

SIMPSON MANUFACTURING CO INC /CA/
Form 10-K
February 29, 2016

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, 2015

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: 1-13429

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.)

5956 W. Las Positas Blvd., Pleasanton, CA 94588
(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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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. []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of June 30, 2015, there were outstanding 49,119,299 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 non-affiliates of the registrant (based on the closing price for the common stock on the New York Stock Exchange on June 30, 2015) was approximately \$1,419,932,293

As of February 25, 2016, 48,292,706 shares of the registrant's common stock were outstanding.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement for the 2016 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such Proxy Statement will be filed with the Securities and Exchange Commission (the "SEC") within 120 days of the registrant's fiscal year ended December 31, 2015.

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NOTE ABOUT FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, based on numerous assumptions and subject to risks and uncertainties (some of which are beyond our control), such as statements below regarding future sales, sales trends, revenues, profits, costs, expenses, tax liabilities, losses, capital spending, raw material (such as steel) prices, profit margins and effective tax rates. Forward-looking statements generally can be identified by words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “predicts,” “projects,” “will be,” “will continue,” “will likely result,” and similar expressions. Forward-looking statements are necessarily speculative in nature, and it can be expected that some or all of the assumptions of the forward-looking statements we furnish will not materialize or will vary significantly from actual results. Although we believe that the forward-looking statements are reasonable, we do not and cannot give any assurance that our beliefs and expectations will prove to be correct, and our actual results might differ materially from results suggested by any forward-looking statement in this document. Many factors could significantly affect our operations and cause our actual results to differ substantially from those reflected in the forward-looking statements. Those factors include, but are not limited to: (i) general economic and construction business conditions; (ii) customer acceptance of our products; (iii) relationships with key customers; (iv) materials and manufacturing costs; (v) the financial condition of customers, competitors and suppliers; (vi) technological developments; (vii) increased competition; (viii) changes in capital and credit market conditions; (ix) governmental and business conditions in countries where our products are manufactured and sold; (x) changes in trade regulations; (xi) the effect of acquisition activity; (xii) changes in our plans, strategies, objectives, expectations or intentions; and (xiii) other risks and uncertainties. See “Item 1A — Risk Factors.” We undertake no obligation to update or publicly release the results of any revision to these forward-looking statements, whether as a result of the receipt of new information, the occurrence of future events or otherwise, except as required by law. We further do not accept any responsibility for any projections or reports published by analysts, investors or other third parties.

Each of the terms the “Company,” “we,” “our” and similar terms used herein refer collectively to Simpson Manufacturing Co., Inc., a Delaware corporation and its wholly-owned subsidiaries, including Simpson Strong-Tie Company Inc. (“SST”), unless otherwise stated.

“Strong-Tie” and our other trademarks appearing in this report are our property. This report contains additional trade names and trademarks of other companies. We do not intend our use or display of other companies’ trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

PART I

Item 1. Business.

Company Background

The Company, through its wholly owned subsidiary, Simpson Strong-Tie Company Inc., designs, engineers and is a leading manufacturer of wood construction products, including connectors, truss plates, fastening systems, fasteners and pre-fabricated lateral systems used in light-frame construction, and concrete construction products used for concrete, masonry, steel construction and for concrete repair, protection and strengthening, including adhesives, chemicals, mechanical anchors, carbide drill bits, powder actuated tools and fiber reinforced materials. The Company markets its products to the residential construction, light industrial and commercial construction, remodeling and do-it-yourself (“DIY”) markets. The Company also provides engineering services in support of some of its products and increasingly offers design and other software that facilitates the specification, selection and use of its products. The Company believes that the Simpson Strong-Tie brand benefits from strong brand name recognition among architects and engineers who frequently specify in building plans the use of the Company’s products. The Company has continuously manufactured structural connectors since 1956.

Business Strategy

The Company attracts and retains customers by designing, manufacturing and selling products that are of high quality and performance, easy to use and cost-effective for customers. The Company aims 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. The Company maintains high levels of inventory to operate with little backlog and fill most customer orders 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 intends to continue efforts to increase market share in both the wood construction and concrete construction product groups by:

- maintaining frequent contact with customers and private organizations that provide information to building code officials;
- continuing to sponsor seminars to inform architects, engineers, contractors and building officials on appropriate use, proper installation and identification of the Company’s products;
- continuing to invest in mobile and web applications for customers, utilizing social media, blog posts and videos to connect and engage with customers and to help them do their jobs more efficiently; and
- continuing to diversify product offerings to be less dependent on residential housing.

The Company’s long-term strategy is to develop, acquire or invest in product lines or businesses that have the potential to increase the Company’s earnings per share over time and that:

- complement the Company’s existing product lines;
- can be marketed through the Company’s existing distribution channels;
- might benefit from use of the Company’s brand names and expertise;
- are responsive to needs of the Company’s customers;
- expand the Company’s markets geographically; and

reduce the Company's dependence on the United States residential construction market.

