

SIMPSON MANUFACTURING CO INC /CA/

FORM 10-K405

(Annual Report (Regulation S-K, item 405))

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Industry	Misc. Fabricated Products
Sector	Basic Materials
Fiscal Year	12/31

**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, 2001

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 March 21, 2002, there were outstanding 12,188,218 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 March 21, 2002) was approximately \$493,716,779.

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 May 13, 2002, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2001.

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 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 and wood 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 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. 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 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 burning stoves 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. The Company has 14 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 Southeast, 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 ("IBC"), 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 is also experiencing increased complexity in home design and builders are more aggressively trying to reduce their costs. The Company is responding to these trends by marketing its products as systems solutions rather than as 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 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, although increases in prices have made alternative energy sources more attractive. In 2000 and the first half of 2001, the high cost of home heating oil, natural gas, and electricity resulted in increased demand for wood burning appliances and pellet stoves, although this trend appears to have slowed more recently as energy prices have decreased.

The Company continues to develop its distribution through home centers throughout the United States. The Company's sales to home centers increased significantly in 2000 and 2001. 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 needed. The Company sponsors seminars to inform architects, engineers, contractors and building officials on appropriate use and proper installation of the Company's 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 their 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 concentrated a portion of its research efforts on the development of DIY products.

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.

The Company is expanding its established facilities outside California to increase its presence and sales in markets east of the Rocky Mountains. During the last five years, the Company has expanded or has plans to expand many of its manufacturing and warehouse facilities. As a result of the high sales growth in California in 2000, sales in the 37 states east of the Rocky Mountains, while continuing to grow, have declined as a percentage of domestic sales from approximately 47% in 1999 to approximately 44% in 2001. Since 1993, the Company has established operations in the United Kingdom, opened warehouse and distribution facilities in Western Canada, the Northeastern United States, purchased anchor products manufacturers in Illinois and Eastern Canada, connector product manufacturers in France and Denmark, and acquired the shares of the German company that it did not already own. The Company has also established distribution in Chile, Japan, Australia and New Zealand. 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 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, 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.

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 is developing 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.

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 found in residential and commercial construction: wood-to-wood, wood-to-concrete and wood-to-masonry. The Company's products 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. SST also offers a full line of adhesives, mechanical anchors and powder actuated tools for numerous anchoring applications in concrete, masonry and steel.

Almost all 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, 2001, 2000 and 1999, was \$2,309,000, \$1,771,000 and \$1,376,000, respectively. In 2002, SST expects to complete construction of its state-of-the-art testing facility in Stockton, California. 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 pre-fabricated shear-wall product for the new construction market and has expanded its line of chemical and mechanical Anchor products. 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 a cash profit sharing bonus program 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, 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. 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 and reliable 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 daily 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 burning stoves 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. Increases in the cost of natural gas during 2000 and the first half of 2001, however, reduced the demand for gas appliances and increased demand for alternative energy sources. Historically, sales of wood burning stoves, considered an alternative energy source, have increased during these periods of high oil and natural gas prices and energy shortages. SDV manufactures venting systems for use with wood burning stoves as well as other types of appliances. With lower natural gas prices in the later half of 2001, demand for gas appliances appears to be increasing again.

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.

Increases in the price of natural gas, home heating oil, and electricity have generally resulted in increases in sales of wood burning appliances. Simpson Dura-Vent's DuraTech and Dura/Plus chimney systems are intended to capitalize on these recent energy trends. In addition to wood burning appliances, demand for pellet stoves may also be affected by higher energy costs. In 2001, SDV saw a substantial increase in sales of its pellet venting products. The growing 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, 2001, 2000 and 1999, was \$438,000, \$455,000 and \$433,000, 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 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.

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 the image of 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 literature has 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 is committed to helping people build safer structures economically through the design, engineering and manufacturing of structural connectors 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. Since 1996, Simpson Strong-Tie's quality management system has been registered under ISO 9001, an internationally recognized set of quality-assurance standards. SST is currently working toward registration under the new ISO 9001-2000 standard. 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 and Poland. SST also stocks its products in Scotland 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, over the past two years SST has introduced three new 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 earthquakes 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. 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 Building Officials ("ICBO"), Building Officials and Code Administrators International ("BOCA"), Southern Building Code Congress International ("SBCCI"), The National Evaluation Service, the City of Los Angeles, Dade County, Florida, and the California Division of

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 section of the IBC, these standards have become more uniformly applied and are recognized throughout the country, rather than by the jurisdiction covered by the various agencies. SST considers this 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 might be adopted that could negatively affect sales of Type B Gas Vents, which could materially and adversely affect the Company's operating results and financial condition. 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 are 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 primarily on the basis of

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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. Many of Simpson Dura-Vent's competitors have greater financial and other resources than SDV. SDV's principal competitors include the Selkirk Metalbestos Division of U.S. Industries, Inc., 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. 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. In March 2002, the United States imposed a tariff on several types of imported steel which in turn could increase the cost of steel to the Company. The Company might not be able to increase its product prices in amounts that 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 issue 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 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 are 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 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. In December 2000, SST purchased the assets of Masterset Fastening Systems, Inc. ("Masterset") for approximately \$2.3 million in cash plus an earnout of up to \$0.3 million. Masterset sells a system of specially designed powder actuated fasteners and installation tools. In July 2000, Simpson Strong-Tie purchased the assets of Anchor Tiedown Systems, Inc. ("ATS"). ATS manufactures and distributes the MBR product line used to anchor multi-story buildings with a threaded rod hold down system. The purchase price was approximately \$4.6 million in cash. In the third quarter of 1999, SSTI purchased the assets of Furfix Products Limited and Easy Arches Limited (together, "Furfix"), which manufacture a line of structural connectors for the wood and masonry construction markets in the United Kingdom and Europe. The purchase price was approximately \$7.8 million in cash plus an earnout based on future operating performance. Included in the purchase price were costs associated with the closure of Furfix's existing facility and integration into

SSTI's facility in Tamworth, England. See "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Sources of Capital."

Seasonality and Cyclicity

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 of which flaws have not been 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 buildings 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) 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 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 March 1, 2002 the Company had 1,895 full-time employees, of whom 1,257 were hourly employees and 638 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 Donald M. Townsend. 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 Company's employees at two of the Company's major 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 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 2003 and July 2003, respectively. Simpson Strong-Tie's Manteca, California, facility was also recently unionized. The collective bargaining agreement there will 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.

Item 2. Properties.

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 and Poland. As of March 15, 2002, the Company's facilities were as follows:

Location	Approximate Square Footage	Owned or Leased	Lessee	Lease Expires	Function
Dublin, California	35,400	Leased	Company	2007	Office
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)	SST	2009	Manufacturing and Warehouse
San Leandro, California	48,000	Owned			Office and Warehouse
San Leandro, California	27,000	Owned			Manufacturing and Warehouse
San Leandro, California	61,800	Leased	SST	2002	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			Office, Manufacturing and Warehouse
McKinney, Texas	117,100	Owned			Office and Warehouse
Columbus, Ohio	153,500	Leased(3)	SST	2005	Office, Manufacturing and Warehouse
Jacksonville, Florida	74,600	Leased	SST	2006	Office and Warehouse
Addison, Illinois	52,400	Leased	SST	2003	Office, Manufacturing and Warehouse
Enfield, Connecticut	55,100	Leased	SST	2003	Office and Warehouse
Kent, Washington	24,000	Leased	SST	2004	Office, Manufacturing and Warehouse
Manteca, California	135,700	Leased	SST	2005	Office, Manufacturing and Warehouse
Visalia, California	50,000	Owned			Warehouse
Tamworth, England	78,100	Leased	SST(4)	2012	Office, Manufacturing and Warehouse
Glasgow, Scotland	3,000	Leased	SST(4)	2003	Warehouse
Vacaville, California	125,000	Leased(5)	SDV	2007	Office, Manufacturing and Warehouse
Vacaville, California	120,300	Owned			Office, Manufacturing and Warehouse
Vicksburg, Mississippi	302,000	Owned			Office, Manufacturing and Warehouse
Fontana, California	17,900	Leased	SDV	2002	Warehouse
Langley, British Columbia	19,700	Leased	SST(6)	2010	Warehouse
Brampton, Ontario	104,000	Leased	SST(6)	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(7)	2002	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) Lessee is Simpson Strong-Tie International, Inc., a wholly-owned subsidiary of SST.
- (5) Lessor is Vacaville Investors, a related party. See Note 9 to the Consolidated Financial Statements contained elsewhere herein.
- (6) Lessee is Simpson Strong-Tie Canada, Ltd., a wholly-owned subsidiary of SST.
- (7) Lessee is BMF Bygningsbeslag A/S, a wholly-owned subsidiary of SST.

The Company owns approximately 47 acres in Stockton, California, and has commenced construction on research and development, manufacturing and warehousing facilities. The new facilities are expected to be completed and occupied in 2002. The Company also owns 63 acres of undeveloped land in McKinney, Texas.

The Company has vacated facilities that it leased in Vicksburg, Mississippi, and is attempting to sublease these facilities. The Lessor of this Vicksburg facility is Vicksburg Investors, a related party. See Note 9 to the Consolidated Financial Statements contained elsewhere herein. The Company has also vacated its facility in Indianapolis, Indiana.

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 2002. 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 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.

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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." 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:

Quarter	Market Price	
	High	Low
2001		
Fourth	\$ 57.3000	\$ 49.0900
Third	59.9000	47.0000
Second	60.5000	47.2000
First	54.8125	49.3000
2000		
Fourth	\$ 51.0000	\$ 41.7500
Third	50.8750	44.5625
Second	53.0000	39.3125
First	45.6250	38.8750

The Company estimates that as of March 21, 2002, approximately 3,350 persons owned shares of the Company's Common Stock either directly or through nominees.

The Company currently intends to retain its future earnings, if any, to finance operations and fund internal growth and does not anticipate paying cash dividends on the Company's Common Stock for the foreseeable future. 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 \$180.0 million plus 50% of net profit after taxes for each fiscal year ending after December 31, 2001. This requirement may limit the amount that the Company may pay out as dividends on the common stock. As of December 31, 2001, the Company had a Tangible Net Worth of \$277.1 million.

In February 2002, the Board of Directors authorized the Company, for a period of one year, to buy back up to \$35 million of the Company's common stock. In the second half of 2000, the Company repurchased 134,280 shares of its common stock at an average price of approximately \$43.95 per share.

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, 2001, 2000, 1999, 1998 and 1997, derived from the audited Consolidated Financial Statements of the Company (restated for the effect of the accounting change for inventory valuation from the last-in, first-out method to the first-in, first-out), 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.

	Year Ended December 31,				
	2001	2000	1999	1998	1997
Statement of Operations Data:					
Net sales	\$ 415,863	\$ 369,087	\$ 328,440	\$ 279,081	\$ 246,074
Cost of sales	257,785	225,628	197,701	170,538	149,613
Gross profit	158,078	143,459	130,739	108,543	96,461
Selling expense	42,230	37,410	32,204	24,706	23,113
General and administrative expense	50,032	44,634	37,846	33,100	30,358
Income from operations	65,816	61,415	60,689	50,737	42,990
Interest income, net	1,587	3,010	1,669	940	429
Income before income taxes	67,403	64,425	62,358	51,677	43,419
Provision for income taxes	27,619	26,296	25,021	20,833	17,636
Minority interest	(734)	(1,246)	—	—	—
Net income	\$ 40,518	\$ 39,375	\$ 37,337	\$ 30,844	\$ 25,783
Diluted net income per share of common stock	\$ 3.29	\$ 3.20	\$ 3.05	\$ 2.56	\$ 2.15

	As of December 31,				
(Dollars in thousands)	2001	2000	1999	1998	1997
Balance Sheet Data:					
Working capital	\$ 194,261	\$ 168,008	\$ 141,143	\$ 105,860	\$ 83,813
Property, plant and equipment, net	81,410	63,823	61,144	54,965	42,925
Total assets	329,612	279,570	246,341	191,817	151,281
Total debt	6,673	2,405	2,764	2,896	30
Total liabilities	41,495	35,134	36,665	30,317	21,814
Total stockholders' equity	288,117	243,681	209,676	161,499	129,467

Selected Quarterly Financial Data (Unaudited)

	2001				2000			
(Dollars in thousands.)	Fourth	Third	Second	First	Fourth	Third	Second	First

<i>except per share data)</i>	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter
Net sales	\$ 93,536	\$ 111,661	\$ 115,842	\$ 94,824	\$ 85,599	\$ 101,048	\$ 97,826	\$ 84,615
Cost of sales	60,796	68,920	70,381	57,688	56,355	60,028	58,466	50,779
Gross profit	32,740	42,741	45,461	37,136	29,244	41,020	39,360	33,836
Selling expense	10,855	10,423	10,173	10,779	9,323	9,806	9,729	8,553
General and administrative expense	11,285	12,478	14,375	11,894	9,683	12,656	11,647	10,648
Income from operations	10,600	19,840	20,913	14,463	10,238	18,558	17,984	14,635
Interest income, net	385	448	295	460	916	827	623	644
Income before income taxes	10,985	20,288	21,208	14,923	11,154	19,385	18,607	15,279
Provision for income taxes	4,188	8,191	9,001	6,241	4,468	7,987	7,655	6,186
Minority interest	(5)	(20)	(412)	(298)	(281)	(274)	(495)	(196)
Net income	\$ 6,802	\$ 12,117	\$ 12,619	\$ 8,980	\$ 6,967	\$ 11,672	\$ 11,447	\$ 9,289
Diluted net income per share of common stock	\$ 0.55	\$ 0.98	\$ 1.03	\$ 0.73	\$ 0.57	\$ 0.95	\$ 0.93	\$ 0.76

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.

