been designed for ease of assembly and safe operation and to achieve a high level of performance. SDV produces and markets nearly 2,400 different venting products.

The clean burning characteristics of natural gas have gained public recognition, resulting in increased market share for gas appliances in the new construction and the appliance replacement markets. As a result, Simpson Dura-Vent has developed venting systems, such as Direct-Vent, to address changes in appliance technology. Fluctuations in natural gas prices, however, affect demand for gas appliances. Historically, sales of wood and pellet burning stoves, considered alternative energy sources, have increased during periods of high oil and natural gas prices and energy shortages while sales of gas burning appliances have tended to decline.

Simpson Dura-Vent's objective is to expand market share in all of its distribution channels, by entering expanding markets that address energy and environmental concerns. SDV's strategy is to capitalize on its strengths in new product development and its established distribution network and to continue its commitment to high quality and service. SDV operates manufacturing and warehouse facilities in California and Mississippi.

Products

Simpson Dura-Vent is a leading supplier of double-wall Type B Gas Vent systems, used for venting gas furnaces, water heaters, boilers and decorative gas fireplaces. SDV's Type B Gas Vent product line features heavy-duty quality construction and a twist-lock design that provides for fast and easy job-site assembly compared to conventional snap together designs. The twist-lock design has broader applications and has been incorporated into SDV's gas, pellet and direct vent product lines. SDV also markets a patented flexible vent connector, Dura/Connect, for use between the gas appliance flue outlet and the connection to the Type B Gas Vent installed in the ceiling. Dura/Connect offers a simple twist, bend and connect installation for water heaters and gas furnaces.

Consumer concerns over the rising costs of natural gas and home heating oil in 2003 increased demand for alternative fuel appliances. This has resulted in increased demand for SDV's all-fuel chimney and pellet vent products. The gas fireplace market has evolved into two basic types of fireplace: top-vent fireplaces that are vented

with the standard Type B Gas Vent and direct-vent fireplaces that use a special double-wall venting system. SDV's direct-vent system is designed not only to exhaust the flue products, but also to draw in outside air for combustion, an important feature in modern energy-efficient home construction. The direct-vent gas fireplace systems provide ease of installation, permitting horizontal through-the-wall venting or standard vertical through-the-roof venting. SDV has established relationships with several large manufacturers of gas stoves and gas fireplaces to supply direct-vent venting products. In 1996, SDV expanded its direct-vent product line to include both co-axial and co-linear direct vent systems for venting gas stoves and gas inserts into existing masonry chimneys or existing factory-built metal chimneys.

New Product Development

Simpson Dura-Vent has gained industry recognition by offering innovative new products that meet changing needs of customers. SDV representatives serve on industry committees concerned with issues such as new appliance standards and government regulations. SDV's research and development expense for the three years ended December 31, 2003, 2002 and 2001, was \$464,000, \$460,000 and \$438,000, respectively. SDV also maintains working relationships with research and development departments of major appliance manufacturers, providing prototypes for field testing and conducting tests in SDV's testing laboratory. SDV believes that such relationships provide competitive advantages. For example, SDV introduced the first direct vent system for direct vent gas appliances. In 2003, SDV developed stainless steel flexible relining systems for masonry chimneys. These systems are used to resize and retrofit masonry chimneys to accommodate wood burning and pellet burning fireplace inserts. In 1999, SDV introduced DuraTech, a twin-walled insulated chimney system for use on wood burning stoves, fireplaces and oil fired appliances. This product line has been designed and manufactured to a new standard of excellence. It is constructed from stainless steel and incorporates blanket insulation for enhanced safety and efficiency.

Sales and Marketing

Simpson Dura-Vent's sales organization consists of a director of sales and marketing, a marketing communications manager, regional sales managers, and independent representative agencies. SDV markets venting systems for both gas and wood burning appliances through wholesale distributors in the United States, Canada and Australia to the HVAC (heating, ventilating and air conditioning) and PHC (plumbing, heating and cooling) contractor markets, and to fireplace specialty shop distributors. These customers sell to contractor and DIY markets. SDV also markets venting products to home center and hardware store chains. SDV has established OEM relationships with several major gas fireplace and gas stove manufacturers, which SDV believes are leaders in the direct-vent gas appliance market (see "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations").

Simpson Dura-Vent responds to technological changes occurring in the industry through new product development and has developed a reputation for quality and service to its customers. To reinforce its reputation for quality, SDV produces extensive sales support literature and advertising materials. Recognizing the difficulty that customers and users may have in understanding new, complex venting requirements, SDV publishes a venting handbook to assist contractors, building officials and retail outlets with the science of proper venting. Advertising and promotional materials have been designed to be used by distributors and their customers, as well as home centers and hardware chains.

To enhance its marketing effort, SDV has developed a website, www.duravent.com, that includes product descriptions, catalogs and installation instructions, as well as a direct link to SDV's customer service and engineering departments.

Manufacturing Process

The Company has concentrated on making its manufacturing processes as efficient as possible without compromising quality or flexibility necessary to serve the needs of its customers. The Company has developed and uses automated manufacturing processes. The Company's innovative manufacturing systems and techniques have allowed it to control manufacturing costs, even while developing both new products and products that meet customized requirements and specifications. The Company's development of specialized manufacturing processes also has permitted increased operating flexibility and enhanced product design innovation. The Company sources some products from third party vendors, both domestically and internationally.

The Company is committed to helping people build safer structures economically through the design, engineering and manufacturing of structural connectors, pre-fabricated shearwalls, anchors and related products. To this end, the Company has developed a quality management system that employs numerous quality-control procedures, such as computer-generated work orders, constant review of parts as they are produced and frequent quality testing (see “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations”). Since 1996, Simpson Strong-Tie’s quality management system has been registered under ISO 9001, an internationally recognized set of quality-assurance standards. SST achieved registration under the new ISO 9001-2000 standard for its operations in North America and England in the first quarter of 2003 and is working towards registration for its operations in Denmark and France. The Company believes that ISO registration is becoming increasingly important to U.S. companies.

Simpson Strong-Tie operates manufacturing and warehouse facilities in California, Texas, Ohio, Florida, Connecticut, Illinois, Washington, British Columbia, Ontario, England, France, Denmark, Germany and Poland. SST also stocks its products in Scotland, Austria and Chile. Most of SST’s products are produced with a high level of automation, using progressive dies run in automatic presses making parts from coiled sheet steel at rates that often exceed 100 strokes per minute. SST produces over 500 million product pieces per year. Most of SST’s products (SKUs) are bar coded with UPC numbers for easy identification, and nearly all of the products sold to home centers are labeled with bar codes. SST has significant press capacity and has multiple dies for some of its high volume products because of the need to produce these products close to the customer and to provide backup capacity. The balance of production is accomplished through a combination of manual, blanking and numerically controlled (NC) processes which include robotic welders, lasers and turret punches. This capability allows SST to produce products with little redesign or set-up time, facilitating rapid turnaround for customers. New tooling is also highly automated. Dies are designed and produced using computer aided design (CAD) and computer aided machining (CAM) systems. CAD/CAM capability enables SST to create multiple dies rapidly and design them to high standards. The Company is constantly reviewing its product line to reduce manufacturing costs, increase automation, and take advantage of new types of materials. For example, in recent years SST has introduced multiple products made from an engineered composite plastic, the AnchorMate, the StrapMate and the Anchor Bolt Stabilizer.

Simpson Dura-Vent operates manufacturing and warehouse facilities in California and Mississippi. SDV produces component parts for venting systems using NC-controlled punch presses equipped with high-speed progressive and compound tooling. SDV’s vent pipe and elbow assembly lines are automated, to produce finished products efficiently from large coils of steel and aluminum. UPC bar coding and computer tracking systems provide SDV’s industrial engineers and production supervisors with real-time productivity tools to measure and evaluate current production rates, methods and equipment.

Most of the Company’s current and planned manufacturing facilities are located in geographic regions that have experienced major natural disasters, such as earthquakes, floods and hurricanes. For example, the 1989 Loma Prieta earthquake in Northern California destroyed a freeway and caused other major damage within a few miles of the Company’s facilities in San Leandro, California, and the earthquake in Northridge, California, in January 1994, destroyed several freeways and numerous buildings in the region in which the Company’s facilities in Brea are located. The Company has developed a disaster recovery plan, but it does not carry earthquake insurance on its buildings or its equipment. Other insurance that it carries is limited and not likely to be adequate to cover all of the Company’s resulting costs, business interruption and lost profits in the event of a major natural disaster in the future. If a natural disaster were to render one or more of the Company’s manufacturing facilities totally or partially unusable, whether or not covered by insurance, the Company’s business and financial condition could be materially and adversely affected.

Regulation

The design, capacity and quality of most of the Company’s products and manufacturing processes are subject to numerous and extensive regulations and standards promulgated by governmental, quasi-governmental and industry organizations. Such regulations and standards are highly technical and complex and are subject to frequent revision. The failure of the Company’s products or manufacturing processes to comply with any of such regulations and standards could impair the Company’s ability to manufacture and market its products profitably and could materially and adversely affect the Company’s business and financial condition.

Simpson Strong-Tie’s product lines are subject to Federal, state, county, municipal and other governmental and quasi-governmental regulations that affect product design, development, testing, applications, marketing, sales,

installation and use. Most SST products are recognized by building code and standards agencies. Agencies that recognize Company products include the International Conference of the Building Officials (“ICBO”), the Building Officials and Code Administrators (“BOCA”), the Southern Building Code Congress International (“SBCCI”), the International Code Council, the City of Los Angeles, the State of Florida, and the California Division of State Architecture. These and other code agencies adopt various testing and design standards and incorporate them into their related building codes. With the adoption of the International Residential Code 2000 and the International Building Code 2000, these standards have become more uniformly applied and are recognized throughout the country, rather than by only the jurisdictions covered by the respective agencies. SST considers code recognition to be a significant marketing tool and devotes considerable effort to obtaining and maintaining appropriate approvals for its products. SST believes that architects, engineers, contractors and other customers are less likely to purchase structural products that lack the appropriate code acceptance if code-accepted competitive products are available. SST’s management actively participates in industry related professional associations to keep abreast of regulatory changes and to provide information to regulatory agencies.

Simpson Dura-Vent operates under a complex regulatory environment that includes appliance and venting performance standards related to safety, energy efficiency and air quality. Gas venting regulations are contained in the National Fuel Gas Code (“NFGC”), while safety and performance regulations for wood burning appliances and chimney systems are contained in a National Fire Protection Association standard (“NFPA 211”). Standards for testing gas vents and chimneys are developed by testing laboratories such as Underwriter’s Laboratories (“UL”) in compliance with the American National Standards Institute. Clean air standards for both gas and wood burning appliances are regulated by the Environmental Protection Agency (“EPA”). Energy efficiency standards are regulated by the Department of Energy (“DOE”) under the authority of the National Appliance Energy Conservation Act. Under this act, the DOE periodically reviews the necessity for increased efficiency standards with respect to gas furnaces and gas water heaters. A substantial percentage of SDV’s Type B Gas Vent sales are for gas furnaces and gas water heaters. Minimum appliance efficiency standards are being considered that could negatively affect sales of Type B Gas Vents, which could materially and adversely affect the Company’s operating results and financial condition if the standards and regulations contained in the NFGC and NFPA 211 are ultimately adopted by national building code organizations such as ICBO, BOCA and SBCCI. In turn, the various building codes could be adopted by local municipalities, resulting in enforcement through the building permit process. Safety, air quality and energy efficiency requirements are enforced by local air quality districts and municipalities by requiring proper UL, EPA and DOE labels on appliances and venting systems.

Competition

The Company faces a variety of competition in all of the markets in which it participates. This competition ranges from subsidiaries of large national or international corporations to small regional manufacturers. While price is an important factor, the Company competes on the basis of quality, breadth of product line, technical support, service, field support and product innovation. As a result of differences in structural design and building practices and codes, Simpson Strong-Tie’s markets tend to differ by region. Within these regions, SST competes with companies of varying size, several of which also distribute their products nationally.

The venting industry is highly competitive. SDV’s principal competitors include the Selkirk division of Tincum Capital Partners LP, Hart & Cooley, Inc. and American Metal Products, Inc. (both now owned by Tomkins PLC), Metal-Fab, Inc. and the Air Jet Division of General Products Co., now owned by ThermaTrue. The Company believes that Metal-Fab, Inc. and Air Jet tend to be more regional than SDV, and that they have smaller shares of the national market than SDV.

Raw Materials

The principal raw material used by the Company is steel, including stainless steel, and is generally ordered to specific American Society of Testing and Materials (“ASTM”) standards. Other raw materials include aluminum, aluminum alloys and ceramic and other insulation materials, which are used by Simpson Dura-Vent, and cartons, which are used by both SST and SDV. The Company purchases raw materials from a variety of commercial sources. The Company’s practice is to seek cost savings and enhanced quality by purchasing from a limited number of suppliers.

The steel industry is highly cyclical and prices for the Company’s raw materials are influenced by numerous factors beyond the Company’s control, including general economic conditions, competition, labor costs, import duties and other trade restrictions. Steel prices rose in the latter half of 2003 and are expected to continue to increase. Several

factors have contributed to these price increases. Demand, particularly from China, is very high and this has constrained supplies available to buyers in the United States. In addition, weakness in the U.S. dollar has discouraged foreign steel mills from supplying the U.S. market despite the lifting of tariffs on certain types of imported steel. Finally, major domestic integrated steel producers have consolidated over the last several years. All of these factors could have an adverse effect on the Company's cost and availability of steel in 2004. The Company might not be able to increase its product prices to correspond to increases in raw materials prices without materially and adversely affecting its sales and profits. See "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations." The Company historically has not attempted to hedge against changes in prices of steel or other raw materials.

Patents and Proprietary Rights

The Company's subsidiaries have U.S. and foreign patents, the majority of which cover products that they currently manufacture and market. These patents, and applications for new patents, cover various design aspects of the subsidiaries' products, as well as processes used in their manufacture. The Company's subsidiaries are continuing to develop new potentially patentable products, product enhancements and product designs. Although the Company's subsidiaries do not intend to apply for additional foreign patents covering existing products, the Company has developed an international patent program to protect new products that its subsidiaries may develop.