New Products. The Company commits substantial resources to new product development. The majority of SST's products have been developed through its internal research and development program. SST's research and development expense for the three years ended December 31, 2015, 2014 and 2013, was \$10.3 million, \$11.2 million, and \$10.7 million, respectively. The Company believes it is the only United States manufacturer with the capability to test multi-story wall systems, thus enabling full scale testing rather than analysis alone to prove system performance. The Company's engineering, sales, product management, and marketing teams work together with architects, engineers, building inspectors, code officials and customers in the new product development process.

The Company's product research and development is based largely on products or solutions that are identified within the Company or as customers communicate to the Company as well as the Company's strategic initiatives to develop new markets or product lines. The Company's strategy is to develop new products on a proprietary basis, to seek patents when appropriate and to rely on trade secret protection for others. The Company typically develops 15 to 25 new products each year.

The Company expanded its product offering for 2015 by adding:

- new connectors for wood framing applications;
- new wood shrinkage compensating devices;
- new cold formed steel bridging and kneewall connections;
- new structural screws for wood, metal and composite decking applications;
- new mechanical anchors were introduced for use in hollow wall conditions and for overhead applications; and

the repair, protection and strengthening line of products received code approvals for their carbon fiber fabric and laminate systems.

The Company intends to continue to expand its product offering in all its products.

Distribution channels. 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 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 the Company's products that complement the mix of product offerings in their markets.

Home Centers. The Company intends to increase penetration of the DIY markets by soliciting home centers and increasing product offerings. The Company's sales force maintains on-going contact with home centers to work with them in a broad range of areas including inventory levels, retail display maintenance and product knowledge training. 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 has developed extensive bar coding and merchandising aids and has devoted a portion of its research efforts to the development of DIY products. Compared to previous years, the Company's sales to home centers increased in 2015 and 2014, but declined in 2013. See "Item 1A — Risk Factors," "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Note 13 — Segment Information" to the Company's Consolidated Financial Statements.

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

OEM Relationships. The Company works closely with manufacturers of engineered wood products and OEMs to develop and expand the application and sales of its engineered wood connector and fastener products. The Company has relationships with several of the largest manufacturers of engineered wood products.

International Sales. The Company has established a presence in the European Community through acquisition of companies with existing customer bases and through servicing United States-based customers operating in Europe. The Company also distributes connector, anchor and epoxy products in Mexico, Chile, Australia, New Zealand, South Africa and the Middle East. The Company intends to continue to pursue and expand operations both inside and outside of the United States (see "Note 13 — Segment Information" to the Company's Consolidated Financial Statements). Sales of some products may relate primarily to certain regions.

Operating Segments and Geographic Areas

The Company is organized into three operating segments consisting of the North America, Europe and Asia/Pacific segments. The North America segment includes operations primarily in the United States and Canada. The Europe segment includes operations primarily in France, the United Kingdom, Germany, Denmark, Switzerland, Portugal and Poland. The Asia/Pacific segment includes operations primarily in Australia, New Zealand, South Africa, China, Taiwan, and Vietnam. These segments are similar in several ways, including similarities in the products manufactured and distributed, the types of materials used, the production processes, the distribution channels and the product applications. See "Note 13 — Segment Information" to the Company's Consolidated Financial Statements for information

regarding the assets, revenue and performance of each of the Company's operating segments and geographic areas. Also see "Item 1A — Risk Factors."

Products and Services

The Company manufactures and markets building and construction products and is a recognized brand name in residential and commercial applications. The product lines historically have encompassed connectors, anchors, fasteners and lateral resistive systems. In 2011 and 2012, the Company entered into the truss plate market and acquired repair and strengthening product lines for the marine, industrial and transportation markets. See "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Note 13 — Segment Information" to the Company's Consolidated Financial Statements for financial information regarding revenues by product category.

Most of the Company's products are approved by building code evaluation agencies. To achieve such approvals, the Company conducts extensive product testing, which is witnessed and certified by independent testing laboratories. The tests also provide the basis of load ratings for the Company's structural products. This test and load information is used by architects, engineers, contractors, building officials and homeowners and is useful across all applications of the Company's products, ranging from the deck constructed by a homeowner to a multi-story structure designed by an architect or engineer.

Wood Construction Products. As described below, the Company's wood construction products include (1) connectors, (2) truss plates, (3) fastening systems and (4) lateral systems, and are typically made of steel. The Company produces and markets over 15,000 standard and custom wood construction products. These products are used primarily to strengthen, support and connect wood joints in residential and commercial construction and DIY projects. The Company's wood construction products contribute to structural integrity and resistance to seismic, wind and other forces. Applications range from commercial and residential building, to deck construction, to DIY projects.