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, 2001, 2000 and 1999, 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 26.6% to \$415.9 million in 2001 from \$328.4 million in 1999. 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 2001 from 1999 in all regions of the United States, with above average rates of growth in California, although the net sales growth rate in California from 2000 to 2001 was below average. In recent years, sales to home centers have been one of the Company's fastest growing distribution channels. A large part of that growth were 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 1. Business. Simpson Strong-tie, Sales and Marketing "). Expansion into overseas markets also contributed to the net sales growth over the last three years, primarily due to the acquisition of BMF in January 2001. Gross profit margin decreased to 38.0% in 2001 from 39.8% in 1999. The decrease was primarily due to lower margins at BMF. In March 2002, the United States imposed a tariff on several types of imported steel which in turn could increase the cost of steel to the Company. See "Item 1. Business. Raw Materials." Income from operations as a percentage of net sales decreased to 15.8% in 2001 from 16.6% in 2000 and 18.5% in 1999.

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,		
	2001	2000	1999
Net sales	100.0%	100.0%	100.0%
Cost of sales	62.0%	61.1%	60.2%
Gross profit	38.0%	38.9%	39.8%
Selling expense	10.2%	10.1%	9.8%
General and administrative expense	12.0%	12.1%	11.5%
Income from operations	15.8%	16.6%	18.5%
Interest income, net	0.4%	0.8%	0.5%
Income before income taxes	16.2%	17.5%	19.0%
Provision for income taxes	6.6%	7.1%	7.6%
Minority interest	(0.2%)	(0.3%)	—
Net income	9.7%	10.7%	11.4%

Comparison of the Years Ended December 31, 2001 and 2000

Net Sales

Net sales increased 12.7% to \$415.9 million in 2001 from \$369.1 million in 2000. Net sales of Simpson Strong-Tie's products increased 13.8% to \$345.8 million in 2001 from \$303.8 million in 2000, while net sales of Simpson Dura-Vent's products increased by 7.3% to \$70.1 million in 2001 from \$65.3 million in 2000. SDV accounted for approximately 16.9% of the Company's total net sales in 2001, a decrease from 17.7% in 2000. The increase in net sales at SST resulted from an increase in sales volume offset by a small decrease in average prices, while the increase in net sales at SDV resulted from an increase in sales volume. The majority of the Company's sales growth occurred domestically, although international sales contributed to the annual increase, due almost entirely to BMF, which was acquired in the January 2001. See "Item 1. Business. Acquisitions and Expansion into New Markets." Home centers was the fastest growing connector sales channel. The sales increase was broad-based across most of SST's major product lines. SST's Anchor Systems product lines had the highest percentage growth rate in sales. SDV's chimney and pellet vent product lines had the highest sales growth rates while the Direct-Vent product line declined as compared to sales in 2000.

Gross Profit

Gross profit increased 10.2% to \$158.1 million in 2001 from \$143.5 million in 2000. As a percentage of net sales, gross profit decreased to 38.0% in 2001 from 38.9% in 2000. This decrease was primarily due to lower gross profit margins at BMF.

Selling Expense

Selling expense increased 12.9% to \$42.2 million in 2001 from \$37.4 million in 2000. The increase was primarily due to higher personnel costs related to the increase in the number of sales and merchandising personnel as well as increased commissions to sales agents who represent SST's Anchor Systems product line. Promotional expenses also contributed to the increase in selling expenses.

General and Administrative Expense

General and administrative expenses increased 12.1% to \$50.0 million in 2001 from \$44.6 million in 2000, but decreased slightly as a percentage of net sales to 12.0% in 2001 from 12.1% in 2000. The increase was primarily due to an increase in the bad debt reserve related to a significant customer, to higher costs related to additional administrative personnel, including those at BMF, and to non-cash charges related to

the amortization of intangible assets including the Keybuilder.com LLC software license and the goodwill of acquired businesses. Partially offsetting this increase was a decrease in cash profit sharing.

European Operations

For its combined European operations, the Company recorded an after-tax net loss of \$2.1 million in 2001, including approximately \$0.5 million in nondeductible goodwill amortization associated with BMF, compared to after-tax net losses of \$1.7 million in 2000. These losses are primarily associated with the Company's UK and Denmark operations. Lower gross margins and amortization of the intangible assets associated with the acquisitions of Furfix and BMF, as well as depreciation, selling and administrative costs incurred related to the growing operations, contributed significantly to the losses. The Company expects the losses in Europe to continue through at least 2003.

Other Information

In December 2001, Keybuilder.com, LLC was dissolved. The Company continues to hold a 30% interest in Keymark Enterprises, LLC ("Keymark") which is continuing to develop the Keymark software. Keymark has not and is not expected to generate significant revenues or profits. The Company hopes that the software that is developed by Keymark will also benefit SST's future connector sales through continued specification of its products.

Comparison of the Years Ended December 31, 2000 and 1999

Net Sales

Net sales increased 12.4% to \$369.1 million in 2000 from \$328.4 million in 1999. Net sales of Simpson Strong-Tie's products increased 16.4% to \$303.8 million in 2000 from \$260.9 million in 1999, while net sales of Simpson Dura-Vent's products decreased by 3.2% to \$65.3 million in 2000 from \$67.5 million in 1999. SDV accounted for approximately 17.7% of the Company's total net sales in 2000, a decrease from 20.6% in 1999. The increase in net sales at SST resulted from an increase in sales volume and a small increase in average prices, while the decrease in net sales at SDV resulted from a decrease in sales volume, offset slightly by an increase in average prices. The decrease in sales volume at SDV may have resulted, at least in part, from a reduction in demand for venting products for natural gas burning appliances as a result of higher natural gas prices. Most of the Company's sales growth occurred domestically, particularly in California. International sales contributed to the annual increase, due in part to the acquisition of Furfix in the third quarter of 1999. See "Item 1. Business. Acquisitions and Expansion into New Markets." Contractor distributors and home centers were the fastest growing connector sales channels. The sales increase was broad-based across most of SST's major product lines. SST's Strong-Wall and Anchor Systems product lines had the highest growth rates. With the exception of pellet vent products, sales in 2000 of all of SDV's major product lines declined compared to sales in 1999.

Gross Profit

Gross profit increased 9.7% to \$143.5 million in 2000 from \$130.7 million in 1999. As a percentage of net sales, gross profit decreased to 38.9% in 2000 from 39.8% in 1999. This decrease was primarily

due to increased costs related to slow moving inventory reserves as a result of excess inventory of specifically identified stock items.

Selling Expense

Selling expense increased 16.2% to \$37.4 million in 2000 from \$32.2 million in 1999. The increase was primarily due to higher personnel costs related to the increase in the number of sales and merchandising personnel, particularly those associated with selling the Anchor Systems product line, as well as increased promotional expenses.

General and Administrative Expense

General and administrative expenses increased 17.9% to \$44.6 million in 2000 from \$37.8 million in 1999, and increased as a percentage of net sales to 12.1% in 2000 from 11.5% in 1999. The increase was primarily due to higher personnel and other administrative overhead costs, including costs associated with the operation of Keybuilder.com and the acquisitions of Furfix in 1999 and ATS and Masterset in 2000. See "Item 1. Business. Acquisitions and Expansion into New Markets." Cash profit sharing expenses also increased relative to 1999 as a result of higher operating income through the first nine months of 2000.

European Operations

For its combined European operations, the Company recorded an after-tax net loss of \$1.7 million in 2000 compared to after-tax net losses of \$1.8 million in 1999. These losses were primarily associated with the Company's UK operations. Amortization of the intangible assets

associated with the acquisition of Furfix as well as depreciation on capital equipment and other administrative overhead costs incurred related to the growing operations contributed significantly to the losses.

Other Information

In July 2000, Simpson Strong-Tie purchased the assets of ATS which manufactures and distributes the MBR product line used to anchor multi-story buildings with a threaded rod hold down system. The purchase price was approximately \$4.6 million in cash. In December 2000, SST purchased the assets of Masterset for approximately \$2.3 million in cash plus an earnout of up to \$0.3 million. Masterset sells a quality system of specially designed powder actuated fasteners and installation tools.

In the first quarter of 2000, Simpson Strong-Tie and Keymark Enterprises, Inc., formed Keybuilder.com, LLC to develop software and services that can link designers, engineers and building material suppliers and assist engineers in the design and construction of residential structures. Effective January 1, 2001, the Company, through the exercise of an option, acquired 30% of Keymark,

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, 2001, the Company has relied primarily on internally generated funds to finance these needs. The Company's working capital requirements are seasonal with the highest working capital needs typically occurring in the second and third quarters of the year. Cash and cash equivalents were \$95.9 million and \$59.4 million at December 31, 2001 and 2000, respectively. Working capital was \$194.3 million and \$168.0 million at December 31, 2001 and 2000, respectively. As of December 31, 2001, the Company had approximately \$6.7 million in debt outstanding and had available to it unused credit facilities of approximately \$23.1 million.

The Company had cash flows from operating activities of \$73.3 million, \$30.9 million and \$36.0 million for 2001, 2000 and 1999, respectively. In 2001, cash was provided by net income, before removing Keymark's share of the loss related to the Keybuilder.com, LLC joint venture, of \$39.8 million and noncash expenses, such as depreciation and amortization, of \$15.6 million. Operating cash flows were also increased by decreases in inventories and trade accounts receivable of approximately \$12.1 million, in the aggregate, and an increase in income taxes payable of approximately \$6.3 million. The balance of the cash used in 2001 resulted from changes in other asset and liability accounts, none of which was material on a standalone basis.

Cash used in investing activities was \$38.7 million, \$20.5 million and \$23.3 million for 2001, 2000 and 1999, respectively. Asset acquisitions, primarily related to the purchase of BMF, and capital expenditures increased to \$39.7 million in 2001 from \$20.7 million in 2000. Approximately \$14.1 million of the capital expenditures was used to purchase or improve the Company's real estate.

Financing activities provided net cash of \$2.3 million and \$4.4 million in 2001 and 1999, respectively, and used \$5.3 million 2000. In 2001, approximately \$2.8 million in cash was provided by the issuance of Common Stock through the exercise of stock options by employees and directors of the Company.

The Company believes that cash generated by operations, borrowings available under its existing credit agreements, the majority of which have been renewed through at least September 2002, and other available financing will be sufficient for the Company's working capital needs and planned capital expenditures through at least 2002.

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

Not applicable.

Item 8. Financial Statements and Supplementary Data.

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

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Report of Independent Accountants

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 26 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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, 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.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of valuing inventories from the last-in, first-out method to the first-in, first-out method.