The Company's ability to compete effectively with other companies depends in part on its ability to maintain the proprietary nature of its technology. There can be no assurance, however, as to the degree of protection afforded by these patents or the likelihood that patents will be issued pursuant to pending patent applications. Furthermore, there can be no assurance that others will not independently develop the same or similar technology, develop around the patented aspects of any of the Company's products or proposed products, or otherwise obtain access to the Company's proprietary technology.

In addition to seeking patent protection, the Company also relies on unpatented proprietary technology to maintain its competitive position. Nevertheless, there can be no assurance that the Company will be able to protect its know-how or other proprietary information.

In attempting to protect its proprietary information, the Company expects that it may sometimes be necessary to initiate lawsuits against competitors and others that the Company believes have infringed or are infringing on the Company's rights. In such an event, the defendant may assert counterclaims to complicate or delay the litigation or for other reasons. If the Company were to be unable to maintain the proprietary nature of its significant products, the Company's business and financial condition could be materially and adversely affected.

Acquisitions and Expansion into New Markets

The Company's future growth, if any, may depend to some extent on its ability to penetrate new markets, both domestically and internationally. See "Industry and Market Trends" and "Business Strategy." Therefore, the Company may in the future pursue acquisitions of product lines or businesses. Acquisitions involve numerous risks, including difficulties in the assimilation of the operations and products of the acquired companies, the diversion of management's attention from other business concerns, risks of entering markets in which the Company has little or no direct prior experience, and the potential loss of key employees of the acquired company. In addition, future acquisitions by the Company may result in potentially dilutive issuances of equity securities, the incurring of additional debt, and impairment and amortization expenses related to goodwill and other intangible assets, all of which could adversely affect the Company's profitability. If an acquisition occurs, no assurance can be given as to its effect on the Company's business or operating results. See "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations."

Construction customs, standards, techniques and methods in international markets differ from those in the United States. Laws and regulations applicable in new markets for the Company may be unfamiliar to the Company and compliance may be substantially more costly than the Company anticipates. As a result, it may become necessary for the Company to redesign products or to invent or design new products in order to compete effectively and profitably outside the United States or in markets that are new to the Company in the United States. The Company expects that significant time will be required for it to generate substantial sales or profits in new markets.

Other significant challenges to conducting business in foreign countries include, among other factors, local acceptance of the Company's products, political instability, currency controls, changes in import and export

regulations, changes in tariff and freight rates, and fluctuations in foreign exchange rates. There can be no assurance that the Company will be able to penetrate these markets or that any such market penetration can be achieved on a timely basis or profitably. If the Company is not successful in penetrating these markets within a reasonable time, it will be unable to recoup part or all of the significant investments it will have made in attempting to do so. See “Business Strategy” and “Industry and Market Trends.”

In May 2003, Simpson Strong-Tie Canada Limited, a subsidiary of the Company, purchased MGA Construction Hardware & Steel Fabricating Limited and MGA Connectors Limited (collectively, “MGA”), for approximately \$9.8 million in cash. MGA manufactures and distributes throughout Canada and portions of the United States a quality line of connectors used in construction. In January 2001, Simpson Strong-Tie International, Inc. (“SSTI”), a subsidiary of the Company, acquired 100% of the shares of BMF Byggningsbeslag A/S (“BMF”) of Denmark for \$13.6 million in cash. BMF manufactures and distributes connector products in northern and central Europe. In August 2001, the German subsidiary of BMF purchased the remaining 51% stake in Bulldog-Simpson GmbH for approximately \$0.6 million in cash.

Seasonality and Cyclical

The Company’s sales are seasonal, with operating results varying from quarter to quarter. With some exceptions, the Company’s sales and income have historically been lower in the first and fourth quarters and higher in the second and third quarters of the year, as retailers and contractors purchase construction materials in the late spring and summer months for the construction season. In addition, demand for the Company’s products and the Company’s results of operations are significantly affected by weather conditions, such as unseasonably warm, cold or wet weather, which affect, and sometimes delay or accelerate, installation of certain of the Company’s products. Political and economic events can also affect the Company’s revenues. The Company has little control over the timing of customer purchases, and sales anticipated in one quarter may occur in another quarter, thereby affecting both quarters’ results. In addition, the Company incurs significant expenses as it develops, produces and markets its products in anticipation of future orders. Products typically are shipped as orders are received, and accordingly the Company operates with little backlog. As a result, net sales in any quarter generally depend on orders booked and shipped in that quarter. A significant portion of the Company’s operating expenses are fixed, and planned expenditures are based primarily on sales forecasts. If sales fall below the Company’s expectations, operating results would be adversely affected for the relevant quarters, as expenses based on those expectations will already have been incurred. See “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The Company’s principal markets are in the building construction industry. That industry is subject to significant volatility as a result of fluctuations in interest rates, the availability of credit to builders and developers, inflation rates, weather and other factors and trends, none of which is within the Company’s control. Declines in commercial and residential construction may be expected to reduce the demand for the Company’s products. The Company cannot provide any assurance that its business will not be adversely affected by future negative economic or construction industry performance or that future declines in construction activity or the demand for the Company’s products will not have material adverse effects on the Company and its business and financial condition. See “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Product Liability

The Company designs and manufactures most of its standard products and expects that it will continue to do so. The Company employs engineers and designers to design and test its products under development. In addition, the Company maintains a quality control system. The Company has on occasion found manufacturing flaws in its products. In addition, the Company purchases from third party suppliers raw materials, principally steel, and finished goods that are produced and processed by other manufacturers. The Company also has on occasion found flaws in raw materials and finished goods produced by others. Some flaws have not become apparent until after the products were installed by customers. Many of the Company’s products are integral to the structural soundness or fire safety of the structures in which they are used. As a result, if any flaws exist in the Company’s products (as a result of design, raw material or manufacturing flaws or lapses in product quality control) and such flaws are not discovered and corrected before the Company’s products are incorporated into structures, the structures could suffer severe damage (such as collapse or fire) and personal injury could result. To the extent that such damage or injury is not covered by the Company’s product liability insurance, and if the Company were to be found to have been negligent or otherwise culpable, the Company and its business and financial condition could be materially and adversely affected by the necessity to correct such damage and to compensate persons who might have suffered

injury. Furthermore, in the event that a flaw is discovered after installation but before any damage or injury occurs, it may be necessary for the Company to recall products, and the Company may be liable for any costs necessary to retrofit the affected structures. Any such recall or retrofit could entail substantial costs and adversely affect the Company's reputation, sales and financial condition. The Company does not carry insurance against recall costs, and its product liability insurance may not cover retrofit costs.

No assurance can be given that claims will not be made against the Company with regard to damage or destruction of structures incorporating Company products resulting from a natural disaster. Any such claims, if asserted, could materially and adversely affect the Company.

Environmental, Health and Safety Matters

The Company is subject to environmental laws and regulations governing emissions into the air, discharges into water, and generation, handling, storage, transportation, treatment and disposal of waste materials. The Company is also subject to other Federal and state laws and regulations regarding health and safety matters. The Company's manufacturing operations involve the use of solvents, chemicals, oils and other materials that are regarded as hazardous or toxic and the use of complex and heavy machinery and equipment that can pose severe safety hazards (especially if not properly and carefully used). Some of the Company's products also incorporate materials that are hazardous or toxic in some forms (such as zinc and lead, which are used in some steel galvanizing processes) or explosive (such as the gun powder used in its powder actuated tools). The Company believes that it has obtained all material licenses and permits required by environmental, health and safety laws and regulations in connection with the Company's operations and that its policies and procedures comply in all material respects with existing environmental, health and safety laws and regulations. It is possible that additional licenses or permits may be required, that the Company's policies and procedures might not comply in all respects with all such laws and regulations or, even if they do, that employees might fail or neglect to follow them in all respects, and that the Company's generation, handling, use, storage, transportation, treatment or disposal of hazardous or toxic materials, machinery and equipment might cause injury to persons or to the environment. In addition, properties occupied by the Company may be contaminated by hazardous or toxic substances and remedial action may be required at some time in the future. It is also possible that materials in certain of the Company's products could cause injury or sickness. Relevant laws and regulations could also be changed or new ones could be adopted that require the Company to obtain additional licenses and permits and cause the Company to incur substantial expense. Any such event or contamination could have a material adverse effect on the Company and its liquidity, results of operations and financial condition. See "Regulation."

Employees and Labor Relations

As of January 1, 2004, the Company had 2,244 full-time employees, of whom 1,496 were hourly employees and 748 were salaried employees. The Company believes that its overall compensation and benefits for the most part exceed industry averages and that its relations with its employees are good.

The Company is dependent on certain key management and technical personnel, including Thomas J Fitzmyers, Michael J. Herbert, Stephen B. Lamson, Barclay Simpson and Stephen P. Eberhard. The loss of one or more key employees could have a material adverse effect on the Company. The Company's success will also depend on its ability to attract and retain additional highly qualified technical, marketing and management personnel necessary for the maintenance and expansion of the Company's activities. The Company faces strong competition for such personnel and there can be no assurance that the Company will be able to attract or retain such personnel.

A significant number of the employees at four of the Company's manufacturing facilities are represented by labor unions and are covered by collective bargaining agreements. Two of the Company's collective bargaining agreements cover the Company's sheetmetal and maintenance workers and its tool and die craftsmen in Brea. These two contracts expire in June 2004 and February 2005, respectively. Two other contracts, covering tool and die personnel and sheetmetal workers in San Leandro, expire in June 2007. Simpson Strong-Tie's Stockton, California, facility is also a union facility. The collective bargaining agreements at this facility expire in September 2007. A work stoppage or interruption by a significant number of the Company's employees could have a material and adverse effect on the Company and its business and financial condition.

Available Information

The Company makes available, free of charge, copies of its recent annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, corporate governance guidelines and code of ethics and the charters of the Audit, Compensation, and Governance and Nominating Committees of its Board of Directors on its website at www.simpsonmfg.com. Printed copies of any of these materials will be provided to stockholders on request.

Item 2. Properties.

The Company maintains its home office in Dublin, California, and other offices, manufacturing and warehouse facilities elsewhere in California and in Texas, Ohio, Florida, Mississippi, Illinois, Connecticut, Washington, British Columbia, Ontario, England, Scotland, France, Denmark, Germany, Austria and Poland. As of February 1, 2004, the Company's facilities were as follows:

<u>Location</u>	<u>Approximate Square Footage</u>	<u>Owned or Leased</u>	<u>Lessee</u>	<u>Lease Expires</u>	<u>Function</u>
Dublin, California	35,400	Leased	Company	2007	Office
Stockton, California	436,000	Owned			Office, Manufacturing and Warehouse
Stockton, California	25,000	Owned	SST	2009	Research and Development
San Leandro, California	47,100	Owned (1)			Office, Manufacturing and Warehouse
San Leandro, California	71,000	Owned			Office, Manufacturing and Warehouse
San Leandro, California	57,000	Leased (2)			Manufacturing and Warehouse
San Leandro, California	48,000	Owned			Office and Warehouse
San Leandro, California	27,000	Owned			Manufacturing and Warehouse
Brea, California	50,700	Owned			Office, Manufacturing and Warehouse
Brea, California	78,000	Owned			Office and Warehouse
Brea, California	30,500	Owned			Office, Manufacturing and Warehouse
Brea, California	42,900	Owned			Warehouse
Brea, California	19,200	Owned			Warehouse
McKinney, Texas	84,300	Owned	SST	2005	Office, Manufacturing and Warehouse
McKinney, Texas	117,100	Owned			Office and Warehouse
Columbus, Ohio	153,500	Leased (3)			Office, Manufacturing and Warehouse
Jacksonville, Florida	74,600	Leased (4)	SST	2006	Office and Warehouse
Addison, Illinois	52,400	Leased	SST	2008	Office, Manufacturing and Warehouse
Enfield, Connecticut	55,100	Leased	SST	2008	Office and Warehouse
Kent, Washington	24,000	Leased	SST	2009	Office, Manufacturing and Warehouse
Visalia, California	92,000	Owned	SST (5)	2012	Office, Manufacturing and Warehouse
Tamworth, England	78,100	Leased			Office, Manufacturing and Warehouse
Glasgow, Scotland	5,000	Leased	SST (5)	2004	Warehouse
Vacaville, California	125,000	Leased (6)	SDV	2007	Office, Manufacturing and Warehouse
Vacaville, California	120,300	Owned	SDV	2004	Office, Manufacturing and Warehouse
Vicksburg, Mississippi	302,000	Owned			Office, Manufacturing and Warehouse
Fontana, California	17,900	Leased			Warehouse

Location	Approximate Square Footage	Owned or Leased	Lessee	Lease Expires	Function
Maple Ridge, British Columbia	36,400	Leased	SST (7)	2007	Office, Manufacturing and Warehouse
Maple Ridge, British Columbia	2,300	Leased	SST (7)	2005	Warehouse
Maple Ridge, British Columbia	2,400	Leased	SST (7)	2004	Warehouse
Langley, British Columbia	19,700	Leased	SST (7)	2010	Warehouse
Brampton, Ontario (8)	104,000	Leased	SST (7)	2009	Office, Manufacturing and Warehouse
Odder, Denmark	162,500	Owned			Office, Manufacturing and Warehouse
Syke, Germany	10,300	Owned			Office and Warehouse
Warsaw, Poland	8,300	Leased	SST (9)	2004	Office and Warehouse
Grossebersdorf, Austria	5,100	Leased	SST (9)	2006	Office and Warehouse
St. Gemme La Plaine, France	99,000	Owned			Office, Manufacturing and Warehouse

- (1) The Company purchased this property from Simpson Investment Company, a related party, in 2001 for approximately \$1.7 million. See Note 9 and Note 12 to the Consolidated Financial Statements contained elsewhere herein.
- (2) Lessor is Doolittle Investors, a related party. See Note 9 to the Consolidated Financial Statements contained elsewhere herein.
- (3) Lessor is Columbus Westbelt Investment Company, a related party. See Note 9 to the Consolidated Financial Statements contained elsewhere herein.
- (4) SST has signed a lease for a nearby building with the same lessor with approximately 112,000 square feet of office and warehouse space. The new lease expires 2011 and SST plans to occupy the building upon completion of construction, which is expected in the first quarter of 2004.
- (5) Lessee is Simpson Strong-Tie International, Inc., a wholly-owned subsidiary of SST.
- (6) Lessor is Vacaville Investors, a related party. See Note 9 to the Consolidated Financial Statements contained elsewhere herein.
- (7) Lessee is Simpson Strong-Tie Canada, Ltd., a wholly-owned subsidiary of SST.
- (8) An expansion of approximately 57,000 square feet has commenced on this property and the Company expects to occupy it at the end of the second quarter of 2004.
- (9) Lessee is BMF Bygningsbeslag A/S, a wholly-owned subsidiary of SST.