1. The Company's connectors are prefabricated metal products that attach wood, concrete, masonry or steel together. Connectors are essential for tying wood construction elements together and create safer and stronger buildings. The Company's truss connector plates and software are marketed under the name Integrated Component Systems.
2. Truss plates are toothed metal plates that join wood members together to form a truss. The Company continues to develop sophisticated software to assist truss and component manufacturers' in modeling, designing trusses and selecting the appropriate truss plates for the applicable jobs. The Company's fastener line includes various nails, screws and staples. Complimenting these products is the Quik
3. Drive auto-feed screw driving system used in numerous applications such as decking, subfloors, drywall and roofing.
4. The Company's lateral resistive systems are assemblies used to resist earthquake or wind forces and include Strong-Wall Shearwalls, ShearBrace, Anchor Tiedown Systems ("ATS") and Special steel moment frames.

Concrete Construction Products. As described below, the Company's concrete construction products include (1) anchor products, and (2) construction repair, protection and strengthening products. The Company produces and markets over 2,000 standard and custom concrete construction products. The Company's concrete construction products are composed of various materials including steel, chemicals and carbon fiber. They are used primarily to strengthen, anchor, support, repair and connect concrete joints in residential and commercial construction and DIY projects used to repair, protect and strengthen concrete, brick and mortar structures. The Company's concrete construction products contribute to structural integrity and resistance to seismic, wind and other forces. Applications range from industrial, commercial, infrastructure and residential structures, to DIY projects. These products are sold in all segments of the Company worldwide.

1. The Company's concrete construction anchor products include adhesives, mechanical anchors, carbide drill bits and powder-actuated pins and tools used for numerous applications of anchoring or attaching elements onto concrete, brick, masonry and steel.
2. The Company's concrete construction repair, protection and strengthening products include grouts, coatings, sealers, mortars, fiberglass and fiber-reinforced polymer systems and asphalt products.

Engineering and Design Services. The Company's engineers not only design and test products, but also provide engineering support for customers in connection with a number of products that the Company manufactures and sells. This support might range from the discussion of a load value in a catalog to testing the suitability of an existing product in a unique application. For certain product lines, industry norms require that the Company's engineers are more involved in the sales process. For example, in connection with the sale of our truss plates, the Company's engineers review the output of the Company's software to assist customers in ensuring that trusses are properly

designed and specified, and in some instances stamp design diagrams. Generally, in connection with any engineering services the Company provides, the Company's engineers serve as a point of reference and support for the customer's engineers and other service professionals, who ultimately determine and are responsible for the engineering approach to any project.

Sales and Marketing

The Company's sales and marketing programs are implemented through its branch system. The Company currently maintains branches in California, Texas, Ohio, Canada, England, France, Germany, Denmark, Switzerland, Poland, Czech Republic, Portugal, Austria, The Netherlands, Australia, New Zealand, South Africa and Chile. Each branch is served by its own sales force, warehouse and office facilities, while some branches have their own manufacturing facilities. Each branch is responsible for setting and executing sales and marketing strategies that are consistent both with the markets in the geographic area that the branch serves and with the goals of the Company. Branch sales forces in North America are supported by marketing managers in the home office in Pleasanton, California. The home office also coordinates issues affecting customers that operate in multiple regions. 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.

The Company dedicates substantial resources to customer service. The Company 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 fastener products. The catalogs and publications describe the products and provide load and installation information. The Company 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 the Company, its product lines and promotional programs. The contents of these websites are not incorporated into this filing. Further, the Company's references to the URLs for these websites is intended to be inactive textual references only.

Manufacturing Process

The Company designs and manufactures most of its products. The Company has developed and uses automated manufacturing processes for many of its products. 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 has also permitted increased operating flexibility and enhanced product design innovation. As part of ongoing continuous improvement processes in its factories, the Company's major North American and European manufacturing facilities initiated lean manufacturing practices to improve efficiency and customer service. The Company sources some products from third-party vendors, both domestically and internationally. The Company has 22 manufacturing locations in the United States, Canada, France, Denmark, Germany, Switzerland, Poland, Portugal, China and England.

Quality Control. The Company has developed a quality system that manages defined procedures to ensure consistent product quality and also meets the requirements of product evaluation reports of the International Code Council (ICC) and the International Association of Plumbers and Mechanical Officials Uniform Evaluation Services (IAPMO-UES). Since 1996, the Company's quality system has been registered under ISO 9001, an internationally recognized set of quality-assurance standards. The Company believes that ISO registration is a valuable tool for maintaining and promoting its high quality standards. As the Company establishes new business locations through expansion or acquisitions, projects are established to integrate the Company's quality systems and achieve ISO 9001 registration. In addition, the Company has six testing laboratories accredited to ISO standard 17025, an internationally accepted standard that provides requirements for the competence of testing and calibration laboratories. The Company implements testing requirements through systematic control of its processes, enhancing the Company's standard for quality products, whether produced by the Company or purchased from others.

