SHAW COMMUNICATIONS INC
Form 6-K
December 07, 2010

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 6-K
REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934
Shaw Communications Inc.
(Translation of registrant s name into English)
Suite 900, 630 3rd Avenue S.W., Calgary, Alberta T2P 4L4 (403) 750-4500
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F o Form 40-F x

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): o

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-__________

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant, Shaw Communications Inc., has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: December 6, 2010
Shaw Communications Inc.

By: /s/ Steve Wilson
Steve Wilson
Sr. V.P., Chief Financial Officer
Shaw Communications Inc.

Shaw Communications Inc.
REPORT TO SHAREHOLDERS
August 31, 2010

Dear fellow Shareholders:

This is an exciting time for the entertainment, broadcasting and communications industry. Technology continues to evolve at a rapid pace driving change in consumer behavior and opening up opportunities for companies like Shaw that have the resources and talent to capitalize on them.

An opportunity presented itself early in fiscal 2010 when Canwest Global Communications Corp. (Canwest) filed for bankruptcy protection. Shaw was successful in acquiring Canwest s broadcast TV network, content ownership and specialty services (Media). After receiving all Court and regulatory approvals, the acquisition closed and we launched Shaw Media, our newest business unit, on October 27, 2010. We are excited about the opportunities to leverage content with our current and future distribution systems, opening up new opportunities for growth and ensuring that we evolve in step with consumer demands.

OUR STRATEGY

Shaw s strategic focus is consistent: we have a relentless commitment to customer service and value. Leveraging our network infrastructure along with continuous development of new and enhanced products and services are all driven by our focus on customers.

We commenced our strategic wireless infrastructure build in 2010. In 2009, we acquired approximately 20 megahertz of spectrum across most of our cable footprint and received our ownership compliance decision from Industry Canada. This year we started to expand our infrastructure to include Wireless. We are building our network to ensure we have a variety of options to deliver wireless services. The Wireless network will interconnect with extensive existing infrastructure to enable the full potential of high-speed mobile applications for our customers.

OUR FINANCIAL RESULTS

During 2010 we delivered solid financial results, improving revenues and profits, and increasing amounts returned to shareholders.

Consolidated service revenue of $3.72 billion improved over 9% and service operating income before amortization of $1.76 billion was up 14%.

We invested almost $850 million in our core Cable and Satellite capital infrastructure and approximately $100 million on the Wireless infrastructure build.

Free cash flow was $515 million.

Dividends paid to shareholders were over $370 million and almost $120 was invested in the repurchase of shares.

OUR FOUNDATION FOR CUSTOMER GROWTH

The competitive environment continues to increase as telecommunication companies across our operating areas aggressively expand their service offerings. Our focus on providing an exceptional customer experience, offering superior products, and delivering them through our robust and reliable infrastructure, all contributed to the solid foundation that delivers customer growth.

- We had Basic subscriber growth of over 2,000 customers.

- Digital television customers increased almost 330,000 to 1.6 million, representing over 70% of Basic customers taking the Digital television product.

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We continued to grow the broadband business adding 110,000 Internet customers. We have increased the penetration rate and now the equivalent of 78% of Basic subscribers use our Internet service.

Digital Phone is a great success; we achieved record customer growth in fiscal 2010, adding over 230,000 Digital Phone lines and now have 1.1 million Digital Phone lines since our first market launch in February 2005.

We continued to invest in technology initiatives to recapture bandwidth and optimize our network, including increasing the number of nodes on the network and using advanced encoding and digital compression technologies such as MPEG4. We also continued to enhance our video offerings; introduced the Shaw Wireless Gateway, a modem and router in one, which provides a secure, fast Wi-Fi connection to the Internet; and commenced trials of a 1 Gigabit Internet service, with speeds ten times faster than High Speed Nitro. The trial utilizes Fibre-to-the-Premises (FTTP) and will be able to support new, cutting-edge Internet applications.

During 2010 we also completed the purchase of Mountain Cablevision Ltd. (Mountain Cable). Mountain Cable is based in Hamilton, Ontario and was one of the larger remaining independent cable companies in Canada. The outlook for the Canadian cable industry is attractive and acquiring Mountain Cable represented a unique opportunity to grow our core business.

OUR FINANCIAL POSITION

The Corporation s efforts to maintain a strong balance sheet and solid financial metrics resulted in achieving investment grade status with all three rating agencies during fiscal 2009. This assisted us in raising almost $2.0 billion in debt in fiscal 2010. These proceeds were secured at attractive long-term rates and enabled us to complete a significant refinancing of more expensive US denominated debt. The Canwest acquisition did not affect our investment grade ratings.

As we move forward, our solid balance sheet will continue to provide access to capital, giving us the flexibility to invest to maximize our competitive advantages and ensuring our ability to capitalize as opportunities arise.

OUR FUTURE

Recently, the Corporation s Board of Directors announced the orderly evolution of executive management responsibilities with the appointment of Brad Shaw as Chief Executive Officer effective November 17, 2010. Brad Shaw has been an employee of the Corporation since 1987, moving through a succession of increasingly responsible positions, most recently as Executive Vice President. Brad will continue the same commitment to customer service, the same prudent financial management and the same growth strategy that has successfully rewarded investors in the Company over its history. This transfer of responsibilities will serve the Corporation s shareholders and stakeholders for many years to come.

Our Board also acknowledged the tremendous accomplishments of Jim Shaw over his 28 years as an employee including his past 12 years as CEO. Jim Shaw started with Shaw Communications in 1982 as an installer on Vancouver Island. He learned every aspect of our business and rose through management to become Chief Executive Officer in 1998. In his 12 years as CEO, revenue grew from $600 million to $3.7 billion, our customer base more than doubled, our market share in Canada grew from 18% to 30% and market capitalization quadrupled. Regular dividends to shareholders were initiated and currently provide a yield of approximately 4%. Jim managed to grow the business through periods of incredible competition, technological change and uncertainty. He made

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decisions that have, and will continue to favorably impact your investment in our Company. He will continue to provide his experience, judgment and wisdom to serve all our stakeholders as Vice Chair of the Board of Directors.

Shaw has always been a part of the communities in which we operate. Through various divisions and expansive geographic footprint that stretches across Canada, we have the ability to connect Canadians allowing them to share, inspire and create. We recently launched the Together is Amazing movement as an opportunity for every Canadian to extend him/herself together we are stronger than we are individually. At Shaw we have an unstoppable spirit and we know that when we come together there s nothing we can t do.

We acknowledge our talented, creative and dedicated employees that continue to drive our Company forward. We thank you, our shareholders, for your continued support, loyalty and confidence. The future is full of possibilities, and together we intend provide an exceptional experience for our customers, and ultimately to create value for our shareholders.

[Signed]	[Signed]
JR Shaw Executive Chair	Bradley S. Shaw Chief Executive Officer

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November 5, 2010

FORWARD

Tabular dollars are in thousands of Canadian dollars, except per share amounts or unless otherwise indicated. Management s Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements.

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CAUTION CONCERNING FORWARD LOOKING STATEMENTS

Certain statements included in this Management s Discussion and Analysis may constitute forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used, the words anticipate , believe , expect , plan , intend , target , guideline , goal , and similar expressions generally identify forward-looking staten although not all forward-looking statements contain such words. These forward-looking statements include, but are not limited to, references to future capital expenditures (including the amount and nature thereof), financial guidance for future performance, business strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of Shaw s business and operations, plans and references to the future success of Shaw. These forward-looking statements are based on certain assumptions, some of which are noted above, and analyses made by Shaw in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the

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circumstances as of the current date. However, whether actual results and developments will conform with the expectations and predictions of Shaw is subject to a number of risks and uncertainties described in the section Known events, trends, risks and uncertainties included in this report. These factors include, but are not limited to, general economic, market or business conditions; the opportunities (or lack thereof) that may be presented to and pursued by Shaw; Shaw s ability to execute its strategic plans, increased competition in the markets in which Shaw operates and from the development of new markets for emerging technologies; changes in laws, regulations and decisions by regulators in Shaw s industries in both Canada and the United States; Shaw s status as a holding company with separate operating subsidiaries; changing conditions in the entertainment, information and communications industries; risks associated with the economic, political and regulatory policies of local governments and laws and policies of Canada and the United States; and other factors, many of which are beyond the control of Shaw. The foregoing is not an exhaustive list of all possible factors. Should one or more of these risks materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those as described herein. Consequently, all of the forward-looking statements made in this report and the documents incorporated by reference herein are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by Shaw will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, Shaw.

You should not place undue reliance on any such forward-looking statements. The Company utilizes forward-looking statements in assessing its performance. Certain investors, analysts and others, utilize the Company s financial guidance and other forward-looking information in order to assess the Company s expected operational and financial performance and as an indicator of its ability to service debt and return cash to shareholders. The Company s financial guidance may not be appropriate for other purposes.

Further, any forward-looking statement (and such risks, uncertainties and other factors) speaks only as of the date on which it was originally made and Shaw expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained in this document to reflect any change in expectations with regard to those statements or any other change in events, conditions or circumstances on which any such statement is based, except as required by law. New factors affecting the Company emerge from time to time, and it is not possible for Shaw to predict what factors will arise or when. In addition, Shaw cannot assess the impact of each factor on its business or the extent to which any particular factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

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I. INTRODUCTION TO THE BUSINESS

A. Company overview core business and strategies

Shaw Communications Inc. (Shaw or the Company or the Corporation) is a diversified Canadian communications company whose core business is providing broadband cable television, Internet, Digital Phone, telecommunications services (through Shaw Business Solutions), satellite direct-to-home services (through Shaw Direct) and engaging programming content (through Shaw Media). Shaw Media operates the second largest privately owned conventional television network in Canada, Global Television, and 19 specialty networks. Shaw provides customers with high-quality entertainment, information and communications services, utilizing a variety of distribution technologies.

Shaw s business is encapsulated within its vision statement: We, the leading entertainment and communications company, deliver exceptional customer experience through outstanding people sharing Shaw values.

Shaw s strategy is to maximize shareholder value through the generation of free cash flow[1]. The key elements of this strategy include: leveraging its network infrastructure to offer customers a wider variety of products and services; enhancing existing products to provide greater value to customers; providing best-in-class 24/7/365 service; bundling product offerings to provide value to both Shaw and the customer; and focusing on sound capital management and operational efficiencies to maintain a competitive edge.

The strategy also includes promoting brand awareness, strengthening the Shaw name from coast to coast. The Shaw brand is synonymous with diverse product offerings and exceptional customer service.

During 2010 the Company operated two principal business segments: (1) Cable comprised of cable television, Internet, Digital Phone and Business Solutions operations; and (2) Satellite - comprised of direct-to-home (DTH) and Satellite Services. As a percentage of Shaw s consolidated revenues for the year ended August 31, 2010, the Cable division and Satellite division represent approximately 79% and 21% of Shaw s business, respectively, which is similar to last year. During 2010 Shaw s businesses generated consolidated service revenues of $3.72 billion.

A third business segment, Wireless, is currently in the development/construction stage. During 2008 the Company participated in the Canadian Advanced Wireless Spectrum (AWS) auction and was successful in acquiring 20 megahertz of spectrum across most of its cable footprint. In March 2010 the Company commenced activities on its wireless infrastructure build.

A fourth business segment, Media, which includes television broadcasting, will be included in fiscal 2011 after closing of the acquisition of 100% of the broadcasting business of Canwest Global Communications Corp. (Canwest) including CW Investments Co. (CW Media), the company that owns the specialty channels acquired from Alliance Atlantis Communications Inc. in 2007.

The general development of these business segments, including more specific details for the last three fiscal years, is summarized below.

B. General development of the business

(i) Cable

Cable Television The Company s initial core business was cable television services, which today provides the customer base and physical infrastructure for much of the Company s distribution

[1] See definitions under key performance drivers on page 21.

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service businesses. Under the name Capital Cable Television Co. Ltd., Shaw acquired its first license to offer cable television services in Edmonton, Alberta and area in 1970. Over the course of the subsequent years, Shaw s cable television operation has grown through a combination of the acquisition of new cable television licenses awarded by the Canadian Radio-television and Telecommunications Commission (CRTC); the acquisition of existing cable systems; the exchange of cable systems and assets with other Canadian cable companies; and internally generated subscriber growth.

The Company is currently the largest cable television provider in Canada. As at August 31, 2010, Shaw served approximately 2.3 million cable television customers in five provinces (British Columbia, Alberta, Saskatchewan, Manitoba and certain portions of Ontario), representing approximately 29% of the Canadian cable television market.

The Canadian cable television industry has moved from a highly price regulated environment to one based on fair and sustainable competition. In such a competitive environment, cable companies have adopted clustering strategies, consolidating and realigning geographically to take advantage of potential administrative, operating and marketing synergies that arise from larger, focused operations. In executing its own clustering strategy, the Company has consolidated its position as the dominant provider of cable television services in Western Canada.

Approximately 75% of the Company s cable television subscribers are clustered in and around five major urban markets in Western Canada: Vancouver and Victoria (Vancouver Island), British Columbia; Calgary and Edmonton, Alberta; and Winnipeg, Manitoba. The balance of its subscribers are mainly in smaller clusters, linked via fibre either to each other or to larger markets. These markets include the Okanagan region, British Columbia (Kamloops, Kelowna, Penticton, Vernon); Saskatoon/Prince Albert/Moose Jaw/Swift Current, Saskatchewan; and Thunder Bay/Sault Ste. Marie/Hamilton, Ontario.

Over a number of years, Shaw has acquired and divested various cable systems to complement its cable clusters. During fiscal 2010 Shaw completed the acquisition of Mountain Cablevision, a cable system located in Hamilton, Ontario. In 2009, Shaw acquired the cable system located in and around Campbell River, British Columbia and in 2007 Shaw completed the acquisitions of several cable systems, including Whistler Cable, Grand Forks, Wood Lake, Lumby and Pender Island, all in British Columbia, as well as Norcom Telecommunications Limited operating in Kenora, Ontario.

The Company s cable television business is operated through its extensive fibre optic and co-axial cable distribution network. Shaw s fibre backbone and interconnect network links its cable systems and subscribers together. Shaw receives originating television signals at its head-end sites through satellite, transmitters, off-air antennae and microwave systems and re-transmits these signals via its network to customers homes in its licensed areas. Digital cable customers receive additional services via digital cable terminals (DCTs) which translate encrypted signals delivered to customers homes over Shaw s network.

Shaw s strategy is to leverage its network by providing additional services beyond traditional cable. In past years, it enhanced the quality, depth and capacity of its plant and network infrastructure through significant capital investments, and the plant and network is essentially fully digital and two-way capable. These investments have enabled Shaw to leverage its existing network and expand its service offerings to include digital programming, Pay-Per-View (PPV), Video-on-Demand (VOD), High Definition Television (HD) including three dimensional (3D HD, Internet, and Digital Phone. Shaw s continued investment in plant infrastructure will accommodate further growth opportunities. During the year Shaw launched its broadband VOD Player allowing customers

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to experience the convenience of watching their favorite movies and television shows when and where they want to. The home entertainment experience continues to improve with on-demand and personalization of products and services and the Company strives to ensure that its broadband network and interactive capabilities are being used to their full potential. Shaw continues to invest in technology initiatives to recapture bandwidth and optimize its network, including increasing the number of nodes on the network and using advanced encoding and digital compression technologies such as MPEG4.

The Company offers customers attractively priced combinations of its analog video, digital video, Internet and Digital Phone services. The benefits of bundling to customers include the convenience of one-stop shopping and value pricing. The benefits to Shaw include retention of existing customers (churn reduction); attraction of new customers; incremental penetration as customers upgrade to additional services offered in a bundle; and operational efficiencies through centralized billing and customer care.

Since 1996 Shaw has provided Internet access services to residential and small business subscribers in its cable television systems through its technologically advanced broadband network. In the majority of its Internet serving areas, the Company currently offers five levels of Internet service: High-Speed Lite, High-Speed, High-Speed Xtreme, High Speed Warp and High Speed Nitro. During 2009 the Company implemented speed increases of 50% and also launched a 100 Mbps service using Data Over Cable Service Interface Specification (DOCSIS) 3.0 technology. The 100 Mbps service, High Speed Nitro, is now available in over 85% of the Corporation s footprint. The Company currently offers high-speed Internet service with downstream speeds from 512 Kbps to 25 Mbps, or in those areas launched with DOCSIS 3.0 to 100 Mbps, depending on the service selected. As at August 31, 2010 there were approximately 1,820,000 subscribers (connected and scheduled installations) to Shaw s Internet access services.

During 2010 Shaw introduced the Shaw Wireless Gateway, a modem and router in one, providing a secure, fast WiFi connection to the Internet. The Shaw Wireless Gateway allows subscribers to connect to the Internet from almost anywhere in the house, without all the cables.

Late in 2010 Shaw commenced trials of a 1 Gigabit Internet service, with speeds 10x faster than High Speed Nitro. The trial utilizes Fibre-to-the-Premises (FTTP) and will be able to support new, cutting-edge Internet applications that will require faster download speeds.

In 2005 Shaw entered the triple play market of voice, video and data services with the launch of Shaw Digital Phone, a reliable, fully featured and affordable residential telephone service. Since then, the Company has continued to expand its Digital Phone footprint and now offers the service to 95% of homes passed. As at August 31, 2010 it had approximately 1,100,000 Digital Phone lines (primary and secondary lines on billing plus pending installs).

Since the initial launch of Digital Phone, Shaw has expanded the product offerings and now offers three tiers of residential service appealing to a wide range of customers. In the latter part of 2007, it also started to offer commercial voice services, including a variety of Shaw for Business products for the home based or smaller business and a Primary Rate Interface (PRI) service for the medium to larger business.

Shaw has a customer-centric strategy designed to deliver high-quality customer service, simplicity and value to its customers through various bundled service offerings for its video, Internet and Digital Phone products. Delivering value to customers creates value for Shaw s stakeholders through incremental penetration, operational efficiencies and reduced churn.

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The Company s business solution services include Internet, data connectivity and telecommunications and are offered under the brand Shaw Business Solutions .

Shaw Business Solutions was established in 2000 to develop and manage the fibre network that serves as the primary Internet backbone for the Company s broadband Internet customers and to provide Internet, data and voice connectivity services to large and medium businesses and other organizations. Shaw s extensive fibre network provides international connections through interconnection agreements and strategic alliances with other service providers.