The Company is purchasing an additional building in Brea, California, for approximately \$1.8 million. The building is approximately 20,000 square feet. The Company expects the purchase to be completed during the first quarter of 2004. The Company is planning to build a 300,000 square foot building on its property in McKinney, Texas, to replace its existing facility there.

The Company's manufacturing facilities are equipped with specialized equipment and use extensive automation. The Company considers its existing and planned facilities to be suitable and adequate for its operations as currently conducted and as planned through 2004. The manufacturing facilities currently are being operated with one full shift and at most plants with at least a partial second or third shift. The Company anticipates that it may require additional facilities to accommodate possible future growth.

Item 3. Legal Proceedings.

From time to time, the Company is involved in litigation that it considers to be in the normal course of its business. No such litigation within the last five years resulted in any material loss. The Company is not engaged in any legal proceedings as of the date hereof, which the Company expects individually or in the aggregate to have a material adverse effect on the Company's financial condition, cash flows or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

The Company's Common Stock is listed on the New York Stock Exchange ("NYSE") under the symbol "SSD." In August 2002, the Company completed a 2-for-1 split of its common stock. All of the share and per share numbers have been adjusted to reflect the stock split. The following table shows the range of high and low closing sale prices per share of the Common Stock as reported by the NYSE for the calendar quarters indicated:

		Market Price	
		High	Low
2003	Quarter		
	Fourth.....	\$ 52.550	\$ 42.500
	Third.....	48.880	36.720
	Second.....	38.150	33.070
	First	34.950	30.850
2002			
	Fourth.....	\$ 36.300	\$ 29.600
	Third.....	33.550	25.325
	Second.....	34.050	27.550
	First	30.950	25.995

The Company estimates that as of February 9, 2004, approximately 7,182 persons owned shares of the Company's Common Stock either directly or through nominees.

In January 2004, the Company's Board of Directors declared a dividend of \$0.10 per share to be paid on April 20, 2004, to stockholders of record on April 5, 2004. The Company currently intends to pay dividends quarterly. Future dividends, if any, will be determined by the Company's Board of Directors, based on the Company's earnings, cash flow, financial condition and other factors deemed relevant by the Board of Directors. In addition, existing loan agreements require the Company to maintain tangible net worth of \$250.0 million plus 50% of net profit after taxes for each fiscal year ending after December 31, 2002. This requirement may limit the amount that the Company may pay out as dividends on the common stock. As of December 31, 2003, the Company had approximately \$97.4 million available for the payment of dividends under these loan agreements.

In December 2003, the Board of Directors authorized the Company to repurchase up to \$50.0 million of the Company's common stock. The authorization will remain in effect through the end of 2004. This replaces the \$50.0 million repurchase authorization from December 2002. In November 2003, the Company repurchased 500,000 shares of its Common Stock for \$47.05 per share from the Simpson PSB Fund for approximately \$23.5 million under the 2002 authorization.

Item 6. Selected Financial Data.

The following table sets forth selected consolidated financial information with respect to the Company for each of the five years ended December 31, 2003, 2002, 2001, 2000 and 1999, derived from the audited Consolidated Financial Statements of the Company (for the years ended December 31, 2000 and 1999, amounts have been restated for the effect of the accounting change for inventory valuation from the last-in, first-out method to the first-in, first-out method), the most recent three years of which appear elsewhere herein. The data presented below should be read in conjunction with the Consolidated Financial Statements and related Notes thereto and “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere herein.

(Dollars in thousands, except per share data)

	Year Ended December 31,				
	2003	2002	2001	2000	1999
Statement of Operations Data:					
Net sales	\$ 548,182	\$ 465,474	\$ 415,863	\$ 369,087	\$ 328,440
Cost of sales	<u>329,902</u>	<u>276,557</u>	<u>257,785</u>	<u>225,628</u>	<u>197,701</u>
Gross profit	218,280	188,917	158,078	143,459	130,739
Selling expense	49,669	44,581	42,230	37,410	32,204
General and administrative expense	<u>70,538</u>	<u>58,253</u>	<u>50,032</u>	<u>44,634</u>	<u>37,846</u>
Income from operations	98,073	86,083	65,816	61,415	60,689
Interest income, net	<u>999</u>	<u>985</u>	<u>1,587</u>	<u>3,010</u>	<u>1,669</u>
Income before income taxes	99,072	87,068	67,403	64,425	62,358
Provision for income taxes	38,510	35,134	27,619	26,296	25,021
Minority interest	<u>—</u>	<u>—</u>	<u>(734)</u>	<u>(1,246)</u>	<u>—</u>
Net income	<u>\$ 60,562</u>	<u>\$ 51,934</u>	<u>\$ 40,518</u>	<u>\$ 39,375</u>	<u>\$ 37,337</u>
Basic net income per share of common stock	<u>\$ 2.46</u>	<u>\$ 2.12</u>	<u>\$ 1.67</u>	<u>\$ 1.64</u>	<u>\$ 1.58</u>
Diluted net income per share of common stock	<u>\$ 2.42</u>	<u>\$ 2.09</u>	<u>\$ 1.64</u>	<u>\$ 1.60</u>	<u>\$ 1.53</u>

(Dollars in thousands)

	As of December 31,				
	2003	2002	2001	2000	1999
Balance Sheet Data:					
Working capital	\$ 268,583	\$ 238,277	\$ 194,261	\$ 168,008	\$ 141,143
Property, plant and equipment, net	107,226	97,397	81,410	63,823	61,144
Total assets	460,249	396,401	329,612	279,570	246,341
Total debt	6,292	6,738	6,673	2,405	2,764
Total liabilities	59,945	47,217	41,495	35,134	36,665
Total stockholders’ equity	400,304	349,184	288,117	243,681	209,676

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This document contains forward-looking statements, based on numerous assumptions and subject to risks and uncertainties. Although the Company believes that the forward-looking statements are reasonable, it does not and cannot give any assurance that its beliefs and expectations will prove to be correct. Many factors could significantly affect the Company's operations and cause the Company's actual results to be substantially different from the Company's expectations. Those factors include, but are not limited to: (i) general economic and construction business conditions; (ii) customer acceptance of the Company's products; (iii) materials and manufacturing costs; (iv) the financial condition of customers, competitors and suppliers; (v) technological developments; (vi) increased competition; (vii) changes in capital market conditions; (viii) governmental and business conditions in countries where the Company's products are manufactured and sold; (ix) changes in trade regulations; (x) the effect of acquisition activity; (xi) changes in the Company's plans, strategies, objectives, expectations or intentions; and (xii) other risks and uncertainties indicated from time to time in the Company's filings with the Securities and Exchange Commission. Actual results might differ materially from results suggested by any forward-looking statements in this report. The Company does not have an obligation to publicly update any forward-looking statements, whether as a result of the receipt of new information, the occurrence of future events or otherwise.

The following is a discussion and analysis of the consolidated financial condition and results of operations for the Company for the years ended December 31, 2003, 2002 and 2001, and of certain factors that may affect the Company's prospective financial condition and results of operations. The following should be read in conjunction with the Consolidated Financial Statements and related Notes appearing elsewhere herein.

Overview

Annual net sales of the Company increased 31.8% to \$548.2 million in 2003 from \$415.9 million in 2001. The increase in net sales resulted primarily from increased geographic distribution and a broadening of the Company's customer base and product lines, both internally and through acquisitions. Net sales increased in 2003 from 2001 in all regions of the United States, with above average rates of growth in the Southeastern portion of the country. In recent years, home centers have been one of the Company's fastest growing distribution channels. In this channel, the company's largest customer, The Home Depot, exceeded 10% of the Company's consolidated net sales in each of the last three years (see Note 14 to the Company's Consolidated Financial Statements and "Item 1. Business. Simpson Strong-tie, Sales and Marketing"). Expansion into overseas markets also contributed to the net sales growth over the last three years. Sales outside of the U.S. have increased significantly, due in large part to the acquisition of BMF in January 2001 and to the acquisition of MGA in May 2003. Gross profit margin, which increased to 40.6% in 2002 from 38.0% in 2001, decreased in 2003 to 39.8% primarily due to material costs, mainly steel, prices of which have continued to increase (see "Item 1. Business. Raw Materials"). Income from operations, as a percentage of net sales, which increased to 18.5% in 2002 from 15.8% in 2001, decreased in 2003 to 17.8%.

Results of Operations

The following table sets forth, for the years indicated, the percentage of net sales of certain items in the Company's Consolidated Statements of Operations.

	Years Ended December 31,		
	2003	2002	2001
Net sales	100.0%	100.0%	100.0%
Cost of sales	60.2%	59.4%	62.0%
Gross profit	39.8%	40.6%	38.0%
Selling expense	9.1%	9.6%	10.2%
General and administrative expense	12.9%	12.5%	12.0%
Income from operations	17.8%	18.5%	15.8%
Interest income, net	0.2%	0.2%	0.4%
Income before income taxes	18.0%	18.7%	16.2%
Provision for income taxes	7.0%	7.5%	6.6%
Minority interest	0.0%	0.0%	(0.2%)
Net income	11.0%	11.2%	9.7%

In August 2002, the Company completed a 2-for-1 split of its common stock. All per share numbers have been retroactively adjusted to reflect the stock split.

Comparison of the Years Ended December 31, 2003 and 2002

Net Sales

Net sales increased 17.8% to \$548.2 million in 2003 from \$465.5 million in 2002. Net sales of Simpson Strong-Tie's products increased 19.9% to \$473.6 million in 2003 from \$394.9 million in 2002, while net sales of Simpson Dura-Vent's products increased by 5.7% to \$74.6 million in 2003 from \$70.6 million in 2002. SDV accounted for approximately 13.6% of the Company's total net sales in 2003, a decrease from 15.2% in 2002. The increase in net sales at SST resulted primarily from an increase in sales volume with approximately 3% of the increase resulting from an increase in average prices. The increase in net sales at SDV resulted from increases in volume and average prices in similar amounts. The majority of the Company's sales growth occurred domestically, although sales in Europe and Canada, including sales resulting from the acquisition of MGA in May 2003, grew at a faster rate. Lumber dealers, contractor distributors and home centers were the fastest growing connector sales channels. The sales increase was broad based across most of Simpson Strong-Tie's major product lines. Simpson Strong-Tie's engineered wood products, Anchor Systems and seismic and high wind related products had the highest percentage growth rates in sales. Sales of Simpson Dura-Vent's pellet vent, gas vent and chimney products increased compared to 2002, while sales of its Direct-Vent product line decreased primarily due to a significant gas appliance manufacturer that decided to supply certain venting products from internal sources in 2003. Sales of the affected products to this customer were approximately \$3.8 million in 2003, down from approximately \$6.6 million in 2002. SDV expects minimal sales to this customer in 2004.

Gross Profit

Gross profit increased 15.5% to \$218.3 million in 2003 from \$188.9 million in 2002. As a percentage of net sales, gross profit decreased to 39.8% in 2003 from 40.6% in 2002, primarily due to materials costs, mainly steel, prices of which have continued to increase, partially offset by improved absorption of overhead costs.

The Company faces uncertainty in the cost and availability of steel. Several factors are contributing to this uncertainty. Demand, particularly from China, is very high and this has constrained supplies available to buyers in the United States. Weakness in the U.S. dollar has discouraged foreign steel mills from supplying the U.S. market despite the lifting of tariffs on certain types of imported steel. In addition, major domestic integrated steel producers have consolidated over the last several years. All of these factors could have an adverse effect on the Company. The Company might not be able to increase its product prices to correspond to increases in raw materials prices without materially and adversely affecting its sales and profits.

Selling Expense

Selling expense increased 11.4% to \$49.7 million in 2003 from \$44.6 million in 2002. The increase was primarily due to increased costs associated with the addition of sales personnel, including those related to the acquisition of MGA, and promotional activities.

General and Administrative Expense

General and administrative expenses increased 21.1% to \$70.5 million in 2003 from \$58.3 million in 2002, but increased only slightly as a percentage of net sales to 12.9% in 2003 from 12.5% in 2002. This increase was primarily due to increased cash profit sharing, as a result of higher operating income, the recognition of stock option expenses in accordance with the recently adopted accounting standard, Statement of Financial Accounting Standard ("SFAS") No. 123, "Accounting for Stock Based Compensation," higher bad debt expense after consideration of the reversal of the allowance for doubtful accounts in 2002 related to a significant customer, the addition of administrative employees, including those related to the acquisition of MGA, and increases in professional services and insurance expenses. The Company believes that the after-tax effect of stock option expenses in 2004 will be approximately \$2.5 million related to stock options granted during 2003 and 2004.

Interest Income, Net

Interest income, net of interest expense, is generated on the Company's cash and short term investment balances.

Provision for Income Taxes

The Company's effective tax rate was 38.9% in 2003, down from 40.4% in 2002. The decrease was primarily due to tax credits for research and development and manufacturing investment in an enterprise zone related to the expansion of the Company's facilities in Stockton, California. The effective tax rates exceeded the federal statutory rate of 35.0% primarily due to the effect of state income taxes, net of the federal benefit.

European Operations

For its combined European operations, the Company recorded an after-tax net loss of \$0.5 million in 2003 compared to after-tax net loss of \$0.2 million in 2002. This loss is related to the Company's UK operations. The goodwill associated with operations there, carried on the balance sheet at approximately \$4.7 million, could be partially or fully impaired if the losses continue. The Company's operations elsewhere in Europe were marginally profitable for the year.

Other Information

In November 2003, the Company discovered a product quality issue with certain welded products produced in its Columbus, Ohio, facility. The Company is in the process of inspecting installations of this product. The Company reserved approximately \$0.4 million in the fourth quarter of 2003 to pay for the expected costs of finding and retrofitting defective parts.