Wood Construction Products Manufacturing. Most of the Company's wood construction products are produced with a high level of automation. The Company has significant press capacity and has multiple dies for some of its high volume products to enable production of these products close to the customer and to provide back-up capacity. The balance of production is accomplished through a combination of manual, blanking and numerically controlled (NC) processes that include robotic welders, lasers and turret punches. This capability allows the Company to produce products with little redesign or set-up time, facilitating rapid turnaround for customers. The Company also has smaller specialty production facilities, which primarily use batch production with some automated lines.

Concrete Construction Products Manufacturing. The Company manufactures its concrete construction products at its facilities in Zhangjiagang, China, Addison, Illinois, Baltimore, Maryland, Cardet, France, Seewen, Switzerland, Malbork, Poland, and Elvas, Portugal. The mechanical anchor products are produced with a high level of automation.

Some products, such as epoxy and adhesive anchors, are mixed in batches and are then loaded into one-part or two-part dispensers, which mix the product on the job site because set-up times are usually very short. In addition, the Company purchases a number of products, powder actuated pins, tools and accessories and certain of its mechanical anchoring products, from various sources around the world. These purchased products undergo inspections on a sample basis for conformance with ordered specifications and tolerances before being distributed.

Regulation

Environmental Regulation. The Company itself 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 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. See "Item 1A — Risk Factors."

Other. The Company's product lines are subject to federal, state, county, municipal and other governmental and quasi-governmental regulations that affect product development, design, testing, analysis, load rating, application, marketing, sales, exportation, installation and use.

The Company considers product evaluation, recognition and listing to the building code as a significant tool that facilitates and expedites the use of the Company's products by design professionals, building officials, inspectors, builders, home centers and contractors. Industry members are more likely to use building products that have the appropriate recognition and listing than products that lack this acceptance. The Company devotes considerable time and testing resources to obtaining and maintaining appropriate listings for its products. The Company actively participates in industry related professional associations and building code committees both to keep abreast of regulatory changes and to provide comments and expertise to these regulatory agencies.

A substantial portion of the Company's products have been evaluated and are recognized by governmental and product evaluation agencies. Some of the entities that recognize the Company's products include the International Code Council Uniform Evaluation Service (ICC-ES), IAPMO-UES, the City of Los Angeles (LARR's), California Division of the State Architect, the State of Florida, Underwriters Laboratory (UL), Factory Mutual (FM) and state departments of transportation. In Europe, the Company's structural products meet European Technical Agreement (ETA) regulations.

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 also competes on the basis of quality, breadth of product line, proprietary technology, technical support, availability of inventory, service (including custom design and manufacturing), field support and product innovation. As a result of differences in structural design and building practices and codes, the Company's markets tend to differ by region. Within these regions, the Company competes with companies of varying size, several of which also distribute their products nationally or internationally. See "Item 1A — Risk Factors."

Raw Materials

The principal raw material used by the Company is steel, including stainless steel. The Company also uses materials such as carbon fiber, epoxies and acrylics in the manufacture of its chemical anchoring and reinforcing products. 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. The steel market continues to be dynamic, with a high degree of uncertainty about future pricing trends. Given current conditions, including low demand, labor union contract negotiations, anti-dumping and countervailing duty trade cases filed by United States steel producers in 2015, the Company currently expect that the high degree of uncertainty regarding steel prices will continue. Numerous factors may cause steel prices to increase in the future. In addition to increases in steel prices, mills may add surcharges for zinc, energy and freight in response to increases in their costs. See "Item 1A — Risk Factors" and "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 has United States and foreign patents, the majority of which cover products that the Company currently manufactures and markets. These patents, and applications for new patents, cover various design aspects of the Company's products, as well as processes used in their manufacture. The Company continues to develop new potentially patentable products, product enhancements and product designs. Although the Company does not intend to apply for additional foreign patents covering existing products, the Company has developed an international patent program to protect new products that it may develop. In addition to seeking patent protection, the Company relies on unpatented proprietary technology to maintain its competitive position. See "Item 1A — Risk Factors."

Acquisitions and Expansion into New Markets

The Company's growth potential depends, to some extent, on its ability to penetrate new markets, both domestically and internationally. See "Industry and Market Trends" and "Business Strategy."

In December 2015, the Company purchased all of the business assets, including intellectual property, from Blue Heron Enterprises, and Fox Chase Enterprises, LLC (collectively, "EBTY"), both New Jersey limited liability companies, for \$3.4 million in cash. EBTY manufactured and sold hidden deck clips and associated products and systems. The Company's provisional measurement of assets acquired included goodwill of \$2.0 million, which was assigned to the North American segment, and intangible assets of \$1.1 million, both of which are subject to tax-deductible amortization. Net assets consisting of inventory and equipment accounted for the balance of the purchase price.