Shaw Business Solutions has built both its fibre network and its customer base to promote future revenue growth. Its network includes multiple fibre capacity on two diverse cross-North America routes. Shaw Business Solutions southern route principally consists of approximately 6,400 route kilometers (4,000 miles) located on routes between Vancouver (via Calgary, Winnipeg, Chicago, Toronto and Buffalo) and New York City and between Vancouver and Sacramento. The northern route consists of approximately 4,000 route kilometers (2,500 miles) of fibre between Edmonton (via Saskatoon, Winnipeg and Thunder Bay) and Toronto. This route provides redundancy for the existing southern route. Shaw Business Solutions also has a marine route consisting of approximately 330 route kilometers (200 miles) located on two fibres from Seattle to Vancouver Mainland (via Victoria). In addition, Shaw Business Solutions has secured additional capacity to connect the cities of Toronto (via Montreal and Boston) to New York City, Seattle to Vancouver and Edmonton to Toronto.

(ii) Satellite

Over the past several years the Company has rebranded its operations in the Satellite division to leverage the Shaw name and build a consistent identity within the business. Star Choice was branded Shaw Direct, and Satellite Services was branded Shaw Broadcast Services (formerly known as Cancom Broadcast Solutions) and Shaw Tracking (formerly known as Cancom Tracking Solutions).

Shaw Direct is one of two DTH satellite operators licensed by the CRTC to deliver digital subscription video and audio programming services from satellites directly to subscribers homes and businesses. Shaw Direct began the national roll-out of its digital DTH services in 1997 and, as at August 31, 2010, had approximately 906,000 subscribers.

The market for Shaw Direct s digital DTH services can be divided into three principal categories: households not served by cable and typically having access to a limited number of broadcast services; households underserved by cable (i.e. served by cable systems that offer fewer than 80 channels); and households that receive full service cable (80 or more channels), primarily in urban areas. Other potential customers include commercial, institutional and recreational facilities interested in video and audio programming.

The Satellite Services operations include:

- Shaw Broadcast Services redistributing television and radio signals via satellite to cable operators and other multi-channel system operators in Canada and the US, referred to as a satellite relay distribution undertaking (SRDU ,) and providing uplink and network management services for conventional, specialty and pay broadcasters on a contract basis; and
- Shaw Tracking provision of satellite tracking and messaging services to the Canadian trucking industry, and integration and management of satellite data networks with land-based telecommunications.

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Shaw Direct and Satellite Services share a common satellite infrastructure. The DTH and Satellite Services businesses distribute digital video and audio signals to different markets (residential and business), thereby allowing the Company to derive distinct revenue streams from different customers using a common platform.

During 2010 Shaw Direct entered into agreements with Telesat to acquire capacity on a new satellite expected to be available in late 2012. The capacity will provide bandwidth for expanded customer choice, including new HD and other advanced services.

(iii) Wireless
During 2008, the Company participated in the Canadian Advanced Wireless Spectrum (AWS) auction and was successful in acquiring 20 megahertz of spectrum across most of its cable footprint for a cost of $191 million. In early September 2009 the Company received its ownership compliance decision from Industry Canada and was granted its AWS licenses. In March 2010 the Company commenced activities on its wireless infrastructure build and plans for an initial launch in late calendar 2011.

The Company has selected Nokia Siemens Networks (NSN) to provide the radio access network and core equipment for its next generation network. The equipment will be fully 3G and LTE capable giving Shaw a variety of options to deliver wireless services to customers using the AWS band, as well as future frequency bands.

(iv) Media
In May 2010 the Company announced that it had entered into agreements to acquire 100% of the broadcasting business of Canwest including CW Media, the company that owns the specialty channels acquired from Alliance Atlantis Communications Inc. in 2007. The total consideration, including debt assumed, is approximately $2.0 billion. During 2010 the Company completed certain portions of the acquisition including acquiring a 49.9% equity interest, a 29.9% voting interest, and an option to acquire an additional 14.8% equity interest and 3.4% voting interest in CW Media for total consideration of approximately $750 million, including acquisition costs. Also during 2010 the Competition Bureau cleared Shaw s acquisition and the Ontario Superior Court of Justice issued a sanction order approving the related consolidated plan of compromise, arrangement and reorganization. In late October 2010 the CRTC approved Shaw s application to assume control of Canwest s broadcasting business and the outstanding portions of the acquisition closed on October 27, 2010.

Technology is driving change in the Canadian broadcasting system, transforming content distribution and viewership. This strategic acquisition allows Shaw to unite broadcasting services and content with its advanced distribution platforms to offer customers strong choices in this rapidly evolving landscape.

C. Description of the business

A more detailed description of each of the principal operations comprising the Company s Cable Segment and Satellite Segment, along with certain additional information on the new Media segment, is set forth below.

1. Cable

Shaw offers a variety of cable television services from which its customers may choose, including a full range of analog and digital video services ranging from a basic service to a full digital cable

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service with access to HD channels, premium and VOD channels, music channels and an interactive program guide.

Digital cable significantly expands the range of services that may be offered to a subscriber and extends programming capacity. Digital cable, which is delivered by the Company s network to DCTs deployed in subscribers premises, also enhances picture and sound quality and provides the platform from which Shaw has launched, and expects to continue to be able to launch, new revenue-generating video and interactive services. Shaw offers customers a variety of DCTs for purchase or rent.

As of August 31, 2010, digital cable was available in almost all of Shaw s cable systems. As at such date, it had approximately 1,650,000 Digital subscribers, representing a penetration rate of over 70% of Basic cable subscribers. Of the Digital customers, over 725,000 have HD capabilities. Shaw offers 86 HD channels, and over 500 HD titles through Shaw Video-on-Demand and HD PPV.

Shaw continues to launch HD channels which offer superior picture detail and sound quality in a format that fully utilizes the capabilities of wide screen, HD ready televisions. In support of HD, Shaw offers for purchase or rent, DCTs which support the decoding and processing of HD content, as well as DCTs which incorporate HD and Personal Video Recorder (PVR) features.

Shaw offers over 70 channels of interactive, impulse PPV to its digital subscribers. Its PPV offering allows customers to select and pay for specific programs which are available on various channels with different start times. PPV offerings include movies, sports, concerts and other special events, with the price dependent on the nature of the programming.

The Company also offers VOD services under the name Shaw Video-on-Demand. Its VOD service enables customers to select programming from a library of titles through an on-line ordering system or directly through the interactive program guide, and to view the programming on their television at a time of their choosing, with pause, skip backward and skip forward functionality. Customers have unlimited viewing of a program at their convenience for a 24-48 hour period. Shaw s VOD service is available exclusively to its digital cable customers. The Company offers VOD services in over 98% of it s footprint.

Internet

Leveraging off its cable television infrastructure Shaw provides high speed Internet access services to residential and small business subscribers in almost all of its operating areas. It currently offers up to five levels of residential Internet service: High-Speed Internet, High-Speed Lite, High-Speed Xtreme, High Speed Warp, and High-Speed Nitro. Similar to its residential Internet service, Shaw also offers a variety of Internet services for small and medium sized business customers.

During 2009 Shaw made significant investments to improve the speed and performance of its Internet services increasing the speed of services by 50% as well as launching a 100 Mbps service using DOCSIS 3.0 technology. Upgrades and enhancements of its capital infrastructure are ongoing and include building up the Company s Internet backbone and decreasing the average node size.

In providing its Internet access services, Shaw deploys cable modems, generally based on DOCSIS 2.0 specifications. This technology has enabled it to increase the capabilities and reliability of its network by increasing the capacity and throughput in both the upstream and downstream portions of Shaw s cable infrastructure. In 2009 Shaw rolled out DOCSIS 3.0 on its network offering a 100 Mbps service, High Speed Nitro, to meet customers increasing speed and capacity demands. This service

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is available in over 85% of the Company s footprint. Shaw currently offers high-speed Internet service with downstream speeds from 512 Kbps to 100 Mbps, depending on the service selected.

Late in 2010 Shaw commenced trials of a 1 Gigabit Internet service, with speeds 10x faster than High Speed Nitro. The trial utilizes Fibre-to-the-Premises (FTTP) and will be able to support new, cutting-edge Internet applications that will require faster download speeds.

During 2010 Shaw also introduced the Shaw Wireless Gateway, a modem and router in one, providing a secure, fast WiFi connection to the Internet.

As at August 31, 2010, approximately 230,000 subscribers for Shaw s Internet services did not concurrently subscribe for any of its cable television services.

The fibre network that serves as the primary Internet backbone for the Company s broadband Internet customers is designed with fibre optic technology, has redundant capacity and extends from Victoria to New York, with connectivity to major Internet peering points in Seattle, Washington; Palo Alto, California; Chicago, Illinois; and Ashburn, Virginia.

Shaw operates two Internet data centres in Calgary, Alberta and several smaller regional centres. The data centres allow the Company to manage its Internet services exclusively, provide e-mail service directly to its customers using @shaw.ca e-mail addresses, and allow the Company to manage its own operations in terms of provisioning web space, backbone connectivity and peering arrangements into the United States. The centres also host Shaw customers most popular web content locally.

Digital Phone

The Company launched its fully featured residential telephone service under the brand name Shaw Digital Phone in 2005. Shaw Digital Phone combines local, long distance and the most popular calling features into a simple package for a fixed monthly fee. Professional installation, access to E-911 (enhanced 911 emergency service), directory and operator services, and around-the-clock (24/7/365) customer support also form part of the Digital Phone service, at no additional cost to subscribers. During 2007, the Company introduced Shaw Digital Phone Lite, an offering tailored for light long distance users. The service includes a local phone line, popular calling features and long distance at competitive rates. During 2008, the Company introduced Shaw Digital Phone Basic, an offering targeted for users requiring limited phone features. The service includes a local phone line, caller ID and long distance at competitive rates.

Shaw Digital Phone utilizes PacketCable technology and DOCSIS specifications. Customers existing phone lines are connected into modems usually installed at the location of the central wiring in the customers premises. The modem converts the voice conversation (sounds waves) into digital IP packets that are carried to an IP-based telephone switch (softswitch). At this point, the packets are transformed again into traditional telephone signals for connection to the public switched telephone network or may be routed through the IP network to the called party.

Unlike internet phone providers who use the internet to route calls, Shaw s Digital Phone service uses Shaw s own private managed broadband network and the public switched telephone network to route calls, allowing the Company to ensure a consistent level of quality and reliability to its phone customers.

During 2010, the Company launched Digital Phone service in various markets, including Campbell River, Winfield, Kimberly and Fernie in British Columbia, as well in Stony Plain and expansions in the surrounding areas of Lethbridge, and Red Deer, all in Alberta. As at August 31, 2010, Shaw had

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approximately 1,100,000 Digital Phone lines (primary and secondary lines on billing plus pending installs).

Shaw Business Solutions

Shaw Business Solutions manages the national fibre network that is the primary Internet backbone for Shaw s broadband Internet customers. This backbone network is also used to carry Shaw Digital Phone capacity and video signals. In addition, Shaw Business Solutions facilities are available to internet service providers, cable companies, broadcasters, governments and other businesses and organizations that require end-to-end Internet, data and voice connectivity. In particular, Shaw Business Solutions is focused on being a major account and wholesale provider offering third parties advanced high speed data connectivity and Internet services in Canada and the United States. Its offerings currently include data, voice and video transport and Internet connectivity services. It also continues to establish public and private peering arrangements and high speed connections to major North American, European and Asian network access points and other tier-one backbone carriers.

2. Satellite

Satellite Services owns and leases, directly and indirectly, satellite transponders that receive and amplify digital signals and transmit them to receiving dishes located within the footprint covered by the satellite. Satellite Services interests in such transponders are set forth in the table below.

Satellite	Transponders	Nature of Satellite Services Interest
Anik F2	18 Ku-band	Owned
	6 Ku-band	Leased
	2 Ku-band (partial)	Leased
Anik F1R	28 Ku-band	Leased
	1 C-band	Leased
	1 C-band (partial)	Leased
Intelsat Galaxy 16	1 Ku-band (partial)	Leased

Shaw Direct

With dual satellites (Anik F2 and Anik F1R) whose signals are received by customers through an elliptical dish, as at August 31, 2010, Shaw Direct offered over 450 digital video and audio channels with a programming line-up offering the majority of television services that are available in Canada, including local over-the-air broadcasters, national networks, specialty channels, U.S. and foreign channels, adult programming and ethnic services. Shaw Direct s subscribers have the option of choosing from a menu of programming packages designed to target and accommodate subscriber interests, primary language, income level and type of household. Such packages are marketed through Shaw Direct and a nation-wide distribution network of retail locations, including Future Shop, Best Buy, The Brick, Visions, London Drugs, and various independent retailers.

Shaw Direct continues to transition to advanced modulation and encoding technology for its HD broadcasting allowing it to increase its HD channel capacity. As part of its commitment to enhance its service offerings, Shaw Direct continued to add HD channels during 2010 and as at August 31, 2010 offered 65 HD channels.

During 2010 Shaw Direct entered into agreements with Telesat to acquire capacity on a new satellite expected to be available in late 2012. The new satellite was made possible pursuant to a

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December 2009 policy decision from Industry Canada and further strengthens the capabilities of the country s competitive satellite distribution sector. The new capacity will increase Shaw Direct s satellite television services by 30 percent through 16 new national transponders. The transponders residing on the third satellite will provide bandwidth for expanded customer choice, including new high definition and other advanced services. It will also provide enhanced service quality acting as important in-orbit back-up capacity.

Shaw Broadcast Services

Shaw Broadcast Services redistributes television and radio signals via satellite to cable operators and other multi-channel system operators in Canada and the U.S. and provides uplink and network management services for conventional and specialty broadcasters on a contract basis.

The redistribution of signals to cable companies and other operators is known in Canada as SRDU services. Shaw Broadcast Services currently provides SRDU and signal transport services to over 400 distribution undertakings, primarily cable operators, and redistributes 300 television signals and over 120 audio signals in both English and French to multi-channel system operators. Shaw Broadcast Services also offers HITS/QT and QT Plus (Headend In the Sky/Quick Take), which allow small and medium size cable companies to offer digital signals to subscribers for a substantially reduced capital outlay. HITS/QT and QT Plus facilitate increased availability and penetration of digital services in Canada and thereby add incremental revenues to Shaw Broadcast Services from the additional services provided to smaller cable companies.

Shaw Broadcast Services uplink and network management services include backhaul (transport of signals to the uplink site), uplink (delivery of signal to the satellite so that it can be distributed to cable operators and other distributors), bandwidth, authorization and signal monitoring. Shaw Broadcast Services currently provides such services to approximately 125 specialty and pay broadcasters across Canada**,** as well as to Canadian pay audio providers.

Shaw Tracking

Shaw Tracking provides asset tracking and communication services to over 600 companies in the transportation industry in Canada, with approximately 38,000 vehicles using its services. Shaw Tracking s services capture all related information pertaining to an asset (i.e. location, performance and productivity measures) and effectively integrate into a carrier s fleet management system. Via satellite, cellular and Bluetooth networks, Shaw Tracking provides immediate real time visibility to a company s fleet and freight. Shaw s services and solutions target a wide variety of segments of transportation across Canada.

3. Media

The acquisition of Shaw s Media business was completed early in fiscal 2011 and includes the Global Television Network and 24 Speciality services. Initial steps of the acquisition occurred in the latter part of 2010 and that portion of the investment was equity accounted for in 2010. In 2011 the Media results will be equity accounted until October 27, 2010, at which time the remaining portions of the acquisition closed shortly after receiving CRTC approval for the transfer of 100% ownership and control. After closing of the acquisition, the balance sheet and results of operations will be consolidated.

The Canadian television broadcasting market is comprised of a number of English, French, and third language stations and services that operate in different segments of the market. The

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conventional broadcast sector includes government owned public networks, such as the Canadian Broadcasting Corporation (CBC), as well as privately owned station groups and networks, such as Global Television Network and the Canadian Television Network (CTV). The speciality and pay sector includes speciality television services, such as Showcase, TSN (owned by CTV) , and Sportsnet (owned by Rogers Communications Inc), which provide special interest programming including news, sports, arts, lifestyle and entertainment programming.

The Global Television Network reaches approximately 98% of the total broadcast market in Canada through 12 over-the-air (OTA) conventional television stations. The Speciality television services owned and operated in the Media division include a leading portfolio of 19 channels, including Showcase, HGTV Canada, Food Network Canada, Slice and TVtropolis. The Company also has an interest in various non-operated channels including two French language speciality television services and three English language speciality television services.

The following table sets forth all of the Speciality services in which the Company holds an interest:

Speciality Services Operated	% Equity Interest
Showcase	100%
Slice	100%
History Television	100%
HGTV Canada	67%
Food Network Canada	51%
Showcase Action	100%
Showcase Diva	100%
National Geographic Canada	50%
BBC Canada	50%
BBC Kids	50%
Discovery Health Canada	100%
IFC Canada	100%
DIY	67%
TVtropolis	67%
MovieTime	100%
DejaView	100%
Fox Sports World Canada	100%
Mystery	50%
Global Reality	100%

Speciality Services Not Operated	% Equity Interest
Historia	50%
Series+	50%

ONE: The Body, Mind and Spirit Channel	38%
Dusk	49%
Men TV	49%

D. Seasonality and other additional information concerning the business

(a) Seasonality and customer dependency

Although financial results of the Cable and Satellite business segments are generally not subject to significant seasonal fluctuations, subscriber activity may fluctuate from one quarter to another. For example, the Cable segment typically experiences the highest levels of subscriber growth during the first quarter as post-secondary students return to school, customers return from vacation or

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reconnect cable in anticipation of the new television season. Correspondingly, subscriber growth tends to be lower or negative in the third and fourth quarters as the school year ends, vacation period begins and the television season ends. Subscriber growth in the Satellite business segment is also affected by vacation schedules as customers reconnect and disconnect DTH services at summer homes. Further, customers who vacation in warmer climates during the winter months may also connect and reconnect DTH or cable services on a seasonal basis. New subscriber activations may also be positively affected by the Christmas holiday season. While subscriber activity is generally subject to these seasonal fluctuations, it may also be affected by competition and varying levels of promotional activity undertaken by the Company. Shaw s Cable and Satellite businesses generally are not dependent upon any single customer or upon a few customers.

The Media segment financial results are subject to fluctuations throughout the year due to, among other things, seasonal advertising and viewing patterns. In general, advertising revenues are higher during the fall (Q1) and lower during the summer months (Q4), and expenses are more evenly incurred throughout the year.

(b) Environmental matters
Shaw has not made, and does not anticipate making, any significant capital expenditures to comply with environmental regulations. Such regulations have not had, and are not expected to have, a material effect on the Company s earnings or competitive position.

(c) Foreign operations
Shaw does not have material foreign assets or operations.