Comparison of the Years Ended December 31, 2002 and 2001

Net Sales

Net sales increased 11.9% to \$465.5 million in 2002 from \$415.9 million in 2001. Net sales of Simpson Strong-Tie's products increased 14.2% to \$394.9 million in 2002 from \$345.8 million in 2001, while net sales of Simpson Dura-Vent's products increased by 0.7% to \$70.6 million in 2002 from \$70.1 million in 2001. SDV accounted for approximately 15.2% of the Company's total net sales in 2002, a decrease from 16.9% in 2001. The increase in net sales at SST resulted primarily from an increase in sales volume with a modest increase in average prices. The increase in net sales at SDV resulted primarily from an increase in average prices. The majority of the Company's sales growth occurred domestically, although sales in Europe and Canada grew at a slightly faster rate. Lumber dealers and contractor and dealer distributors were the fastest growing connector sales channels. The sales increase was broad based across most of Simpson Strong-Tie's major product lines. Simpson Strong-Tie's Strong-Wall and seismic and high wind related products had the highest percentage growth rates in sales. Sales of Simpson Dura-Vent's Direct-Vent products increased compared to the prior year, while sales of its pellet vent and chimney product lines decreased.

Gross Profit

Gross profit increased 19.5% to \$188.9 million in 2002 from \$158.1 million in 2001. As a percentage of net sales, gross profit increased to 40.6% in 2002 from 38.0% in 2001, primarily due to lower manufacturing costs.

Selling Expense

Selling expense increased 5.6% to \$44.6 million in 2002 from \$42.2 million in 2001. The increase was primarily due to increased sales commissions as a result of sales in excess of goals and to higher personnel costs related to additional merchandising personnel. This increase was partially offset by decreased spending on advertising and promotion.

General and Administrative Expense

General and administrative expenses increased 16.4% to \$58.3 million in 2002 from \$50.0 million in 2001, but increased only slightly as a percentage of net sales to 12.5% in 2002 from 12.0% in 2001. The increase was primarily due to higher cash profit sharing, as a result of higher operating income, partially offset by a reduction in the allowance for doubtful accounts as compared to 2001 and by a reduction in goodwill amortization charges. The reduced amortization charge was affected by both the write-off of the Keybuilder.com software license in the second quarter of 2001 and the change in accounting related to the adoption of SFAS statement No. 142, "Goodwill and Other Intangible Assets," at the start of 2002.

Interest Income, Net

Interest income, net of interest expense, is generated on the Company's cash and short term investment balances.

Provision for Income Taxes

The Company's effective tax rate was 40.4% in 2002, a decrease from 40.5% in 2001.

European Operations

For its combined European operations, the Company recorded an after-tax net loss of \$0.2 million in 2002 compared to after-tax net loss of \$2.1 million in 2001. This loss is primarily associated with the Company's UK operations. The consolidated European operations reached profitability during the building season of the second and third quarters of 2002.

Critical Accounting Policies and Estimates

The Company's critical accounting policies are listed below. These critical policies affect the Company's more significant judgments and estimates used in the preparation of the Consolidated Financial Statements. If the Company's business conditions change or if it uses different assumptions or estimates in the application of these and other accounting policies, the Company's future results of operations could be adversely affected.

Inventory Valuation

Inventories are valued at the lower of cost or market using the first-in, first-out ("FIFO") method. An allowance for obsolete inventory is recorded when the Company's on-hand supply of a product exceeds two years' sales of that product or when the Company believes a product is no longer marketable.

Revenue Recognition

The Company recognizes revenue as title to products is transferred to customers or services are rendered, net of applicable provision for discounts, returns and allowances whether actual or estimated based on the Company's experience.

Allowances for Doubtful Accounts

The Company reserves significant accounts receivable balances that are over 90 days outstanding. In addition, the Company reserves 100% of the amount that it deems potentially uncollectible due to a customer's bankruptcy or deteriorating financial condition.

Liquidity and Sources of Capital

The Company's liquidity needs arise principally from working capital requirements, capital expenditures and asset acquisitions. During the three years ended December 31, 2003, the Company has relied primarily on internally generated funds to finance these needs. The Company's working capital requirements are seasonal with the highest need typically occurring in the second and third quarters of the year. Cash and cash equivalents were \$95.1 million and \$103.3 million at December 31, 2003 and 2002, respectively. The Company also had short term investments of \$44.7 million and \$17.7 million at December 31, 2003 and 2002, respectively. Working capital was \$268.6 million and \$238.3 million at December 31, 2003 and 2002, respectively. As of December 31, 2003, the Company had

approximately \$6.3 million in debt outstanding and had available to it unused credit facilities of approximately \$27.3 million.

The Company had cash flows from operating activities of \$71.4 million, \$50.4 million and \$73.2 million for 2003, 2002 and 2001, respectively. In 2003, cash was provided by net income and noncash expenses, such as depreciation and amortization and noncash compensation related to stock plans, totaling \$78.5 million, and increases in accounts payable and accrued cash profit sharing of \$7.7 million. In addition, the tax benefit to the Company related to the exercise of stock options also provided cash of approximately \$1.8 million. These increases were partially offset by increases in trade accounts receivable and inventories aggregating approximately \$18.3 million. The balance of the cash provided in 2003 resulted from changes in other asset and liability accounts, none of which was material.

Cash used in investing activities was \$58.1 million, \$45.5 million and \$38.7 million for 2003, 2002 and 2001, respectively. Capital expenditures and assets acquisitions were approximately \$31.2 million in 2003, up from \$28.0 million in 2002, primarily due to the acquisition of MGA. Approximately \$9.4 million of the capital expenditures was used to purchase or improve the Company's real estate, primarily for the Company's manufacturing and distribution facilities in Stockton, California. In 2004, the Company plans to break ground on a 300,000 square foot facility in McKinney, Texas, that will replace its existing facilities there. In addition, the Company invested \$27.1 million in short term investments.

Financing activities used \$21.9 million in net cash in 2003 and provided \$2.1 million and \$2.5 million in 2002 and 2001, respectively. In November 2003, the Company used approximately \$23.5 million in cash to repurchase 500,000 shares of its Common Stock for \$47.05 per share from the Simpson PSB Fund (a charitable organization) to offset the dilution of stock options granted in 2003. The Chairman and the President and Chief Executive Officer of the Company, who are directors and significant stockholders of the Company, serve as directors and officers of the Simpson PSB Fund. This use of cash was offset by approximately \$3.1 million provided by the issuance of Common Stock through the exercise of stock options by employees and directors of the Company. In January 2004, the Company's Board of Directors declared a dividend of \$0.10 per share, a total of approximately \$2.5 million, to be paid on April 20, 2004, to stockholders of record on April 5, 2004.

The Company's contractual obligations for future payments are as follows:

Contractual Obligation	Payments due by period (in 000s)				
	Total	Less Than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Long-term debt obligations	6,270	827	1,695	1,490	2,258
Operating lease obligations	24,719	5,175	9,261	6,374	3,909
Purchase obligations	<u>5,943</u>	<u>4,839</u>	<u>552</u>	<u>552</u>	<u>—</u>
Total	<u>36,932</u>	<u>10,841</u>	<u>11,508</u>	<u>8,416</u>	<u>6,167</u>

In December 2003, the Board of Directors authorized the Company to repurchase up to \$50.0 million of the Company's common stock. This replaces the \$50.0 million repurchase authorization from December 2002. The authorization will remain in effect through the end of 2004.

The Company believes that cash generated by operations, borrowings available under its existing credit agreements and other available financing will be sufficient for the Company's working capital needs and planned capital expenditures through at least 2004.

Inflation

The Company believes that the effect of inflation on the Company has not been material in recent years, as inflation rates have remained low.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company's short term investments consisted of debt securities of approximately \$44.7 million as of December 31, 2003. These securities, like all fixed income instruments, are subject to interest rate risk and will vary in value as market interest rates fluctuate. If market interest rates were to increase immediately and uniformly by 10% from levels as of December 31, 2003, the decline in the fair value of the investments would not be material.

The Company has foreign exchange rate risk in its international operations, primarily Europe and Canada, and through purchases from foreign vendors. The Company does not currently hedge this risk. If the exchange rate changed by 10% in any one country where the Company has operations, the change in net income would not be material to its operations taken as a whole. The translation adjustment resulted in a gain of approximately \$7.7 million in 2003 primarily due to the effect of the devaluation of the U.S. dollar in relation to European and Canadian currencies.

Item 8. Financial Statements and Supplementary Data.

**SIMPSON MANUFACTURING CO., INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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Report of Independent Auditors

To the Board of Directors and Stockholders of Simpson Manufacturing Co., Inc.:

In our opinion, the accompanying consolidated financial statements listed in the index on page 33 of this Form 10-K present fairly, in all material respects, the financial position of Simpson Manufacturing Co., Inc. (the "Company") and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP

San Francisco, California
February 6, 2004

Simpson Manufacturing Co., Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31,	
	2003	2002
ASSETS		
Current assets		
Cash and cash equivalents	\$ 95,135,885	\$ 103,318,056
Short term investments	44,737,867	17,683,611
Trade accounts receivable, net	66,073,296	55,313,885
Inventories	106,202,713	93,079,620
Deferred income taxes	7,821,198	7,276,642
Other current assets	<u>3,378,608</u>	<u>3,342,423</u>
Total current assets	323,349,567	280,014,237
Property, plant and equipment, net	107,226,319	97,396,608
Goodwill	23,655,860	14,534,187
Other noncurrent assets	<u>6,017,204</u>	<u>4,456,033</u>
Total assets	<u>\$ 460,248,950</u>	<u>\$ 396,401,065</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Notes payable and current portion of long-term debt	\$ 1,113,657	\$ 1,257,782
Trade accounts payable	22,567,291	14,217,487
Accrued liabilities	15,181,487	13,267,373
Accrued profit sharing trust contributions	6,021,136	5,138,579
Accrued cash profit sharing and commissions	7,459,428	6,170,500
Accrued workers' compensation	<u>2,423,764</u>	<u>1,685,764</u>
Total current liabilities	54,766,763	41,737,485
Long-term debt, net of current portion	<u>5,177,936</u>	<u>5,479,834</u>
Total liabilities	<u>59,944,699</u>	<u>47,217,319</u>
Commitments and contingencies (Note 9)		
Stockholders' equity		
Preferred Stock, par value \$0.01; authorized shares, 5,000,000; issued and outstanding shares, none	—	—
Common Stock, par value \$0.01; authorized shares, 40,000,000; issued and outstanding shares, 24,255,294 and 24,565,254 at December 31, 2003 and 2002, respectively	38,862,292	51,521,634
Deferred compensation related to stock plans	(4,456,740)	—
Retained earnings	357,916,036	297,353,812
Accumulated other comprehensive income	<u>7,982,663</u>	<u>308,300</u>
Total stockholders' equity	<u>400,304,251</u>	<u>349,183,746</u>
Total liabilities and stockholders' equity	<u>\$ 460,248,950</u>	<u>\$ 396,401,065</u>

The accompanying notes are an integral part of these consolidated financial statements.

Simpson Manufacturing Co., Inc. and Subsidiaries
Consolidated Statements of Operations

	Years Ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net sales	\$ 548,181,933	\$ 465,473,959	\$ 415,862,601
Cost of sales	<u>329,902,422</u>	<u>276,556,932</u>	<u>257,784,583</u>
Gross profit	<u>218,279,511</u>	<u>188,917,027</u>	<u>158,078,018</u>
Operating expenses			
Selling	49,668,567	44,581,335	42,230,211
General and administrative	<u>70,538,012</u>	<u>58,253,069</u>	<u>50,031,666</u>
	<u>120,206,579</u>	<u>102,834,404</u>	<u>92,261,877</u>
Income from operations	98,072,932	86,082,623	65,816,141
Interest income, net	<u>999,486</u>	<u>985,107</u>	<u>1,587,234</u>
Income before income taxes	99,072,418	87,067,730	67,403,375
Provision for income taxes	38,510,194	35,133,583	27,619,575
Minority interest	<u>—</u>	<u>—</u>	<u>(734,326)</u>
Net income	<u>\$ 60,562,224</u>	<u>\$ 51,934,147</u>	<u>\$ 40,518,126</u>
Net income per common share			
Basic	\$ 2.46	\$ 2.12	\$ 1.67
Diluted	\$ 2.42	\$ 2.09	\$ 1.64
Weighted average number of shares outstanding			
Basic	24,571,758	24,470,067	24,216,494
Diluted	24,995,493	24,807,549	24,631,700

The accompanying notes are an integral part of these consolidated financial statements.

Simpson Manufacturing Co., Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
for the years ended December 31, 2001, 2002 and 2003

	<u>Common Stock</u>		<u>Deferred Compensation Related to Stock Plans</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>				
Balance, January 1, 2001	23,933,464	\$40,968,501	\$ —	\$ 204,901,539	\$ (2,188,963)	\$ 243,681,077
Comprehensive income:						
Net income	—	—	—	40,518,126	—	40,518,126
Other comprehensive income:						
Translation adjustment	—	—	—	—	(1,982,506)	<u>(1,982,506)</u>
Comprehensive income						38,535,620
Options exercised	396,528	2,750,049	—	—	—	2,750,049
Tax benefit of options exercised	—	3,012,659	—	—	—	3,012,659
Common stock issued at \$25.50 per share	<u>5,400</u>	<u>137,700</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>137,700</u>
Balance, December 31, 2001	<u>24,335,392</u>	<u>46,868,909</u>	<u>—</u>	<u>245,419,665</u>	<u>(4,171,469)</u>	<u>288,117,105</u>
Comprehensive income:						
Net income	—	—	—	51,934,147	—	51,934,147
Other comprehensive income:						
Change in net unrealized gains on available-for- sale investments	—	—	—	—	34,111	34,111
Translation adjustment	—	—	—	—	4,445,658	<u>4,445,658</u>
Comprehensive income						56,413,916
Options exercised	224,862	2,708,690	—	—	—	2,708,690
Tax benefit of options exercised	—	1,800,785	—	—	—	1,800,785
Common stock issued at \$28.65 per share	<u>5,000</u>	<u>143,250</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>143,250</u>
Balance, December 31, 2002	<u>24,565,254</u>	<u>51,521,634</u>	<u>—</u>	<u>297,353,812</u>	<u>308,300</u>	<u>349,183,746</u>
Comprehensive income:						
Net income	—	—	—	60,562,224	—	60,562,224
Other comprehensive income:						
Change in net unrealized gains on available-for- sale investments	—	—	—	—	(30,132)	(30,132)
Translation adjustment	—	—	—	—	7,704,495	<u>7,704,495</u>
Comprehensive income						68,236,587
Options exercised	181,240	2,763,841	—	—	—	2,763,841
Deferred compensation related to stock options	—	5,993,554	(5,993,554)	—	—	—
Stock compensation expense	—	—	1,536,814	—	—	1,536,814
Tax benefit of options exercised	—	1,818,743	—	—	—	1,818,743
Repurchase of common stock	(500,000)	(23,525,000)	—	—	—	(23,525,000)
Common stock issued at \$32.90 per share	<u>8,800</u>	<u>289,520</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>289,520</u>
Balance, December 31, 2003	<u>24,255,294</u>	<u>\$38,862,292</u>	<u>\$ (4,456,740)</u>	<u>\$ 357,916,036</u>	<u>\$ 7,982,663</u>	<u>\$ 400,304,251</u>

The accompanying notes are an integral part of these consolidated financial statements.