The Company currently intends as part of its expansion strategy to continue to pursue acquisitions of product lines or businesses. See "Item 1A — Risk Factors" and "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations."

Seasonality and Cyclicity

The Company's sales are seasonal and cyclical. Operating results vary from quarter to quarter and with economic cycles. The Company's sales are also dependent, to a large degree, on the North American residential home construction industry. See "Item 1A — Risk Factors" and "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations."

Employees and Labor Relations

As of December 31, 2015, the Company had 2,498 full-time employees, of whom 1,029 were hourly employees and 1,469 were salaried employees. The Company believes that its overall compensation and benefits for the most part meet industry averages and that its relations with its employees are good.

A significant number of the employees at two of the Company's facilities are represented by labor unions and are covered by collective bargaining agreements. The Company's facility in San Bernardino County, California, has two of the Company's collective bargaining agreements, one with tool and die craftsmen and maintenance workers, and the other with sheetmetal workers. These two contracts expire February 2017 and June 2018, respectively. The Company's facility in Stockton, California, is also a union facility with two collective bargaining agreements, which also cover tool and die craftsmen and maintenance workers and sheetmetal workers. These two contracts will expire July and September 2019, respectively. See "Item 1A — Risk Factors."

Available Information

The Company makes available, free of charge, on its website www.simpsonmfg.com, copies of its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") after the Company files them with the SEC. Printed copies of any of these materials will also be provided free of charge on request.

You may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

The contents of the websites referred to above are not incorporated into this filing. Further, our references to the URLs for these websites are intended to be inactive textual references only.

Item 1A. Risk Factors.

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, in addition to other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and related notes thereto, before you decide to buy or hold shares of our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. We may not be able to control any of those risks and uncertainties. If any of those risks and uncertainties, whether described below or not, actually occurs, our business, results of operations, financial condition and future prospects could be materially and adversely affected, and as a result, any guidance that we may provide should not be relied on by investors. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment.

To facilitate a review of our risk factors, we have organized our risk factors into general groups of risks, including “General Business Risks,” “Products, Services, and Sales Risks,” “Technological and Intellectual Property Risks,” “Regulatory Risks,” “Capital Expenditures, Expansions, Acquisitions and Divestitures Risk,” “International Operations Risks,” “Capital Structure and Stock Risks,” “Employee Risks,” and “Other Risks.” The grouping of risks is to facilitate your review only, and no ranking of importance of risks or other inference should be made on account of such groups.

General Business Risks

Business cycles affect our operating results.

Our operating results and our stock price are heavily tied to the health of the building construction industry, with an estimated 55% to 65% of our total product sales being dependent on housing starts. The construction industry is subject to significant volatility due to real estate market cycles, fluctuations in interest rates, the availability, or lack thereof, of credit to builders and developers, inflation rates, weather, and other factors and trends.

Further, many of our customers in the construction industry are small and medium-sized businesses. These businesses are more likely to be significantly affected by economic downturns than larger, more established businesses.

Uncertainty about current global economic conditions may cause these consumers to postpone or refrain from spending or may cause them to switch to lower-cost alternative products, which could reduce demand for our products and materially and adversely affect our financial condition and operating results.

Further, declines in commercial and residential construction, such as housing starts and remodeling projects, which generally occur during economic downturns, have in the past significantly reduced, and in the future can be expected to reduce, the demand for our products and our stock price.

Our sales are seasonal and we have little control over the timing of customer purchases. If we miss seasonal forecasts or customers purchase our products in different quarters than we or analysts expect, our stock could materially decline.

Our sales are seasonal, with operating results varying from quarter to quarter. With some exceptions, our sales and income have historically been lower in the first and fourth quarters than in the second and third quarters of the year, as customers tend to purchase construction materials in the late spring and summer months for the construction season. In addition, weather conditions, such as unseasonably warm, cold or wet weather, which affect, and sometimes delay or accelerate installation of some of our products, significantly affect our results of operations. Sales that we anticipate in one quarter may occur in another quarter, affecting both quarters' results. If our operating results for a quarter are below the expectations of analysts and investors, it could have a material adverse effect on our stock price.

In addition, we maintain high inventory levels and typically ship orders as we receive them, so we operate with little backlog. The efficiency of our inventory system is closely tied to our ability to accurately predict seasonal and quarterly variances. Further, our planned expenditures are also based primarily on sales forecasts. When sales do not meet our expectations, our operating results will be reduced for the relevant quarters, as we will have already incurred expenses based on those expectations. This could result in a material decline in our stock price.