Shaw Business Solutions U.S. Inc., a wholly-owned subsidiary of the Company, has entered into an indefeasible right of use (IRU) with respect to a portion of a United States fibre network and owns certain other fibre and facilities in the United States. Shaw Business Solutions U.S. Inc. commenced revenue-generating operations in the United States in 2002. Its revenues for the year ended August 31, 2010 were not material.

(d) Employees
As at August 31, 2010, the Company employed approximately 11,000 persons. After the acquisition of the Media segment in October 2010 the Company employs approximately 13,000 persons.

E. Government regulations and regulatory developments

Substantially all of the Corporation s business activities are subject to regulations and policies established under various Acts (*Broadcasting Act (Canada)* (Broadcasting Act), *Telecommunications Act (Canada)* (Telecommunications Act), *Radiocommunication Act (Canada)* (Radiocommunication Act) and *Copyright Act (Canada)* (Copyright Act)). Broadcasting and telecommunications are generally administered by the CRTC under the supervision, respectively, of the Department of Canadian Heritage (Canadian Heritage) and Department of Industry (Industry Canada).

Pursuant to the Broadcasting Act, the CRTC is mandated to supervise and regulate all aspects of the broadcasting system in a flexible manner. The Broadcasting Act requires broadcast distribution undertakings (BDUs) to give priority to the carriage of Canadian services and to provide efficient delivery of programming services. The Broadcasting Act also sets out requirements for television broadcasters with respect to Canadian content. Shaw s businesses are dependent upon licenses (or operate pursuant to an exemption order) granted and issued by the CRTC and Industry Canada.

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Under the Telecommunications Act the CRTC is responsible for ensuring that Canadians in all regions of Canada have access to reliable and affordable telecommunication services of high-quality. The CRTC has the authority to forbear from regulating certain services or classes of services provided by a carrier if the CRTC finds that there is sufficient competition for that service to protect the interests of users. All of Shaw s telecommunication retail services have been forborne from regulation and are not subject to price regulation. However, regulations do impact certain terms and conditions under which these services are provided.

The technical operating aspects of the Corporation s businesses are also regulated by technical requirements and performance standards established by Industry Canada, primarily under the Telecommunications Act and the Radiocommunication Act.

Pursuant to the Copyright Act the Copyright Board of Canada oversees the collective administration of copyright royalties in Canada including the review and approval of copyright tariff royalties payable to copyright collectives by BDUs.

The sections below include a more detailed discussion of various regulatory matters and recent developments specific to Shaw s businesses.

Licensing and ownership
For each of its cable, DTH and SRDU undertakings, the Corporation holds a separate broadcasting license or is exempt from licensing. The broadcasting licenses have generally been issued for terms of up to seven years. In August 2008, the majority of the Corporation s licensed cable undertakings were renewed by the CRTC for a two-year period ending August 31, 2010, which were subsequently extended to November 30, 2010. Shaw has filed renewal applications for full-term, seven year license renewals. A license renewal hearing was held in late September 2010 and the decision is expected in November 2010. The licenses of the Corporation s DTH and SRDU undertakings are valid until August 31, 2011. Shaw has never failed to obtain a license renewal for its cable, DTH or SRDU undertakings. In early September 2009, the Company was granted AWS licenses for ten year terms.

The Company also holds a separate license for each of its conventional OTA television stations and each specialty service. These CRTC broadcasting licenses must be renewed from time to time and cannot be transferred without regulatory approval. The majority of the Corporation s licenses for its OTA television stations and specialty services expire August 31, 2011. As currently scheduled, Shaw will file a group renewal application for all of its conventional OTA television stations and specialty stations in late calendar 2010, with an anticipated CRTC public hearing to follow in early 2011. This public proceeding will determine the various conditions of license, commitments, and expectations attached to each license over the next license period. More generally, it will determine the percentage of broadcast group revenue that must be allocated to Canadian programming.

Rate regulation
All of the Corporation s cable undertakings have been rate deregulated by the CRTC with respect to the provision of basic cable service. Rates for the provision of basic service by all other types of licensed and exempt systems, including the DTH undertaking, are not rate regulated.

The potential for new or increased fees through regulation

Effective September 1, 2009, each licensed BDU contributes 1.5% of its gross revenues derived from Broadcasting to the Local Programming Improvement Fund (LPIF) to support local television stations operating in non-metropolitan markets. The CRTC has indicated that it will

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consider the appropriate long-term provisions for the LPIF. Exempt systems are not required to contribute to LPIF.

In October 2008, the CRTC announced a change in its policy regarding the delivery of distant signals by licensed BDUs. Under the new policy, licensed cable BDUs must obtain the consent of an over-the-air broadcaster to deliver its signal in a distant market. DTH distribution undertakings can distribute a local over-the-air television signal without consent within the province of origin, but must obtain permission to deliver the over-the-air television signal beyond the province of origin unless the DTH distribution undertaking is required to carry the signal on its basic service. The CRTC determined in its 2008 policy that broadcasters and licensed BDUs should negotiate the terms of distant delivery but provided for arbitration where an agreement cannot be reached.

Subsequent to the 2008 policy, certain broadcasters requested a requirement that DTH distribute all local stations and that such distribution be limited to the local transmission area of each station, subject to negotiation between DTH licensees and broadcasters. The CRTC is currently conducting a policy proceeding to consider the issue further. Pursuant to this proceeding, the CRTC could introduce requirements that DTH licensees provide additional carriage or negotiated compensation to broadcasters.

In July 2009 the CRTC initiated a proceeding to explore the policy governing the licensing of conventional television services and a number of related issues (the Television Licensing Policy Hearing). As part of that proceeding, the CRTC reviewed certain aspects of the regulation of BDUs in connection with their distribution of over-the-air television stations.

On September 17, 2009, the Governor in Council (Federal Cabinet) issued an Order in Council requesting that the CRTC hold hearings on the implications and the advisability of implementing an over-the-air television signal carriage compensation regime, and to issue a report to the Government providing recommendations that take into account the impact that a signal carriage compensation regime would have on consumers and affordable access to broadcast programming, and the impact of any such regime on the communications industry as it adapts to the digital communications environment. In response, the CRTC initiated an additional proceeding to consider these issues that commenced December 7, 2009 (the Signal Compensation Hearing).

Further to the Television Licensing Policy Hearing and the Signal Compensation Hearing, in March 2010 the CRTC introduced a new regime to allow privately-owned local television stations to negotiate a value for the distribution of their programming with cable and satellite companies. The CRTC is uncertain as to its authority to implement this regime and is seeking clarification of its jurisdiction to do so under the Broadcasting Act, by reference of the matter to the Federal Court of Appeal. In September 2010 the Federal Court of Appeal heard the arguments of the affected parties. Depending on the decision of the Court or any subsequent appeal, it is possible that a negotiated monetary and/or non-monetary compensation regime could arise.

In addition, further to the Television Licensing Policy Hearing, the Commission indicated that it would examine the issue of whether the uplink and transport services provided by satellite service providers should be regulated. It is possible that the Commission could, subsequent to licensing decisions issued and subsequent to hearings, decide to regulate such services. In this event, it is also possible that the Commission could impose new regulatory fees or charges upon this business.

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Access rights
Shaw s cable systems require access to support structures, such as poles, strand and conduits of telecommunication carriers and electric utilities, in order to deploy cable facilities. Under the Telecommunications Act the CRTC has jurisdiction over support structures of telecommunication carriers, including rates for third party use. The CRTC is currently considering the rates for third party use of telecommunication carrier support structures and could approve an increase in these rates.

Part II fees
The CRTC collects several different fees from broadcast licensees, including fees collected under Part II of the Broadcasting License Fee Regulations (the Part II fees). In 2003 and 2004, Part II fees were challenged in the Federal Court on the grounds that the fees are taxes rather than regulatory charges, and that regulations authorizing them are unlawful. In December 2006, the Federal Court ruled that the Part II fees were an illegal tax. Both the Crown and the original applicants to the Federal Court appealed the case to the Federal Court of Appeal, which on April 28, 2008 overturned the Federal Court and ruled that Part II fees are valid regulatory charges. Leave to appeal the Federal Court of Appeal decision was granted on December 18, 2008 by the Supreme Court of Canada and a hearing date of October 19, 2009 was set for the appeal.

On October 7, 2009, the Government of Canada and appellants in the Supreme Court of Canada proceeding announced that they had entered into an agreement whereby parties to whom the Part II fees applied agreed to discontinue their appeal to the Supreme Court (including the claim for the recovery of Part II fees paid since 1998). The Government agreed that it would not seek amounts owing by the industry to the end of the last fiscal year (2007, 2008 and 2009) which had not been collected while the issue was being appealed in the Courts, and the Government would recommend that the CRTC develop a new, forward-looking fee regime to replace the Part II fees that would be capped at $100 million per year, indexed to inflation, for the broadcasting industry. The Notice of Discontinuance was filed by appellants with the Supreme Court on October 7, 2009.

In December 2009, the CRTC initiated a proceeding calling for comments on proposed amendments to the Broadcasting License Fee Regulations to reflect the out-of-court settlement reached between the Government of Canada and members of the Broadcasting industry in October 2009. In July 2010 the proposed amendments were introduced by the Commission.

Digital Phone, New Media and Internet
Regulation of the incumbent local exchange carriers (ILECs), competitors of Shaw s Digital Phone business, is now largely governed by the current Government s deregulatory initiatives. Specifically, in December 2006, the Governor in Council directed the CRTC to rely on market forces to the maximum extent feasible as the means of achieving the telecommunications policy objectives, and when relying on regulation to use measures that are efficient and proportionate to their purpose and that interfere with the operations of competitive market forces to the minimum extent necessary to meet the policy objectives . Over the past several years this has resulted in numerous forbearance orders being granted to TELUS Corporation (TELUS), Manitoba Telecom Services Inc. (MTS), BCE Inc. and/or Bell Canada (collectively Bell), and SaskTel that cover the majority of Shaw s operating territory.

The CRTC is currently reviewing the obligations of carriers to provide service and to subsidize the provision of services to customers living in high cost areas. At present, the obligation to serve is limited to local telephone service and applies only to the incumbent telephone companies. All telecommunication service providers are also required to contribute to a fund to subsidize the

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provision of local phone service in high cost areas. It is possible that the Commission could require Shaw to provide local telephone and high-speed broadband services and to extend its facilities to serve unserved areas and customers. It is also possible that the Commission could require Shaw to contribute to an expanded subsidy regime for the provision of high-speed broadband services in addition to local telephone services.

In June 2009 the CRTC issued its decision on new media by extending its exemption of the provision of new media undertakings for another five years. It also decided against imposing any regulatory measures, including financial contribution requirements on Internet Services Providers (ISPs), to support Canadian new media content.

In August 2009, the CRTC initiated a reference to the Federal Court of Appeal on the legal question of whether the Broadcasting Act applies to ISPs. Shaw participated in the Federal Court of Appeal Reference on June 1, 2010 and submitted that ISPs are not subject to the Broadcasting Act. In July 2010 the Federal Court of Appeal issued a decision finding that the Broadcasting Act does not apply to ISPs. Leave to appeal that decision to the Supreme Court of Canada is now being sought by certain cultural groups. If the Broadcasting Act is found to apply to ISPs, the CRTC could seek to introduce regulatory measures in support of Canadian content on ISPs.

In October 2009 the CRTC issued its regulatory framework governing the internet traffic management practices (ITMPs) of ISPs. The new framework recognizes that some measures are required to manage Internet traffic on ISP networks. ISPs may continue to apply appropriate ITMPs with no requirement for prior CRTC approval. Shaw will not be prevented from using its existing ITMPs. Under the new framework, ISPs are required to inform consumers of their ITMPs and are encouraged to give preference to ITMPs based on economic measures. The CRTC has also adopted special rules which require that ISPs do not use ITMPs to cause competitive harm to their wholesale customers.

Digital transition
In July 2009 the CRTC identified the major markets where it expects conventional television broadcasters to convert their full-power OTA analog transmitters to digital transmitters by August 31, 2011. The conversion from analog to digital is expected to free up spectrum for government auction.

The Corporation expects to have the digital transition completed in all mandatory markets by August 31, 2011 and also currently contemplates converting transmitters in non-mandatory markets during fiscal 2012 through 2016.

Vertical integration proceeding
Historically, the Commission has examined issues arising from vertical integration on a case-by-case basis when assessing change of control applications. In view of increasing industry consolidation and vertical integration, the CRTC recently initiated a review of the regulatory framework relating to vertical integration. A decision pursuant to this proceeding is expected in the summer of 2011.

The Commission recognizes that vertical integration can be beneficial and that it also has potential to enable preferential treatment. Accordingly, the CRTC will consider the need for new safeguards in addition to various regulatory mechanisms that already exist. One central issue will be the distribution of programming on an exclusive basis over both traditional distribution media and new media, including mobile. To the extent that any new safeguards are introduced, these could impact efficiencies made possible by the Corporation s vertically integrated structure.

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Commission approval of Shaw s acquisition of Canwest
On October 22, 2010 the CRTC approved Shaw s acquisition of control of Canwest s broadcasting business (now referred to as Shaw Media) and its OTA stations and Specialty services. In issuing its approval, the Commission approved the Corporation s proposed tangible benefits package of $180.1 million on a transaction valued at approximately $2.0 billion. The Corporation s benefits commitment will be directed primarily to the production of Canadian television and new media content (including new local news in several markets) for use by Shaw Media services, as well as conversion of Shaw Media s broadcast transmitters to digital in small markets.

Limits on non-Canadian ownership and control for broadcasting undertakings
Non-Canadians are permitted to own and control, directly or indirectly, up to 33.3% of the voting shares and 33.3% of the votes of a holding company that has a subsidiary operating company licensed under the Broadcasting Act. In addition, up to 20% of the voting shares and 20% of the votes of the licensee may be owned and controlled, directly or indirectly, by non-Canadians. As well, the chief executive officer (CEO) and not less than 80% of the board of directors of the licensee must be resident Canadians. There are no restrictions on the number of non-voting shares that may be held by non-Canadians at either the holding company or licensee level. Neither the holding company nor the licensee may be controlled in fact by non-Canadians, a question of fact that is under the jurisdiction of the CRTC.

The same restrictions apply to Canadian carriers pursuant to the Telecommunications Act and associated regulations, except that there is no requirement that the CEO be a resident Canadian. The same restrictions are also contained in the Radiocommunication Act and associated regulations. Shaw must file a foreign ownership compliance report annually with the CRTC confirming that it meets the Canadian ownership requirements for Canadian carriers.

The Corporation s Articles contain measures to ensure the Corporation is able to remain compliant with applicable Canadian ownership requirements and its ability to obtain, amend or renew a license to carry on any business.

In June 2010 the Minister of Industry initiated a public consultation on foreign investment restrictions in the telecommunications sector with the goal of encouraging investment, innovation and competition. The consultation paper released presented three options for consideration: (1) increase the limit for direct foreign investment in broadcasting and telecommunications carriers to 49 percent; (2) lift restrictions on telecommunications carriers with a 10-percent market share or less, by revenue, or (3) remove telecommunications restrictions completely. Shaw participated in the consultation and has expressed support for an increase of direct foreign investment limits for broadcasting undertakings to 49% in order to ensure competitive parity among all participants in the broadcasting and telecommunications industries. The Minister of Industry is expected to report on the result of the consultation. It is possible that the consultation and report could lead to proposed legislative changes.

F. Key performance drivers

Shaw measures the success of its strategies using a number of key performance drivers which are outlined below, including a discussion as to their relevance, definitions, calculation methods and underlying assumptions.

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FINANCIAL MEASURES:

i) Service revenue

Service revenue is a measurement determined in accordance with Canadian and US generally accepted accounting principles (GAAP). It represents the inflow of cash, receivables or other consideration arising from the sale of products and services. Service revenue is net of items such as trade or volume discounts and certain excise and sales taxes. It is the base on which free cash flow, a key performance driver, is determined; therefore, it measures the potential to deliver free cash flow as well as indicating growth in a competitive market place.

The Company s continuous disclosure documents may provide discussion and analysis of non-GAAP financial measures. These financial measures do not have standard definitions prescribed by Canadian or US GAAP and therefore may not be comparable to similar measures disclosed by other companies. The Company utilizes these measures in making operating decisions and assessing its performance. Certain investors, analysts and others utilize these measures in assessing the Company s financial performance and as an indicator of its ability to service debt and return cash to shareholders. These non-GAAP measures have not been presented as an alternative to net income or any other measure of performance or liquidity prescribed by Canadian or US GAAP. The following contains a listing of the Company s use of non-GAAP financial measures and provides a reconciliation to the nearest GAAP measurement or provides a reference to such reconciliation.

ii) Service operating income before amortization and operating margin

Service operating income before amortization is calculated as service revenue less operating, general and administrative expenses and is presented as a sub-total line item in the Consolidated Statements of Income and Retained Earnings (Deficit). It is intended to indicate the Company s ability to service and/or incur debt, and therefore it is calculated before amortization (a non-cash expense) and interest. Service operating income before amortization is also one of the measures used by the investing community to value the business. Operating margin is calculated by dividing service operating income before amortization by service revenue.

Relative increases period over period in service operating income before amortization and in operating margin are indicative of the Company s success in delivering valued products and services to its customers in a cost-effective manner.

iii) Free cash flow

The Company uses free cash flow as a measure of the Company s ability to repay debt and return cash to shareholders. Consolidated free cash flow is calculated as follows:

($000 s Cdn)	**2010**	**2009[3]**	**2008[3]**
Cable free cash flow[1]	**366,054**	344,457	308,031
Satellite free cash flow[2]	**149,086**	161,618	147,293
Consolidated free cash flow	**515,140**	506,075	455,324

(1) The reconciliation of free cash flow for cable is provided on page 51.

(2) The reconciliation of free cash flow for satellite is provided on page 55.

(3) Free cash flow for 2009 and 2008 have not been restated to exclude stock based compensation. Cable free cash flow for 2009 and 2008 has been restated from $342,798 and $305,338 respectively, for the retrospective adoption of CICA Handbook Section 3064, Goodwill and Intangible Assets . See new accounting standards on page 31.

Free cash flow for cable and satellite is calculated as service operating income before amortization, less interest, cash taxes paid or payable on income, capital expenditures (on an accrual basis) and

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equipment costs (net). All of the line items used in the free cash flow calculation are as reported on a segmented basis in the Company s Note 15 to the Consolidated Financial Statements. Segmented service operating income before amortization, which is the starting point of the free cash flow calculation, excludes the profit from satellite services equipment which is recognized as an amortization line element in the income statement. As a result, equipment profit from satellite services is subtracted from the calculation of segmented capital expenditures and equipment costs (net).