Simpson Manufacturing Co., Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2003	2002	2001
Cash flows from operating activities			
Net income	\$ 60,562,224	\$ 51,934,147	\$ 40,518,126
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss (gain) on sale of capital equipment	104,095	176,565	(83,677)
Depreciation and amortization	15,648,390	14,023,152	15,649,657
Gain on sale of available-for-sale investments	(2,129)	—	—
Minority interest	—	—	(734,326)
Deferred income taxes	(790,963)	(697,654)	(879,603)
Equity in income of affiliates	—	—	(256,412)
Noncash compensation related to stock plans	2,293,261	505,187	254,611
Changes in operating assets and liabilities, net of effects of acquisitions:			
Trade accounts receivable, net	(8,535,369)	(11,845,701)	4,025,941
Inventories	(9,791,598)	(9,118,571)	8,043,158
Other current assets	537,810	368,247	1,170,040
Other noncurrent assets	(463,122)	107,110	953,128
Trade accounts payable	6,458,326	(2,501,005)	(1,594,126)
Accrued liabilities	961,985	2,709,504	222,705
Accrued profit sharing trust contributions	795,255	403,632	788,154
Accrued cash profit sharing and commissions	1,279,881	4,180,405	(990,738)
Accrued workers' compensation	738,000	440,000	(230,000)
Income taxes payable	1,556,164	(313,796)	6,306,507
Total adjustments	<u>10,789,986</u>	<u>(1,562,925)</u>	<u>32,645,019</u>
Net cash provided by operating activities	<u>71,352,210</u>	<u>50,371,222</u>	<u>73,163,145</u>
Cash flows from investing activities			
Capital expenditures	(21,592,265)	(27,953,218)	(25,571,460)
Proceeds from sale of capital equipment	142,278	137,533	919,715
Asset acquisitions, net of cash acquired and equity interest already owned	(9,610,669)	(1,527)	(14,083,805)
Purchases of available-for-sale investments	(78,890,059)	(39,049,500)	—
Sales of available-for-sale investments	<u>51,807,800</u>	<u>21,400,000</u>	<u>—</u>
Net cash used in investing activities	<u>(58,142,915)</u>	<u>(45,466,712)</u>	<u>(38,735,550)</u>
Cash flows from financing activities			
Issuance of debt	1,468,903	121,881	1,276,625
Repayment of debt	(2,849,545)	(897,770)	(1,690,568)
Buyback of common stock	(23,525,000)	—	—
Issuance of Company's common stock	<u>3,053,361</u>	<u>2,851,940</u>	<u>2,887,749</u>
Net cash provided by (used in) financing activities	<u>(21,852,281)</u>	<u>2,076,051</u>	<u>2,473,806</u>
Effect of exchange rate changes on cash	<u>460,815</u>	<u>465,545</u>	<u>(447,109)</u>
Net increase (decrease) in cash and cash equivalents	(8,182,171)	7,446,106	36,454,292
Cash and cash equivalents at beginning of period	<u>103,318,056</u>	<u>95,871,950</u>	<u>59,417,658</u>
Cash and cash equivalents at end of period	<u>\$ 95,135,885</u>	<u>\$103,318,056</u>	<u>\$ 95,871,950</u>

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for			
Interest	\$ 426,276	\$ 410,070	\$ 441,278
Income taxes	<u>\$ 37,885,039</u>	<u>\$ 36,068,543</u>	<u>\$ 23,820,694</u>

The accompanying notes are an integral part of these consolidated financial statements.

Simpson Manufacturing Co., Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Operations and Summary of Significant Accounting Policies

Nature of Operations

Simpson Manufacturing Co., Inc., through its subsidiaries Simpson Strong-Tie Company Inc. (“Simpson Strong-Tie”) and Simpson Dura-Vent Company, Inc. and its other subsidiaries (collectively, the “Company”), designs, engineers and manufactures wood-to-wood, wood-to-concrete and wood-to-masonry connectors, pre-fabricated shearwalls and venting systems for gas and wood burning appliances. The Company markets its products to the residential construction, light industrial and commercial construction, remodeling and do-it-yourself markets. Simpson Strong-Tie also offers a line of adhesives, mechanical anchors and powder actuated tools for concrete, masonry and steel.

The Company operates exclusively in the building products industry. The Company’s products are sold primarily throughout North America and Europe. Revenues have some geographic market concentration on the West Coast. A portion of the Company’s business is therefore dependent upon economic activity within this region and market.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue as title to products is transferred to customers or services are rendered, net of applicable provision for discounts, returns and allowances whether actual or estimated based on the Company’s experience.

Principles of Consolidation

The consolidated financial statements include the accounts of Simpson Manufacturing Co., Inc. and its subsidiaries. Investments in less than 50% owned affiliates are accounted for using the equity method. All significant intercompany transactions have been eliminated.

Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

The Company’s investments in debt securities are classified as available-for-sale investments and are recorded at fair value. The cost of securities sold is based on the specific identification method. Unrealized gains and losses are reported as a separate component of stockholders’ equity. The Company also has a minority investment in a privately held company. These kinds of investments are carried at cost, unless the Company has the ability to exert significant influence, and are classified as long-term investments.

The Company periodically reviews its investments for impairment. If the carrying value of an investment exceeds its fair value and the decline in fair value is determined to be other-than-temporary, the Company writes down the value of the investment to its fair value. The Company generally believes an other-than-temporary decline occurs when the fair value of an investment is below the carrying value for two full consecutive quarters.

Inventory Valuation

Inventories are valued at the lower of cost or market using the first-in, first-out (“FIFO”) method.

Property, Plant and Equipment

Property, plant and equipment is carried at cost. Major renewals and betterments are capitalized; maintenance and repairs are expensed on a current basis. When assets are sold or retired, their costs and accumulated depreciation are removed from the accounts; the resulting gains or losses are reflected in the consolidated statements of operations.

Depreciation and Amortization

Depreciation of property, plant and equipment is provided for using accelerated methods over the following estimated useful lives:

Factory machinery and equipment	5 to 10 years
Automobiles, trucks and other equipment	3 to 10 years
Office equipment	3 to 8 years
Buildings and site improvements	20 to 45 years

Leasehold improvements are amortized using the straight-line method over the shorter of the expected life or the remaining term of the lease. Amortization of intangible assets is computed using the straight-line method over the estimated useful lives of the assets.

Product Research and Development Costs

Product research and development costs, which are included in cost of sales, were charged against income as incurred and approximated \$4,063,000, \$3,659,000 and \$2,747,000 in 2003, 2002 and 2001, respectively.

Tooling Costs

Tool and die costs are included in product costs in the year incurred.

Income Taxes

Income taxes are calculated using an asset and liability approach. The provision for income taxes includes federal and state taxes currently payable and deferred taxes, due to temporary differences between the financial statement and tax bases of assets and liabilities. In addition, future tax benefits are recognized to the extent that realization of such benefits is more likely than not.

Foreign Currency Translation

The local currency is the functional currency of the Company's operations in Europe and Canada. Assets and liabilities denominated in foreign currencies are translated using the exchange rate on the balance sheet date. Revenues and expenses are translated using average exchange rates prevailing during the year. The translation adjustment resulting from this process is shown separately as a component of stockholders' equity. Foreign currency transaction gains or losses are included in general and administrative expenses and have not been significant in any of the years presented.

Common Stock

Subject to the rights of holders of any Preferred Stock that may be issued in the future, holders of Common Stock are entitled to receive such dividends, if any, as may be declared from time to time by the Board of Directors (the "Board") out of legally available funds and in the event of liquidation, dissolution or winding-up of the Company, to share ratably in all assets available for distribution. The holders of Common Stock have no preemptive or conversion rights. Subject to the rights of any Preferred Stock that may be issued in the future, the holders of Common Stock are entitled to one vote per share on any matter submitted to a vote of the stockholders, except that, subject to compliance with pre-meeting notice and other conditions pursuant to the Company's Bylaws, stockholders may cumulate their votes in an election of directors, and each stockholder may give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of shares held by such stockholder or may distribute such stockholder's votes on the same principle among as many candidates as such stockholder thinks fit. There are no redemption or sinking fund provisions applicable to the Common Stock.

In 1999, the Company declared a dividend distribution of one Right to purchase Series A Participating Preferred Stock per share of Common Stock. The Rights will be exercisable, unless redeemed earlier by the Company, if a person or group acquires, or obtains the right to acquire, 15% or more of the outstanding shares of Common Stock or commences a tender or exchange offer that would result in it acquiring 15% or more of the outstanding shares of Common Stock, either event occurring without the prior consent of the Company. The amount of Series A

Participating Preferred Stock that the holder of a Right is entitled to receive and the purchase price payable on exercise of a Right are both subject to adjustment. Any person or group that acquires 15% or more of the outstanding shares of Common Stock without the prior consent of the Company would not be entitled to this purchase. Any stockholder who holds 25% or more of the Company's Common Stock on the date of the Rights distribution would not be treated as having acquired 15% or more of the outstanding shares unless such stockholder's ownership is increased to more than 40% of the outstanding shares.

The Rights will expire on July 29, 2009, or they may be redeemed by the Company at one cent per Right prior to that date. The Rights do not have voting or dividend rights and, until they become exercisable, have no dilutive effect on the earnings of the Company. One million shares of the Company's Preferred Stock have been designated Series A Participating Preferred Stock and reserved for issuance on exercise of the Rights. No event during 2003 made the Rights exercisable.

Preferred Stock

The Board has the authority to issue the authorized and unissued Preferred Stock in one or more series with such designations, rights and preferences as may be determined from time to time by the Board. Accordingly, the Board is empowered, without stockholder approval, to issue Preferred Stock with dividend, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of the Company's Common Stock.

Stock Split

In August 2002, the Company completed a 2-for-1 split of its common stock. All of the share and per share numbers have been adjusted to reflect the stock split.

Net Income per Common Share

Basic net income per common share is computed based upon the weighted average number of common shares outstanding. Potentially dilutive shares, using the treasury stock method, are included in the diluted per-share calculations for all periods when the effect of their inclusion is dilutive.

The following is a reconciliation of basic earnings per share ("EPS") to diluted EPS:

	2003			2002			2001		
	Net Income	Weighted Average Shares	Per Share	Net Income	Weighted Average Shares	Per Share	Net Income	Weighted Average Shares	Per Share
Basic EPS									
Income available to common stockholders	\$ 60,562,224	24,571,758	\$ 2.46	\$ 51,934,147	24,470,067	\$ 2.12	\$ 40,518,126	24,216,494	\$ 1.67
Effect of Dilutive Securities									
Stock options	—	423,735	(0.04)	—	337,482	(0.03)	—	415,206	(0.03)
Diluted EPS									
Income available to common stockholders	<u>\$ 60,562,224</u>	<u>24,995,493</u>	<u>\$ 2.42</u>	<u>\$ 51,934,147</u>	<u>24,807,549</u>	<u>\$ 2.09</u>	<u>\$ 40,518,126</u>	<u>24,631,700</u>	<u>\$ 1.64</u>

Comprehensive Income

Comprehensive income, which is included in the consolidated statement of stockholders' equity, is defined as net income plus other comprehensive income. Other comprehensive income includes changes in foreign currency translation adjustments recorded directly into stockholders' equity and changes in net unrealized gains on available-for-sale investments.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash in banks, short-term investments in U.S. Treasury and other fixed income instruments and trade accounts receivable. The Company maintains its cash in demand deposit and money market accounts held primarily by four banks.

Accounting for Stock-based Compensation

The Company maintains two stock option plans under which the Company may grant incentive stock options and non-qualified stock options to employees, consultants and non-employee directors. Stock options have been granted with exercise prices at or above the fair market value on the date of grant. Options vest and expire according to terms established at the grant date.

Statement of Financial Accounting Standards (“SFAS”) No. 123, “Accounting for Stock-Based Compensation,” encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans based on the fair value of options granted. In December 2002, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure,” which amends SFAS No. 123. SFAS No. 148 requires more prominent and frequent disclosures about the effects of stock-based compensation.

The Company has adopted SFAS No. 123 and SFAS No. 148 and has used the prospective method of applying SFAS No. 123 for the transition. For stock options granted prior to January 1, 2003, the Company will continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations. Accordingly, because the grant price equaled or exceeded the market price on the date of grant for options issued by the Company, no compensation expense has been recognized for stock options granted prior to January 1, 2003. For the year ended December 31, 2003, the Company has recognized an after-tax expense of approximately \$940,000 related to stock options granted during the year.