We operate in a competitive industry, and if we fail to anticipate and react appropriately to competitors, technological changes, changing industry trends and other competitive forces our revenue and profit margins will decline.

Our ability to compete effectively depends upon our ability to meet changing market conditions and develop enhancements to our products on a timely basis in order to maintain our competitive advantage. Many of our competitors have greater financial and other resources than we do. Our continued growth will ultimately depend upon our ability to develop additional products, services and technologies that meet our customers' expectation of our brand and quality. There can be no assurance that we will be successful in developing and marketing new products, product enhancements and additional technologies, that we will not experience difficulties that could delay or prevent the successful development, introduction and marketing of these products, or that our new products and product enhancements will adequately meet the requirements of the marketplace, or will achieve market acceptance.

Further, one of the core elements of our strategy is to provide high quality products and customer services. Many of our competitors are dedicating increasing resources to competing with us, especially as our products become more affected

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by technological advances and software innovations. Some of our competitors have more experience producing software and other technology-driven solutions. As a result, we are dedicating increasing resources to research and development in new and changing technologies in order to stay competitive and provide high quality and innovative products and services. These increased expenditures could reduce our operating results.

Additionally, our ability to compete effectively depends, to a significant extent, on the specification or approval of our products by architects, engineers, building inspectors, building code officials and customers and their acceptance of our premium brand. If a significant segment of those communities were to decide that the design, materials, manufacturing, testing or quality control of our products is inferior to that of any of our competitors or the cost differences between our products and any competitors are not justifiable, our sales and profits would be materially reduced.

Any worldwide economic contraction will quickly affect our operating results.

Our business is materially affected by changes in regional, national or global economic conditions generally.

Continuing fluctuations in financial markets and the deterioration of national and global economic conditions have a profound effect on the construction industry and may have materially adverse effects on our operations, financial results or liquidity, including the following:

- the financial stability of our customers or suppliers may be compromised, which could result in additional bad debts for us or non-performance by suppliers;

- financial instability of the financial institutions where we have our cash balances invested could result in loss of our principal balance;

- one or more of the financial institutions that make available our revolving credit facility may become unable to fulfill their funding obligations, which could materially and adversely affect our liquidity;

- it may become even more costly or difficult for us to obtain the agreed or additional financing or to refinance our existing credit facility; and

- our assets may be impaired or subject to write down or write off.

Product, Services and Sales Risks

Product liability claims, design defects, labeling defects, product formula defects, inaccurate chemical mixes and/or product recalls could harm our reputation, sales and financial results.

We design and manufacture most of our standard products and expect to continue to do so, although we buy raw materials and some manufactured products from others. We have on occasion found flaws and deficiencies in the design, manufacturing, assembling, labeling, product formulations, chemical mixes or testing of our products. We also have on occasion found flaws and deficiencies in raw materials and finished goods produced by others and used with or incorporated into our products. Some flaws and deficiencies have not been apparent until after the products were installed by customers.

Many of our products are integral to the structural soundness or safety of the structures in which they are used. If any flaws or deficiencies exist in our products and if such flaws or deficiencies are not discovered and corrected before our products are incorporated into structures, the structures could be unsafe or could suffer severe damage, such as collapse or fire, and personal injury could result. Errors in the installation of our products, even if the products are free of flaws and deficiencies, could also cause personal injury and unsafe structural conditions. To the extent that such damage or injury is not covered by our product liability insurance and we are held to be liable, we could be required to correct such damage and to compensate persons who might have suffered injury, and our reputation, business and financial condition could be materially and adversely affected.

Even if a flaw or deficiency is discovered before any damage or injury occurs, we may need to recall products (to the extent possible), and we may be liable for any costs necessary to replace recalled products or retrofit or remedy the affected structures. Any such recall, retrofit or other remedy could entail substantial costs and adversely affect our reputation, sales and financial condition. We do not carry insurance against recall costs or the adverse business effect of a recall, and our product liability insurance may not cover retrofit or other remedy costs.

As a result of the nature of many of our products and their use in construction projects, claims (including resulting from a natural disaster) may be made against us with regard to damage or destruction of structures incorporating our

products whether or not our products failed. Any such claims, if asserted, could materially and adversely affect our business and financial condition.

While we generally attempt to limit our liability under contracts and our exposure to price increases or comparable expense increases, we may have uncapped liabilities or significant exposure under some contracts, and could suffer material losses under such contracts.

We enter into many types of contracts with our customers, suppliers and other third parties, including in connection with our expansion into new markets and new product lines. Under some of these contracts, our overall liability may not be limited to a specified maximum amount or we may have significant potential exposure to price increases or to the need to transition services to change service providers. If we receive claims under these contracts, are unable to successfully transition when such contracts terminate, or experience significant price increases or comparable expense increases, we may incur liabilities significantly in excess of the revenues associated with such contracts, which could have a material adverse effect on our results of operations.