/s/ PricewaterhouseCoopers LLP

San Francisco, California
February 4, 2002

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

	December 31,	
	2001	2000
ASSETS		
Current assets		
Cash and cash equivalents	\$ 95,871,950	\$ 59,417,658
Trade accounts receivable, net	42,614,410	45,584,186

Inventories	82,476,299	85,269,695
Deferred income taxes	6,476,503	5,420,091
Other current assets	2,529,599	5,040,017
Total current assets	229,968,761	200,731,647
Property, plant and equipment, net	81,410,301	63,822,513
Investments	—	354,414
Other noncurrent assets	18,232,988	14,660,979
Total assets	\$ 329,612,050	\$ 279,569,553
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Notes payable and current portion of long-term debt	\$ 986,448	\$ 335,754
Trade accounts payable	15,738,659	14,630,941
Accrued liabilities	10,182,616	9,373,008
Accrued profit sharing trust contributions	4,706,934	3,929,043
Accrued cash profit sharing and commissions	1,987,993	2,979,060
Accrued workers' compensation	1,245,764	1,475,764
Income taxes payable	859,536	—
Total current liabilities	35,707,950	32,723,570
Long-term debt, net of current portion	5,686,995	2,069,028
Long-term liabilities	100,000	341,600
Total liabilities	41,494,945	35,134,198
Minority interest in consolidated subsidiaries	—	754,278
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, 20,000,000; issued and outstanding shares, 12,167,696 and 11,966,732 at December 31, 2001 and 2000, respectively	46,868,909	40,968,501
Retained earnings	245,419,665	204,901,539
Accumulated other comprehensive income	(4,171,469)	(2,188,963)
Total stockholders' equity	288,117,105	243,681,077
Total liabilities and stockholders' equity	\$ 329,612,050	\$ 279,569,553

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,

2001

2000

1999

Net sales	\$	415,862,601	\$	369,087,813	\$	328,439,897
Cost of sales		257,784,583		225,628,484		197,701,260
Gross profit		158,078,018		143,459,329		130,738,637
Operating expenses						
Selling		42,230,211		37,409,957		32,204,008
General and administrative		50,031,666		44,633,965		37,845,480
		92,261,877		82,043,922		70,049,488
Income from operations		65,816,141		61,415,407		60,689,149
Interest income, net		1,587,234		3,009,974		1,669,243
Income before income taxes		67,403,375		64,425,381		62,358,392
Provision for income taxes		27,619,575		26,296,360		25,021,234
Minority interest		(734,326)		(1,245,722)		—
Net income	\$	40,518,126	\$	39,374,743	\$	37,337,158
Net income per common share						
Basic	\$	3.35	\$	3.28	\$	3.15
Diluted	\$	3.29	\$	3.20	\$	3.05
Weighted average number of shares outstanding						
Basic		12,108,247		12,022,704		11,837,315
Diluted		12,315,850		12,294,922		12,233,865

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, 1999, 2000 and 2001

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount			
Balance, January 1, 1999	11,579,360	\$ 33,723,845	\$ 128,189,638	\$ (431,690)	\$ 161,481,793
Comprehensive income:					
Net income	—	—	37,337,158	—	37,337,158
Other comprehensive income:					
Translation adjustment	—	—	—	(153,232)	(153,232)
Comprehensive income					37,183,926
Options exercised	436,279	4,568,970	—	—	4,568,970
Tax benefit of options exercised	—	6,303,873	—	—	6,303,873
Common stock issued at \$37.4375 per share	3,200	119,800	—	—	119,800

Balance, December 31, 1999	12,018,839	44,716,488	165,526,796	(584,922)	209,658,362
Comprehensive income:					
Net income	—	—	39,374,743	—	39,374,743
Other comprehensive income:					
Translation adjustment	—	—	—	(1,604,041)	(1,604,041)
Comprehensive income					37,770,702
Options exercised	77,673	902,898	—	—	902,898
Tax benefit of options exercised	—	1,054,238	—	—	1,054,238
Buyback of common stock	(134,280)	(5,901,998)	—	—	(5,901,998)
Common stock issued at \$43.75 per share	4,500	196,875	—	—	196,875
Balance, December 31, 2000	11,966,732	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)	(1,982,506)
Comprehensive income					38,535,620
Options exercised	198,264	2,750,049	—	—	2,750,049
Tax benefit of options exercised	—	3,012,659	—	—	3,012,659
Common stock issued at \$51.00 per share	2,700	137,700	—	—	137,700
Balance, December 31, 2001	12,167,696	\$ 46,868,909	\$ 245,419,665	\$ (4,171,469)	\$ 288,117,105

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,		
	2001	2000	1999
Cash flows from operating activities			
Net income	\$ 40,518,126	\$ 39,374,743	\$ 37,337,158
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of capital equipment	(83,677)	(55,969)	(44,649)
Depreciation and amortization	15,649,657	13,135,982	10,861,925
Minority interest	(734,326)	(1,245,722)	—
Deferred income taxes and other long-term liabilities	(879,603)	(705,529)	(1,702,067)
Equity in loss (income) of affiliates	(256,412)	(23,195)	107,273
Noncash compensation related to stock plans	137,700	196,875	119,800
Changes in operating assets and liabilities, net of effects of acquisitions:			
Trade accounts receivable, net	4,025,941	(2,510,320)	(8,331,101)
Inventories	8,043,158	(13,251,449)	(13,701,766)

Other current assets	1,170,040	(1,233,190)	(40,401)
Other noncurrent assets	953,128	(738,506)	(1,322,851)
Trade accounts payable	(1,339,515)	2,023,783	1,019,384
Accrued liabilities	222,705	1,620,192	2,227,864
Accrued profit sharing trust contributions	788,154	431,918	330,924
Accrued cash profit sharing and commissions	(990,738)	(1,552,527)	512,055
Accrued workers' compensation	(230,000)	130,000	466,492
Income taxes payable	6,306,507	(4,726,708)	8,200,744
Total adjustments	32,782,719	(8,504,365)	(1,296,374)
Net cash provided by operating activities	73,300,845	30,870,378	36,040,784
Cash flows from investing activities			
Capital expenditures	(25,571,460)	(14,421,672)	(15,305,226)
Proceeds from sale of capital equipment	919,715	188,809	263,158
Asset acquisitions, net of cash acquired and equity interest already owned	(14,083,805)	(6,250,783)	(8,266,403)
Net cash used in investing activities	(38,735,550)	(20,483,646)	(23,308,471)
Cash flows from financing activities			
Issuance of debt	1,276,625	148,310	266,700
Repayment of debt	(1,690,568)	(495,833)	(398,484)
Buyback of common stock	—	(5,901,998)	—
Issuance of Company's common stock	2,750,049	902,898	4,568,970
Net cash provided by (used in) financing activities	2,336,106	(5,346,623)	4,437,186
Effect of exchange rate changes on cash	(447,109)	(132,061)	(62,339)
Net increase in cash and cash equivalents	36,454,292	4,908,048	17,107,160
Cash and cash equivalents at beginning of period	59,417,658	54,509,610	37,402,450
Cash and cash equivalents at end of period	\$ 95,871,950	\$ 59,417,658	\$ 54,509,610

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for			
Interest, net of amounts capitalized	\$ 441,278	\$ 235,584	\$ 268,184
Income taxes	\$ 23,820,694	\$ 31,321,526	\$ 18,964,736

The accompanying notes are an integral part of these 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 and shearwalls and venting systems for gas and wood burning appliances and 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 the United States of America. 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.

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.

Inventory Valuation

Inventories are valued at the lower of cost or market. Effective January 1, 2001, the Company changed its method of valuing inventories from the last-in, first-out ("LIFO") method to the first-in, first-out ("FIFO") method. The Company believes that the new method is preferable because the FIFO method more effectively allocates fixed overhead costs in times of increased production and, therefore more closely matches current costs and revenues. In addition, the adoption of the FIFO method will enhance the comparability of the Company's financial statements by changing to the predominant method used in its industry and conforms all of the Company's inventories to the same accounting method. The Company has applied this change retroactively by restating its financial statements as required by Accounting Principles Board No. 20, "Accounting Changes," which has resulted in an

increase (decrease) in previously reported retained earnings of \$89,836, (\$930,804) and \$199,430 as of December 31, 2000, 1999 and 1998, respectively. The effect on net income of the change in accounting principle was an increase (decrease) of \$1,020,640 and (\$1,130,234) for the years ended December 31, 2000 and 1999, respectively.

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 asset.

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 \$2,747,000, \$2,226,000 and \$1,809,000 in 2001, 2000 and 1999, 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, the 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 the determination of net income.

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, on giving notice as required by law and subject to compliance with other statutory conditions, 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 2001 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.

Net Income per Common Share

Basic net income per common share is computed based upon the weighted average number of common shares outstanding. Common equivalent 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:

	2001			2000			1999		
	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	\$ 40,518,126	12,108,247	\$ 3.35	\$ 39,374,743	12,022,704	\$ 3.28	\$ 37,337,158	11,837,315	\$ 3.15
Effect of Dilutive Securities									
Stock options	—	207,603	(0.06)	—	272,218	(0.08)	—	396,550	(0.10)
Diluted EPS									
Income available to common stockholders	\$ 40,518,126	12,315,850	\$ 3.29	\$ 39,374,743	12,294,922	\$ 3.20	\$ 37,337,158	12,233,865	\$ 3.05

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.

Concentration of Credit Risk

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

Adoption of Statements of Financial Accounting Standards

In June 2000, Financial Accounting Standards Board ("FASB") statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities—an amendment of FASB statement No. 133" was issued. FASB statement No. 133 was amended by FASB statement No. 137, which deferred the effective date of implementation to the first quarter of fiscal years beginning after June 15, 2000. FASB statement No. 133 requires companies to record derivative financial instruments on the balance sheet as assets or liabilities, as appropriate, at fair value. Gains or losses resulting from changes in the fair value of those derivatives are accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company does not hold or issue any hedge instruments. Therefore, the adoption of this standard by the Company has not had a material effect on its financial position as of December 31, 2001, or results of operations for the period then ended.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" which requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting. As a result, use of the pooling-of-interests method is prohibited for business combinations initiated thereafter. SFAS 141 also establishes criteria for the separate recognition of intangible assets acquired in a business combination. The adoption of this standard by the Company is not expected to have a material effect on its financial position or results of operations.

In July 2001, the FASB issued SFAS 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 No. 142 is effective for the Company's fiscal year beginning January 1, 2002. However, goodwill and intangible assets acquired after June 30, 2001, are subject immediately to the non-amortization and amortization provisions of this

Statement. The amount of amortization related to goodwill for the years ended December 31, 2001 and 2000, was approximately \$1,672,000 and \$946,000, respectively. The Company has not yet determined the effect of the adoption of SFAS 142 on its financial position and its results of operations for fiscal year 2002.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2001 presentation with no effect on net income or retained earnings as previously reported.

2. Acquisitions

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. 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.

In July 2000, Simpson Strong-Tie purchased the assets of Anchor Tiedown Systems, Inc. ("ATS"). ATS manufactures and distributes a product line used to anchor multi-story buildings with a threaded rod hold down system. The purchase price was approximately \$4.6 million in cash. In December 2000, Simpson Strong-Tie purchased the assets of Masterset Fastening Systems, Inc. ("Masterset") for approximately \$2.3 million in cash plus an earnout of up to \$0.3 million. Masterset sells a system of specially designed powder actuated fasteners and installation tools.

In August 1999, SSTI purchased the assets of Furfix Products Limited and Easy Arches Limited (together, "Furfix"), which manufacture a line of structural connectors for the wood and masonry construction markets in the United Kingdom and Europe. The purchase price was approximately \$7.8 million in cash plus an earnout based on future operating performance. Included in the purchase price were costs associated with the closure of Furfix's existing facility and integration into SSTI's facility in Tamworth, England.

3. Trade Accounts Receivable

Trade accounts receivable consist of the following:

	December 31,	
	2001	2000
Trade accounts receivable	\$ 46,706,227	\$ 47,119,344
Allowance for doubtful accounts	(3,736,098)	(1,201,289)
Allowance for sales discounts	(355,719)	(333,869)
	<u>\$ 42,614,410</u>	<u>\$ 45,584,186</u>

The Company sells product on credit and generally does not require collateral.

4. Inventories

The components of inventories consist of the following:

December 31,

	2001	2000
Raw materials	\$ 25,933,323	\$ 26,979,866
In-process products	13,419,637	10,882,721
Finished products	43,123,339	47,407,108
	\$ 82,476,299	\$ 85,269,695

5. Property, Plant and Equipment, net

Property, plant and equipment consists of the following:

	December 31,	
	2001	2000
Land	\$ 10,558,241	\$ 4,454,322
Buildings and site improvements	37,438,423	27,634,848
Leasehold improvements	5,774,165	4,042,063
Machinery and equipment	101,774,552	88,221,556
	155,545,381	124,352,789
Less accumulated depreciation and amortization	(80,501,488)	(69,293,151)
	75,043,893	55,059,638
Capital projects in progress	6,366,408	8,762,875
	\$ 81,410,301	\$ 63,822,513

Included in property, plant and equipment at December 31, 2001 and 2000, are fully depreciated assets with an original cost of approximately \$34,873,000 and \$26,475,000, respectively. These fully depreciated assets are still in use in the Company's operations.

6. Investments

The Company has a 30% investment in Keymark Enterprises, LLC ("Keymark") which it accounts for using the equity method. The Company's equity in the earnings or losses of this investment or its initial 49% investment in Bulldog (see Note 2) has not been material in any of the three years in the period ended December 31, 2001.