Had compensation cost for the Company’s stock options been recognized based upon the estimated fair value on the grant date under the fair value methodology prescribed by SFAS No. 123 (see Note 13), as amended by SFAS No. 148, the Company’s net income and earnings per share would have been as follows:

	<u>Years Ended December 31,</u>	
	<u>2002</u>	<u>2001</u>
Net income, as reported	\$ 51,934,147	\$ 40,518,126
Less compensation cost calculated under SFAS No. 123	<u>1,283,573</u>	<u>627,482</u>
Pro forma	<u>50,650,574</u>	<u>39,890,644</u>
Earnings per share		
Basic, as reported	2.12	1.67
Basic, pro forma	2.07	1.65
Diluted, as reported	2.09	1.64
Diluted, pro forma	2.04	1.62

The fair value of each option granted was estimated on the date of grant using the Black-Sholes option-pricing model with the following assumptions: risk-free interest rate of 4.01% and 4.46% for 2002 and 2001, respectively; no dividend yield for both years; expected lives of 6.2 years for options granted for 2002 and 2001; and volatility of 29.2% and 29.8% for 2002 and 2001, respectively. The weighted average fair value per share of options granted for 2002 and 2001 was \$12.34 and \$11.18, respectively. The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect market conditions and the Company’s experience. The Company believes that the effect on its net income in 2004 will be a charge of approximately \$2,500,000 related to stock options granted during 2003 and 2004.

With the adoption of SFAS Statement No. 123 and SFAS Statement No. 148, the expense for the estimated fair value of the stock options awarded is recorded over the vesting period of each option commencing in the year in which the option is granted rather than during the year in which the option is earned as in the pro forma computation. Accordingly, the amount expensed differs from the pro forma expense disclosure under SFAS Statement No. 123.

Adoption of Statements of Financial Accounting Standards

In July 2001, the FASB issued SFAS Statement No. 142, "Goodwill and Other Intangible Assets" which requires that goodwill and certain other intangible assets having indefinite lives no longer be amortized to earnings, but instead be subject to periodic testing for impairment. Intangible assets determined to have definitive lives will continue to be amortized over their useful lives. SFAS Statement No. 142 is effective for the Company's fiscal year beginning January 1, 2002. Goodwill and intangible assets acquired after June 30, 2001, however, are subject immediately to the non-amortization and amortization provisions of this Statement. The following table presents the effect of SFAS Statement No. 142 on net income and earnings per share had the accounting standard been in effect for the year ended December 31, 2001:

	Year Ended December 31, 2001
Net income, as reported	\$ 40,518,126
Amortization of goodwill	<u>1,672,215</u>
Pro forma	<u>\$ 42,190,341</u>
Earnings per share	
Basic, as reported	1.67
Basic, pro forma	1.74
Diluted, as reported	1.64
Diluted, pro forma	1.71

The Company reviews its indefinite lived intangible assets annually, in the fourth quarter of each year, for impairment. Should losses in the Company's UK operations continue, the value of the goodwill there, carried on the balance sheet at approximately \$4.7 million, may not be supported and the goodwill may be partially or fully impaired. This would result in a noncash charge to income.

The changes in the carrying amount of goodwill not subject to amortization as of December 31, 2002 and 2003 is as follows:

	Goodwill	Accumulated Amortization	Net Goodwill
Balance at January 1, 2002	\$ 16,082,319	\$ (3,184,963)	\$ 12,897,356
Impairment of goodwill	(189,067)	—	(189,067)
Foreign exchange	<u>1,825,898</u>	<u>—</u>	<u>1,825,898</u>
Balance at December 31, 2002	17,719,150	(3,184,963)	14,534,187
Goodwill related to the acquisition of MGA	6,709,088	—	6,709,088
Foreign exchange	<u>2,412,585</u>	<u>—</u>	<u>2,412,585</u>
Balance at December 31, 2003	<u>26,840,823</u>	<u>(3,184,963)</u>	<u>23,655,860</u>

The changes in the carrying amount of intangible assets subject to amortization as of December 31, 2002 and 2003 is as follows:

	Intangible Assets	Accumulated Amortization	Net Intangible Assets
Balance at January 1, 2002	\$ 3,039,159	\$ (580,834)	\$ 2,458,325
Amortization	—	(348,648)	(348,648)
Foreign exchange	<u>18,198</u>	<u>—</u>	<u>18,198</u>
Balance at December 31, 2002	3,057,357	(929,482)	2,127,875
Acquisitions	1,637,615	—	1,637,615
Amortization	—	(573,748)	(573,748)
Foreign exchange	<u>178,102</u>	<u>—</u>	<u>178,102</u>
Balance at December 31, 2003	<u>4,873,074</u>	<u>(1,503,230)</u>	<u>3,369,844</u>

At December 31, 2003, estimated future amortization of intangible assets is as follows:

2004	\$ 728,092
2005	728,092
2006	670,554
2007	413,380
2008	220,610
Thereafter	<u>609,116</u>
	<u>\$ 3,369,844</u>

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2003 presentation with no effect on net income or retained earnings as previously reported.

2. Acquisitions

In May 2003, Simpson Strong-Tie Canada Limited, the Company's wholly-owned Canadian subsidiary, completed the purchase of 100% of the equity of MGA Construction Hardware & Steel Fabricating Limited and MGA Connectors Limited, both Canadian federal corporations (collectively, "MGA"), for approximately \$9.8 million in cash. MGA manufactures and distributes connector products throughout Canada and portions of the United States. The amount of goodwill that resulted from this purchase is approximately \$6.7 million.

In January 2001, Simpson Strong-Tie International, Inc. ("SSTI"), a subsidiary of the Company, acquired 100% of the shares of BMF Byggningsbeslag A/S ("BMF") of Denmark for approximately \$13.6 million in cash. BMF manufactures and distributes connector products in northern and central Europe. The amount of goodwill that resulted from this purchase is approximately \$8.4 million. In August 2001, the German subsidiary of BMF purchased the remaining 51% stake in Bulldog-Simpson GmbH ("Bulldog") for approximately \$0.6 million in cash.

Results of operations for the entities acquired in 2003 and 2001, accounted for under the purchase method of accounting, for periods prior to the acquisition were not material to the Company on either an individual or aggregate basis, and accordingly, pro forma results of operations have not been presented.

3. Trade Accounts Receivable

Trade accounts receivable consist of the following:

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
Trade accounts receivable	\$ 68,717,357	\$ 57,441,613
Allowance for doubtful accounts	(1,889,210)	(1,741,321)
Allowance for sales discounts	<u>(754,851)</u>	<u>(386,407)</u>
	<u>\$ 66,073,296</u>	<u>\$ 55,313,885</u>

The Company sells products on credit and generally does not require collateral. One customer accounted for approximately 16% and another for approximately 10% of trade accounts receivable as of December 31, 2003.

4. Inventories

The components of inventories consist of the following:

	December 31,	
	2003	2002
Raw materials	\$ 38,822,274	\$ 30,684,411
In-process products	15,132,723	13,169,570
Finished products	<u>52,247,716</u>	<u>49,225,639</u>
	<u>\$106,202,713</u>	<u>\$ 93,079,620</u>

5. Property, Plant and Equipment, net

Property, plant and equipment consists of the following:

	December 31,	
	2003	2002
Land	\$ 13,133,848	\$ 12,366,824
Buildings and site improvements	64,054,606	54,108,232
Leasehold improvements	5,833,533	5,833,165
Machinery and equipment	<u>125,987,726</u>	<u>112,767,419</u>
	209,009,713	185,075,640
Less accumulated depreciation and amortization	<u>(105,397,774)</u>	<u>(92,943,166)</u>
	103,611,939	92,132,474
Capital projects in progress	<u>3,614,380</u>	<u>5,264,134</u>
	<u>\$107,226,319</u>	<u>\$ 97,396,608</u>

Included in property, plant and equipment at December 31, 2003 and 2002, are fully depreciated assets with an original cost of approximately \$42,188,000 and \$38,638,000, respectively. These fully depreciated assets are still in use in the Company's operations.

6. Investments

The Company has a 35% investment in Keymark Enterprises, LLC ("Keymark") (see Note 12), for which it accounts using the equity method. The Company believes that the carrying value of its investment in Keymark exceeds its fair value and therefore has written down the value of its investment to zero. The Company's equity in the earnings or losses of this investment or its initial 49% investment in Bulldog (see Note 2) were not material in any of the three years ended December 31, 2003.

Available-For-Sale Investments

The Company's investments in all debt securities are classified as either cash and cash equivalents or available-for-sale investments. As of December 31, 2003 and 2002, the Company's investments were as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
At December 31, 2003				
Debt investments				
Municipal bonds	\$ 44,733,887	\$ 27,380	\$ 23,400	\$ 44,737,867
Commercial paper	<u>5,705,141</u>	<u>—</u>	<u>—</u>	<u>5,705,141</u>
Total debt investments	50,439,028	27,380	23,400	50,443,008
Money market instruments and funds	<u>10,615</u>	<u>—</u>	<u>—</u>	<u>10,615</u>
	<u>\$ 50,449,643</u>	<u>\$ 27,380</u>	<u>\$ 23,400</u>	<u>\$ 50,453,623</u>
At December 31, 2002				
Debt investments				
Municipal bonds	\$ 16,642,819	\$ 34,111	\$ —	\$ 16,676,930
Commercial paper	<u>8,413,846</u>	<u>—</u>	<u>—</u>	<u>8,413,846</u>
Total debt investments	25,056,665	34,111	—	25,090,776
Money market instruments and funds	<u>44,219</u>	<u>—</u>	<u>—</u>	<u>44,219</u>
	<u>\$ 25,100,884</u>	<u>\$ 34,111</u>	<u>\$ —</u>	<u>\$ 25,134,995</u>

Of the total estimated fair value of debt securities, \$5,715,756 and \$7,451,384 was classified as cash equivalents as of December 31, 2003 and 2002, respectively, and \$44,737,867 and \$17,683,611 was classified as short-term investments as of December 31, 2003 and 2002, respectively.

As of December 31, 2003, contractual maturities of the Company's available-for-sale investments were as follows:

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Amounts maturing in less than 1 year	\$ 9,789,209	\$ 9,778,976
Amounts maturing in 1 to 5 years	4,748,399	4,760,712
Amounts maturing in 5 to 10 years	3,121,109	3,128,007
Amounts maturing after 10 years	<u>27,075,170</u>	<u>27,070,172</u>
	<u>\$ 44,733,887</u>	<u>\$ 44,737,867</u>

During the year ended December 31, 2003, the Company realized gains of \$2,129 on the sale of available-for-sale investments.

7. Accrued Liabilities

Accrued liabilities consist of the following:

	<u>December 31, 2003</u>	<u>2002</u>
Sales incentive and advertising allowances	\$ 9,600,613	\$ 7,083,275
Vacation liability	3,132,463	2,746,831
Other	<u>2,448,411</u>	<u>3,437,267</u>
	<u>\$ 15,181,487</u>	<u>\$ 13,267,373</u>

8. Debt

The outstanding debt at December 31, 2003 and 2002, and the available credit at December 31, 2003, consisted of the following:

	Available on Credit Facility at December 31, 2003	Debt Outstanding at December 31, 2003	2002
Revolving line of credit, interest at bank's base rate less 0.5% (at December 31, 2003 the bank's reference rate less 0.5% was 3.50%), matures November 2004, commitment fees are paid at the annual rate of 0.125% on the unused portion of the facility	\$ 12,964,385	\$ —	\$ —
Revolving term commitment, interest at bank's prime rate less 0.5% (at December 31, 2003, the bank's prime rate less 0.5% was 3.50%), matures June 2005, commitment fees are paid at the annual rate of 0.125% on the unused portion of the facility	9,200,000	—	—
Revolving line of credit, interest rate at 4.50%, matures June 2004	4,686,527	—	530,515
Revolving line of credit, interest rate at the bank's base rate of interest plus 2% (at December 31, 2003, this rate was 5.75%), matures September 2004, has an annual commission charge of 0.45%	444,476	—	—
Term loan, interest at LIBOR plus 1.375% (at December 31, 2003, LIBOR plus 1.375% was 2.535%), matures May 2008	—	1,350,000	1,650,000
Term loans, interest rates from 2.94% to 6.00%, maturities between 2006 and 2018	—	4,941,593	4,557,101
Standby letter of credit facilities	835,615	—	—
	28,131,003	6,291,593	6,737,616
Less current portion		(1,113,657)	(1,257,782)
		<u>\$ 5,177,936</u>	<u>\$ 5,479,834</u>
Less standby letters of credit issued and outstanding	(835,615)		
	<u>\$ 27,295,388</u>		

The revolving lines of credit are guaranteed by the Company and its subsidiaries. At December 31, 2003, the Company had one outstanding standby letter of credit in the amount of \$835,615 to guarantee performance on the Company's leased facility in the United Kingdom. This letter of credit matures in January 2005.

9. Commitments and Contingencies

Leases

Certain properties occupied by the Company are leased. The leases expire at various dates through 2012 and generally require the Company to assume the obligations for insurance, property taxes and maintenance of the facilities.

Some of the properties were leased from partnerships formed by certain current and former Company stockholders, directors, officers and employees. Rental expenses under these related party leases were as follows:

	Years Ended December 31,		
	2003	2002	2001
Simpson Investment Company	\$ —	\$ —	\$ 82,331
Doolittle Investors	367,992	367,992	253,080
Vacaville Investors	454,874	452,736	438,898
Vicksburg Investors	64,226	385,356	368,543
Columbus Westbelt Investment Co.	<u>626,328</u>	<u>626,328</u>	<u>626,328</u>
	<u>\$ 1,513,420</u>	<u>\$ 1,832,412</u>	<u>\$ 1,769,180</u>

In June 2001, the Company purchased the property that was subject to the lease with Simpson Investment Company for approximately \$1.7 million (See Note 12). Rental expense for 2003, 2002 and 2001 with respect to all other leased property was approximately \$4,510,000, \$4,091,000 and \$3,790,000, respectively.

At December 31, 2003, minimum rental commitments under all noncancelable leases are as follows:

2004	\$ 5,175,141
2005	4,827,259
2006	4,434,167
2007	4,091,136
2008	2,283,458
Thereafter	<u>3,908,732</u>
	<u>\$ 24,719,893</u>

Some of these minimum rental commitments that involve the related parties described above and in Note 12 contain renewal options and provide for periodic rental adjustments based on changes in the consumer price index or current market rental rates.

The nominal term of SSTI's lease in the United Kingdom is 25 years but includes an option to terminate without penalty in either the fifteenth or twentieth year upon one year written notice by SSTI. Future minimum rental payments associated with the first 15 years of this lease are included in minimum rental commitments in the table above.

Environmental

The Company's policy with regard to environmental liabilities is to accrue for future environmental assessments and remediation costs as they are discovered and become estimable.