Commencing in 2009, for the purposes of determining free cash flow, the Company revised its calculation of capital expenditures (on an accrual basis) to net proceeds on capital dispositions. Historically, the proceeds received on the sale of property, plant and equipment were not included in the free cash flow calculation as they were generally nominal. These have become more significant as the Company consolidates its operating groups at the new campus style facility in Calgary, disposes of redundant assets, and replaces various operating assets as it continues to upgrade and improve competitiveness.

Commencing in 2010, for purposes of determining free cash flow, the Company has excluded stock-based compensation expense, reflecting the fact that it is not a reduction in the Company s cash flow. This practice is more in line with the Company s North American peers who also report a calculation of free cash flow.

STATISTICAL MEASURES:
Subscriber counts, including penetration and bundled customers
The Company measures the count of its customers in Cable and DTH (Shaw Direct). Basic cable subscribers include residential customers, multiple dwelling units (MDUs) and commercial customers. A residential subscriber who receives at a minimum, basic cable service, is counted as one subscriber. In the case of MDUs, such as apartment buildings, each tenant with a minimum of basic cable service is counted as one subscriber, regardless of whether invoiced individually or having services included in his or her rent. Each building site of a commercial customer (e.g., hospitals, hotels or retail franchises) that is receiving at a minimum, basic cable service, is counted as one subscriber. Digital customers include the count of Basic subscribers with one or more active DCTs. Internet customers include all modems on billing plus pending installations and Digital Phone lines includes all phone lines on billing plus scheduled installations due to the growth nature of these products. All subscriber counts exclude complimentary accounts but include promotional accounts.

Cable measures penetration for basic services as a percentage of homes passed and, in the case of all other services, as a percentage of Basic customers.

Shaw Direct measures its count of subscribers in the same manner as Cable counts its Basic customers, except that it also includes seasonal customers who have indicated their intention to reconnect within 180 days of disconnection.

Subscriber counts and penetration statistics measure market share and also indicate the success of bundling and pricing strategies.

G. Critical accounting policies and estimates

The Company prepared its Consolidated Financial Statements in accordance with Canadian GAAP. An understanding of the Company s accounting policies is necessary for a complete analysis of results, financial position, liquidity and trends. Refer to Note 1 to the Consolidated Financial

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Statements for additional information on accounting policies. The following section discusses key estimates and assumptions that management has made under GAAP and how they affect the amounts reported in the Consolidated Financial Statements and notes. It also describes significant accounting policies where alternatives exist. In addition, within the critical accounting policies and estimates, Canadian-US GAAP differences are identified where they exist. Refer to Note 22 to the Consolidated Financial Statements for a complete reconciliation of Canadian-US GAAP differences. Following is a discussion of the Company s critical accounting policies:

i) Revenue and expense recognition
Revenue is considered earned as services are performed, provided that at the time of performance, ultimate collection is reasonably assured. Such performance is regarded as having been achieved when reasonable assurance exists regarding the measurement of the consideration that will be derived from rendering the service. Revenue from cable, Internet, Digital Phone and DTH customers includes subscriber service revenue when earned. The revenue is considered earned as the period of service relating to the customer billing elapses.

The Company has multiple deliverable arrangements comprised of upfront fees (subscriber connection fee revenue and/or customer premise equipment revenue) and related subscription revenue. The Company determined that the upfront fees charged to customers do not constitute separate units of accounting; therefore, these revenue streams are assessed as an integrated package.

Subscriber connection fee revenue
Connection fees have no stand alone value to the customer separate and independent of the Company providing additional subscription services, therefore the connection fee revenue must be deferred and recognized systematically over the periods that the subscription services are earned. There is no specified term for which the customer will receive the related subscription service, therefore the Company has considered its customer churn rate and other factors, such as competition from new entrants, to determine the deferral period of two years. Under US GAAP, connection revenues are recognized immediately to the extent of related costs, with any excess deferred and amortized.

Customer premise equipment revenue
Customer premise equipment available for sale, which generally includes DCT and DTH equipment, has no stand alone value to the customer separate and independent of the Company providing additional subscription services. Therefore the equipment revenue must be deferred and recognized systematically over the periods that the subscription services are earned. As the equipment sales and the related subscription revenue are considered one transaction, recognition of the equipment revenue commences once the subscriber service is activated. There is no specified term for which the customer will receive the related subscription service, therefore the Company has considered various factors including customer churn, competition from new entrants, and technology changes to determine the deferral period of two years.

In conjunction with equipment revenue, the Company also incurs incremental direct costs which include equipment and related installation costs. These direct costs cannot be separated from the undelivered subscription service included in the multiple deliverable arrangement. Under CICA Handbook Section 3031 Inventories , these costs represent inventoriable costs and are deferred and amortized over the period of two years, consistent with the recognition of the related equipment revenue. The equipment and installation costs generally exceed the amounts received from

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customers on the sale of equipment (the equipment is sold to the customer at a subsidized price). The Company defers the entire cost of the equipment, including the subsidy portion, as it has determined that this excess cost will be recovered from future subscription revenues and that the investment by the customer in the equipment creates value through increased retention. Under US GAAP, the Company is required to expense this excess immediately.

Shaw Tracking equipment revenue
Shaw Tracking equipment revenue is recognized over the period of the related service contract for airtime, which is generally five years.

In conjunction with Shaw Tracking equipment revenue, the Company incurs incremental direct costs which include equipment and related installation costs. These direct costs cannot be separated from the undelivered tracking service included in the multiple deliverable arrangement. Under CICA Handbook Section 3031 Inventories , these costs represent inventoriable costs and are deferred and amortized over the period of five years, consistent with the recognition of the related tracking equipment revenue.

Shaw Business Solutions
The Company also receives installation revenues in its Shaw Business Solutions operation on contracts with commercial customers which are deferred and recognized as service revenue on a straight-line basis over the related service contract, generally spanning two to ten years. Direct and incremental costs associated with the service contract, in an amount not exceeding the upfront installation revenue, are deferred and recognized as an operating expense on a straight-line basis over the same period.

Subscriber connection and installation costs
The costs of physically connecting a new home are capitalized as part of the Company s distribution system as the service potential of the distribution system is enhanced by the ability to generate future subscriber revenue. Costs of disconnections are expensed as incurred as the activity does not generate future revenue.

Income statement classification
The Company distinguishes amortization of deferred equipment revenue and deferred equipment costs from the revenue and expenses recognized from ongoing service activities on its income statement. Equipment revenue and costs are deferred and recognized over the anticipated term of the related future revenue (i.e., the monthly service revenue) with the period of recognition spanning two to five years. As a result, the amortization of deferred equipment revenue and deferred equipment costs are non-cash items on the income statement, similar to the Company s amortization of deferred IRU revenue, which the Company also segregates from ongoing revenue. Further, within the lifecycle of a customer relationship, the customer generally purchases customer premise equipment at the commencement of the customer relationship, whereas the subscription revenue represents a continuous revenue stream throughout that customer relationship. Therefore, the segregated presentation provides a clearer distinction within the income statement between cash and non-cash activities and between up-front and continuous revenue streams, which assists financial statement readers to predict future cash flows from operations.

ii) Allowance for doubtful accounts
The majority of the Company s revenues are earned from selling on credit to individual subscribers. Because there are some customers who do not pay their debts, selling on credit necessarily involves

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credit losses. The Company is required to make an estimate of an appropriate allowance for doubtful accounts on its receivables. In determining its estimate, the Company considers factors such as the number of days the subscriber account is past due, whether or not the customer continues to receive service, the Company s past collection history and changes in business circumstances. The estimated allowance required is a matter of judgement and the actual loss eventually sustained may be more or less than the estimate, depending on events which have yet to occur and which cannot be foretold, such as future business, personal and economic conditions. Conditions causing deterioration or improvement in the aging of subscriber accounts and collections will increase or decrease bad debt expense.

iii) Property, plant and equipment and other intangibles capitalization of direct labour and overhead
As outlined in the CICA Handbook, the cost of property, plant and equipment and other intangibles includes direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the construction or development activity. The Company capitalizes direct labour and direct overhead incurred to construct new assets, upgrade existing assets and connect new subscribers. These costs are capitalized as they are directly attributable to the acquisition, construction, development or betterment of the networks or other intangibles. Repairs and maintenance expenditures are charged to operating expenses as incurred.

Direct labour and overhead costs are capitalized in three principal areas:

1. Corporate departments such as engineering and information technology (IT): Engineering is primarily involved in overall planning and development of the cable/Internet/Digital Phone and Wireless infrastructure. Labour and overhead costs directly related to these activities are capitalized as the activities directly relate to the planning and design of the construction of the distribution system. Over the past several years the IT department has devoted considerable efforts towards the development of systems to support Digital Phone and projects related to new customer management, billing and operating support systems. Most recently the IT department also commenced activities related to the Wireless infrastructure build. Labour costs directly related to these and other projects are capitalized.

2. Cable regional construction departments, which are principally involved in constructing, rebuilding and upgrading the cable/Internet/Digital Phone infrastructure: Labour and overhead costs directly related to the construction activity are capitalized as the activities directly relate to the construction or upgrade of the distribution system. Capital projects include, but are not limited to, projects such as new subdivision builds, increasing network capacity for Internet, Digital Phone and VOD by reducing the number of homes fed from each node, and upgrades of plant capacity.

3. Subscriber-related activities such as installation of new drops and Internet services. The labour and overhead directly related to the installation of new services are capitalized as the activity involves the installation of capital assets (i.e., wiring, filters, software, etc.) which enhance the service potential of the distribution system through the ability to earn future service revenues. Costs associated with service calls, collections, disconnects and reconnects that do not involve the installation of a capital asset are expensed.

Amounts of direct labour and direct overhead capitalized fluctuate from year to year depending on the level of customer growth and plant upgrades for new services. In addition, the level of capitalization fluctuates depending on the proportion of internal labour versus external contractors used in construction projects.

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The percentage of direct labour capitalized in many cases is determined by the nature of employment in a specific department. For example, almost all labour and direct overhead of the cable regional construction departments is capitalized as a result of the nature of the activity performed by those departments. Capitalization is also based on piece rate work performed by unit-based employees which is tracked directly. In some cases, the amount of capitalization depends on the level of maintenance versus capital activity that a department performs. In these cases, an analysis of work activity is applied to determine this percentage split; however, such analysis is subject to overall reasonability checks on the percentage capitalization based on known capital projects and customer growth.

iv) Property, plant and equipment capitalization of interest

As permitted by Canadian GAAP, the cost of an item of property, plant and equipment that is acquired, constructed, or developed over time may include carrying costs, such as interest, which is directly attributable to such activity. Shaw does not capitalize interest on the construction of its own assets. Under US GAAP, interest costs are required to be capitalized as part of the cost of certain qualifying assets during the period of construction.

v) Depreciation policies and useful lives

The Company depreciates the cost of property, plant and equipment and other intangibles over the estimated useful service lives of the items. These estimates of useful lives involve considerable judgment. In determining these estimates, the Company takes into account industry trends and company-specific factors, including changing technologies and expectations for the in-service period of these assets. On an annual basis, the Company reassesses its existing estimates of useful lives to ensure they match the anticipated life of the technology from a revenue-producing perspective. If technological change happens more quickly or in a different way than the Company has anticipated, the Company might have to shorten the estimated life of certain property, plant and equipment or other intangibles which could result in higher depreciation expense in future periods or an impairment charge to write down the value of property, plant and equipment or other intangibles.

vi) Intangibles

The excess of the cost of acquiring cable and satellite businesses over the fair value of related net identifiable tangible and intangible assets acquired is allocated to goodwill. Net identifiable intangible assets acquired consist of amounts allocated to broadcast rights which represent identifiable assets with indefinite useful lives.

Broadcast rights are comprised of broadcast authorities including licenses and exemptions from licensing that allow access to homes and subscribers in a specific area that are identified on a business combination with respect to the acquisition of shares or assets of a broadcast distribution undertaking.

The Company has concluded that the broadcast rights have indefinite useful lives since there are no legal, regulatory, contractual, economic or other factors that would prevent the Company s license renewals or limit the period over which these rights will contribute to the Company s cash flows. Goodwill and broadcast rights are not amortized but assessed for impairment on an annual basis in accordance with CICA Handbook Section 3064 Goodwill and Intangible Assets and FASB Accounting Standards Codification section 350 Intangibles Goodwill and Other . The Company periodically evaluates the unit of account used to test for impairment of the broadcast

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rights to ensure testing is performed at the appropriate level. The Company has identified two reporting units that have remained unchanged for a period exceeding 5 years:

Cable systems
DTH and satellite services

During 2010 the Company commenced wireless activities and identified this as a separate reporting unit. AWS licenses are required to operate a wireless system in Canada. The AWS licenses have indefinite lives and are subject to an annual review for impairment by comparing the estimated fair value to the carrying amount.

Other intangibles mainly include software that is not an integral part of the related hardware. Other intangibles are amortized on a straight line basis over their estimated useful lives ranging from four to ten years.

vii) Asset impairment
Goodwill impairment is determined using a two-step process. The first step involves a comparison of the estimated fair value of the reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, thus the second step of the impairment test is unnecessary. If the carrying amount of the reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the amount of the impairment loss.

The impairment test for other intangible assets not subject to amortization involves a comparison of the estimated fair value of the intangible asset with its carrying value. The Company estimates the fair value of intangible assets not subject to amortization using a discounted cash flow (DCF) analysis. Significant judgements are inherent in this analysis including estimating the amount and timing of the cash flows attributable to the broadcast rights and the AWS licenses, the selection of an appropriate discount rate, and the identification of appropriate terminal growth rate assumptions. In this analysis the Company estimates the discrete future cash flows associated with the intangible asset for 5 years and determines a terminal value. The future cash flows are based on the Company s estimates of future operating results, economic conditions and the competitive environment. The terminal value is estimated using both a perpetuity growth assumption and a multiple of service operating income before amortization. The discount rates used in the analysis are based on the Company s weighted average cost of capital and an assessment of the risk inherent in the projected cash flows. In analyzing the fair value determined by the DCF analysis the Company also considers a market approach determining a fair value for each unit and total entity value determined using a market capitalization approach.

The Company tests goodwill and indefinite-lived intangible assets for impairment annually during the third quarter, or more frequently if events or changes in circumstances warrant. The Company performed an interim impairment test in December 2008 due to continued changes in economic conditions and prompted by impairments of goodwill and intangible assets in the global telecommunications industry, in addition to the annual impairment test as at March 1, 2009. The prior year impairment tests indicated that the estimated fair value of the Cable systems reporting unit and DTH and Satellite services unit exceeded their carrying value by a significant amount and no impairment had occurred. The annual impairment test for the current year was conducted as at March 1, 2010 and the fair value of the reporting units continued to exceed their carrying value by a significant amount. The Company also conducted an impairment test on its wireless assets utilizing the Greenfield Approach as at March 1, 2010. The fair value of the wireless assets exceeded their carrying amount. A hypothetical decline of 10% and 20% in the fair value of

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the broadcast rights for each reporting unit or wireless assets as at March 1, 2010 would not result in any impairment loss. Further, any changes in economic conditions since the impairment testing conducted as at March 1, 2010 do not represent events or changes in circumstance that would be indicative of impairment at August 31, 2010.

Significant estimates inherent to this analysis include discount rates and the terminal value. At March 1, 2010, the estimates that have been utilized in the impairment tests reflect any changes in market conditions and are as follows:

		Terminal Value	
	Discount Rate	Terminal Growth Rate	Terminal Service Operating Income before Amortization Multiple
Cable systems	9.0%	2.0%	5.5x
DTH and satellite services	11.0%	1.5%	5.0x
Wireless assets	12.0%	2.0%	5.5x

A sensitivity analysis of significant estimates is conducted as part of every impairment test. With respect to the impairment tests performed in the third quarter, in the Cable reporting unit an increase in the discount rate of 1% would cause the fair value to decline by less than 13%, a 1% decrease in the terminal growth rate would cause the fair value to decline by less than 10%, and a 0.5 times reduction in the terminal service operating income before amortization multiple would cause the fair value to decline by less than 7%. With respect to the DTH and Satellite services reporting unit, an increase in the discount rate of 1% would cause the fair value to decline by less than 10%, a 1% decrease in the terminal growth rate would cause the fair value to decline by less than 7%, and a 0.5 times reduction in the terminal service operating income before amortization multiple would cause the fair value to decline by less than 7%. With respect to wireless assets, an increase in the discount rate of 1% would cause the fair value to decline by less than 35%, a 1% decrease in the terminal growth rate would cause the fair value to decline by less than 19%, and a 0.5 times reduction in the terminal service operating income before amortization multiple would cause the fair value to decline by less than 16%.

CEO Cash Profit Sharing	1,199	(23.3)%	1,563	27.7%	1,224	240.4%

In 2012, the amount of CEO cash profit sharing declined, consistent with the decline in our income from continuing operations in 2012. In 2011, CEO cash profit sharing increased, while our income from continuing operations decreased, as a result of:

- a gain in 2010 of $5.2 million on our sale of real estate located in Brea, California;
- an increase in 2011 from 2010 of $11.2 million in equity-based and non-equity-based compensation charges; and
- a gain in equity method investment in 2011 of $4.4 million as compared to a loss in 2010 of $0.5 million.

The first 2 items are included in income from continuing operations but excluded from the computation of the cash profit sharing payment. The third item was included in the computation of the cash profit sharing but excluded from income from continuing operations.

The other part of our incentive compensation is equity-based compensation. Before 2012, equity-based compensation consisted of grants of non-qualified stock options. Beginning in 2012 equity-based compensation consists primarily of awards of restricted stock units. Equity compensation is also awarded to participating employees, including our Named Executive Officers, based on performance-based results. Generally, equity-based compensation awards are based on achieving the same operating profit goals as our cash profit sharing plans. Once awarded, however, the value of these awards depends on our stock price performance over time. Stock options granted to our Named Executive Officers vest over 4 years at a rate of 25 percent per year. The restrictions on restricted stock units lapse 25 percent on each of the date of the award and the first, second and third anniversaries of the date of the award, except for those awarded to Karen Colonias, Phillip Terry Kingsfather and Brian J. Magstadt beginning in 2013, which will lapse 75 percent on the third anniversary of the date of the award and 25 percent on the fourth anniversary of the date of the award. For our employees to fully realize the value of the equity-based compensation, we must continually improve our operating results.