7. Accrued Liabilities

Accrued liabilities consist of the following:

	December 31,	
	2001	2000
Sales incentive and advertising allowances	\$ 5,675,914	\$ 4,372,473
Vacation liability	2,004,825	1,713,400
Other	2,501,877	3,287,135
	\$ 10,182,616	\$ 9,373,008

8. Debt

The outstanding debt at December 31, 2001 and 2000, and the available credit at December 31, 2001, consisted of the following:

	Available on Credit Facility at December 31, 2001	Debt Outstanding at December 31,	
		2001	2000
Revolving line of credit, interest at bank's base rate less 0.5% (at December 31, 2001, the bank's base rate less 0.5% was 4.25%), matures November 2002, commitment fees are paid at the annual rate of 0.125% on the unused portion of the facility	\$ 11,786,384	\$ —	\$ —
Revolving term commitment, interest at bank's prime rate less 0.5% (at December 31, 2001, the bank's prime rate less 0.5% was 4.25%), matures September 2002, commitment fees are paid at the annual rate of 0.125% on the unused portion of the facility	8,213,673	—	—
Revolving line of credit, interest rate at 5.75%, matures June 2002	2,750,215	545,503	—
Revolving line of credit, interest rate at the bank's base rate of interest plus 2% (at December 31, 2001, this rate was 6.0%), matures July 2002, has an annual commission charge of 0.45%	362,750	—	—
Term loan, interest at LIBOR plus 1.375% (at December 31, 2001, LIBOR plus 1.375% was 3.605%), expires May 2008	—	1,950,000	2,250,000
Term loans, interest rates between 5.25% and 6.23%, maturities between 2006 and 2018	—	4,177,940	119,028
Standby letter of credit facilities	2,999,943	—	—
Other notes payable	—		35,754
	26,112,965	6,673,443	2,404,782
Less current portion		(986,448)	(335,754)
		\$ 5,686,995	\$ 2,069,028
Less standby letters of credit issued and outstanding	(2,999,943)		
Net credit available	\$ 23,113,022		

The revolving lines of credit are guaranteed by the Company and its subsidiaries. At December 31, 2001, the Company had four outstanding standby letters of credit. Two of these letters of credit, in the aggregate amount of \$2,055,423, were used to support the Company's self-insured workers' compensation insurance requirements. The other two, in the amounts of \$681,970 and \$262,550, respectively, were used to guarantee performance on the Company's leased facility in the UK and on public improvements costs associated with the construction of the Company's facilities in Stockton, California. These letters of credit mature between September 2002 and November 2002.

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,		
	2001	2000	1999
Simpson Investment Company	\$ 82,331	\$ 197,594	\$ 185,100
Doolittle Investors	253,080	253,080	253,080
Vacaville Investors	438,898	437,640	437,640
Vicksburg Investors	368,543	367,013	354,868
Columbus Westbelt Investment Co.	626,328	592,381	581,064
	<u>\$ 1,769,180</u>	<u>\$ 1,847,708</u>	<u>\$ 1,811,752</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 2001, 2000 and 1999 with respect to all other leased property was approximately \$3,790,000, \$2,658,000 and \$2,362,000, respectively.

At December 31, 2001, minimum rental commitments under all noncancelable leases are as follows:

2002	\$ 5,637,198
2003	5,194,623
2004	4,568,060
2005	4,411,082
2006	3,201,255
Thereafter	7,033,261
	<u>\$ 30,045,479</u>

Some of these minimum rental commitments that involve the related parties described above 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 two of the Company's operating facilities, evidence of contamination resulting from activities of prior occupants was discovered. The Company took certain remedial actions at one 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 has been informed by the lessor of the other facility, Vicksburg Investors, that appropriate remedial action has been taken. The Company does not believe that either of these matters will have a material adverse effect on its financial condition 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 or results of operations.

10. Income Taxes

The provision for income taxes consists of the following:

	Years Ended December 31,		
	2001	2000	1999
Current			
Federal	\$ 24,700,000	\$ 21,885,000	\$ 22,509,000
State	4,196,000	4,901,000	4,354,000
Foreign	234,000	4,000	97,000
Deferred	(1,510,425)	(493,640)	(1,938,766)
	<u>\$ 27,619,575</u>	<u>\$ 26,296,360</u>	<u>\$ 25,021,234</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,		
	2001	2000	1999
Federal tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	4.3%	4.6%	4.3%
Other	1.2%	0.5%	0.8%
Effective income tax rate	<u>40.5%</u>	<u>40.1%</u>	<u>40.1%</u>

The tax effects of the significant temporary differences that constitute the deferred tax assets and liabilities at December 31, 2001, 2000 and 1999, were as follows:

	Years Ended December 31,		
	2001	2000	1999
Current deferred tax assets			
State tax	\$ 1,451,474	\$ 1,680,197	\$ 1,488,904
Compensation related to stock plans	82,732	83,375	46,728
Workers' compensation	489,947	584,912	298,808
Health claims	325,957	486,665	604,580
Vacation	556,617	642,637	555,420
Accounts receivable allowance	1,451,457	567,577	600,439
Inventory allowance	1,312,195	1,252,000	874,726
Sales incentive and advertising allowances	176,708	87,489	125,277
Rental reserve	293,538	—	—
LIFO to FIFO restatement	—	(67,163)	590,197
Other	335,878	102,402	150,652
	<u>\$ 6,476,503</u>	<u>\$ 5,420,091</u>	<u>\$ 5,335,731</u>

Long-term deferred tax assets (liabilities)

Depreciation	\$ 1,681,767	\$ 1,377,291	\$ 1,161,552
Goodwill amortization	870,283	715,992	560,479
Other	(758,448)	(484,595)	(419,829)
	<u>\$ 1,793,602</u>	<u>\$ 1,608,688</u>	<u>\$ 1,302,202</u>

No valuation allowance has been recorded for deferred tax assets for the years ended December 31, 2001, 2000 and 1999, due to the Company's taxable income in 2001 and prior years.

11. Retirement Plans

The Company has six 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 profit sharing plans for the years ended December 31, 2001, 2000 and 1999, was approximately \$4,769,000, \$4,009,000 and \$3,360,000, respectively.

The Company also contributes to various industry-wide, union-sponsored defined benefit pension funds for union, hourly employees. Payments to these funds aggregated approximately \$1,077,000, \$1,149,000 and \$977,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

12. Related Party Transactions

In 2001, the Company paid \$800,000 to Keymark, of which it has a 30% ownership interest. The payments were related to the development of specified features in the Keymark software. Also in 2001, the Company purchased the property that was subject to the lease with Simpson Investment Company for approximately \$1.7 million (See Note 9).

The Chairman and the President and Chief Executive Officer of the Company, who are directors and significant stockholders of the Company, served as directors and officers of the Simpson PSB Fund

(a charitable organization) until October 1997 and were reappointed as directors and officers of the Simpson PSB Fund in January 1999. The Company contributed \$75,496 to this organization in 1998.

Refer to Note 9 regarding related party transactions involving Company leases.

13. Stock Bonus and Stock Option Plans

The Company applies Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized for its non-qualified stock option plan as stock options granted under this plan have an exercise price equal to 100% of the market price on the date of grant. If the compensation cost for this plan had been determined based on the fair value at the grant dates for awards consistent with the method of SFAS No. 123, the pro forma effect on the Company's net income and earnings per share in 2001, 2000 and 1999 would have been:

	Years Ended December 31,		
	2001	2000	1999
Net income, as reported	\$ 40,518,126	\$ 39,374,743	\$ 37,337,158
Pro forma	39,890,644	38,538,065	36,328,132
Diluted earnings per share, as reported	3.29	3.20	3.05
Pro forma	3.24	3.13	2.97

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 for 2001, 2000 and 1999, respectively: risk-free interest rate of 4.46%, 4.86% and 4.60% for 2001, 2000 and 1999, respectively; no dividend yield for all years; expected lives of 6.2 years for options committed to be granted for 2001 and 6.3 years and 6.2 years for options granted for 2000 and 1999, respectively; and volatility of 29.8% for 2001, 29.7% for 2000 and 30.4% for 1999. The weighted average fair

value per share of options granted during 2001, 2000 and 1999 was \$22.35, \$21.78 and \$17.49, respectively.

The Company currently has two stock option plans. The first is principally for the Company's employees and the second 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 2001, the Company met some of the operating goals established for one of its stock option plans and has committed to grant options to purchase 9,500 shares. During 2000, the Company met some of the operating goals established for one of its stock option plans and during 1999, the Company met most of the operating goals established for both of its stock option plans, and accordingly, granted options to purchase 7,000 and 143,250 shares for 2000 and 1999, respectively. These options have an exercise price of \$57.30 per share for 2001, and exercise price of \$51.00 for 2000 and an exercise price range of \$38.94 to \$48.13 per share for 1999.

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The following table summarizes the Company's stock option activity for the years ended December 31, 2001, 2000 and 1999:

	2001		2000		1999	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Non-Qualified Stock Options						
Outstanding at beginning of year	662,647	\$ 27.93	738,990	\$ 26.08	1,033,019	\$ 17.05
Granted	9,500	57.30	7,000	51.00	143,250	43.65
Exercised	(198,264)	13.88	(77,673)	11.62	(436,279)	10.49
Forfeited	(303)	43.75	(5,670)	37.93	(1,000)	33.90
Outstanding at end of year	473,580	33.93	662,647	27.93	738,990	26.08

The number of stock options exercisable at the end of 2001, 2000 and 1999 was 349,860, 448,930 and 414,817, respectively.

The following table summarizes information about the Company's stock options outstanding at December 31, 2001:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding at December 31, 2001	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Outstanding at December 31, 2001	Weighted-Average Exercise Price	
\$ 10.00 to \$11.28	6,500	0.1 years	\$ 10.25	6,500	\$ 10.25	
\$ 13.50	40,799	1.0 years	13.50	40,799	13.50	
\$ 23.00 to \$29.25	71,047	2.0 years	23.09	71,047	23.09	
\$ 33.31 to \$37.31	96,176	3.0 years	33.37	91,066	33.37	
\$ 36.63 to \$41.18	107,661	4.0 years	37.45	74,659	37.44	
\$ 38.94 to \$48.13	134,897	5.0 years	43.65	64,039	43.51	
\$ 51.00	7,000	6.0 years	51.00	1,750	51.00	
\$ 57.30	9,500	7.0 years	57.30	—	—	
\$ 10.00 to \$57.30	473,580	3.4 years	33.25	349,860	23.38	

The tax benefit to the Company from the exercise of stock options, a reduction of the Company's income tax payable, was \$3,012,659, \$1,054,238 and \$6,303,873 for 2001, 2000 and 1999, 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 100 shares of common stock. In 2001, 2000 and 1999, the Company committed to issue 2,500, 2,700 and 4,500 shares, respectively, which resulted in compensation charges of \$254,611, \$210,359 and \$353,149, respectively. These employees are compensated so that the value of the shares is equal to their net pay after income taxes. The shares are issued in the year following the year in which they are earned.

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 used, the production process, the distribution channels used and the applications in which the products are used. Transactions between the two segments were immaterial for each of the years presented.

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The following table illustrates certain measurements used by management to assess the performance of the segments described above as of December 31, 2001, 2000 and 1999, or for the years then ended:

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
2000	Connector Products	Venting Products	All Other	Total
Net sales	\$ 303,774,000	\$ 65,314,000	\$ —	\$ 369,088,000
Income from operations	52,257,000	9,165,000	(7,000)	61,415,000
Depreciation and amortization	10,951,000	2,063,000	122,000	13,136,000
Capital expenditures and acquisitions	18,277,000	2,226,000	169,000	20,672,000
Total assets	171,151,000	44,071,000	64,348,000	279,570,000
1999	Connector Products	Venting Products	All Other	Total
Net sales	\$ 260,943,000	\$ 67,497,000	\$ —	\$ 328,440,000
Income from operations	50,244,000	10,424,000	21,000	60,689,000
Depreciation and amortization	8,895,000	1,867,000	100,000	10,862,000
Capital expenditures and acquisitions	21,642,000	1,930,000	—	23,572,000
Total assets	146,309,000	39,344,000	60,688,000	246,341,000

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 balances in this segment were approximately \$91,647,000, \$54,183,000 and \$53,682,000 as of December 31, 2001, 2000 and 1999, respectively.

The following table illustrates how the Company's net sales and long-lived assets are distributed geographically as of December 31, 2001, 2000 and 1999, or for the years then ended.

	2001		2000		1999	
	Net Sales	Long-Lived Assets	Net Sales	Long-Lived Assets	Net Sales	Long-Lived Assets
United States	\$ 371,068,000	\$ 73,971,000	\$ 347,516,000	\$ 64,615,000	\$ 310,300,000	\$ 55,097,000
Other countries	44,795,000	23,879,000	21,572,000	12,615,000	18,140,000	15,105,000
	\$ 415,863,000	\$ 97,850,000	\$ 369,088,000	\$ 77,230,000	\$ 328,440,000	\$ 70,202,000

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

Net sales of approximately 12%, 12% and 11% in 2001, 2000 and 1999, respectively, were to one customer and were attributable mostly to the Connector segment.

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Simpson Manufacturing Co., Inc. and Subsidiaries

**VALUATION AND QUALIFYING ACCOUNTS
for the years ended December 31, 2001, 2000 and 1999**

Column A	Column B	Column C Additions		Column D	Column E
Classification	Balance at Beginning of Year	Charged to Costs and Expenses	Charged to Other Accounts Write-offs	Deductions	Balance at End of Year
Year Ended December 31, 2001					
Allowance for doubtful accounts	\$ 1,201,289	\$ 3,181,123	\$ —	\$ 646,314	\$ 3,736,098
Allowance for obsolete inventory	3,000,792	1,763,481	—	1,216,943	3,547,330
Year Ended December 31, 2000					
Allowance for doubtful accounts	1,203,147	684,356	—	686,214	1,201,289
Allowance for obsolete inventory	1,641,746	2,439,787	—	1,080,741	3,000,792
Year Ended December 31, 1999					
Allowance for doubtful accounts	1,173,656	646,236	—	616,745	1,203,147
Allowance for obsolete inventory	944,331	967,074	—	269,659	1,641,746

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

None.