At one of the Company's operating facilities, evidence of contamination resulting from activities of prior occupants was discovered. The Company took certain remedial actions at the facility in 1990 and continues to monitor the condition of this property. The Company does not believe that any further action will be required. The Company does not believe that this matter will have a material adverse effect on its financial condition, cash flows or results of operations.

Litigation

From time to time, the Company is involved in litigation that it considers to be in the normal course of its business. No such litigation within the last five years resulted in any material loss. The Company is not engaged in any legal proceedings as of the date hereof, which the Company expects individually or in the aggregate to have a material adverse effect on the Company's financial condition, cash flows or results of operations.

10. Income Taxes

The provision for income taxes consists of the following:

	Years Ended December 31,		
	2003	2002	2001
Current			
Federal	\$ 32,352,000	\$ 29,918,000	\$ 24,700,000
State	5,939,000	5,809,000	4,196,000
Foreign	665,000	142,000	234,000
Deferred	(445,806)	(735,417)	(1,510,425)
	<u>\$ 38,510,194</u>	<u>\$ 35,133,583</u>	<u>\$ 27,619,575</u>

Reconciliations between the statutory federal income tax rates and the Company's effective income tax rates as a percentage of income before income taxes are as follows:

	Years Ended December 31,		
	2003	2002	2001
Federal tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	3.6%	4.1%	4.3%
Other	0.3%	1.3%	1.2%
Effective income tax rate	<u>38.9%</u>	<u>40.4%</u>	<u>40.5%</u>

The tax effects of the significant temporary differences that constitute the deferred tax assets and liabilities at December 31, 2003, 2002 and 2001, were as follows:

	Years Ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Current deferred tax assets			
State tax	\$1,895,792	\$1,942,732	\$1,451,474
Compensation related to stock plans	–	82,732	82,732
Workers' compensation	953,242	662,994	489,947
Health claims	933,800	680,385	325,957
Vacation accrual	874,188	793,313	556,617
Accounts receivable allowance	557,924	610,238	1,451,457
Inventories	2,175,981	2,095,916	1,312,195
Sales incentive and advertising allowances	328,914	189,104	176,708
Rental reserve	–	140,452	293,538
Other	<u>101,357</u>	<u>78,776</u>	<u>335,878</u>
	<u>\$7,821,198</u>	<u>\$7,276,642</u>	<u>\$6,476,503</u>
Long-term deferred tax assets (liabilities)			
Depreciation	\$1,153,749	\$1,679,032	\$1,681,767
Goodwill amortization	265,278	566,471	870,283
Deferred compensation related to stock options	554,746	–	–
State tax credit carryforward	81,981	–	–
Other	<u>(447,204)</u>	<u>(725,037)</u>	<u>(758,448)</u>
	<u>\$1,608,550</u>	<u>\$1,520,466</u>	<u>\$1,793,602</u>

No valuation allowance has been recorded for deferred tax assets for the years ended December 31, 2003, 2002 and 2001, due to the Company's taxable income in 2003 and prior years.

11. Retirement Plans

The Company has six defined contribution retirement plans covering substantially all salaried employees and nonunion hourly employees. Two of the plans, covering U.S. employees, provide for annual contributions in amounts that the Board of Directors may authorize, subject to certain limitations, but in no event more than the amounts permitted under the Internal Revenue Code as deductible expense. The other four plans, covering the Company's European and Canadian employees, require the Company to make contributions ranging from 3% to 15% of the employees' compensation. The total cost for these retirement plans for the years ended December 31, 2003, 2002 and 2001, was approximately \$6,325,000, \$5,197,000 and \$4,769,000, respectively.

The Company also contributes to various industry-wide, union-sponsored pension funds for union, hourly employees. Payments to these funds aggregated approximately \$2,002,000, \$1,524,000 and \$1,077,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

12. Related Party Transactions

In 2003, the Company purchased 500,000 shares of its Common Stock for approximately \$23,525,000 from the Simpson PSB Fund to offset the dilution of stock options granted in 2003. The Chairman and the President and Chief Executive Officer of the Company, who are directors and significant stockholders of the Company, serve as directors and officers of the Simpson PSB Fund (a charitable organization). The price per share was \$47.05 which was the closing price on the day before the transaction less \$0.50. The independent members of the Board of Directors unanimously approved this transaction.

In 2003, the Company paid \$500,000 for an additional 5% ownership interest in Keymark. The Company now owns 35% of Keymark (see Note 6). The Company paid \$550,472 and \$800,000 in 2002 and 2001, respectively, to Keymark. The payments were related to the development of specified features in the Keymark software as well as for expenses related to marketing the software.

In 2003, the Company's Chief Executive Officer leased an airplane that is managed by a charter company unrelated to the Company. The Company pays the charter company standard hourly rates when this airplane is hired for use by its Chief Executive Officer in travel between his home and Company offices or by him and other Company employees in travel on Company business. As lessee of the airplane, the Company's Chief Executive Officer is also responsible for its maintenance and receives a portion of each payment to the charter company for its use, whether by the Company or others. The total cost to the Company for this and other airplanes that are used, including \$34,717 paid to the Company's Chief Executive Officer for compensation, was approximately \$352,000 in 2003. The independent members of the Board of Directors unanimously approved this arrangement.

In 2003, the Company paid approximately \$90,000 to Barclay Simpson Fine Arts, an art gallery owned by the Company's Chairman, for artwork to decorate the Company's offices. In January 2004, the Company made an additional purchase of approximately \$4,000. The independent members of the Board of Directors unanimously approved these purchases after a review of an independent appraisal and a review of the cost of comparable artwork.

In 2001, the Company purchased for approximately \$1.7 million the property that had been subject to the lease with Simpson Investment Company. The independent members of the Board of Directors unanimously approved this transaction.

See Note 9 regarding related party transactions involving Company leases.

13. Stock Option and Stock Bonus Plans

The Company currently has two stock option plans. One is principally for the Company's employees and the other is for the Company's independent directors. Participants are granted options only if the company-wide and/or profit center operating goals, established by the Compensation Committee of the Board of Directors at the beginning of the year, are met. In 2003, the Company met most of the operating goals established for both of its stock option plans and committed to grant options to purchase 579,500 shares in 2004. During 2002, the Company met most of the operating goals established for its stock option plans, and accordingly, granted options to purchase 505,500 shares in 2003. The Company has recognized an after-tax expense of approximately \$940,000 for these options. During 2001, the Company met some of the operating goals established for one of its stock option plans, and accordingly, granted options to purchase 19,000 shares. These options have exercise prices ranging from \$46.07 to \$55.95 per share for 2003, exercise prices ranging from \$32.90 to \$36.19 per share for 2002 and an exercise price of \$28.65 for 2001.

The following table summarizes the Company's stock option activity for the years ended December 31, 2003, 2002 and 2001:

	2003		2002		2001	
		Weighted-Average Exercise Price		Weighted-Average Exercise Price		Weighted-Average Exercise Price
<u>Non-Qualified Stock Options</u>	<u>Shares</u>	<u>Price</u>	<u>Shares</u>	<u>Price</u>	<u>Shares</u>	<u>Price</u>
Outstanding at beginning of year	1,220,708	\$ 24.62	947,160	\$ 16.97	1,325,294	\$ 13.97
Granted	579,500	50.84	503,500	32.91	19,000	28.65
Additional shares granted	—	—	2,000	32.90	—	—
Exercised	(181,240)	15.25	(224,862)	12.05	(396,528)	6.94
Forfeited	(4,584)	29.47	(7,090)	19.55	(606)	21.88
Outstanding at end of year	<u>1,614,384</u>	35.08	<u>1,220,708</u>	24.62	<u>947,160</u>	16.97

The numbers of shares for which stock options were exercisable at the end of 2003, 2002 and 2001 were 611,506, 608,523 and 699,720, respectively.

The following table summarizes information about the Company's stock options outstanding at December 31, 2003, including those committed to be granted in 2004:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number Outstanding at December 31, 2003</u>	<u>Weighted- Average Remaining Contractual Life</u>	<u>Weighted- Average Exercise Price</u>	<u>Number Outstanding at December 31, 2003</u>	<u>Weighted- Average Exercise Price</u>
\$16.66 to \$18.66	122,014	1.0 years	\$ 16.67	122,014	\$ 16.67
\$18.31 to \$20.59	158,177	2.0 years	18.72	158,177	18.72
\$19.47 to \$24.06	223,369	3.0 years	21.82	214,042	21.82
\$25.50	14,000	4.0 years	25.50	10,208	25.50
\$28.65	18,000	5.0 years	28.65	8,625	28.65
\$32.90 to \$36.19	499,324	6.0 years	32.91	98,440	32.93
\$46.07 to \$55.95	<u>579,500</u>	7.0 years	50.84	—	—
\$16.66 to \$55.95	<u>1,614,384</u>	5.1 years	35.08	<u>611,506</u>	21.93

The fair value of the 501,500 stock options granted on January 1, 2003, under the employee plan was estimated using the Black-Sholes option pricing model with the following assumptions: risk-free interest rate of 4.01%; no dividend yield; expected life of 6.2 years; and volatility of 29.2%. The weighted average fair value per share of these options is \$12.34, the exercise price is \$32.90 for 500,500 shares and \$36.19 for 1,000 shares. The assumption are the same for the 4,000 stock options granted on February 14, 2003, under the independent director plan except that the expected life used was 6.3 years. The weighted average fair value per share of these options is \$12.81 and the exercise price is \$33.95.

The tax benefit to the Company from the exercise of stock options, a reduction of the Company's income tax payable, was \$1,818,743, \$1,800,785 and \$3,012,659 for 2003, 2002 and 2001, respectively.

The Company also maintains a Stock Bonus Plan whereby, for each ten years of continuous employment with the Company, each employee who does not participate in one of the Company's stock option plans receives up to 200 shares of common stock. In 2003, 2002 and 2001, the Company committed to issue 9,000, 8,800 and 5,000 shares, respectively, which resulted in compensation charges of \$756,447, \$505,187 and \$254,611, respectively. These employees are also compensated for the income taxes payable as a result of the stock bonuses. The shares are issued in the year following the year in which they are earned.

14. Segment Information

The Company is organized into two primary segments. The segments are defined by types of products manufactured, marketed and distributed to the Company's customers. The two product segments are construction connector products and venting products. These segments are differentiated in several ways, including the types of materials, the production processes, the distribution channels and the product applications. Transactions between the two segments were immaterial for each of the years presented.

The following table illustrates certain measurements used by management to assess the performance of the segments described above as of December 31, 2003, 2002 and 2001, or for the years then ended:

2003	Connector Products	Venting Products	All Other	Total
Net sales	\$ 473,608,000	\$ 74,574,000	\$ –	\$ 548,182,000
Income from operations	87,255,000	11,058,000	(240,000)	98,073,000
Depreciation and amortization	13,734,000	1,897,000	17,000	15,648,000
Capital expenditures and acquisitions	29,486,000	1,717,000	–	31,203,000
Total assets	272,917,000	38,628,000	148,704,000	460,249,000
2002	Connector Products	Venting Products	All Other	Total
Net sales	\$ 394,922,000	\$ 70,552,000	\$ –	\$ 465,474,000
Income from operations	76,613,000	9,569,000	(99,000)	86,083,000
Depreciation and amortization	12,093,000	1,903,000	27,000	14,023,000
Capital expenditures and acquisitions	26,360,000	1,595,000	–	27,955,000
Total assets	228,601,000	39,723,000	128,077,000	396,401,000
2001	Connector Products	Venting Products	All Other	Total
Net sales	\$ 345,785,000	\$ 70,078,000	\$ –	\$ 415,863,000
Income from operations	57,082,000	8,734,000	–	65,816,000
Depreciation and amortization	13,518,000	2,043,000	89,000	15,650,000
Capital expenditures and acquisitions	38,569,000	1,086,000	–	39,655,000
Total assets	189,756,000	39,675,000	100,181,000	329,612,000

Cash collected by the Company's subsidiaries is routinely transferred into the Company's cash management accounts, and therefore has been included in the total assets of the segment entitled "All Other." Cash and short term investment balances in the All Other segment were approximately \$139,021,000, \$118,948,000 and \$91,647,000 as of December 31, 2003, 2002 and 2001, respectively.

The following table illustrates how the Company's net sales and long-lived assets are distributed geographically as of December 31, 2003, 2002 and 2001, or for the years then ended.

	2003		2002		2001	
	Net Sales	Long-Lived Assets	Net Sales	Long-Lived Assets	Net Sales	Long-Lived Assets
United States	\$467,148,000	\$ 98,042,000	\$413,205,000	\$ 88,442,000	\$371,068,000	\$ 73,971,000
Denmark	37,630,000	14,869,000	22,183,000	13,178,000	19,107,000	11,217,000
Other countries	43,404,000	24,018,000	30,086,000	13,246,000	25,688,000	12,662,000
	<u>\$548,182,000</u>	<u>\$136,929,000</u>	<u>\$465,474,000</u>	<u>\$114,866,000</u>	<u>\$415,863,000</u>	<u>\$ 97,850,000</u>

Net sales and long-lived assets are attributable to the country where the operations are located.

Net sales of approximately 11% for the year ended December 31, 2003, and 12% in each of the years ended December 31, 2002 and 2001, were to one customer and were attributable mostly to the Connector segment.