The Compensation and Leadership Development Committee made some changes to our Named Executive Officers base salaries for 2013. Salaries for our Chairman and one of our Vice Presidents, Michael J. Herbert, were reduced by 33% and 7%, respectively, and the salary for our Chief Financial Officer was increased by 3%. Our Chief Executive Officer and the President and Chief Executive Officer of Simpson Strong-Tie Company Inc. received no increase over their 2012 salaries. In 2012, the rate of contribution to our Named Executive Officers profit sharing trust accounts remained unchanged from 2011 at 7 percent of base salary plus the 3 percent safe-harbor contribution. See *Salary and Profit Sharing Trust Contributions* below.

We encourage you to read this Compensation Discussion and Analysis in its entirety, as well as the information in the Summary Compensation Table and other related tables and disclosures, for an understanding of our compensation programs.

Analysis

The overall philosophy of our compensation program is to provide a high degree of incentive to employees by creating programs that reward achievement of specific profit goals. We have followed the same philosophy for many years and that experience has continuously reinforced our belief that it successfully drives our financial performance. We believe that our incentive programs, based on profit targets, align the interests of employees and stockholders, allow us to attract high-performing employees and help us retain the services of employees whose contributions are instrumental in achieving our goals. Historically, as a means of creating a sense of unity and cooperation among our employees, we have not had any special compensation plans exclusively for executive officers. Our Named Executive Officers are at-will employees. We do not have a written employment agreement with any of them, and we generally do not offer any severance benefits. We or the officer can terminate the employment relationship at any time, for any reason, with or without cause.

The primary objective of our overall compensation program is to motivate our Named Executive Officers and other officers and employees to increase stockholder value, and we aim to compensate them fairly relative to our achievement of that objective. To retain their services, some portion of their compensation, in the form of salary and profit sharing trust contributions, should compensate them for their own investment of time, regardless of the performance of our businesses. Each element of the compensation of our Named Executive Officers and other officers and employees possesses characteristics intended to motivate them in different ways. We believe that coordinating the compensation elements helps us to retain the services of our Named Executive Officers, other officers and other key employees and to motivate them to achieve results that increase the value of our common stock. The following is an analysis of the basic elements of our compensation program.

The Compensation and Leadership Development Committee of our Board of Directors believes that, to maintain a sense of unity and fairness, the forms of compensation for our Named Executive Officers generally should match those of all of our salaried employees. Our compensation program comprises 4 basic elements:

- salary,
- payments to our defined contribution profit sharing plan,
- cash profit sharing, and
- equity-based compensation.

Role of Compensation Consultant

The Compensation and Leadership Development Committee may engage independent advisers to assist in carrying out its responsibilities. In April 2010, the Compensation and Leadership Development Committee engaged Venture Pay Group as its compensation consultant, and in June 2010, Venture Pay Group issued its report. The report included 3 major elements:

- a benchmark analysis of total direct compensation for our Named Executive Officers compared to industry peers,
- recommendations for potential changes to compensation programs, at several levels, to align our programs with our strategic objectives, and
- a review of current trends and issues in executive compensation.

The Compensation and Leadership Development Committee met with Venture Pay Group, reviewed its report with our officers and considered its recommendations. Although Venture Pay Group provided advice to the Compensation and Leadership Development Committee, the decisions made by the Compensation and Leadership Development Committee reflect factors and considerations in addition to the information and recommendations provided by Venture Pay Group. As a result of the benchmarking information, the Compensation and Leadership Development Committee increased the base salary component of our Named Executive Officers Compensation in 2011. See *Salary and Profit Sharing Trust Contributions* below. As recommended by Venture Pay Group, the Compensation and Leadership Development Committee approved the Simpson Manufacturing Co., Inc. 2011 Incentive Plan, which was approved by our stockholders at our annual meeting in April 2011. We awarded restricted stock units in 2012 and 2013 under the 2011 Incentive Plan. In 2012, the Compensation and Leadership Development Committee also implemented a long-term incentive program to give selected employees, including some of our Named Executive Officers, additional incentives if they help us achieve our strategic objectives. For 2013, as in 2012, this program includes potential additional awards of restricted stock units to Karen Colonias, Brian J. Magstadt, Phillip Terry Kingsfather and Michael J. Herbert; see *Equity-Based Compensation Awards* below.

In 2011, the Compensation and Leadership Development Committee engaged Towers Watson as its compensation consultant. The lead consultant, who changed employers from Venture Pay Group to Towers Watson in 2011, remained the same. The consulting services were requested and approved by the Compensation and Leadership Development Committee and not recommended or provided by our officers. Towers Watson was engaged for 2 primary purposes:

- to update a benchmarking analysis of total direct compensation for our Chief Executive Officer compared to the peer groups developed by Venture Pay Group in 2010; and
- to recommend potential changes to our long-term compensation program for our Chief Executive Officer, our Chief Financial Officer and Simpson Strong-Tie Company Inc. s President and Chief Executive Officer, to align our programs with strategic objectives.

Towers Watson recommended to the Compensation and Leadership Development Committee modifying various terms of future equity-based compensation awards consistent with the operating profit goals, adding goals based on strategic objectives and adding a component reflecting total stockholder return. The Compensation and Leadership Development Committee incorporated these features into the potential equity-based compensation awards for 2012 and has continued using them for 2013. See *Equity-Based Compensation Awards* below.

Comparative Market Information

Venture Pay Group compared our Named Executive Officer compensation to 2 peer groups, including an Industry Match peer group compiled by Venture Pay Group and the peer group selected by ISS/Risk Metrics. Venture Pay Group also used a set of proprietary proxy compensation survey databases to complete the benchmarking analysis. Venture Pay Group performed benchmarking on total direct compensation from our 2009 fiscal year and on a 3-year average. The 2 peer groups were:

Industry Match Peer Group

Ameron International Corp.{1}	Astec Industries Inc.	Blount International Inc.
Ceradyne Inc.{2}	Chart Industries Inc.	Circor International Inc.

Colfax Corp.	Eagle Materials Corp.	Esco Technologies Inc.
Graftech International Ltd.	Kaydon Corp.	Materion Corp.
Minerals Technologies Inc.	OM Group Inc.	Quanex building Products Corp.
Robbins Myers Inc.	RTI International Metal Inc.	Titanium Metals Corp.{3}
Tredegar Corp.		

ISS/Risk Metrics Peer Group

Aircastle Ltd.	American Woodmark Corp.	Ameron International Corp.{1}
Blount International Inc.	Colfax Corp.	Columbus McKinnon Corp.
Graco Inc.	Great Lakes Dredge & Dock Corp.	GT Advanced Technologies Inc.{4}
Quanex building Products Corp.	Standex International Corp.	Tennent Co.

{1} Acquired by National Oilwell Varco, Inc. in 2011.

{2} Acquired by 3M Company in 2012.

{3} Acquired by Precision Castparts Corp. in 2012.

{4} Formerly known as GT Solar International, Inc.

Venture Pay Group selected the Industry Match peer group based on a broad range of publicly traded companies in related industries and with characteristics similar to ours, including industry specialization, revenues, market capitalization, net income and total assets. Data gathered on the peer groups included base salary, bonus, total cash compensation, long-term incentives and total direct compensation. The peer group study has not been updated since it was complied in 2010.

Salary and Profit Sharing Trust Contributions

Base salary is a guaranteed minimum amount for performing the functions of the job, but salary alone provides no additional performance opportunity or motivation to increase value over the long term. The Compensation and Leadership Development Committee determines the salaries for all of our Named Executive Officers using historical salary levels for their positions and adjustments for changes in cost of living and responsibilities. Past benchmarking studies performed by compensation consultants, most recently in 2010, confirmed that the salaries for our Chief Executive Officer and the other Named Executive Officers were substantially below the 25th percentile except in one case where the officer s salary was slightly above the 25th percentile. As a result, the Compensation and Leadership Development Committee believes that our Chief Executive Officer s and the other Named Executive Officers salaries are fair relative to salaries of their peers, given the other elements of our compensation program, even though these salaries are generally lower than those paid by comparable companies. We consider our salary levels sufficient to motivate our Named Executive Officers to perform the basic functions of their jobs. Although our base salaries have historically been set at levels that the Compensation and Leadership Development Committee believes are below the market, a greater proportion of total compensation is based on a system that provides employees with incentives to attain our profitability goals.

We and our U.S. subsidiaries maintain defined contribution profit sharing plans for U.S.-based salaried employees, including our Named Executive Officers, and for U.S.-based non-union hourly employees. An employee is eligible for participation in a given calendar year if he or she is an employee on the first and last days of that year and completes the minimum service requirement during that year. The minimum service requirement for a salaried employee is at least 1,000 hours of service and for an hourly employee is at least 750 hours of service. As of December 31, 2012, 803 employees participated in the salaried plan and 544 employees participated in the hourly plan. Under both of these plans, our Board of Directors has exclusive discretion to authorize contributions to the plan trusts. These plans limit contributions to the plan trusts to amounts deductible for federal income tax purposes under Internal Revenue Code section 404(a). Karen Colonias, Brian J. Magstadt and Michael J. Herbert, who are Named Executive Officers, are trustees of the plan trusts and also participate in the plan for salaried employees. Some of our foreign subsidiaries maintain similar plans for their employees.

For all years through 2008, we made contributions to the profit sharing trust for our Named Executive Officers in amounts equal to 15 percent of their base salaries, up to the amounts that we were allowed to deduct from income under Internal Revenue Code section 404(a). In addition, all employees are entitled to a proportionate share of forfeited contributions from employees who terminate their employment before fully vesting in the profit sharing plan. In February 2009, in response to reduced profitability resulting from difficult economic conditions, the Compensation and Leadership Development Committee established a contribution amount equal to 10 percent of base salaries to the profit sharing trust beginning with the contribution that was made in 2010, up to the amounts that we are allowed to deduct from income under Internal Revenue Code section 404(a) for all of our and our subsidiaries U.S. based salaried employees. This reduced rate was also used for the contribution that was earned in

2010 and paid in 2011. During 2011, we amended the profit sharing trust plan to include a 401(k) feature that allows employees to contribute their own pre-tax earnings in addition to the amount that we contribute to their accounts. As part of this change, we changed the amount of the discretionary contribution to 7 percent, and the remaining 3 percent contribution, now made quarterly, is made to comply with the safe-harbor rules that govern the plan. The safe-harbor contribution is not forfeitable and is fully vested when the contribution is made. We expect the current contribution rate to continue indefinitely, although the Compensation and Leadership Development Committee has discretion to consider changes to this contribution at any time. The Compensation and Leadership Development Committee views compensation through contribution to employees profit sharing plan accounts as serving a similar objective as salaries.

Compensation and the Achievement of Operating and Strategic Goals

The Compensation and Leadership Development Committee does not delegate its duties of determining executive officer compensation. Our officers do, however, participate in our annual budgeting process, which forms the basis for the Compensation and Leadership Development Committee s determination of operating profit goals used for determining qualifying income for our cash profit sharing plans and whether we award equity-based compensation. Our Board of Directors reviews and approves the annual budget.

Before the beginning of each year, our managers and employees propose budgets for the coming year for their respective profit centers. Our senior managers, including our Named Executive Officers, review the proposed budgets, adjust these budgets as they consider appropriate, and present the budgets to our Board of Directors. Our Board of Directors then considers and approves a budget that it considers appropriate for each profit center. Based on the approved budgets, the Compensation and Leadership Development Committee determines:

- the return on asset goals for the coming year, on which the Compensation and Leadership Development Committee bases the qualifying income levels for both our Executive Officer Cash Profit Sharing Plan and our Cash Profit Sharing Plan;
- the profitability goals for the coming year, on which the Compensation and Leadership Development Committee bases equity awards under our 2011 Incentive Plan; and
- the basis for strategic goals for the coming year, which the Compensation and Leadership Development Committee uses in determining additional equity awards under our 2011 Incentive Plan for participating employees who can help us achieve our strategic initiatives, including Named Executive Officers.

Our Named Executive Officers are subject to the same standards as our other officers and employees for purposes of equity-based compensation awards under our 2011 Incentive Plan and payments under our Executive Officer Cash Profit Sharing Plan. With the few exceptions noted below in the Summary Compensation Table, we generally do not have special programs for our Named Executive Officers. Our Board of Directors and its Compensation and Leadership Development Committee aim to design the goals to be achievable, but only with considerable effort, effort the Compensation and Leadership Development Committee believes will promote the growth and profitability of our business. Although the goals are based on the approved budgets, both the budgeting process and the setting of the goals involve subjective judgments of our Board of Directors and its Compensation and Leadership Development Committee. The Compensation and Leadership Development Committee, according to its guidelines, has discretion to increase or decrease equity-based compensation awards based on factors that it deems relevant. For example, the Compensation and Leadership Development Committee may award additional equity-based compensation to an employee who is promoted during the year, if the employee s profitability goal for that year is achieved. The Compensation and Leadership Development Committee also has discretion to award equity-based compensation when the relevant goal is not achieved, but has never done so with respect to a Named Executive Officer. Our Board of Directors also bases equity-based compensation awards for the independent members of our Board of Directors under our 2011 Incentive Plan on the Company-wide profitability goals.

Executive Officer Cash Profit Sharing Plan

To achieve the goal of long-term stock price appreciation, the Compensation and Leadership Development Committee believes that compensation that is based on profitability needs to incorporate both short-term and long-term elements. It also believes that consistent achievement of short-term profitability goals is likely to result in long-term growth and, with it, stock price appreciation. The short-term element is our non-equity incentive plan that provides compensation through two cash profit sharing plans, including our Executive Officer Cash Profit Sharing Plan for our Named Executive Officers and our Cash Profit Sharing Plan for other qualified employees. Under our

Executive Officer Cash Profit Sharing Plan, we pay quarterly incentive compensation out of the portion of our profits that exceeds a specified return on qualified assets. The amounts are shown in the Summary Compensation Table under the heading, Non-Equity Incentive Plan Compensation. At the beginning of each year, the Compensation and Leadership Development Committee reviews and approves the quarterly operating profit goals for the year, the rate of return on qualified assets, and the percentage participation of each of our Named Executive Officers. Again, this process involves subjective judgment and is not amenable to numerical or statistical analysis. The Compensation and Leadership Development Committee generally defines the quarterly operating profit goal as:

Income from operations for Simpson Strong-Tie Company Inc.

Plus:	Stock compensation charges Certain incentive compensation and commissions Salaried pension contributions Self-insured workers compensation costs
Equals:	Operating profit

The adjustments to income from operations are excluded because they are not specifically within our officers control. This formula includes items that affect profitability that our officers can influence, such as staffing levels, direct and indirect manufacturing costs, and operating expenses, and the Compensation and Leadership Development Committee believes this is likely to promote prudent allocation of resources.

The Compensation and Leadership Development Committee bases qualifying levels on the value of the net operating assets of Simpson Strong-Tie Company Inc., multiplied by a rate of return on those assets. We set the qualifying level based on average assets, net of specified liabilities, at quarterly intervals. We project the qualifying level for the coming year in the budgeting process at the beginning of the year and use it to estimate Executive Officer Cash Profit Sharing in the operating budget. We generally determine the return on assets as follows:

Average assets, net of specified liabilities, for the 3 months ended on the last day of the second month of the quarter

Less:	Cash Real estate Acquired assets (excluding cash, real estate, goodwill and indefinite lived intangible assets) based on tiered phase-in schedule* Goodwill and indefinite lived intangible assets Self-insured workers compensation reserves
Multiplied by:	Specified return on asset percentage for Simpson Strong-Tie Company Inc.
Equals:	Qualifying level

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*The phase-in period for the acquired assets into the average asset base is as follows:

Year 1	0%
Year 2	33%
Year 3	66%
Year 4	100%

We believe this formula includes items that are likely to affect the return on assets that our officers can influence, such as staffing levels, direct and indirect manufacturing costs, and operating expenses, and promotes prudent allocation of resources.

The operating profit goal is a targeted value, and the qualifying level is a threshold return on assets at which the Executive Officer Cash Profit Sharing Plan compensation levels are determined. If the operating profit of Simpson Strong-Tie Company Inc. exceeds the qualifying level, compensation is paid to the officer out of that excess. If the operating profit realized falls short of the qualifying level, no compensation is paid.

The Compensation and Leadership Development Committee bases individual percentages of participation on job function for our Named Executive Officers. Management sets the individual percentages for participants in our Cash Profit Sharing Plan. The Compensation and Leadership Development Committee generally may give higher participation percentages to those with more responsibility. For example, our Chief Executive Officer receives a higher percentage of the available pool than our other officers. The Compensation and Leadership Development Committee has discretion to increase, reduce or eliminate any award under our Executive Officer Cash Profit Sharing Plan, but the percentage of the qualifying level that each officer receives generally does not change during the year, except for minor changes when other participants enter or leave the pool during the year. We do not guarantee any minimum payments to our Named Executive Officers under our Executive Officer Cash Profit Sharing Plan. We believe that our Executive Officer Cash Profit Sharing Plan motivates our Named Executive Officers to maximize our short-term profits and rewards them when those profits are realized. With occasional adjustments that the Compensation and Leadership Development Committee felt were warranted, we have implemented this program for many years, and we believe it has contributed substantially to our success.

In 2012, the Compensation and Leadership Development Committee did not specifically target, or benchmark, the amount of short-term incentive compensation to be paid to our Named Executive Officers to any particular percentile or level within the prior benchmarking studies.

Based on our operating profit goal for each of the 4 quarters of 2013, our officers may receive a payout after our quarterly earnings are announced to the public. If the operating profit is lower or higher than the targeted operating profit, the payout will be correspondingly lower or higher, but we generally do not make any payment when the operating profit for the quarter is less than the qualifying level for the quarter.

For the full year 2013, the annual operating profit goals, qualifying levels and targeted payouts for each of the following executive officers are as follows:

	Operating Profit Goal	Qualifying Level	Targeted Payout{1}
Karen Colonias	$ 95,779,000	$ 59,880,000	$ 895,000
Thomas J Fitzmyers	95,779,000	59,880,000	246,000
Phillip Terry Kingsfather	95,779,000	59,880,000	722,000
Michael J. Herbert	95,779,000	59,880,000	268,000
Brian J. Magstadt	95,779,000	59,880,000	245,000
Jeffrey E. Mackenzie	95,779,000	59,880,000	163,000

{1} Amounts expected to be paid for the full year of 2013 if operating profit goals established at the beginning of the year are met and qualifying levels are as projected at the beginning of the year.

We use these parameters only to provide incentive to our officers and employees who participate in our Executive Officer Cash Profit Sharing Plan and our Cash Profit Sharing Plan. You should not draw any inference whatsoever from these parameters about our future financial performance. You should not take these parameters as projections or guidance of any kind.