Our software provides some design functions to customers, and we increasingly are involved both in product sales and engineering designs. Any software errors or deficiencies or failures in our engineering services could have material adverse effects on our operations and financial condition.

Our design software increasingly facilitates the creation by customers of complex construction and building designs and we increasingly are involved both in product sales and engineering designs. Our software is extremely complex and is continually being modified and improved. As a result, it may contain defects or errors and new versions may introduce new defects and errors. While we have attempted to limit our potential liability for the failure of any designs created by our software, as a result of defects in our software or other defects outside of our control in the construction of structures designed by our software, the structures could be unsafe or could suffer severe damage, such as collapse or fire, and personal injury could result. Errors in construction unconnected with our design could also cause personal injury and unsafe structural conditions, even if our software design is sufficient. To the extent that a structure designed by our software suffers any failure or deficiency, we could be required to correct deficiencies and may become involved in litigation, even if our software design was not the cause of such deficiency. Further, if any damage or injury is not covered by our insurance and we are held to be liable, we could be required to correct such damage and to compensate persons who might have suffered injury, and our reputation, business and financial condition could be materially and adversely affected.

While we engage in testing and upgrades, there can be no assurance that, despite our testing and upgrades, errors will not be found in new and existing products resulting in loss of revenues or delay in market acceptance, diversion of development resources, damage to our reputation, adverse litigation, or increased service and warranty costs, any of which would have a material adverse effect upon our business, operating results and financial condition.

We are also increasingly involved in providing engineering solutions to our clients. The risks associated with providing these services are materially different than the risks we historically faced when we only produced products. If our engineers prepare, approve or seal drawings that contain defects or otherwise are involved in any design or construction that contains flaws, regardless of whether our engineers caused such flaws, we may be held liable for professional negligence or other damages, which could involve material claims.

We have a few large customers, the loss of any one of which could negatively affect our sales and profits.

Our largest customers accounted for a significant portion of net sales for the years ended December 31, 2015, 2014 and 2013, respectively. Any reduction in, or termination of, our sales to these customers would at least temporarily, and possibly on a longer term basis, cause a material reduction in our net sales, income from operations and net income. Such a reduction in or elimination of our sales to any of our largest customers would increase our relative dependence on our remaining large customers.

In addition, our distributor customers have increasingly consolidated over time, which has increased the material adverse effect of losing any one of them and may increase their bargaining power in negotiations with us. These trends could negatively affect our sales and profitability.

Increases in prices of raw materials could negatively affect our sales and profits.

Our principal raw material is steel, including stainless steel. The steel industry can have large fluctuations. Numerous factors beyond our control, such as general economic conditions, competition, worldwide demand, material and labor costs, energy costs, foreign exchange rates, import duties and other trade restrictions influence prices for our raw materials. Further, the domestic steel market is heavily influenced by three major United States manufacturers. We have not always

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been able, and in the future we might not be able, to increase our product prices in amounts that correspond to increases in costs of raw materials, without materially and adversely affecting our sales and profits.

We have historically not hedged against changes in prices of steel or other raw materials. In recent years, however, we have increased our anticipatory purchases of steel in an effort to mitigate the effects of rising steel prices. This strategy, coupled with changing economic conditions, has resulted in substantial fluctuations in our inventory in recent years, which can materially and adversely affect our margins, cash flow and profits.

Technological and Intellectual Property Risks

Our recent efforts to increase our technology offerings and integrate new software and application offerings may prove unsuccessful and may affect our future prospects.

Our industry has experienced increased complexity in some home design, and builders are more aggressively trying to reduce their costs. One of our responses has been to design and market sophisticated software to facilitate the design and marketing of our product systems. We have continued to commit substantial resources to our software development endeavors in recent years and expect that trend to continue in 2016.

We have a limited operating history in the technology space and may not be able to create commercially successful software and applications. Even if we are able to create initially successful ideas, the technology industry is subject to rapid changes. We may not be able to adapt quickly enough to keep up with changing demands, and our software may become obsolete.

While we see having a software interface with the construction industry as a potential growth area, we also face competition from other companies that are focused solely or primarily on the development of software and applications. These companies may have significantly greater expertise and resources to devote to software development, and we may be unable to compete with them in that space. Even if we are successful in competing with such companies, we will likely be required to expend significant resources and time and hire additional personnel to develop and maintain our software offerings. This could increase our operating costs and reduce our profitability. On the other hand, if our software development endeavors fail to generate profits, expended resources may not be recovered and our reputation, business, operating results, and financial condition could be materially and adversely affected. For example, we wrote off \$5.9 million for software development projects in 2015.

If we cannot protect our technology, we will not be able to compete effectively.