15. Selected Quarterly Financial Data (Unaudited)

The following table sets forth selected quarterly financial data for each of the quarters in 2003 and 2002:

Selected Quarterly Financial Data (Unaudited)

<i>(Dollars in thousands, except per share data)</i>	2003				2002			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net sales	\$ 133,373	\$ 151,892	\$ 146,461	\$ 116,456	\$ 108,660	\$ 130,293	\$ 124,150	\$ 102,371
Cost of sales	<u>81,918</u>	<u>91,569</u>	<u>85,570</u>	<u>70,845</u>	<u>66,273</u>	<u>74,597</u>	<u>72,510</u>	<u>63,178</u>
Gross profit	51,455	60,323	60,891	45,611	42,387	55,696	51,640	39,193
Selling expense	13,382	12,376	12,384	11,527	12,408	10,510	11,134	10,529
General and administrative expense	<u>16,619</u>	<u>18,719</u>	<u>19,601</u>	<u>15,599</u>	<u>12,329</u>	<u>17,718</u>	<u>15,711</u>	<u>12,494</u>
Income from operations	21,454	29,228	28,906	18,485	17,650	27,468	24,795	16,170
Interest income, net	<u>321</u>	<u>441</u>	<u>107</u>	<u>130</u>	<u>292</u>	<u>218</u>	<u>216</u>	<u>258</u>
Income before income taxes	21,775	29,669	29,013	18,615	17,942	27,686	25,011	16,428
Provision for income taxes	<u>8,477</u>	<u>11,111</u>	<u>11,331</u>	<u>7,590</u>	<u>7,344</u>	<u>10,971</u>	<u>10,119</u>	<u>6,698</u>
Net income	<u>\$ 13,298</u>	<u>\$ 18,558</u>	<u>\$ 17,682</u>	<u>\$ 11,025</u>	<u>\$ 10,598</u>	<u>\$ 16,715</u>	<u>\$ 14,892</u>	<u>\$ 9,730</u>
Basic net income per share of common stock	<u>\$ 0.54</u>	<u>\$ 0.75</u>	<u>\$ 0.72</u>	<u>\$ 0.45</u>	<u>\$ 0.43</u>	<u>\$ 0.68</u>	<u>\$ 0.61</u>	<u>\$ 0.40</u>
Diluted net income per share of common stock	<u>\$ 0.53</u>	<u>\$ 0.74</u>	<u>\$ 0.71</u>	<u>\$ 0.44</u>	<u>\$ 0.43</u>	<u>\$ 0.67</u>	<u>\$ 0.60</u>	<u>\$ 0.39</u>

The Company's results of operations fluctuate from quarter to quarter. The fluctuations are caused by various factors, primarily the increase in construction activity during warmer months of the year.

16. Subsequent Events

In January 2004, the Company's Board of Directors declared a dividend of \$0.10 per share, a total of approximately \$2,500,000, to be paid on April 20, 2004, to stockholders of record on April 5, 2004.

Simpson Manufacturing Co., Inc. and Subsidiaries

VALUATION AND QUALIFYING ACCOUNTS
for the years ended December 31, 2003, 2002 and 2001

Column A	Column B	Column C	Column D	Column E
		Additions		
	Balance at	Charged	Charged	Balance
	Beginning	to Costs	to Other	at End
<u>Classification</u>	<u>of Year</u>	<u>and</u>	<u>Accounts –</u>	<u>of Year</u>
		<u>Expenses</u>	<u>Write-offs</u>	<u>Deductions</u>
Year Ended December 31, 2003				
Allowance for doubtful accounts	\$ 1,741,321	\$ 1,428,732	\$ –	\$ 1,280,843
Allowance for obsolete inventory	6,097,377	669,927	–	1,581,119
Year Ended December 31, 2002				
Allowance for doubtful accounts	3,736,098	1,380,955	–	3,375,732
Allowance for obsolete inventory	3,547,330	3,526,201	–	976,154
Year Ended December 31, 2001				
Allowance for doubtful accounts	1,201,289	3,181,123	–	646,314
Allowance for obsolete inventory	3,000,792	1,763,481	–	1,216,943

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures.

None.

Item 9A. Controls and Procedures.

As of December 31, 2003, an evaluation was performed under the supervision and with the participation of the Company's management, including the chief executive officer ("CEO") and the chief financial officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and the CFO concluded that the Company's disclosure controls and procedures were effective as of that date. No significant changes in the Company's internal controls or other factors have occurred that could significantly affect internal controls subsequent to that date.

PART III**Item 10. Directors and Executive Officers of the Registrant.**

Information required by this Item will be contained in the Registrant's proxy statement for the annual meeting of stockholders to be held on April 7, 2004, to be filed not later than 120 days following the end of the Registrant's fiscal year ended December 31, 2003, which will set forth certain information with respect to the directors and executive officers of the Registrant and is incorporated herein by reference.

Item 11. Executive Compensation.

Information required by this Item will be contained in the Registrant's proxy statement for the annual meeting of stockholders to be held on April 7, 2004, to be filed not later than 120 days following the end of the Registrant's fiscal year ended December 31, 2003, which will set forth certain information with respect to executive compensation of the Registrant and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Information required by this Item will be contained in the Registrant's proxy statement for the annual meeting of stockholders to be held on April 7, 2004, to be filed not later than 120 days following the end of the Registrant's fiscal year ended December 31, 2003, which will set forth certain information with respect to security ownership of certain beneficial owners and management of the Registrant and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

Information required by this Item will be contained in the Registrant's proxy statement for the annual meeting of stockholders to be held on April 7, 2004, to be filed not later than 120 days following the end of the Registrant's fiscal year ended December 31, 2003, which will set forth certain information with respect to certain relationships and related transactions of the Registrant and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

Information required by this Item will be contained in the Registrant's proxy statement for the annual meeting of stockholders to be held on April 7, 2004, to be filed not later than 120 days following the end of the Registrant's fiscal year ended December 31, 2003, which will set forth certain information with respect to principal accountant fees and services and is incorporated herein by reference.

PART IV

Item 16. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

a. Exhibits

- 11. Statement re computation of earnings per share.
- 21. List of Subsidiaries of the Registrant.
- 23. Consent of Independent Accountants.
- 31. Rule 13a-14(a)/15d-14(a) Certifications.
- 32. Section 1350 Certifications.

b. Reports on Form 8-K

Report on Form 8-K, dated October 21, 2003, reporting under item 9 the Company's announcement of its third quarter 2003 earnings.

Report on Form 8-K, dated November 7, 2003, reporting under item 5 the repurchase of 500,000 shares of the Company's Common Stock.

Report on Form 8-K, dated November 17, 2003, reporting under Item 5 the resignation of Sunne Wright McPeak from the Company's Board of Directors.

Simpson Manufacturing Co., Inc. and Subsidiaries
Computation of Earnings Per Common Share
For the Three Years Ended December 31, 2003, 2002 and 2001

Exhibit 11

Basic Earnings per Share

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Weighted average number of common shares outstanding	24,562,958	24,465,067	24,211,094
Shares issuable pursuant to stock bonus plan	<u>8,800</u>	<u>5,000</u>	<u>5,400</u>
Number of shares for computation of basic net income per share	<u>24,571,758</u>	<u>24,470,067</u>	<u>24,216,494</u>
Net income for computation of basic net income per share	<u>\$ 60,562,224</u>	<u>\$ 51,934,147</u>	<u>\$ 40,518,126</u>
Basic net income per share	<u>\$ 2.46</u>	<u>\$ 2.12</u>	<u>\$ 1.67</u>

Simpson Manufacturing Co., Inc. and Subsidiaries
Computation of Earnings Per Common Share
For the Three Years Ended December 31, 2003, 2002 and 2001

Exhibit 11 (continued)

Diluted Earnings per Share

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Weighted average number of common shares outstanding	24,562,958	24,465,067	24,211,094
Shares issuable pursuant to employee stock option plans, less shares assumed repurchased at the average fair value during the period	417,917	333,064	408,948
Shares issuable pursuant to the independent director stock option plan, less shares assumed repurchased at the average fair value during the period	5,818	4,418	6,258
Shares issuable pursuant to stock bonus plan	<u>8,800</u>	<u>5,000</u>	<u>5,400</u>
Number of shares for computation of diluted net income per share	<u>24,995,493</u>	<u>24,807,549</u>	<u>24,631,700</u>
Net income for computation of diluted net income per share	<u>\$ 60,562,224</u>	<u>\$ 51,934,147</u>	<u>\$ 40,518,126</u>
Diluted net income per share	<u>\$ 2.42</u>	<u>\$ 2.09</u>	<u>\$ 1.64</u>

Simpson Manufacturing Co., Inc. and Subsidiaries
List of Subsidiaries of Simpson Manufacturing Co., Inc.
At February 15, 2004

Exhibit 21

1. Simpson Strong-Tie Company Inc., a California corporation
2. Simpson Dura-Vent Company, Inc., a California corporation
3. Simpson Strong-Tie International, Inc., a California corporation
4. Simpson Manufacturing International Corporation, a Barbados corporation
5. Simpson Strong-Tie Canada, Limited., a Canadian corporation
6. Simpson Strong-Tie France, Limited., a French corporation
7. Simpson Strong-Tie, S.A., a French corporation
8. Simpson Strong-Tie Japan, Inc., a California corporation
9. Simpson Strong-Tie Australia, Inc., a California corporation
10. Simpson Strong-Tie Company Inc. Chile Y Compañía Limitada, a Chilean corporation
11. Simpson Strong-Tie Company Inc. Argentina SRL, an Argentinean corporation
12. Keymark Enterprises, LLC, a Colorado limited liability company
13. BMF Bygningsbeslag A/S, a Danish corporation
14. BMF Simpson GmbH, a German corporation
15. BMF Jutor Sp.z.o.o, a Polish corporation

Simpson Manufacturing Co., Inc. and Subsidiaries
Consent of Independent Accountants

Exhibit 23

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File No. 33-85662 and File No. 33-90964) of Simpson Manufacturing Co., Inc. of our report dated February 6, 2004, relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/PricewaterhouseCoopers LLP

San Francisco, California

February 26, 2004

Simpson Manufacturing Co., Inc. and Subsidiaries
Rule 13a-14(a)/15d-14(a) Certifications

Exhibit 31

I, Thomas J Fitzmyers, Chief Executive Officer of Simpson Manufacturing Co., Inc. (the "Company"), certify that:

1. I have reviewed this report on Form 10-K of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the Audit Committee of the Company's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

DATE: February 26, 2004

By /s/ Thomas J Fitzmyers
Thomas J Fitzmyers
Chief Executive Officer

Simpson Manufacturing Co., Inc. and Subsidiaries
Rule 13a-14(a)/15d-14(a) Certifications

Exhibit 31 (continued)

I, Michael J. Herbert, Chief Financial Officer of Simpson Manufacturing Co., Inc. (the "Company"), certify that:

1. I have reviewed this report on Form 10-K of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the Audit Committee of the Company's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

DATE: February 26, 2004

By /s/ Michael J. Herbert
Michael J. Herbert
Chief Financial Officer

Simpson Manufacturing Co., Inc. and Subsidiaries
Section 1350 Certifications

Exhibit 32

The undersigned, Thomas J Fitzmyers and Michael J. Herbert, being the duly elected and acting Chief Executive Officer and Chief Financial Officer, respectively, of Simpson Manufacturing Co., Inc., a Delaware corporation (the "Company"), hereby certify that the annual report of the Company on Form 10-K for the quarterly period ended December 31, 2003, fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, as amended, and that information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 26, 2004

/s/Thomas J Fitzmyers
Thomas J Fitzmyers

/s/Michael J. Herbert
Michael J. Herbert

A signed original of this written statement required by Section 1350 has been provided to Simpson Manufacturing Co., Inc. and will be retained by Simpson Manufacturing Co., Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

SIGNATURES

Pursuant to the requirements Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 26, 2004

Simpson Manufacturing Co., Inc.

(Registrant)

By /s/ Michael J. Herbert
Michael J. Herbert
Chief Financial Officer
and Duly Authorized Officer
of the Registrant
(principal accounting and financial officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated below.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
Chief Executive Officer:		
<u>/s/ Thomas J Fitzmyers</u> (Thomas J Fitzmyers)	President, Chief Executive Officer and Director	February 26, 2004
Chief Financial Officer:		
<u>/s/ Michael J. Herbert</u> (Michael J. Herbert)	Chief Financial Officer, Treasurer and Secretary (principal accounting and financial officer)	February 26, 2004
Directors:		
<u>/s/ Barclay Simpson</u> (Barclay Simpson)	Chairman of the Board	February 26, 2004
<u>(Jennifer A. Chatman)</u>	Director	
<u>/s/ Earl F. Cheit</u> (Earl F. Cheit)	Director	February 26, 2004
<u>/s/ Stephen B. Lamson</u> (Stephen B. Lamson)	President and Chief Operating Officer, Simpson Strong-Tie Company Inc., and Director	February 26, 2004
<u>/s/ Peter N. Louras</u> (Peter N. Louras)	Director	February 26, 2004
<u>(Robin G. MacGillivray)</u>	Director	
<u>/s/ Barry Lawson Williams</u> (Barry Lawson Williams)	Director	February 26, 2004

STOCK LISTING

Simpson Manufacturing Co., Inc.'s (the "Company") Common Stock is traded on the New York Stock Exchange under the ticker symbol "SSD."

QUARTERLY STOCK DATA

The table below shows the per-share closing price range of the Company's Common Stock for the last two years as quoted on the New York Stock Exchange.

MARKET PRICE PER QUARTER*

	High	Low	Close
2003			
Fourth	\$52.55	\$42.50	\$50.86
Third	48.88	36.72	40.89
Second	38.15	33.07	36.60
First	34.95	30.85	33.80
2002			
Fourth	\$36.30	\$29.60	\$32.90
Third	33.55	25.33	31.39
Second	34.05	27.55	28.57
First	30.95	26.00	30.58

*Adjusted to reflect two for one stock split in August 2002.

ANNUAL MEETING

The annual meeting of stockholders will take place at 2:00 p.m., Pacific Daylight Time, on Wednesday, April 7, 2004, at the Company's home office located at 4120 Dublin Boulevard, Suite 400, Dublin, California.

FORM 10-K

The Company's annual report on Form 10-K (*which is included in this report*) and its quarterly and current reports on Forms 10-Q and 8-K, are filed with the Securities and Exchange Commission and are available upon request. These reports are also available on the company's website at www.simpsonmfg.com.

INVESTOR RELATIONS

Barclay Simpson
Simpson Manufacturing Co., Inc.
4120 Dublin Blvd., Suite 400
Dublin, CA 94568
Tel: (925) 560-9032

For an investor information package
please call (925) 560-9097

TRANSFER AGENT & REGISTRAR

EquiServe Trust Company, NA
P.O. Box 43023
Providence, RI 02940-3023

For shareholder inquiries
please call (877) 282-1168

www.equiserve.com

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
333 Market Street
San Francisco, CA 94105

OUR QUALITY POLICY

We help people build safer structures economically. We do this by designing, engineering and manufacturing “No Equal” structural connectors and other related products that meet or exceed our customers’ needs and expectations.

Everyone is responsible for product quality and is committed to ensuring the effectiveness of the quality management system.



THERE IS NO EQUAL



SIMPSON MANUFACTURING CO., INC.

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