For 2012, the operating profit goals, the qualifying level and the targeted payout that we presented in our reports on Form 8-K, filed with the Securities and Exchange Commission on February 2, 2012, and June 8, 2012, are reprinted below, along with the amounts that we paid to our Named Executive Officers for the four calendar quarters of 2012.

	Year Ended December 31, 2012			
	Operating Profit Goal	**Qualifying Level**	**Targeted Payout{1}**	**Actual Payout**
Karen Colonias	$ 86,753,000	$ 57,671,000	$ 950,000	$ 1,208,049
Thomas J Fitzmyers	86,753,000	57,671,000	575,000	658,129
Phillip Terry Kingsfather	86,753,000	57,671,000	800,000	955,759
Michael J. Herbert	86,753,000	57,671,000	389,000	474,790
Brian J. Magstadt	86,753,000	57,671,000	225,000	289,280

{1} Amounts were expected to be paid for the full year of 2012 if operating profit goals established at the beginning of the year were met and qualifying levels were as projected at the beginning of the year.

The actual payout in the table above was the sum of the payouts for each of the quarters during the year in which payments under the Executive Officer Cash Profit Sharing Plan were made to the Named Executive Officers. The quarterly payout, if any, for each of the Named Executive Officers in 2012 was computed as follows:

[redacted]

First	$ 23,145,000	$ 13,994,000	$ 9,151,000	$ 722,000	$ 217,093	$ 146,252	$ 176,982	$ 88,859	$ 51,421
Second	38,571,000	14,804,000	23,767,000	1,738,000	542,710	327,773	425,690	209,852	130,520
Third	33,272,000	14,467,000	18,805,000	1,309,000	431,700	179,517	346,514	169,580	103,377
Fourth	7,026,000	13,365,000	(6,339,000)	41,000	16,546	4,587	6,573	6,499	3,962
					$ 1,208,049	$ 658,129	$ 955,759	$ 474,790	$ 289,280

{1} Included is a portion of branch level profit sharing pool shared with home office employees, including the Named Executive Officers.

We compute the Qualifying Income, if any, as the difference between the Actual Operating Profit and the Actual Qualifying Level. Qualifying Income is the basis for the computation of amounts available to be distributed under both our Cash Profit Sharing Plan and our Executive Officer Cash Profit Sharing Plan. As the result of the transition of some our Named Executive Officers into new roles in 2012, we computed the profit sharing pool for the Named Executive Officers as 6.47 percent of the Qualifying Income for the first quarter, 6.53 percent of the Qualifying Income for the second quarter and 6.12 percent of the Qualifying Income for the third and fourth quarter of 2012.

Based on historical information about the profitability of each of the operating units, the Compensation and Leadership Development Committee of our Board of Directors approves these percentages so that they correspond to the effort put forth and the results achieved by the participants. The Compensation and Leadership Development Committee may adjust the percentages from time to time so that the program will continue to create equitable results for all participants, including our Named Executive Officers. A portion of the profit sharing pool from the branch level operating units is shared with home office employees, including the Named Executive Officers, in consideration for their contributions to the success of the branch level operating units. We add this amount to the computed Named Executive Officer profit sharing pool to determine the amount available to be paid to our Named Executive Officers. We then allocate the Named Executive Officer profit sharing pool among the Named Executive Officers that participate in percentages approved by the Compensation and Leadership Development Committee at the beginning of the year. The participation by each Named Executive Officer is based on the officer s level of responsibility and contribution to the success of the operating unit. Unless the composition or responsibilities of the Named Executive Officers change, as they did in 2012, these participation rates generally do not change substantially from year to year, although the Compensation and Leadership Development Committee has discretion to make changes that it considers appropriate.

Our Executive Officer Cash Profit Sharing Plan is intended to comply with Internal Revenue Code section 162(m) and the related regulations and interpretations. For these officers, our Executive Officer Cash Profit Sharing Plan replaced our Cash Profit Sharing Plan described below, in which all officers had participated for over 30 years. The total awards to any participating officer under the Executive Officer Cash Profit Sharing Plan earned during the 4 quarters of a calendar year may not exceed $2,500,000. In other respects, our Executive Officer Cash Profit Sharing Plan provides incentive compensation to the participating officers on the same terms as apply to other employees under our Cash Profit Sharing Plan. Our Executive Officer Cash Profit Sharing Plan enables us to deduct fully, for federal income tax purposes, amounts we pay to participating officers under our Executive Officer Cash Profit Sharing Plan. In 2012, only the payments to our Chief Executive Officer exceeded $1,000,000 under our Executive Officer Cash Profit Sharing Plan.

Our Board of Directors has delegated the oversight of our Executive Officer Cash Profit Sharing Plan to its Compensation and Leadership Development Committee. The Compensation and Leadership Development Committee has sole discretion and authority to administer and interpret our Executive Officer Cash Profit Sharing Plan in accordance with Internal Revenue Code section 162(m). The Compensation and Leadership Development Committee may at any time amend our Executive Officer Cash Profit Sharing Plan, subject in some cases to the approval of our stockholders, or may terminate it at any time.

The Compensation and Leadership Development Committee determines the amount of the award that each of the participating officers will be eligible to receive under the Executive Officer Cash Profit Sharing Plan each fiscal quarter. The Compensation and Leadership Development Committee bases awards on a percentage of the amount by which the operating profit, as defined by the Compensation and Leadership Development Committee, exceeds the qualifying level for the fiscal quarter.

We maintain our Cash Profit Sharing Plan for the benefit of our employees and our subsidiaries employees, other than the officers who participate in our Executive Officer Cash Profit Sharing Plan discussed above. Because it excludes our most highly compensated employees, the Cash Profit Sharing Plan is not covered by Internal Revenue Code section 162(m), and we believe that compensation paid under it is tax deductible. We may change, amend or terminate our Cash Profit Sharing Plan at any time. Under our Cash Profit Sharing Plan, as currently in effect, the Compensation and Leadership Development Committee reviews and approves a qualifying level for the coming fiscal year for Simpson Strong-Tie

Company Inc. and its qualifying branches. The qualifying level equals the value of the net operating assets, as defined by the Compensation and Leadership Development Committee, of Simpson Strong-Tie Company Inc. or its respective branches, multiplied by a rate of return on those assets, as determined by the Compensation and Leadership Development Committee. If profits exceed the qualifying level in any fiscal quarter, we pay a portion of the excess to the eligible employees as cash compensation. Our executive officers determine, and the Compensation and Leadership Development Committee reviews and approves, the percentage of the excess that we will distribute and the rates we use to calculate the amounts that we distribute to participants. Whether or not we pay amounts in any quarter under our Cash Profit Sharing Plan does not affect an employee s ability to earn amounts in any other quarter under our Cash Profit Sharing Plan. Under our Cash Profit Sharing Plan, we paid amounts totaling $17.3 million in 2012, $22.0 million in 2011 and $15.0 million in 2010.

Equity-Based Compensation Awards

The Simpson Manufacturing Co., Inc. 2011 Incentive Plan affords our Named Executive Officers and other selected employees, directors and consultants the opportunity to own shares of our common stock, by which we intend:

- to enhance our ability to attract and retain qualified individuals as officers, employees, directors and consultants, and
- to provide such individuals with incentives to continue service with us, devote their best efforts to Simpson Manufacturing Co., Inc. and improve our economic performance, thus enhancing the value of Simpson Manufacturing Co., Inc. for the benefit of its stockholders.

While the purpose of our Executive Officer Cash Profit Sharing Plan is to motivate our officers to achieve short-term profit goals, we believe that compensation through equity-based awards motivates our key employees to pursue long-term stock price appreciation. We believe this because our program requires achieving an annual profitability goal to receive an equity-based compensation award and, for participants to realize substantial value, sustained effort as the restrictions on restricted stock unit awards lapse and as stock options vest and mature. In addition, rather than making a single large award, our program generally awards equity-based compensation in smaller annual increments, only for years when we meet our profitability goals.

We established the principal terms of the equity-based compensation awards when we adopted the 2011 Incentive Plan (and its predecessor plan, the 1994 Stock Option Plan), and we have generally applied them consistently since then. We believe that they generally are below the range of comparable compensation plans identified in the Venture Pay Group Industry Match peer group. Under our 1994 Stock Option Plan, we granted non-qualified stock options, until February 2011, that have 7-year terms, except for those we granted to Barclay Simpson, which have 5-year terms. Each stock option has an exercise price equal to the market price at the time it was granted, except for options we granted to Barclay Simpson, which have exercise prices that are 110 percent of the market price at the times they were granted. Stock options granted to Named Executive Officers vest annually over the first 4 years at a rate of 25 percent per year. Under our 2011 Incentive Plan, we awarded restricted stock units, beginning in January 2012. Each restricted stock unit award is valued at the closing price on the New York Stock Exchange on the day before the Compensation and Leadership Development Committee approves the award. Restrictions on restricted stock unit awards, including those made to Named Executive Officers, generally lapse 25 percent on each of the date of the award and the first, second and third anniversaries of the date of the award. The 2011 Incentive Plan is qualified under Internal Revenue Code section 162(m).

Stock option grants for every participating employee, including a Named Executive Officer, vest fully if the employee ceases to be employed by us after reaching age 60 or in the event of a change in control. Similarly, the restrictions on restricted stock unit awards for every participating employee, including a Named Executive Officer, lapse if the employee ceases to be employed by us after reaching age 60 or in the event of a change in control. We believe that this allows employees, who have made substantial contributions during their careers, to retire without having to give up any of the value that they have earned on their stock options and restricted stock unit awards. We also believe that it is appropriate, on a change in control, to accelerate the vesting of outstanding stock options and the lapse of restrictions on restricted stock units, because we do not afford other significant termination benefits to our employees.

We believe that equity-based compensation aligns the interests of our Named Executive Officers with the interests of our stockholders, because the Named Executive Officers realize additional value on the same basis as our stockholders. We make an annual award of equity-based compensation to a Named Executive Officer only when we meet our profitability goal for Simpson Strong-Tie Company Inc. for the preceding year, or in certain cases, when the Named Executive Officer achieves a goal based on one of our strategic initiatives as discussed below. If we achieve our operating profit goals for 2013, computed as income from operations plus stock compensation charges, certain incentive compensation and commissions, salaried pension contributions and self-insured workers compensation costs, we anticipate awarding restricted stock units to the following executive officers for the following numbers of shares of our common stock:

		Operating Profit Goal	**Restricted Stock Unit Award**
Karen Colonias	$	95,779,000	18,300 shares
Phillip Terry Kingsfather		95,779,000	9,150 shares
Brian J. Magstadt		95,779,000	7,578 shares
Thomas J Fitzmyers		95,779,000	3,865 shares
Michael J. Herbert		95,779,000	1,720 shares
Jeffrey E. Mackenzie		95,779,000	1,720 shares

We use these parameters only for the purposes stated above. You should not draw any inference whatsoever from these parameters about our future financial performance. You should not take these parameters as projections or guidance of any kind.

We believe our formula for computing the operating profit goals includes items that are likely to affect profitability and that our officers can influence, such as staffing levels, direct and indirect manufacturing costs, and operating expenses, and promotes prudent allocation of resources.

In addition, for 2013, the Compensation and Leadership Development Committee approved additional restricted stock unit awards and goals for Karen Colonias, Phillip Terry Kingsfather and Brian J. Magstadt. These awards will be based on performance against estimated sales of the products from our recent strategic acquisitions of S&P Clever Reinforcement Company AG, S&P Clever Reinforcement International AG, Fox Industries, Inc., Automatic Stamping, LLC and Automatic Stamping Auxiliary Services, LLC (collectively, the Recently Acquired Businesses). The number of restricted stock units may be increased or decreased based on the percentage above or below estimated sales, but at least 75 percent of the sales goal must be reached for an award to be earned. The number of potential restricted stock units earned and the goals for these individuals are (subject to adjustment as further described below) as follows:

Recently Acquired Businesses		Potential Restricted Stock Unit Award Karen Colonias	Phillip Terry Kingsfather	Brian J. Magstadt
75% of sales goal	$31,789,000	6,100 shares	3,050 shares	2,526 shares
100% of sales goal	$42,385,000	12,200 shares	6,100 shares	5,052 shares
150% of sales goal	$63,578,000	24,400 shares	12,200 shares	10,104 shares

We use these parameters only for the purposes stated above. You should not draw any inference whatsoever from these parameters about our future financial performance. You should not take these parameters as projections or guidance of any kind.

The total number of restricted stock units that may be earned by achieving both the operating profit goal and the sales goal of the Recently Acquired Businesses may be modified up or down by 10 percent based on a peer group comparison of total stockholder return, including stock price appreciation and dividends paid. The peer group consists of the following companies:

Illinois Tool Works	Fastenal Company
Gibralter Industries	Eagle Materials Inc.
Masco Corporation	Trex Co. Inc.
USG Corporation	Stanley Black & Decker, Inc.

If our total stockholder return is below the peer group average, we will award 90 percent of the restricted stock units; if it is at the peer group average, we will award 100 percent of the restricted stock units; and if it is above the peer group average, we will award 110 percent of the restricted stock units. Therefore, the maximum potential restricted stock units awards will be 46,970 shares for Karen Colonias, 23,485 shares for Phillip Terry Kingsfather and 19,450 shares for Brian J. Magstadt. Restrictions on all of the restricted stock unit awards earned by Karen Colonias, Phillip Terry Kingsfather and Brian J. Magstadt will lapse 75 percent on the third anniversary of the date of the award and 25 percent on the fourth anniversary of the date of the award (subject to provisions discussed above relating to retirement after age 60 or a change in control).

The Compensation and Leadership Development Committee of our Board of Directors also approved the additional grant of at least 1,250 restricted stock units to Michael J. Herbert if we exceed our 2013 budgeted goal for sales in the Asia/Pacific segment by 10 percent, to increase to a maximum of 2,500 restricted stock units if we exceed our 2013 budgeted goal for sales in the Asia/Pacific segment by 15 percent, as follows:

Asia/Pacific		Potential Restricted Stock Unit Award
110% of sales goal	$17,898,000	1,250 shares
115% of sales goal	$18,712,000	2,500 shares

We use these parameters only for the purposes stated above. You should not draw any inference whatsoever from these parameters about our future financial performance. You should not take these parameters as projections or guidance of any kind.

In 2011, our Board of Directors adopted our 2011 Incentive Plan and our stockholders approved it at their 2011 annual meeting. We may not sell more than 16.32 million shares of common stock (including shares already sold) pursuant to all awards granted under our 2011 Incentive Plan or its predecessor plans, the 1994 Stock Option Plan and the 1995 Independent Director Stock Option Plan. Common stock sold on conversion of restricted stock units or on the exercise of stock options granted under the 2011 Incentive Plan, or its predecessor plans, may be previously unissued shares or reacquired shares, bought on the market or otherwise.

The Compensation and Leadership Development Committee targets equity-based compensation awards to all employees, including our Named Executive Officers, to total less than 1.0 percent of the outstanding shares of our outstanding common stock each year. This range is a general guideline that the Compensation and Leadership Development Committee believes should avoid undue dilution of our stockholders investment. In 2013, we awarded 349,396 restricted stock units, excluding 9,975 restricted stock units awarded to our independent directors, out of a possible 448,044 restricted stock units that the Compensation and Leadership Development Committee had approved for operating profit performance and strategic goals during 2012. This represents about 0.7 percent of our outstanding shares of common stock. Our Chief Executive Officer and the other Named Executive Officers all met their operating profit goals for 2012, and we therefore granted to them 54,390 restricted stock units in 2013. Michael J. Herbert did not achieve the minimum goal for international sales in 2012 but did complete the introduction of products from the Recently Acquired Businesses into Asia or the Middle East and identified a potential acquisition target in the Asia/Middle East region; he was awarded a total of 2,500 additional restricted stock units. Karen Colonias, Phillip Terry Kingsfather and Brian J. Magstadt achieved 75 percent of the sales goal for the Recently Acquired Businesses and were awarded 4,575, 2,287 and 1,145 restricted stock units, respectively. The total stockholder return was below the peer group average, so the restricted stock units awards for Karen Colonias, Phillip Terry Kingsfather and Brian J. Magstadt were reduced by 2,592, 1,296 and 648 restricted stock units, respectively. For 2013, the Compensation and Leadership Development Committee approved a number of shares equal to approximately 0.9 percent of the outstanding shares of our common stock for possible restricted stock unit awards in 2014. If we meet all of our operating profit and strategic goals and total stockholder return is above average for 2013, we anticipate awarding 436,450 restricted stock units under our 2011 Incentive Plan, 99,710 of which would be granted to Named Executive Officers.

The Compensation and Leadership Development Committee determines the number of restricted stock units that we may award to each of our officers based on several factors, including position, length of service, prior equity-based compensation awards and shares of our stock owned. The Compensation and Leadership Development Committee uses these and other factors that it considers relevant in particular cases, in an effort to make each employee s award commensurate with the employee s contribution. These judgments are largely subjective, and the factors are not weighted in any particular way. See *Wealth Accumulation* below. For example, when an employee becomes an officer, the Compensation and Leadership Development Committee may approve an equity-based compensation award to the officer that the Compensation and Leadership Development Committee believes will afford the officer enough of an investment in our common stock to align the officer s interests with the interests of our stockholders. After the officer achieves that level of investment, the Compensation and Leadership Development Committee generally reduces the equity-based awards to the officer. The intent of the 2011 Incentive Plan is to reward performance achievements with future value. The Compensation and Leadership Development Committee believes that our long-term incentives are lower than competitive practice, based on the 2010 report from Venture Pay Group.

Timing of Stock Option Grants and Restricted Stock Unit Awards

The Compensation and Leadership Development Committee approves the number of shares to be awarded under our 2011 Incentive Plan and the general terms of the awards on achieving the profitability and strategic goals set at the beginning of the year. The only variable that remains after the end of the year is the determination whether we have achieved our goals. The Compensation and Leadership Development Committee cannot make this determination until the financial statements are prepared and the financial statement audit by our independent registered public accounting firm is substantially complete. The Compensation and Leadership Development Committee ordinarily meets to finalize the equity incentive awards within a few days of announcing our financial results for the year. The Compensation and Leadership Development Committee values such awards according to the closing price of our common stock reported by the New York Stock Exchange at the close of trading on the day before the meeting, which may or may not be the day of the announcement. In 2013, the Compensation and Leadership Development Committee awarded a total of 359,371 restricted stock units, including 9,975 restricted stock units awarded to our independent directors, and established the value of these awards according to the closing price on February 5, 2013, which was 2 business days before the announcement of our fourth quarter 2012 earnings on February 7, 2013. We have followed this practice for all equity-based compensation awards under our 2011 Incentive Plan (or its predecessor plan, the 1994 Stock Option Plan), not just for awards made to our officers. We generally award equity-based compensation only once each year and do not ordinarily make awards at other times, such as when employees are newly hired or promoted, although the Compensation and Leadership Development Committee has the discretion to do so.