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 May 13, 2002, to be filed not later than 120 days following the end of the Registrant's fiscal year ended December 31, 2001, 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 May 13, 2002, to be filed not later than 120 days following the end of the Registrant's fiscal year ended December 31, 2001, 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 May 13, 2002, to be filed not later than 120 days following the end of the Registrant's fiscal year ended December 31, 2001, 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 May 13, 2002, to be filed not later than 120 days following the end of the Registrant's fiscal year ended December 31, 2001, which will set forth certain information with respect to certain relationships and related transactions of the Registrant and is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

a. Exhibits

10.1	Loan Agreement, dated November 6, 2001, between Simpson Manufacturing Co., Inc. and Union Bank of California, N.A.
10.2	Purchase and Sale Agreement, dated February 26, 2001, between Carl D. Panattoni and Simpson Manufacturing Co., Inc.
11.	Statement re computation of earnings per share.
21.	List of Subsidiaries of the Registrant.
23.	Consent of Independent Accountants.

b. Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of the period for which this report is filed.

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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: March 29, 2002

Simpson Manufacturing Co., Inc.

(Registrant)

By /s/ MICHAEL J. HERBERT

Michael J. Herbert
Chief Financial Officer
and Duly Authorized Officer
of the Registrant

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.

Signature

Title

Date

Chief Executive Officer:

/s/ THOMAS J FITZMYERS

(Thomas J Fitzmyers)

President, Chief Executive Officer and
Director

March 29, 2002

Chief Financial Officer:

/s/ MICHAEL J. HERBERT

Chief Financial Officer, Treasurer and
Secretary

March 29, 2002

(Michael J. Herbert)

Directors:

<u>/s/ BARCLAY SIMPSON</u> (Barclay Simpson)	Chairman of the Board	March 29, 2002
<u>/s/ EARL F. CHEIT</u> (Earl F. Cheit)	Director	March 29, 2002
<u>/s/ STEPHEN B. LAMSON</u> (Stephen B. Lamson)	Director	March 29, 2002
<u>/s/ PETER N. LOURAS</u> (Peter N. Louras)	Director	March 29, 2002
<u>/s/ SUNNE WRIGHT MCPEAK</u> (Sunne Wright McPeak)	Director	March 29, 2002
<u>/s/ BARRY LAWSON WILLIAMS</u> (Barry Lawson Williams)	Director	March 29, 2002

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EXHIBIT 10.1

LOAN AGREEMENT

THIS AMENDED AND RESTATED LOAN AGREEMENT ("Agreement") is made and entered into as of November 6, 2001, by and between Simpson Manufacturing Co., Inc. a California corporation ("Borrower"), and UNION BANK OF CALIFORNIA, N.A., a national banking association ("Bank"). This Agreement amends and restates in its entirety that certain loan agreement dated as of November 10, 2000 by and between Borrower and Bank, as amended.

SECTION 1. THE CREDIT

1.1 CREDIT FACILITIES

1.1.1 The Revolving-To-Term Loan. Bank will loan to Borrower an amount not to exceed Thirteen Million Eight Hundred Thousand Dollars (\$13,800,000) outstanding in the aggregate at any one time (the "Revolving-To-Term Loan"). The proceeds of the Revolving-To-Term Loan shall be used for Borrower's general working capital purposes. Borrower may borrow, repay and reborrow all or part of the Revolving-To-Term Loan in accordance with the terms of the Revolving-To-Term Note (defined below). All borrowings of the Revolving Loan must be made before November 1, 2002, at which time all unpaid principal and interest of the Revolving Loan shall be due and payable. The Revolving-To-Term Loan shall be evidenced by Bank's standard form of commercial promissory note (the "Revolving-To-Term Note"). Bank shall enter each amount borrowed and repaid in Bank's records and such entries shall be deemed correct. Omission of Bank to make any such entries shall not discharge Borrower of its obligation to repay in full with interest all amounts borrowed.

As of the date of this Agreement, the principal amount outstanding under Borrower's revolving loan with Bank evidenced by the promissory note dated November 10, 2000 ("Old Note") shall be deemed the initial principal amount outstanding under the Revolving Loan, and the Old Note is hereby cancelled and superseded by the Revolving Note.

1.1.1.a The Standby L/C Sublimit. As a sublimit under the Revolving Loan, Bank shall issue, for the account of Borrower, one or more irrevocable standby letters of credit (individually, a "Standby L/C"). The aggregate amount available to be drawn under all Standby L/Cs and the aggregate amount of unpaid reimbursement obligations under drawn Standby L/Cs shall not exceed Four Million Dollars (\$4,000,000) and shall reduce, dollar for dollar, the maximum amount available under the Revolving-To-Term Loan. All Standby L/Cs shall be drawn on terms and conditions acceptable to Bank and shall be governed by the terms of (and Borrower agrees to execute) Bank's standard form of standby letter of credit application and reimbursement agreement. No Standby L/C shall expire more than twelve (12) months from the date of its issuance, and in no event later than November 1, 2003. At Borrower's request, Bank will issue L/Cs on behalf of Borrower's subsidiaries, including but not limited to: 1) Simpson Strong-Tie Company Inc.; 2) Simpson Dura-Vent Company, Inc.; and 3) Simpson Strong-Tie, International Inc., so long as the Borrower executes the Bank's standard form for L/C applications and reimbursement agreement.

1.2 Terminology. The following words and phrases, whether used in their singular or plural form, shall have the meanings set forth below:

"GAAP" means generally accepted accounting principles and practices consistently applied. Accounting terms used in this Agreement but not otherwise expressly defined have the meanings given them by GAAP.

"L/C" means the Commercial L/Cs or the Standby L/Cs, or both, as the context may require.

"Lien" means any voluntary or involuntary security interest, mortgage, pledge, claim, charge, encumbrance, title retention agreement, or third party interest, covering all or any part of the property of Borrower or any Guarantor.

"Loan" means all the credit facilities described above.

"Loan Documents" means this Agreement, the Note, and all other documents, instruments and agreements required by Bank and executed in connection with this Agreement, the Note, the Loans, and with all other credit facilities from time to time made available to Borrower by Bank.

"Note" means all the promissory notes described above.

1.3 Prepayment The Loan may be prepaid in full or in part but only in accordance with the terms of the Note, and any such prepayment shall be subject to any prepayment fee provided for therein. In the event of a principal prepayment on any term indebtedness, the amount prepaid shall be applied to the scheduled principal installments due in the reverse order of their maturity on the Loan being prepaid.

1.4 Interest. The unpaid principal balance of the Loan shall bear interest at the rate or rates provided in the Note.

1.5 Unused Fee. On the last calendar day of the third month following the execution of this Agreement and on the last calendar day of each three-month period thereafter, Borrower shall pay to Bank a fee of One Eighth of One percent (0.125%) per year on the unused portion of Revolving-To-Term for the preceding quarter, computed on the basis of a 360 day year for actual days elapsed.

1.6 Standby Letter of Credit Fees. Borrower agrees to pay Bank Three Quarters of One Percent (0.75%) per annum of the principal face sum of all LCs.

1.7 Disbursement. Bank shall disburse the proceeds of the Loan as provided in Bank's standard form Authorization(s) to Disburse executed by Borrower.

SECTION 2. CONDITIONS PRECEDENT

Bank shall not be obligated to disburse all or any portion of the Loans unless at or prior to the time of each such disbursement, the following conditions have been fulfilled to Bank's satisfaction:

2.1 Compliance. Borrower shall have performed and complied with all terms and conditions required by this Agreement to be performed or complied with, and shall have executed and delivered to Bank the Note and all other Loan Documents.

2.2 Guaranties. Simpson Strong-Tie Company Inc., and Simpson Dura-Vent Company, Inc. (individually a "Guarantor" and collectively "Guarantors") shall have executed and delivered to Bank their respective continuing guaranties in form and amount satisfactory to Bank.

2.3 Authorization to Obtain Credit. Borrower shall have provided Bank with an executed copy of Bank's form Authorization to Obtain Credit, authorizing the execution, delivery and performance of this Agreement and the other Loan Documents. Such resolutions shall also designate the persons who are authorized to act on Borrower's behalf in connection with this Agreement to do the things required of Borrower pursuant to this Agreement.

2.4 Continuing Compliance. At the time any disbursement is to be made and immediately thereafter, there shall not exist any Event of Default (as hereinafter defined) or any event, condition, or act which with notice or lapse of time, or both, would constitute an Event of Default.

SECTION 3. REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants that:

3.1 **Business Activity.** Borrower's principal business is manufacturer of specialty connectors and venting systems for gas and wood burning appliances.

3.2 **Affiliates and Subsidiaries.** Borrower's affiliates and subsidiaries (those entities in which Borrower has either a controlling interest or a twenty-five percent (25%) or more ownership interest) and their addresses, and the names of the persons or entities owning five percent (5%) or more of the equity interests in Borrower, are as provided on a schedule delivered to Bank on or before the date of this Agreement.

3.3 **Organization and Qualification.** Borrower is duly organized and existing under the laws of the state of its organization, is duly qualified and in good standing in any jurisdiction where such qualification is required, and has the power and authority to carry on the business in which it is engaged and/or proposes to engage.

3.4 **Power and Authorization.** Borrower has the power and authority to enter into this Agreement and to execute and deliver the Note and all other Loan Documents. This Agreement and all things required by this Agreement and the other Loan Documents have been duly authorized by all requisite action of Borrower.

3.5 **Authority to Borrow.** The execution, delivery and performance of this Agreement, the Note and all other Loan Documents are not in contravention of any of the terms of any indenture, agreement or undertaking to which Borrower is a party or by which it or any of its property is bound or affected.

3.6 **Compliance with Laws.** Borrower is in compliance with all applicable laws, rules, ordinances or regulations which materially affect the operations or financial condition of Borrower.

3.7 **Title.** Except for assets which may have been disposed of in the ordinary course of business, Borrower has good and marketable title to all property reflected in its financial statements delivered to Bank and to all property acquired by Borrower since the date of said financial statements, free and clear of all Liens, except Liens specifically referred to in said financial statements.

3.8 **Financial Statements.** Borrower's financial statements, including both a balance sheet at September 30, 2001, together with supporting schedules, and an income statement for the Nine (9) months ended September 30, 2001, have heretofore been furnished to Bank, are true and complete, and fairly represent Borrower's financial condition for the period covered thereby. Since September 30, 2001, there has been no material adverse change in Borrower's financial condition or operations.

3.9 **Litigation.** There is no litigation or proceeding pending or threatened against Borrower or any of its property which is reasonably likely to affect the financial condition, property or business of Borrower in a materially adverse manner or result in liability in excess of Borrower's insurance coverage.

3.10 **ERISA.** Borrower's defined benefit pension plans (as defined in the Employee Retirement Income Security Act of 1974, as amended ("ERISA")), meet, as of the date hereof, the minimum funding standards of Section 302 of ERISA, and no Reportable Event or Prohibited Transaction as defined in ERISA has occurred with respect to any such plan.

3.11 **Regulation U.** No action has been taken or is currently planned by Borrower, or any agent acting on its behalf, which would cause this Agreement or the Note to violate Regulation U or any other regulation of the Board of Governors of the Federal Reserve System, or to violate the Securities and Exchange Act of 1934, in each case as in effect now or as the same may hereafter be in effect. Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying

margin stock as one of its important activities and, except as may be expressly agreed to and documented between Borrower and Bank, none of the proceeds of the Loan will be used directly or indirectly for such purpose.

3.12 **No Event of Default.** Borrower is not now in default in the payment of any of its material obligations, and there exists no Event of Default, and no condition, event or act which with notice or lapse of time, or both, would constitute an Event of Default.

3.13 **Continuing Representations and Warranties.** The foregoing representations and warranties shall be considered to have been made again at and as of the date of each and every Loan disbursement and shall be true and correct as of each such date.

SECTION 4. AFFIRMATIVE COVENANTS

Until all sums payable pursuant to this Agreement, the Note and the other Loan Documents have been paid in full, unless Bank otherwise consents in writing, Borrower agrees that:

4.1 **Use of Proceeds.** Borrower will use the proceeds of the Loan only as provided in Section 1 above.

4.2 **Payment of Obligations.** Borrower will pay and discharge promptly all taxes, assessments and other governmental charges and claims levied or imposed upon it or its property, or any part thereof; provided, however, that Borrower shall have the right in good faith to contest any such taxes, assessments, charges or claims and, pending the outcome of such contest, to delay or refuse payment thereof provided that adequately funded reserves are established by it to pay and discharge any such taxes, assessments, charges and claims.