Our ability to compete effectively with other companies depends in part on our ability to maintain the proprietary nature of our technology, in part through patents, copyrights, trade secrets and other intellectual property protections. We might not be able to protect or rely on our patents and copyrights. Patents might not issue pursuant to pending patent applications. Our software copyright and other protections might not be adequate to protect our software and application code. Others might independently develop the same or similar technology, develop around the patented aspects of any of our products or proposed products, or otherwise obtain access to or circumvent our proprietary technology. We also rely on unpatented proprietary technology to maintain our competitive position. We might not be able to protect our trade secrets, our know-how or other proprietary information. If we are unable to maintain the proprietary nature of our significant products, our sales and profits are likely to be materially reduced.

In attempting to protect our proprietary information, we sometimes initiate lawsuits against competitors and others that we believe have infringed or are infringing our rights. In such an event, the defendant may assert counterclaims to complicate or delay the litigation or for other reasons. Litigation may be very costly and may result in adverse judgments that affect our sales and profits materially and adversely.

Claims that we infringe intellectual property rights of others may materially increase our expenses and reduce our profits.

Other parties have in the past and may in the future claim that our products or processes infringe their patent rights and other intellectual property rights. We may incur substantial costs and liabilities in investigating, defending and resolving such claims, whether or not they are meritorious, which may materially reduce our profitability and materially and adversely affect our business and financial condition. Litigation can be disruptive to normal business operations and may result in adverse rulings or decisions. If any such infringement claim is asserted against us, we may be required to obtain a license or cross-license, modify our existing technology or design a new non-infringing

technology, any of which could

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be costly and time-consuming. A ruling against us in an infringement lawsuit could include an injunction barring our production or sale of any infringing product. A damages award against us could include an award of royalties or lost profits and, if the court finds willful infringement, treble damages and attorneys' fees.

If we are unable to protect our information systems against data corruption, cyber-based attacks or network security breaches, our operations could be disrupted and our reputation and profitability could be negatively affected.

We depend on information technology networks and systems, including the internet, to process, transmit and store electronic information. We depend on our information technology infrastructure for electronic communications among our locations around the world and between our personnel and our subsidiaries, customers and suppliers. We collect and retain large volumes of internal and customer, vendor and supplier data, including some personally identifiable information, for business purposes. We also maintain personally identifiable information about our employees. The integrity and protection of our customer, vendor, supplier, employee and other Company data is critical to our business. The regulatory environment governing information, security and privacy laws is increasingly demanding and continues to evolve. Maintaining compliance with applicable security and privacy regulations may increase our operating costs or adversely affect our business operations.

Unauthorized parties may also attempt to gain access to our systems or facilities through fraud, trickery or other forms of deceiving our employees, contractors and temporary staff. Security breaches of our infrastructure could create system disruptions, shutdowns or unauthorized disclosures of confidential information. Despite the security measures we have in place, our facilities and systems, and those of the retailers, dealers, licensees and other third party distributors with which we do business, may be vulnerable to security breaches, cyber-attacks, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential customer, employee, supplier or Company information, whether by us or by the retailers, dealers, licensees and other third party distributors with which we do business, could result in losses, severely damage our reputation, expose us to the risks of litigation and liability, disrupt our operations and have a material adverse effect on our business, results of operations and financial condition.

We also publicly post our privacy policies and practices concerning our processing, use, and disclosure of personally identifiable information on our website. The publication of our privacy policy and other statements we publish that provide assurances about privacy and security can subject us to potential federal, state, or other regulatory action if they are found to be deceptive or misrepresentative of our practices.

Regulatory Risks

Failure to comply with industry regulations could result in reduced sales and increased costs.

We rely on the compliance of our products with regulations and specifications as one of our key competitive advantages. The design, capacity and quality of most of our products and manufacturing processes are subject to numerous and extensive regulations and standards promulgated by governmental, quasi-governmental and industry organizations. These regulations and standards are highly technical, complex and subject to frequent revision. If our products or manufacturing processes fail to comply with any regulations or standards or we fail to continue to innovate and update our products to comply with changing regulations and standards, we may not be able to manufacture and market our products profitably and may suffer damage to our brand and reputation, which could lead to declines in sales and the price of our stock.

Complying or failing to comply with environmental, health and safety laws and regulations could affect us materially and adversely.

We are 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. We are also subject to other federal and state laws and regulations regarding health and safety matters.

Our manufacturing operations involve the use of solvents, chemicals, oils and other materials that are regarded as hazardous or toxic. We also use complex and heavy machinery and equipment that can pose severe safety hazards, especially if not properly and carefully used. Some of our products also incorporate materials that are hazardous or toxic in some forms, such as zinc and lead used in some steel galvanizing processes, chemicals used in our acrylic and

epoxy anchoring products, and chemicals used in our concrete repair, strengthening and protecting products. The gun powder used in our

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