Wealth Accumulation

Our compensation programs for our Named Executive Officers, as well as other high-performing employees, are predominately based on quarterly and annual operating results. We believe that we should award above-average compensation for above-average performance and that we should closely tie the reward to that performance. As a result, we believe our compensation structure allows high-performing employees the opportunity to accumulate wealth for themselves, while creating value for our stockholders. A feature of our 2011 Incentive Plan, however, allows us to limit excess equity-based compensation awards to certain individuals. When an employee is promoted into a key role, such as an officer of Simpson Manufacturing Co., Inc. or a senior officer of Simpson Strong-Tie Company Inc. or one of its subsidiaries, we may give the employee an opportunity to earn an equity-based compensation award for a substantial number of shares if the employee meets his or her operating goals. The Compensation and Leadership Development Committee sets limits for these employees that, when reached, are removed from their annual award targets. The Compensation and Leadership Development Committee believes that this approach balances appropriate incentive for selected key employees to continue to perform at a high level, against avoiding excessive accumulation of equity-based compensation awards by reducing the number of shares available for awards after the employee reaches an amount that the Compensation and Leadership Development Committee judges to be appropriate.

Employee Stock Bonus Plan

Under our 1994 Employee Stock Bonus Plan, we award shares of our common stock, based on years of service, to employees who do not participate in our 2011 Incentive Plan. The Compensation and Leadership Development Committee reviews and approves the number of shares we award, as well as the period of service. The Compensation and Leadership Development Committee has tried to balance the amount of the stock bonus awards over the years as the stock price has fluctuated, by increasing or reducing the number of shares that we award in a given year. We also award cash bonuses to these employees to compensate for their income taxes payable as a result of these bonuses. We have generally issued the shares to an employee in the year following the year in which the employee reached a tenth anniversary. The Compensation and Leadership Development Committee must approve the awards each year and may terminate the plan at any time. None of our Named Executive Officers participates in our 1994 Employee Stock Bonus Plan.

2012 Results of Advisory Vote to Approve Named Executive Officer Compensation

At the annual meeting in April 2012, a substantial majority of our stockholders, more than 97 percent of the votes cast, approved the compensation of our named executives officers. After consideration of this high level of support, the Compensation and Leadership Development Committee decided that we did not need to make substantial changes to our compensation programs. Nevertheless, the Compensation and Leadership Development Committee continually monitors and evaluates our compensation policies and considers changes that could more closely align the interests of our employees and stockholders.

Our Board of Directors has determined that an annual advisory vote on the compensation of our Named Executive Officers allows our stockholders to provide timely, direct input on our compensation philosophy, policies and practices as disclosed in our proxy statement each year. Our Board of Directors continues to believe that an annual vote is therefore consistent with our efforts to engage in an ongoing dialogue with our stockholders on the compensation of our Named Executive Officers and other corporate governance matters.

Material Risk Considerations of Compensation Policies

We face various types of risk daily, including market risk, credit risk and currency risk, as well as general business risk. Our compensation programs look at longer time frames from one quarter to one year and beyond one year. Therefore, we do not feel that they expose us to undue risk-taking. To compete in and expand our markets, however, some risk is unavoidable and in some cases desirable and appropriate.

While our compensation programs reward our employees for time spent at work and for the achievement of specific performance objectives, we also consider how and to what extent these programs encourage risk-taking. We believe that our cash profit sharing and equity-based incentive plans promote a measured approach to areas of risk that we face as an organization. While the objectives of the plans are to achieve and increase our profitability, we believe they also encourage sound financial management and the safeguarding of our assets. In addition, we believe our compensation programs promote a sense of unity and cooperation among all of our employees, not just our executive officers, affording less opportunity and incentive for an individual employee to take undue risk in an attempt to increase his or her own compensation at the expense of the long-term health of Simpson Manufacturing Co., Inc.

Through our cash profit sharing incentive plans, employees are encouraged to maximize quarterly profits by increasing revenues and reducing costs. Compensation under these plans is paid on a quarterly basis, regardless of our performance in a later quarter. While the quarterly time horizon could potentially create opportunities for employees to maximize income in one quarter at the expense of a future quarter, we feel that this risk is balanced in the longer-term aspects of the cash profit sharing plan, as it is an ongoing program and income shifted from one quarter to another would not likely increase total bonus payments over time. It is also mitigated in the use of the qualifying level component of the program which rewards prudent stewardship of assets and sound allocation of resources. This effect is further balanced by our equity-based incentive plan, which requires profitability goals to be met for a full year before we award equity-based compensation, and then the stock options or restricted stock units generally vest over a period of years thereafter. The value of an equity-based compensation award also is affected by appreciation of the market price of our common stock over time. Any attempt to maximize short-term profits at the expense of long-term financial health would work against our employees incentive to maximize their compensation.

Summary Compensation Table

The table below provides information on compensation for the year ended December 31, 2012, for our Named Executive Officers our Principal Executive Officer, our Principal Financial Officer and our 3 other most highly compensated executive officers. Thomas J Fitzmyers was our Principal Executive Officer and Karen Colonias was our Principal Financial Officer until December 2011. The amounts shown include all compensation for services to us and our subsidiaries in all capacities.

Name and Principal Position	**Year**	**Salary($)**	**Restricted Stock Unit Awards ($){1}**	**Option Awards ($){2}**	**Non-Equity Incentive Plan Compensation ($){3}**	**All Other Compensation ($){4}**	**Total($)**
Karen Colonias, Our President and Chief Executive Officer	2012	350,000	209,183		1,199,491	26,272	1,784,946
	2011	283,089		516,500	642,193	32,148	1,473,930
	2010	262,119			474,023	24,969	761,111
Brian J. Magstadt, Our Chief Financial Officer and Secretary	2012	225,000	114,311		286,474	15,630{5}	641,415
Thomas J Fitzmyers, Our Chairman	2012	222,814	171,135		672,988	43,044{6}	1,109,981
	2011	346,118		185,940	1,563,311	62,831{6}	2,158,200
	2010	336,036			1,224,419	56,015{6}	1,616,470
Phillip T. Kingsfather, President and Chief Executive Officer of Simpson Strong-Tie Company Inc.	2012	305,910	531,846		957,676	101,275{7}	1,896,707
	2011	297,000		1,094,980	682,703	163,469{7}	2,238,152
	2010	275,000			529,055	156,667{7}	960,722
Michael J. Herbert, Our Vice President	2012	291,582	114,145		476,278	26,734{8}	908,739
	2011	283,089		413,200	642,233	33,148{8}	1,371,670
	2010	262,119			474,023	26,667{8}	762,809

{1} We determined the value of restricted stock unit awards by multiplying the number of restricted stock units by the fair value per share as of the award date. The restricted stock was valued using the market price of the shares on the award date in accordance with Accounting Standards Codification Topic 718 Compensation Stock Compensation. The restricted stock units were awarded on January 30, 2012, and were valued at $33.23, the closing stock price on January 27, 2012.

Vesting of all unvested restricted stock units is accelerated in the event of a change in control. See Grants of Plan-Based Awards below.

{2} We determined the value of stock option awards by multiplying the number of shares subject to the stock option by the fair value per share as of the grant date. We applied the Black-Scholes stock option pricing model to determine fair value in accordance Accounting Standards Codification Topic 718 Compensation Stock Compensation, using the following assumptions:

Grant Date	Risk Free Interest Rate	Dividend Yield	Expected Life	Volatility	Exercise Price	Weighted Average Fair Value
02/03/11	2.62%	1.75%	6.2 years	39.0%	$ 29.66	$ 10.33

In January 2005, our Board of Directors resolved to accelerate the vesting of all unvested stock options in the event of a change in control. See Grants of Plan-Based Awards below.

{3} Awards earned under our Executive Officer Cash Profit Sharing Plan are earned in 1 quarter and paid in the following quarter. The amount in this column represents all cash paid during the specified years under our Executive Officer Cash Profit Sharing Plan. No amounts are deferred or payable by their terms at a later date. See Executive Compensation Compensation Discussion and Analysis *Executive Officer Cash Profit Sharing Plan* above.

{4} For 2012, each amount includes a contribution to the officer s profit sharing trust account of an amount equal to 7 percent of the officer s salary earned in the preceding year, up to the annual qualified contribution limits of $17,150, per account, plus a share of funds forfeited by other employees who terminated from the profit sharing trust with an unvested balance. Each amount also includes a contribution equal to 3 percent of the officer s salary made quarterly in 2012 after the close of the quarter in which it is earned. This contribution is made to comply with the safe-harbor rules that govern the plan. The contribution earned in the last quarter of 2011 and the first 3 quarters in 2012 is included in each amount shown. For 2011 and 2010, each amount includes a contribution of an amount equal to 10 percent of the officer s salary, earned in the preceding year, for each of the specified years to the officer s profit sharing trust account, up to the annual qualified contribution limit of $24,500 per account, plus a share of funds forfeited by other employees who terminated from the profit sharing trust with an unvested balance. Another 3 percent contribution, made quarterly in 2011 after the close of the quarter in which it is earned, was made to comply with the safe-harbor rules that govern the plan. The contribution earned in the first 3 quarters of 2011 is included in the amount shown for 2011.

{5} Includes:

	2012
Profit sharing trust contribution and forfeitures	$ 15,130
Charitable gift matching contributions	500

{6} Includes:

	2012	2011	2010
Profit sharing trust contribution and forfeitures	$ 23,139	$ 33,129	$ 25,667
Hire of aircraft	17,986	19,031	19,385
Reimbursement of personal income taxes related to hire of aircraft	1,919	10,671	10,963

The amount related to Mr. Fitzmyers use of an aircraft included travel between his home and our offices and travel on business. The total cost to us for chartering aircraft, including Mr. Fitzmyers compensation, approximated $462,000 in 2012, $508,000 in 2011 and $532,000 in 2010. In computing the compensation cost of airplane use, we applied the Standard Industrial Fare Level tables prescribed by applicable Internal Revenue Service regulations. The independent members of our Board of Directors unanimously approved this arrangement.

{7} Includes:

	2012	2011	2010
Profit sharing trust contribution and forfeitures	$ 25,342	$ 32,461	$ 25,667
Housing allowance	75,833	130,000	130,000
Personal electronics purchase		854	
Reimbursement of personal income taxes related to personal electronics purchase		154	
Charitable gift matching contributions	100		1,000

The amount related to Mr. Kingsfather s housing allowance included incremental financing and transaction costs. The arrangement terminated in July 2012.

{8} Includes:

	2012	2011	2010
Profit sharing trust contribution and forfeitures	$ 25,332	$ 32,148	$ 25,667
Personal electronics purchase	402		
Charitable gift matching contributions	1,000	1,000	1,000

Compensation and Leadership Development Committee Interlocks and Insider Participation

The Compensation and Leadership Development Committee of our Board of Directors currently comprises Jennifer A. Chatman, Chair, Peter N. Louras, Jr. and Barry Lawson Williams, all of whom are independent directors. Ms. Chatman, Mr. Louras and Mr. Williams have no relationships with us or any of our subsidiaries, other than as members of our Board of Directors and its committees.

Transactions with Related Persons, Promoters and Certain Control Persons

In 2003, Thomas J Fitzmyers, then our Chief Executive Officer and a member or our Board of Directors, leased an airplane that a third-party charter company managed. He sold this airplane in 2009. We paid the charter company standard hourly rates when Mr. Fitzmyers used this airplane to travel between his home and our offices or to travel on business. Mr. Fitzmyers was responsible for maintaining the airplane, and he received a portion of the payments that were made to the charter company for its use, whether by us or others. Since the sale of this airplane, we continued to pay a charter service for Mr. Fitzmyers travel between his home and our offices and to travel on business under a similar arrangement. This arrangement ended at the end of 2012. In 2012, we paid approximately $462,000 for Mr. Fitzmyers use of this and other airplanes, including $19,905 that we paid to Mr. Fitzmyers as compensation (see Summary Compensation Table above). The members of our Board of Directors who are not employees or officers unanimously approved this arrangement. Beginning in 2013, we will no longer hire an airplane for Mr. Fitzmyers, but will reimburse him for the cost of his travel based on commercial flight rates to and from our offices or when he travels on Company business.

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Grants of Plan-Based Awards

The following table summarizes the awards under our 2011 Incentive Plan of restricted stock units to our Named Executive Officers during 2012. The Compensation and Leadership Development Committee awarded these restricted stock units because we achieved our 2011 operating goals that the Compensation and Leadership Development Committee had approved at the beginning of 2011.

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value of Stock and Option Awards ($/Share)
Karen Colonias	01/30/12	6,295	33.23
Brian J. Magstadt	01/30/12	3,440	33.23
Thomas J Fitzmyers	01/30/12	5,150	33.23
Phillip Terry Kingsfather	01/30/12	16,005	33.23
Michael J. Herbert	01/30/12	3,435	33.23

The restrictions on the restricted stock units lapse (vest) as follows:

Name	Vesting Term{1}	Vesting Increments
Karen Colonias	3 years	annually
Brian J. Magstadt	3 years	annually
Thomas J Fitzmyers	3 years	annually
Phillip Terry Kingsfather	3 years	annually
Michael J. Herbert	3 years	annually

{1} Restricted stock units vest one fourth on each of the award date and the first, second and third anniversaries of the award date. As discussed below, vesting of restricted stock units will accelerate on a change in control or on the participant ceasing to be employed by us after reaching age 60.

We generally award restricted stock units or grant stock options under our 2011 Incentive Plan once each year, in January or February, on the day that the Compensation and Leadership Development Committee meets to approve the awards and grants that employees earned by meeting our goals for the preceding fiscal year. In 2012, we awarded 352,511 restricted stock units, excluding 8,550 restricted stock units awarded to our independent directors, under our 2011 Incentive Plan. In 2011, we granted stock options under our 1994 Stock Option Plan to purchase 1,362,000 shares of our common stock pursuant to commitments related to the preceding fiscal years. The exercise price per share of the options equaled or exceeded the closing market price per share of our common stock as reported by the New York Stock Exchange for the day preceding the date of the Compensation and Leadership Development Committee meeting granting the options.

Generally, restrictions on restricted stock units that the Compensation and Leadership Development Committee has awarded under our 2011 Incentive Plan lapse (vest) in increments over 3 years and stock options that were granted under our 1994 Stock Option Plan (now part of our

2011 Incentive Plan) vest (become exercisable) in increments over 4 years. Our Board of Directors has, however, resolved to accelerate the vesting of restricted stock units and stock options in two situations. First, when an employee ceases employment with us after reaching age 60, all of the employee s unvested restricted stock units and stock options vest fully. Second, all outstanding restricted stock units vest and all stock options will fully vest, and must be exercised, on a change in control of Simpson Manufacturing Co., Inc., which we define as any of the following transactions, in which the holders of our common stock immediately before the transaction do not continue to have substantially the same proportionate ownership in an entity that owns all or substantially all of the assets of Simpson Manufacturing Co., Inc. immediately thereafter:

- a consolidation or merger of Simpson Manufacturing Co., Inc. in which it is not the surviving corporation;
- a reverse merger in which Simpson Manufacturing Co., Inc. is the surviving corporation but the shares of our common stock outstanding immediately before the reverse merger are converted by virtue of the reverse merger into other property; or
- the approval by our stockholders of a plan or proposal for the dissolution and liquidation of Simpson Manufacturing Co., Inc.

These acceleration provisions apply to all participants in our 2011 Incentive Plan (including our 1994 Stock Option Plan, now part of our 2011 Incentive Plan), including our Named Executive Officers.

In 2013, we awarded restricted stock units under our 2011 Incentive Plan for 359,371 shares, including those awarded to our independent directors, of our common stock pursuant to commitments related to the preceding fiscal year. These restricted stock units are valued according to the closing market price per share of our common stock as reported by the New York Stock Exchange for the day preceding the date of the Compensation and Leadership Development Committee meeting awarding these restricted stock units. Restrictions on these restricted stock units generally lapse 25 percent on each of the date of the award and the first, second and third anniversaries of the date of the award except for those awarded to Karen Colonias, Phillip Terry Kingsfather and Brian J. Magstadt, which will lapse 75 percent on the third anniversary of the date of the award and 25 percent on the fourth anniversary of the date of the award. Restrictions on the restricted stock units also lapse when an employee ceases employment with us after reaching age 60 or on a change in control of Simpson Manufacturing Co., Inc.

Outstanding Equity Awards at Fiscal Year End

As of December 31, 2012, our Named Executive Officers held the following stock options that had been granted under our 1994 Stock Option Plan (now part of our 2011 Incentive Plan) and restricted stock units that had been awarded under our 2011 Incentive Plan:

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable {1}	Option Exercise Price($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($){1}
Karen Colonias	3,000		40.72	01/25/13		
	2,000		33.62	02/01/14	4,722{4}	154,834
	12,500	37,500{2}	29.66	02/02/18		
Brian J. Magstadt	5,500	6,500{3}	29.66	02/02/18	2,580{4}	84,598
Thomas J Fitzmyers	9,000		40.72	01/25/13		
	4,500	13,500{2}	29.66	02/02/18	3,863{4}	126,668
Phillip Terry Kingsfather	33,000		40.72	01/25/13		
	2,000		33.62	02/01/14	12,004{4}	393,611
		79,500{2}	29.66	02/02/18		
Michael J. Herbert	4,000		40.72	01/25/13		
		30,000{2}	29.66	02/02/18	2,577{4}	84,500

{1} As discussed above see Grants of Plan-Based Awards vesting of stock options and restricted stock units will accelerate on a change in control or on the employee ceasing employment with us after reaching age 60.

{2} Unless vesting accelerates as discussed above, options vest at the rate of 25 percent per year on the anniversary of the date of grant.

{3} Unless vesting accelerates as discussed above, options vest at the rate of 1/48th per month each month beginning with the first month after the month of grant.

{4} Restricted stock units vest 25 percent on the award date and 25 percent on each of the 1st, 2nd and 3rd anniversary of the award date.