4.3 **Maintenance of Existence.** Borrower will maintain and preserve its existence, its assets, and all rights, franchises, licenses and other authority necessary for the conduct of its business, and will maintain and preserve its property, equipment and facilities in good order, condition and repair. Bank may, at reasonable times, visit and inspect any of Borrower's properties.

4.4 **Records.** Borrower will keep and maintain full and accurate accounts and records of its operations in accordance with GAAP and will permit Bank, at Borrower's expense, to have access thereto, to make examination and photocopies thereof, and to make audits of Borrower's accounts and records and Bank's collateral during regular business hours.

4.5 **Information Furnished.** Borrower will furnish to Bank:

- (a) Within Thirty (30) days after the close of each fiscal quarter, except for the final quarter of each fiscal year, its unaudited balance sheet as of the close of such fiscal quarter, its unaudited income and expense statement with year-to-date totals and supportive schedules, and its statement of retained earnings for that fiscal quarter, all prepared in accordance with GAAP;
- (b) Within One Hundred Twenty (120) days after the close of each fiscal year, a copy of its statement of financial condition including at least its balance sheet as of the close of such fiscal year and its income and expense statement, and its retained earnings statement for such fiscal year, examined and prepared on an audited basis by independent certified public accountants selected by Borrower and reasonably satisfactory to Bank, in accordance with GAAP along with any management letter provided by such accountants;
- (c) Give Notice to Bank within Fifteen (15) days of any guaranty issued obligating Borrower or Guarantors.
- (d) Prompt written notice to Bank of any Event of Default or breach under any of the terms or provisions of this Agreement or any other Loan Document, any litigation which would have a

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material adverse effect on Borrower's financial condition, and any other matter which has resulted in, or is likely to result in, a material adverse change in Borrower's financial condition or operations;

- (e) Prior written notice to Bank of any change in Borrower's [officers] [general partners] [members] and other senior management, Borrower's name, and the location of Borrower's assets, principal place of business or chief executive office;
- (f) Copies of any amendments to Borrower's loan documents with Wells Fargo Bank;
- (g) Within fifteen (15) days after Borrower knows or has reason to know that any Reportable Event or Prohibited Transaction (as defined in ERISA) has occurred with respect to any defined benefit pension plan of Borrower, a statement of an authorized officer of Borrower describing such event or condition and the action, if any, which Borrower proposes to take with respect thereto;
- (h) Give written notice at least Thirty (30) days prior to the proposed closing date of any acquisition in excess of Eight Million Dollars (\$8,000,000), providing a description of the business or assets to be acquired and the terms of the acquisition; and
- (i) Such other financial statements and information as Bank may reasonably request from time to time.

4.6 **Tangible Net Worth.** Borrower will at all times maintain Tangible Net Worth of not less than One Hundred Eighty Million Dollars (\$180,000,000) increasing by fifty percent (50%) of Borrower's net profit after taxes for each fiscal quarter ending on or after December 31, 2001. "Tangible Net Worth" means Borrower's net worth increased by indebtedness subordinated to Bank and decreased by patents, licenses, trademarks, trade names, goodwill and other similar intangible assets, organizational expenses, security deposits, prepaid costs and expenses and monies due from affiliates (including officers, shareholders and directors).

4.7 **Adjusted Total Liabilities to Tangible Net Worth.** Borrower will at all times maintain a ratio of Adjusted Total Liabilities to Tangible Net Worth of not greater than 1.5:1.0. "Adjusted Total Liabilities" shall mean total liabilities plus all guarantees and similar contingent liabilities of Borrower and Guarantors.

4.8 Profit From Operations. Borrower will achieve net profit from operations, as defined by generally accepted accounting principles, of any positive amount for each fiscal year.

4.9 Cash Flow Ratio. Borrower will maintain a ratio of Cash Flow to Debt Service of not less than 1.5:1.0 as of the close of each fiscal year. "Cash Flow" means net profit after taxes to which depreciation, amortization and other noncash expenses are added for the twelve (12) month period immediately preceding the date of calculation. "Debt Service" shall mean interest expenses plus prior period current portion of long-term debt, including subordinated debt payments.

4.10 Insurance. Borrower will keep all of its insurable property, whether real, personal or mixed, insured by companies approved by Bank, against fire and such other risks, and in such amounts as is customarily obtained by companies conducting similar business with respect to like properties.

4.11 Additional Requirements. Upon Bank's demand, Borrower will promptly take such further action and execute all such additional documents and instruments in connection with this Agreement and the other Loan Documents as Bank in its reasonable discretion deems necessary, and promptly supply Bank with such other information concerning its affairs as Bank may request from time to time.

4.12 Litigation and Attorneys' Fees. Upon Bank's demand, Borrower will promptly pay to Bank reasonable attorneys' fees, including the reasonable estimate of the allocated costs and expenses of in-house legal counsel and staff, and all costs and other expenses paid or incurred by Bank in

collecting, modifying or compromising the Loan or in enforcing or exercising its rights or remedies created by, connected with or provided for in this Agreement and the other Loan Documents. If any judicial action, arbitration or other proceeding is commenced, only the prevailing party shall be entitled to attorneys' fees and court costs.

4.13 Bank Expenses. Upon Bank's request, Borrower will pay or reimburse Bank for all costs, expenses and fees incurred by Bank in preparing and documenting this Agreement and the Loan, and all amendments and modifications to any Loan Documents, including but not limited to all filing and recording fees, costs of appraisals, insurance and attorneys' fees, including the reasonable estimate of the allocated costs and expenses of in-house legal counsel and staff.

SECTION 5. NEGATIVE COVENANTS

Until all sums payable pursuant to this Agreement, the Note and the other Loan Documents have been paid in full, unless Bank otherwise consents in writing, Borrower agrees that:

5.1 Liens. Borrower will not create, assume or suffer to exist any Lien on any of its property, whether real, personal or mixed, now owned or hereafter acquired, or upon the income or profits thereof, except (a) Liens in favor of Bank, (b) Liens for taxes not delinquent and taxes and other items being contested in good faith, (c) minor encumbrances and easements on real property which do not affect its market value, (d) existing Liens on Borrower's personal property, and (e) future purchase money security interests encumbering only the personal property purchased.

5.2 Other Indebtedness. Create, incur, assume or permit to exist any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except (a) the liabilities of Borrower to Bank; (b) trade debt incurred by Borrower in the normal course of its business; (c) the existing liabilities of Borrower disclosed to Bank on its financial statement referenced in Section 3.8 hereof; (d) indebtedness arising under existing real estate secured loans, provided however that such indebtedness shall not exceed the lesser of (i) One Hundred percent (100%) of the aggregate purchase price of such real property as valued; or (ii) the aggregate appraised value of such real estate collateral; (e) unsecured indebtedness of Borrower to Wells Fargo Bank in an aggregate amount not to exceed Nine Million and Two Hundred Thousand Dollars (\$9,200,000); and (f) unsecured indebtedness of subsidiaries in an aggregate amount not to exceed Ten Million Dollars (\$10,000,000).

5.3 Sale of Assets, Liquidation or Merger. Borrower will not liquidate, dissolve or enter into any consolidation, merger, partnership or other combination, or convey, sell or lease all or the greater part of its assets or business, or purchase or lease all or the greater part of the assets or business of another.

5.4 Loans, Advances and Guaranties. Borrower will not, except in the ordinary course of business as currently conducted, make any loans or advances, become a guarantor or surety, or pledge its credit or properties; except for amounts not in excess of Twenty Five Million Dollars (\$25,000,000) in the aggregate.

5.5 Acquisition. Borrower will not make any acquisitions or acquire any net assets, other than fixed or capital assets acquired in the normal course of business, in excess of Twenty Million Dollars (\$20,000,000) in any fiscal year.

5.6 **Payment of Dividends.** Borrower will not declare or pay any dividends, other than dividends payable solely in its own common stock, or authorize or make any other distribution with respect to any of its stock now or hereafter outstanding.

5.7 **Redemption of Stock.** Borrower will not redeem or retire any share of its capital stock for value. Notwithstanding the aforementioned, stock repurchases not exceeding Thirty Five Million Dollars (\$35,000,000) in the aggregate will be allowed.

5.8 **Affiliate Transactions.** Borrower will not transfer any property to any affiliate, except for value received in the normal course of business and for an amount, including any management or service fee(s), as would be conducted and charged with an unrelated or unaffiliated entity. Borrower will not pay any management fee or fee for services to any affiliate without Bank's prior written consent.

5.9 **Lease Obligations.** Borrower will not incur new lease obligations as lessee which would result in aggregate lease payments for any fiscal year exceeding Fifteen Million Dollars (\$15,000,000). Each such lease shall be of equipment or real property needed by Borrower in the ordinary course of its business.

5.10 Borrower will not amend, alter, supplement or otherwise modify the terms of Guarantor's existing indebtedness to Wells Fargo Bank, N.A.

5.11 Borrower will not transfer the proceeds of any loan or advance hereunder, or any other asset of Borrower to any affiliate of Guarantor, unless such transfer is evidenced by a valid and enforceable instrument or statement or account.

SECTION 6. EVENTS OF DEFAULT

The occurrence of any of the following events ("Events of Default") shall terminate any obligation of Bank to make or continue the Loan and shall automatically, unless otherwise provided under the Note, make all sums of interest and principal and any other amounts owing under the Loan immediately due and payable, without notice of default, presentment or demand for payment, protest or notice of nonpayment or dishonor, or any other notices or demands:

6.1 Borrower shall default in the due and punctual payment of the principal of or the interest on the Note or on any amounts owing under any of the Loan Documents;

6.2 Any default shall occur under the Note;

6.3 Borrower shall default in the due performance or observance of any covenant or condition of the Loan Documents;

6.4 Any guaranty or subordination agreement required hereunder shall be breached or becomes ineffective, or any Guarantor or subordinating creditor shall die, disavow or attempt to revoke or terminate such guaranty or subordination agreement; or

6.5 There shall be a change in ownership or control of ten percent (10%) or more of the equity interests in Borrower or any Guarantor.

SECTION 7. GENERAL PROVISIONS

7.1 **Additional Remedies.** The rights, powers and remedies given to Bank hereunder shall be cumulative and not alternative and shall be in addition to all rights, powers and remedies given to Bank by law against Borrower or any other person or entity including but not limited to Bank's rights of setoff and banker's lien.

7.2 **Nonwaiver.** Any forbearance or failure or delay by Bank in exercising any right, power or remedy hereunder shall not be deemed a waiver thereof and any single or partial exercise of any right, power or remedy shall not preclude the further exercise thereof. No waiver shall be effective unless it is in writing and signed by an officer of Bank.

7.3 **Inurement.** The benefits of this Agreement and the other Loan Documents shall inure to the successors and assigns of Bank and the permitted successors and assigns of Borrower, but any attempted assignment by Borrower without Bank's prior written consent shall be null and void.

7.4 **Applicable Law.** This Agreement and the other Loan Documents shall be governed by and construed according to the laws of the State of California.

7.5 **Severability.** Should any one or more provisions of this Agreement or any other Loan Document be determined to be illegal or unenforceable, all other provisions of such document shall nevertheless be effective.

7.6 **Controlling Document.** In the event of any inconsistency between the terms of this Agreement and any other Loan Document, the terms of the other Loan Document shall prevail.

7.7 **Construction.** The section and subsection headings herein are for convenient reference only and shall not limit or otherwise affect the interpretation of this Agreement.

7.8 **Amendments.** This Agreement may be amended only in writing signed by all parties hereto.

7.9 **Counterparts.** Borrower and Bank may execute one or more counterparts to this Agreement, each of which shall be deemed an original, but all such counterparts when taken together, shall constitute one and the same agreement.

7.10 **Notices .** Any notices or other communications provided for or allowed hereunder shall be effective only when given by one of the following methods and addressed to the parties at their respective addresses and shall be considered to have been validly given (a) upon delivery, if delivered personally, (b) upon receipt, if mailed, first class postage prepaid, with the United States Postal Service, (c) on the next business day, if sent by overnight courier service of recognized standing, or (d) upon telephoned confirmation of receipt, if telecopied. The addresses to which notices or demands are to be given may be changed from time to time by notice delivered as provided above.

7.11 **Integration Clause.** Except for the other Loan Documents, this Agreement constitutes the entire agreement between Bank and Borrower regarding the Loan, and all prior oral or written communications between Borrower and Bank shall be of no further effect or evidentiary value.

THIS AGREEMENT is executed on behalf of the parties by their duly authorized representative(s) as of the date first above written.

Acknowledged by Guarantors:

Simpson Manufacturing Co., Inc.

By:
Title:

Address:

Koll Dublin Corporate Center
4120 Dublin Blvd., Suite 400
Dublin, CA 94568

Telephone: (925) 460-9912
Facsimile: (925) 847-9114

Simpson Strong-Tie Company Inc.

By:
Title:

By:
Title:

Simpson Dura-Vent Company, Inc.

By:
Title:

By:
Title:

UNION BANK OF CALIFORNIA, N.A.

By:
Title:

By:
Title: Address:

Two Walnut Creek Center
200 Pringle Avenue, Suite 260
Walnut Creek, CA 94596-3570

Attention: Carol Garrett

QuickLinks

[EXHIBIT 10.1](#)

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EXHIBIT 10.2

PURCHASE AND SALE AGREEMENT

AIRPORT WAY PROPERTY

THIS PURCHASE AND SALE AGREEMENT AND JOINT ESCROW INSTRUCTIONS (this "Agreement") is made as of the 26th day of February, 2001 (the "Effective Date"), by and between Carl D. Panattoni ("Seller"), and Simpson Manufacturing Corporation, a Delaware corporation ("Buyer") with reference to the following facts.

A. Seller owns the real property which is San Joaquin County Assessor's Parcel Nos. 177-34-53, -54, -55, -56, -57, -60 and -61, consisting of approximately 46.962 acres of real property, and all improvements thereon, further described in the Preliminary Title Report attached as **Exhibit "A"** (the "Sale Property").

B. Seller has agreed to sell to Buyer and Buyer has agreed to buy from Seller the land and property described in this Agreement in accordance with and upon satisfaction of the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants and conditions contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. GENERAL

1.1 *The Property.* The Sale Property, including any right, title and interest of Seller in and to adjacent streets, alleys or rights-of-way; the buildings, structures, fixtures and other improvements affixed to or located thereon; and, any and all of Seller's right, title and interest in and to (i) all assignable contracts and agreements, permits, licenses, approvals, authorizations, entitlements issued by any governmental authority in connection with the Sale Property and (ii) all assignable drawings, plans and specification pertaining to the development of the Sale Property.

1.2 *Purpose.* The purpose of this Agreement is to provide for the purchase and sale of the Sale Property, and to establish the terms and conditions thereof.

The parties acknowledge that they will be discussing with each other purchase, development, and/or construction alternatives regarding the Sale Property during the 45 day Study Period stated herein, including the completion of offsite improvements and construction of an approximately 275,000 square foot building(s) on the Sale Property. The parties shall continue to negotiate such alternatives that may supercede, by mutual agreement, the terms and conditions stated herein, including, without limitation, the obligations to pay for and construct off site improvements. Notwithstanding the foregoing, in the event that the parties do not reach agreement on any such options or alternatives, the terms of this Agreement shall remain in full force and effect.

1.3 *Exchanges.* Either party may prefer to exchange rather than sell or buy. The parties will cooperate in that regard, but the non-exchanging party shall not be required to incur any additional cost, liability, or expense. The non-exchanging party shall not be required to take title to any property that it is not ultimately acquiring.

2. SALE PROPERTY

2.1 *Agreement of Sale.* Seller agrees to sell and Buyer agrees to purchase the Sale Property on the terms and conditions specified in this Agreement.

2.2 *Price.* The purchase price ("Purchase Price") of the Sale Property shall be \$4,396,066, less a credit of \$250,000 for Buyer's offsite improvements. The Purchase Price is based on a net acreage of 46.962 as established by Siegfried Engineering. The cost of preparing such survey shall be borne by Seller. Buyer shall be responsible for the Airport Way offsite improvements as stated in **Paragraph 4.07**

provided that if Buyer elects, in its sole discretion to engage Seller as contractor of the improvements, the construction agreement will include the offsite improvements and Buyer shall deposit \$250,000.00 in escrow pursuant to a mutually acceptable escrow agreement which amount shall be released to Seller upon the completion of the offsite improvements and the acceptance of such improvements by Buyer. Buyer may not purchase less than all of the Parcels comprising the Sale Property.

2.3 *Terms of Sale.* The Purchase Price shall be paid in cash upon close of escrow. All cash amounts shall be in lawful money of the United States and shall include any Deposit.

2.4 *Bonded Indebtedness.* In addition to the Purchase Price and all other amounts to be paid by Buyer pursuant to this Agreement, Buyer agrees to assume the balance due (principal and interest) on the portion of any and all public improvement bonds and assessments attributable to the Sale Property (determined as that percentage of the total bond or assessment equal to the Sale Property's percentage of the total land area encumbered by such bonds) which may constitute a lien on the Sale Property at close of escrow or afterwards. Notwithstanding the foregoing, Seller shall be responsible for paying its allocable share of all such bonds or assessments for the period prior to the close of escrow.

2.5 *Good Faith Deposit.* Upon execution of this Agreement, Buyer agrees to concurrently open escrow and deposit with Fidelity Title Company ("Title Company") the sum of ONE HUNDRED THOUSAND DOLLARS (\$100,000.00). On or before the end of the Study Period stated in **Paragraph 4.06**, in the event Buyer wishes to proceed with this transaction, Buyer shall deposit an additional ONE HUNDRED FIFTY THOUSAND DOLLARS (\$150,000.00) into escrow, and Buyer shall concurrently order Title Company to release to Seller the entire \$250,000.00 deposit plus accrued interest, all of which shall be held in accordance with the terms of this Agreement. If the sale does not occur as a result of a Seller default, in addition to all of Buyer's rights and remedies under this Agreement, it is an express covenant and agreement of Seller that Seller shall immediately return the Deposit to Buyer together with all accrued interest. The \$250,000 deposit shall be subject to **Paragraph 2.06** in the event escrow does not close. If Buyer does not deposit the additional \$150,000, the Title Company shall automatically and without further notice, return the deposit to Buyer with all accrued interest, and this Agreement shall terminate. In the event of such termination, neither party shall have any further obligation or liability to the other, except for those provisions that expressly survive termination.

All deposits shall be deposited into an interest bearing account, with interest paid to the recipient of the underlying principal. All deposits are subject to the terms and conditions set forth in **Paragraph 2.06** of this Agreement. The parties specifically agree to execute such instructions as Title Company may require to comply with this **Paragraph 2**.

2.6 *LIQUIDATED DAMAGES.* IN THE EVENT THE SALE OF THE PROPERTY AS CONTEMPLATED HEREUNDER IS NOT CONSUMMATED BY REASON OF A DEFAULT OF BUYER UNDER THIS AGREEMENT, THE DEPOSIT (INCLUDING ALL INTEREST EARNED FROM THE INVESTMENT THEREOF) SHALL BE PAID TO AND RETAINED BY SELLER AS LIQUIDATED DAMAGES AND AS SELLER'S SOLE AND EXCLUSIVE REMEDY UNDER THIS AGREEMENT, AT LAW OR IN EQUITY AS A RESULT OF SUCH DEFAULT. THE PARTIES ACKNOWLEDGE THAT SELLER'S ACTUAL DAMAGES IN THE EVENT THAT THE SALE IS NOT CONSUMMATED WOULD BE EXTREMELY DIFFICULT OR IMPRACTICABLE TO DETERMINE. THEREFORE, BY SEPARATELY INITIALING THIS SECTION, THE PARTIES ACKNOWLEDGE THAT THE NONREFUNDABLE DEPOSIT OF HAS BEEN AGREED UPON, AFTER NEGOTIATION, AS THE PARTIES' REASONABLE ESTIMATE OF SELLER'S DAMAGES AND AS SELLER'S SOLE AND EXCLUSIVE REMEDY UNDER THIS AGREEMENT, AT LAW OR IN EQUITY AGAINST BUYER IN THE EVENT THE CLOSING DOES NOT OCCUR BY REASON OF BUYER'S DEFAULT. BUYER AND SELLER ACKNOWLEDGE THAT THEY HAVE READ AND UNDERSTOOD THE ABOVE PROVISION

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COVERING LIQUIDATED DAMAGES, AND THAT EACH PARTY WAS REPRESENTED BY COUNSEL WHO EXPLAINED THE CONSEQUENCES OF THIS LIQUIDATED DAMAGES PROVISION AT THE TIME THIS AGREEMENT WAS EXECUTED. SELLER HEREBY WAIVES ANY AND ALL BENEFITS IT MAY HAVE UNDER CALIFORNIA CIVIL CODE SECTION 3389.

Seller's Initial _____ Buyer's Initial _____

3. ESCROW

3.1 *Opening.* The purchase and sale of the Sale Property shall be consummated by means of an escrow that is to be opened at Fidelity Title Company immediately after execution of this Agreement.

3.2 *Closing.* Escrow shall close no later than fifteen (15) days after the Study Period stated in **Paragraph 4.06** , which date shall be referred to herein as the "Scheduled Closing Date". Any earlier closing or extensions beyond that date shall require the written consent of Buyer and Seller.

3.3 *Instructions.* The escrow instructions given Title Company shall be consistent with the terms of this Agreement, and shall provide that as between the parties, the terms of this Agreement shall prevail if there is any inconsistency.

3.4 *Costs.* The parties shall share equally escrow fees. Seller shall bear the cost of the CLTA title policy coverage for the Sale Property. Recording fees shall be allocated in accordance with the custom in San Joaquin County, California. Seller shall pay the transfer taxes on the Sale Property. Buyer shall bear the expense of the ALTA increment of the title insurance premium, if any, together with the cost of any ALTA survey or inspection, and any endorsements requested by Buyer, excluding however, the survey to measure the net acreage of the Sale Property.

3.5 *Prorations.* All charges and credits with respect to the Sale Property, including without limitation real property taxes, assessments and bond payments, shall be prorated to close of escrow

4. CONDITIONS TO CLOSE OF ESCROW

4.1 *General.* The provisions of this **Paragraph 4** are conditions precedent to the close of the escrow described in **Paragraph 3** and unless otherwise provided expressly or by context, are covenants.

4.2 *Title.* Seller shall cause title to be conveyed to Buyer by a grant deed in the form attached to this Agreement as **Exhibit "B"** (the "Grant Deed") subject only to current taxes and other exceptions approved by Buyer pursuant to **Paragraph 4.03** . Seller must cause Title Company to issue its ALTA policy of title insurance insuring title in Buyer with liability in the amount of the Purchase Price, subject only to the exceptions which have been approved by Buyer ("Title Policy"). If Buyer does not accept an exception, Seller shall have the right to remove such exception or obtain, at Seller's expense, title insurance over the exception or advise Buyer that it will not cure such title defect. Notwithstanding the foregoing, Seller shall remove all monetary exceptions. The policy shall list only the taxes and exceptions set forth in **Paragraph 4.03** in addition only to the printed exceptions common to such ALTA policy. Seller shall provide customary affidavits and undertaking to the Title Company to enable it to remove exceptions for occupancy, mechanics liens and other similar items.

4.3 *Approval of Encumbrances.* With respect to existing encumbrances, Seller shall provide Buyer with legible copies of all exceptions shown in the Preliminary Title Report. Buyer shall approve or disapprove such items within the Study Period described in **Paragraph 4.06** .

4.4 *Cash and Deed.* Buyer shall deposit with Title Company the cash and documents required from Buyer in connection with the escrow and shall cause Title Company to deliver the purchase consideration to Seller upon the close of escrow. Seller shall deposit with Title Company the documents required from Seller in connection with the escrow, including without limitation, a Non-Foreign Affidavit pursuant to Section 1445(b)(2) of the Internal Revenue Code in form and

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substance satisfactory to the parties and a State of California Form 507, and shall cause Title Company to be ready, willing and able to record and deliver to Buyer the duly executed and acknowledged Grant Deed.

4.5 *Failure of Title.* If Seller is unable to convey marketable title in the aforesaid condition within the allowable time to close escrow, or if the Sale Property or any portion thereof shall have been destroyed or materially damaged by whatever cause, then Buyer may either accept the Sale Property in its then state and condition of title or terminate this transaction and receive a refund of all funds as set forth herein. If Buyer elects to terminate as aforesaid and provided that Seller is not otherwise in default of its obligations hereunder, Buyer shall not have any claim against Seller or the Sale Property (except that Buyer's Deposit shall be refunded). Seller shall be deemed able to deliver (or have delivered) marketable title herein required if Title Company stands ready to issue on the date of closing the Title Policy.

4.6 *Study Period.* Buyer shall have 45 days ("Study Period") from the later of (i) the date Seller delivers to Buyer a fully executed copy of this Agreement, (i) all exceptions to the Title Report as stated in **Paragraph 4.03** , and (iii) the documents listed in the attached **Exhibit "C"** ("Property Documents") within which to study the condition of the Sale Property and the feasibility of developing it. Buyer shall perform such studies at its own cost. During the Study Period, Buyer and its representatives may enter the Sale Property to inspect, test, and survey it. Buyer shall repair any damage caused by same, and Buyer agrees to indemnify and hold Seller harmless from any claims, including reasonable attorneys' fees, caused by such entry and activities. On or before the end of the Study Period, if Buyer, in its sole and absolute discretion, disapproves the results of such studies, or Buyer is silent, this Agreement shall terminate and Buyer shall receive a refund of the Deposit in accordance with **Paragraph 2.05** . If Buyer does not purchase the Sale Property, Buyer shall promptly return all documents to Seller.

4.7 *Offsite Improvements.* Seller shall be responsible for all improvements currently required by the City of Stockton pursuant to the

documents attached as **Exhibit "C"** , except Buyer shall be responsible for all offsite improvements required along the Sale Property's frontage on Airport Way.

4.8 *Covenants, Conditions and Restrictions.* The parties agree that the exceptions to the Title Policy shall also include additional covenants, conditions and restrictions of the Sale Property, subject to mutual approval of the parties, which shall be an express condition precedent to each party's respective obligation to close escrow.

5. POSSESSION

Vacant possession of the Sale Property, free and clear of any leases or other occupancy shall be given to Buyer upon close of escrow.

6. BROKERS

Seller represents it has not engaged nor is it aware of any person entitled to any brokerage commission or finder's fee in connection with this Agreement, except for CB Richard Ellis, Cornish & Carey Commercial, and Collier's International, which shall be compensated by Seller pursuant to a separate agreement. Buyer represents it has not engaged nor is it aware of any person entitled to any brokerage commission or finder's fee in connection with this Agreement. Except as may be specifically provided to the contrary in this Agreement, neither Buyer nor Seller is represented in this transaction by any real estate broker or agent. Each party agrees to indemnify the other party against any claim asserted against or adjudged against the other party, for any brokerage commission or finder's fee or any like compensation occasioned by or as a result of any act or omission of each such party, including all attorney's fees, costs, expenses, and any other fees incurred by, charged against, or adjudicated

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against, the other party, whether or not suit is filed, which are related to this indemnity agreement or enforcement thereof.

7. WARRANTIES

7.1 *Toxic Substances.* Seller hereby warrants that to its actual knowledge there is not any contamination, hazardous waste or toxic substance in existence on or below the surface of the Sale Property, including without limitation, contamination of the soil, sub-soil or groundwater which constitutes a violation of any law, rule or regulation of any government entity having jurisdiction thereof or which exposes Buyer to liability to third parties.

7.2 *Physical Condition of Property.* Seller hereby warrants that to Seller's actual knowledge: (i) there are not any defects in the land or improvements comprising the Sale Property; and (ii) all improvements constructed by Seller, if any, have been constructed according to applicable building codes pursuant to building permits issued by the appropriate governmental entity(ies), and have been inspected and approved by such entities.

7.3 *Contracts and Intangibles.* To Seller's actual knowledge, the Seller has provided Buyer with complete copies of all contracts and materials in its possession pertaining to the use, operation and development of the Sale Property.

7.4 *Definition of Actual Knowledge.* The phrase "Seller's actual knowledge" shall mean the current knowledge of Carl Panattoni and Mel Souza, without any requirement of due inquiry other than a review of their files for the Property.

7.5 *Indemnification.* Seller hereby agrees to indemnify and defend Buyer against any claim or lien, including all attorney's fees, costs, and expenses, incurred by Buyer relating to the Sale Property and resulting from any breach by Seller of this Agreement. Buyer similarly indemnifies Seller for claims resulting from Buyer's breach of this Agreement.

7.6 *As-Is, Where-Is.* Except as stated otherwise herein, Buyer acknowledges that Buyer is acquiring the Sale Property in its "AS-IS" condition as of the date of close of escrow, solely in reliance on its own inspections and examination, and its own evaluation of the Sale Property. There are no representations, warranties, covenants, understandings or agreements among the parties to this Agreement regarding the Sale Property or the transfer of the Sale Property contemplated by this Agreement other than those incorporated in this Agreement.

8. RISK OF LOSS

Prior to the close of escrow, Seller shall bear all risks of loss to the Sale Property. From and after the close of escrow Buyer assumes and shall bear all risks of loss to the Sale Property.

9. MISCELLANEOUS

9.1 *Choice of Law, Courts, Attorneys' Fees.* This Agreement has been executed in Sacramento, California, and shall be governed by and construed in accordance with the laws of the State of California.

In the event of any action or proceeding between Seller and Purchaser to enforce any provision of this Agreement, the losing party shall pay to the prevailing party all costs and expenses, including, without limitation, reasonable attorneys' fees and expenses, incurred in such action and in any appeal in connection therewith by such prevailing party. The prevailing party will be determined by the court before whom the action was brought based upon an assessment of which party's major arguments or positions taken in the suit or proceeding could fairly be said to have prevailed over the other party's major arguments or positions on major disputed issues in the court's decision.

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IF ANY ACTION OR PROCEEDING BETWEEN SELLER AND BUYER TO ENFORCE THE PROVISIONS OF THIS AGREEMENT PROCEEDS TO TRIAL, SELLER AND BUYER HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY IN SUCH TRIAL. Seller and Buyer agree that this paragraph constitutes a written consent to waiver of trial by jury within the meaning of California Code of Civil Procedure Section 631(a)(2), and each party does hereby authorize and empower the other party to file this paragraph and/or this Agreement, as required, with the clerk or judge of any court of competent jurisdiction as a written consent to waiver of jury trial.

9.2 *Assignments.* Either party may assign this Agreement in whole or in part, voluntarily or involuntarily, without prior written consent of the other party. Any assignment shall not relieve the assigning party of liability hereunder.

9.3 *Time of Essence.* Time is of the essence of this Agreement and of the escrow provided for herein.

9.4 *Integration.* This Agreement, including the Exhibits referred to herein, contains the entire agreement of the parties hereto, and supersedes any prior written or oral agreements between them concerning the subject matter contained herein. There are no representations, agreements, arrangements, or understandings, oral or written, relating to the subject matter which are not fully expressed herein. This Agreement may be modified only by a writing signed by the party against whom it is sought to be enforced.

9.5 *Exhibits.* All Exhibits to which reference is made are deemed incorporated into this Agreement as though fully set forth at length, whether or not actually attached.

9.6 *Additional Documents.* Each party shall execute and deliver such documents as may be reasonably requested by the other party to carry out the purpose and intent of this Agreement.

9.7 *Notice.* Any notice required or desired to be given by either party to this Agreement shall be in writing and shall be personally delivered to the address stated below, or in lieu of personal delivery, may be sent facsimile or by reputable overnight courier addressed to the other at the address listed opposite such party's name at the end of this Agreement. Any notice given by facsimile shall also be sent by reputable overnight courier on the same day, and shall be deemed to have been given on the day the facsimile is sent. Any notice given by overnight delivery shall be deemed to have been given on the day of delivery. Either party may, by written notice to the other in the manner aforesaid, change the address or telephone number to which notices addressed to it shall thereafter be faxed or mailed.

9.8 *Dependency and Survival of Provisions.* The respective warranties, representations, covenants, agreements, obligations, and undertakings of each party hereunder shall be construed as dependent upon and given in consideration of those of the other party, and shall survive the close of escrow and the delivery of deeds.

9.9 *Waiver.* Waiver by one party of the performance of any covenant, condition or promise shall not invalidate this Agreement, nor shall it be considered to be waived by such party of any other covenant, condition, or promise hereunder. The waiver by either or both parties of the time for performing any act shall not constitute a waiver of the time for performing any other act or an identical act required to be performed at a later time. The exercise of any remedy provided by law and the provisions of this Agreement for any remedy shall not exclude other remedies unless they are expressly excluded.

9.10 *Drafting and Preparation.* Each party has cooperated and participated in the drafting and preparation of this Agreement. Therefore, in any construction to be made of this agreement or any of its terms, both parties shall be construed to be equally responsible for the drafting and preparation of the same.

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9.11 *Defaults and Remedies of Buyer and Seller.* The following shall constitute a Default hereunder: (i) either party defaults under any provision of this Agreement; (ii) either party defaults under any other provision of this Agreement; (iii) if at any time prior to Closing (a) there shall be filed by either party in any court or with any governmental body pursuant to any statute either of the United States or of any

state, a petition in bankruptcy or insolvency or a petition seeking to effect any plan or other arrangement with creditors or seeking the appointment of a receiver; or (b) a receiver, conservator or liquidating agent or similar person shall be appointed for all or a substantial portion of such party's property; or (c) a party shall give notice to any person or governmental body of insolvency or suspension or pending suspension of its operations; or (d) a material, adverse change occurs in the financial condition of either party or either party shall make an assignment for the benefit of creditors or take any other similar action for the protection or benefit of creditors.

In the event of a Buyer Default, Seller shall have the right to keep the Deposit as its sole remedy. In the event of a Seller Default hereunder, Buyer shall have every remedy available under California and Federal law, which shall be cumulative, including without limitation the right of specific performance and/or damages.

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IN WITNESS WHEREOF, this Agreement shall be considered executed on the latest of the dates set forth next to the signatures below.

Seller

Address and Telephone

/s/ CARL D. PANATTONI

Attention: Mel Souza
8401 Jackson Road
Sacramento, California 95826
(916) 381-1561 Tel
(916) 381-7639 Fax

CARL D. PANATTONI

Dated: February 27, 2001

With a copy to:

Martin R. Boersma, Esq.
8413 Jackson Road, Suite C
Sacramento, California 95826
(916) 381-6171 Tel
(916) 381-1109 Fax

Buyer

SIMPSON MANUFACTURING CORPORATION,
a Delaware corporation

By: /s/ MICHAEL HERBERT

Michael Herbert
Chief Financial Officer

Simpson Manufacturing Corporation
Attention: Michael Herbert
4120 Dublin Boulevard, 4th Floor
Dublin, California 94568
(925) 560-9611 Tel
(925) 833-1499 Fax

Dated: February 23, 2001

With a copy to:

Alan J. Robin, Esq.
Shartsis, Friese & Ginsburg LLP
One Maritime Plaza, 18th Floor
San Francisco, California 94111
(415) 421-6500 Tel
(415) 421-2922 Fax

The undersigned is executing this Agreement to evidence its agreement to be bound by the terms of the Agreement pertaining to the duties of Title Company with respect to the Deposit and the Closing. Buyer and Seller may amend this Agreement without obtaining the consent of Title Company except as to amendments which affect the rights, duties or obligations of Title Company hereunder.

FIDELITY TITLE COMPANY

By: /s/ TIMOTHY P. MADDEN

Its: Vice President

Date: February 27, 2001

EXHIBITS:

A	PRELIMINARY	TITLE	REPORT
B	GRANT		DEED
C	PROPERTY		DOCUMENTS

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Simpson Manufacturing Co., Inc. and Subsidiaries
Computation of Earnings Per Common Share
For the Three Years Ended December 31, 2001, 2000 and 1999

Exhibit 11

Basic Earnings per Share

	2001	2000	1999
Weighted average number of common shares outstanding	12,105,547	12,019,329	11,834,915
Shares issuable pursuant to stock bonus plan	2,700	3,375	2,400
Number of shares for computation of basic net income per share	12,108,247	12,022,704	11,837,315
Net income for computation of basic net income per share	\$ 40,518,126	\$ 39,374,743	\$ 37,337,158
Basic net income per share	\$ 3.35	\$ 3.28	\$ 3.15

Simpson Manufacturing Co., Inc. and Subsidiaries
Computation of Earnings Per Common Share
For the Three Years Ended December 31, 2001, 2000 and 1999

Exhibit 11 (continued)

Diluted Earnings per Share

	2000	1999	1998
Weighted average number of common shares outstanding	12,105,547	12,019,329	11,834,915
Shares issuable pursuant to employee stock option plans, less shares assumed repurchased at the average fair value during the period	204,474	268,085	392,723
Shares issuable pursuant to the independent director stock option plan, less shares assumed repurchased at the average fair value during the period	3,129	4,133	3,827
Shares issuable pursuant to stock bonus plan	2,700	3,375	2,400

Number of shares for computation of diluted net income per share	12,315,850	12,294,922	12,233,865
Net income for computation of diluted net income per share	\$ 40,518,126	\$ 39,374,743	\$ 37,337,158
Diluted net income per share	\$ 3.29	\$ 3.20	\$ 3.05

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[Simpson Manufacturing Co., Inc. and Subsidiaries Computation of Earnings Per Common Share For the Three Years Ended December 31, 2001, 2000 and 1999](#)

[Exhibit 11](#)

[Basic Earnings per Share](#)

[Simpson Manufacturing Co., Inc. and Subsidiaries Computation of Earnings Per Common Share For the Three Years Ended December 31, 2001, 2000 and 1999](#)

[Diluted Earnings per Share](#)

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**Simpson Manufacturing Co., Inc. and Subsidiaries
List of Subsidiaries of Simpson Manufacturing Co., Inc.
At March 15, 2002**

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 Byggningsbeslag A/S, a Danish corporation
14. BMF Simpson GmbH, a German corporation
15. BMF Jutor Sp.z.o.o, a Polish corporation

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[Simpson Manufacturing Co., Inc. and Subsidiaries List of Subsidiaries of Simpson Manufacturing Co., Inc. At March 15, 2002](#)

[Exhibit 21](#)

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

Exhibit 23

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-8 (File No. 33-85662 and File No. 33-90964) of Simpson Manufacturing Co., Inc. of our report dated February 4, 2002, relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Francisco, California
March 29, 2002

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[Simpson Manufacturing Co., Inc. and Subsidiaries Consent of Independent Accountants](#)

[Exhibit 23](#)

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