Stock Option Exercises and Stock Vested

The following table provides information for the year ended December 31, 2012, on the exercise of stock options granted to our Named Executive Officers under our 1994 Stock Option Plan (now part of our 2011 Incentive Plan) and on the vesting of restricted stock unit awards:

	Stock Option Awards		**Stock Awards**	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($)**
Karen Colonias			1,573	52,271
Brian J. Magstadt			860	28,578
Thomas J Fitzmyers			1,287	42,767
Phillip Terry Kingsfather	26,500	81,827	4,001	132,953
Michael J. Herbert	10,000	31,336	858	28,511

Potential Payments on Termination or Change in Control

We do not currently have or plan to adopt any deferred compensation programs or, except for a small number of employees in our recently acquired Swiss subsidiary, any defined benefit pension plans and generally do not pay benefits after termination of employment. We may, however, compensate a former employee after terminating employment with us, by way of the acceleration of vesting of stock options and restricted stock units on voluntary termination after reaching the age of 60 or on a change in control. These circumstances, in addition to those applicable to salaried employees generally, and the potential payments for our Named Executive Officers are as follows as of December 31, 2012:

Benefits and Payments on Termination	**Voluntary Termination(1)**	**Change in Control{1}**
Accelerated vesting of stock options and restricted stock units:		
Karen Colonias	$	$ 272,209
Brian J. Magstadt		104,943
Thomas J Fitzmyers	168,923	168,923
Phillip Terry Kingsfather	642,446	642,446
Michael J. Herbert		178,400

{1} As discussed above under Grants of Plan-Based Awards, vesting of stock options and the lapsing of restrictions on restricted stock units will accelerate on the employee ceasing employment with us after reaching age 60 or on a change in control.

Assumes a market value of $32.79 per share of our common stock, the closing stock price on December 31, 2012, at voluntary termination or change in control. No material conditions or obligations apply to the receipt of payment on voluntary termination.

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Director Compensation

The following table provides information on compensation for the year ended December 31, 2012, that we paid to our directors who are not also our employees or officers. The amounts shown include all compensation for services to us.

Name	Fees Earned or Paid in Cash($)	Stock Awards ($){1}	All Other Compensation ($){2}	Total ($)
James S. Andrasick	73,000			73,000
Jennifer A. Chatman	94,500	47,353		141,853
Earl F. Cheit	101,000	47,353	1,000	149,353
Gary M. Cusumano	94,000	47,353		141,353
Peter N. Louras, Jr.	107,000	47,353		154,353
Robin G. MacGillivray	98,000	47,353	1,000	146,353
Barry Lawson Williams	94,500	47,353	1,000	142,853

{1} We determined the value of restricted stock unit awards by multiplying the number of restricted stock units by the fair value per share as of the award date. The restricted stock was valued using the market price of the shares on the award date in accordance Accounting Standards Codification Topic 718 Compensation Stock Compensation. The restricted stock units were awarded on January 30, 2012, and were valued at $33.23, the closing stock price on January 27, 2012. Vesting of all unvested restricted stock units is accelerated on a change in control; see Grants of Plan-Based Awards above.

The outstanding stock option and restricted stock awards as of December 31, 2012, for these directors were as follows:

Name	Stock Options	Restricted Stock Units
Jennifer A. Chatman	6,000	1,425
Earl F. Cheit	6,000	1,425
Gary M. Cusumano	5,000	1,425
Peter N. Louras, Jr.	6,000	1,425
Robin G. MacGillivray	6,000	1,425
Barry Lawson Williams	6,000	1,425

{2} Represents matching contributions made by us for charitable gifts made by the director.

We pay each of our directors whom we do not compensate as an officer or employee

- an annual retainer of $40,000,

- a fee of $2,000 for attending in person each meeting of our Board of Directors or attending by telephone a meeting that is scheduled to be held by telephone conference,

- a fee of $2,000 for attending in person each committee meeting held on a day when our Board of Directors does not meet, whether or not he or she is a member of the committee,

- a fee of $1,000 for each committee meeting he or she attends in person on the same day as a meeting of our Board of Directors or another committee, whether or not he or she is a member of the committee, and

- a fee of half the normal fee for each Board of Directors or committee meeting he or she attends by telephone, unless it is scheduled to be held by telephone conference.

We pay the Lead Independent Director an additional annual fee of $10,000. We pay the Chair of the Audit Committee an additional annual fee of $8,000. We pay the Chair of each of the Compensation and Leadership Development Committee, the Acquisition and Strategy Committee and the Governance and Nominating Committee an additional annual fee of $4,000. The annual retainer and the additional annual fees for the Lead Independent Director and the Committee Chairs are not prorated in the year that a director is appointed to the Board of Directors. We reimburse outside directors for expenses that they incur in attending Board of Directors and committee meetings and educational programs. We pay each outside director $3,000 per day and reimburse his or her expenses when he or she visits our facilities to observe operations.

Equity-Based Compensation Awards for Independent Directors

Each of our independent directors, whether newly appointed or continuing his or her service, is eligible to receive 1,425 restricted stock units under our 2011 Incentive Plan for each year that we meet our annual operating profit goal. A newly appointed director is eligible to receive the entire restricted stock unit award as long as he or she served on the Board of Directors during the year and the operating profit goal for that year was achieved. The operating profit goal for awards for our independent directors is the same as the operating profit goal for awards to our Named Executive Officers. In 2013, because Simpson Strong-Tie Company Inc. achieved its 2012 operating profit goals, we awarded 1,425 restricted stock units under our 2011 Incentive Plan to each of our independent directors. If we meet the Simpson Strong-Tie Company Inc. operating profit goal for 2013, we anticipate awarding in 2014 to each of our independent directors 1,425 restricted stock units under our 2011 Incentive Plan.

No stock options granted to our directors under our 1995 Independent Director Stock Option Plan (now part of our 2011 Incentive Plan) were exercised during 2012.

Potential Payments on Resignation or Change in Control for Independent Directors

We do not currently have or plan to adopt any deferred compensation programs or defined benefit pension plans and generally do not pay benefits after resignation from the Board of Directors. We may, however, compensate a former director who resigns from the Board of Directors by accelerating the lapse of restrictions on the directors   restricted stock units if the director is over age 60 or a change in control occurs, as follows as of December 31, 2012:

Benefits and Payments on Termination	**Resignation{1}**	**Change in Control{1}**
Accelerated lapse of restrictions on restricted stock units:		
Jennifer A. Chatman	$	$ 35,053
Earl F. Cheit	35,053	35,053
Gary M. Cusumano	35,053	35,053
Peter N. Louras, Jr.	35,053	35,053
Robin G. MacGillivray		35,053
Barry Lawson Williams	35,053	35,053

{1} Assumes a market value of $32.79 per share of our common stock, the closing stock price on December 31, 2012, on resignation or change in control. No material conditions or obligations apply to the receipt of payment on resignation.

Compensation Consultants

In 2011, the Compensation and Leadership Development Committee engaged Towers Watson as its compensation consultant. The Lead Consultant, who changed employers from Venture Pay Group to Towers Watson in 2011, remained the same. Towers Watson s services were requested and approved by the Compensation and Leadership Development Committee and not recommended or provided by our officers. Towers Watson was engaged for 2 primary purposes:

- to update a benchmarking analysis of total direct compensation for our Chief Executive Officer compared to the peer groups developed by Venture Pay Group in 2010, although this did not include a full year over year analysis of our other Named Executive Officers compensation; and
- to recommend potential changes to our long-term compensation program for our Chief Executive Officer, our Chief Financial Officer and Simpson Strong-Tie Company Inc. s President and Chief Executive Officer, to align our programs with strategic objectives.

Towers Watson made recommendations to the Compensation and Leadership Development Committee to modify the terms of future equity-based compensation awards to keep the operating profit goals, to add strategic goals and to add a total stockholder return component. The Compensation and Leadership Development Committee incorporated these features into the potential equity-based compensation awards beginning in 2012. See *Equity-Based Compensation Awards* above. We paid Towers Watson total fees of $45,300 for these services in 2011. In 2012, we paid an additional $13,403 to finalize the billing on this engagement.

Compensation and Leadership Development Committee

The Compensation and Leadership Development Committee of our Board of Directors is responsible for the development and review of our compensation policy for all of our salaried employees, including equity-based compensation, and is responsible for reviewing and approving the compensation discussion and analysis for inclusion in our Annual Report on Form 10-K and our proxy statement. The Compensation and Leadership Development Committee comprises 3 independent directors, as defined by the New York Stock Exchange rules; see Proposal No. 1 Election of Directors Independence above. In addition, the members of the Compensation and Leadership Development Committee are both:

- non-employee directors directors who satisfy the requirements established by the Securities and Exchange Commission for non-employee directors under Rule 16b-3 under the Securities Exchange Act of 1934; and
- outside directors directors who satisfy the requirements established under Internal Revenue Code section 162(m).

Our Board of Directors appoints the members of the Compensation and Leadership Development Committee for indefinite terms and may remove any member at any time. The Compensation and Leadership Development Committee operates under a written charter that our Board of Directors adopted, which is also available on our website at http://www.simpsonmfg.com/financials/compensation.html. We will provide a printed copy of the charter to any stockholder on request.

Compensation and Leadership Development Committee Report

The Compensation and Leadership Development Committee of our Board of Directors reviewed the above Compensation Discussion and Analysis, discussed it with our officers and recommended its inclusion in our Annual Report on Form 10-K for the year ended December 31, 2012, and in this Proxy Statement.

Compensation and Leadership Development Committee

Jennifer A. Chatman, Chair
Peter N. Louras, Jr.
Barry Lawson Williams

Report of the Audit Committee of our Board of Directors

The Audit Committee of our Board of Directors is responsible for financial and accounting oversight. Its policies and practices are described below.

Composition

The Audit Committee comprises 5 independent directors, as defined by the New York Stock Exchange rules. It operates under a written charter that our Board of Directors adopted, which is available on our website at http://www.simpsonmfg.com/financials/audit.html. We will provide a printed copy of the charter to any stockholder on request. The members of the Audit Committee are Peter N. Louras, Jr., Chair, James S. Andrasick, Jennifer A. Chatman, Earl F. Cheit and Robin G. MacGillivray. Our Board has determined that each of them meets the definitions and standards for independence and is financially literate, and that 1 of the Audit Committee members, Peter N. Louras, Jr., has financial management expertise as required by New York Stock Exchange rules and meets the Securities and Exchange Commission definition of an audit committee financial expert.

Responsibilities

The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the accounting firm that we engage as our independent registered public accounting firm. Our officers are responsible for our internal controls and financial reporting process. Subject to the Audit Committee s oversight, our independent registered public accounting firm is responsible for performing an independent audit of our internal controls over financial reporting, for performing an independent audit of our consolidated financial statements in accordance with generally accepted auditing standards, and for reporting on those audits.

Review with Officers and the Independent Registered Public Accounting Firm

The Audit Committee met 6 times in 2012 and has held discussions with our officers and the independent registered public accounting firm. Our officers represented to the Audit Committee that our consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States. The Audit Committee has reviewed and discussed the consolidated financial statements with our officers and PricewaterhouseCoopers LLP, our independent registered public accounting firm. The Audit Committee has discussed with PricewaterhouseCoopers LLP the matters that they were required to discuss under Statement on Auditing Standards No. 114, *The Auditor s Communications With Those Charged With Governance,* which amends Statement on Auditing Standards No. 61, *Communication with Audit Committees.*

The Audit Committee has received the written disclosures and the letter from PricewaterhouseCoopers LLP, a registered public accounting firm, required by applicable requirements of the Public Company Accounting Oversight Board affirming the registered public accounting firm s independence in compliance with Rule 3526. The Audit Committee discussed with PricewaterhouseCoopers LLP that firm s independence. On that basis, the Audit Committee believes that PricewaterhouseCoopers LLP is independent.

Summary

Based on the Audit Committee s discussions with our officers and PricewaterhouseCoopers LLP, the Audit Committee s review of the representations of our officers, and the report of PricewaterhouseCoopers LLP to the Audit Committee, the Audit Committee recommended that our Board of Directors include the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the Securities and Exchange Commission. The Audit Committee believes that it has satisfied its responsibilities under its charter.

Audit Committee

Peter N. Louras, Jr., Chair
James S. Andrasick
Jennifer A. Chatman
Earl F. Cheit
Robin G. MacGillivray

Audit and Related Fees

Audit Fees

For professional services for the audit of our annual consolidated financial statements included in our annual report on Form 10-K, the audit of our internal control over financial reporting, and review of the condensed consolidated financial statements included in our quarterly reports on Form 10-Q, we paid PricewaterhouseCoopers LLP an aggregate of approximately $2,444,000 for 2012 and $2,204,000 for 2011, approximately 76 percent and 74 percent, respectively, of the total fees that we paid to PricewaterhouseCoopers LLP for those years.

Audit-Related Fees

For professional services for audit-related services, we paid PricewaterhouseCoopers LLP an aggregate of approximately $26,000 for 2012, approximately 1 percent of the total fees that we paid to PricewaterhouseCoopers LLP for that year. We did not pay any audit-related fees to PricewaterhouseCoopers LLP for 2011.

Tax Fees

For professional services for tax compliance associated with our annual tax returns, and for tax advisory and planning services, we paid PricewaterhouseCoopers LLP an aggregate of approximately $725,000 for 2012 and $756,000 for 2011, approximately 23 percent and 25 percent, respectively, of the total fees that we paid to PricewaterhouseCoopers LLP for those years.

All Other Fees

For all other services, we paid PricewaterhouseCoopers LLP an aggregate of approximately $6,000 for 2012 and $34,000 for 2011, less than 1 percent and approximately 1 percent, respectively, of the total fees that we paid to PricewaterhouseCoopers LLP for each of those years. In 2012, these other services were primarily for the preparation of a report to a subsidiary s Board of Directors on the merger of the acquired businesses in Switzerland and for consultation related to the importation of products into the European Community. In 2011, these other services were primarily for a valuation report for one of our German subsidiaries, assistance in preparing an application for a customs code related to the importation of one of our products to Denmark and for a subscription to an online accounting research tool.

The Audit Committee must pre-approve fees to be paid to PricewaterhouseCoopers LLP before PricewaterhouseCoopers LLP begins work. The Audit Committee pre-approved all fees and services for PricewaterhouseCoopers LLP s work in 2012 and 2011. The Audit Committee has determined that the fees for services rendered were compatible with maintaining PricewaterhouseCoopers LLP s independence.

Governance and Nominating Committee of our Board of Directors

Our Board of Directors has a standing Governance and Nominating Committee, which is primarily responsible for nominating candidates to our Board of Directors. Its charter and our corporate governance guidelines are available on our website at http://www.simpsonmfg.com/financials/governance.html. We will provide a printed copy of each to any stockholder on request. The 4 members of the Governance and Nominating Committee, Robin G. MacGillivray, Chair, Jennifer A. Chatman, Earl F. Cheit and Barry Lawson Williams, are independent and meet all applicable independence requirements.

The Governance and Nominating Committee considers all candidates identified as potential directors, including those submitted by stockholders for its consideration. Any of our stockholders can recommend a director candidate to the Governance and Nominating Committee by writing a letter to:

Simpson Manufacturing Co., Inc.

Board of Directors Governance and Nominating Committee

5956 W. Las Positas Blvd.

Pleasanton, CA 94588

For the Governance and Nominating Committee to consider a candidate for the 2014 annual meeting, we must receive the letter not later than November 9, 2013. The letter should include a description of the attributes that the stockholder believes the candidate would bring to our Board of Directors and the candidate s biography and contact information.

When evaluating a director candidate, whether or not recommended by a stockholder, the Governance and Nominating Committee uses for guidance our Governance Guidelines on Director Qualification and Key Director Responsibilities and considers the candidate s education, business experience, financial expertise, industry experience, business acumen, interpersonal skills, vision, teamwork, integrity, strategic ability and customer focus. The Governance and Nominating Committee will review and discuss potential candidates who come to its attention, whether from internal or external sources. From the review and discussion, the Governance and Nominating Committee may narrow the list of potential candidates and interview the remaining candidates. The Governance and Nominating Committee will recommend for consideration by the full Board of Directors any candidate that the Governance and Nominating Committee considers to be suitable.

Our Bylaws also permit our stockholders directly to nominate directors. To do so, a stockholder must notify our Secretary at least 75 days, but not more than 90 days, before an annual meeting, unless we do not publicly disclose the date of the meeting at least 85 days before the date that the meeting is scheduled to be held, in which case our Secretary must receive the stockholder s notice within 10 days after we publicly disclose the meeting date. A stockholder s notice nominating 1 or more director candidates must state as to each such candidate

- the candidate s name, age, business address and residence address,
- the candidate s principal occupation or employment,
- the number of shares of our common stock that the candidate beneficially owns and other information, if any, required by our Bylaws, and
- any other information relating to the candidate that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, pursuant to Regulation 14A under the Securities Exchange Act of 1934 (including without limitation the candidate s written consent to being named in the proxy statement as a nominee and to serving as a director if elected).

The stockholder s notice must also state the stockholder s name and address, as they appear on our books, and the number of shares of our common stock that the stockholder beneficially owns and other information, if any, required by our Bylaws. We will disregard a purported nomination that does not comply in all respects with our Bylaws. We did not receive such a notice from any stockholder for our 2013 annual meeting of stockholders.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and officers and persons who own more than 10 percent of our common stock to file initial reports of ownership and reports of changes in ownership of our common stock with the Securities and Exchange Commission. Securities and Exchange Commission regulations require such persons to furnish us with copies of all section 16(a) reports that they file. Based solely on our review of the copies of such reports that we received and written representations from the executive officers and directors, we believe that in 2012 our directors and officers and 10 percent stockholders met all of the section 16(a) filing requirements regarding our common stock.

Code of Ethics

We have adopted a code of business conduct and ethics that applies to our Chief Executive Officer and our Chief Financial Officer, as well as all other of our and our subsidiaries employees. This code is posted on our website at http://www.simpsonmfg.com/about/ethics.html. We will provide a printed copy of the code, free of charge, to any stockholder on request.

OTHER BUSINESS

Our Board of Directors does not presently intend to bring any other business before the meeting. Insofar as our Board of Directors is aware, no matters will be brought before the meeting except as specified in the notice of the meeting. The persons that you will appoint as your proxies in the enclosed form intend to vote according to their judgment on any other business that properly comes before the meeting.

DISCLAIMER REGARDING INCORPORATION BY REFERENCE OF THE REPORTS OF THE AUDIT AND COMPENSATION AND LEADERSHIP DEVELOPMENT COMMITTEES

THE INFORMATION SHOWN IN THE SECTIONS ENTITLED REPORT OF THE AUDIT COMMITTEE OF OUR BOARD OF DIRECTORS AND COMPENSATION AND LEADERSHIP DEVELOPMENT COMMITTEE REPORT SHALL NOT BE DEEMED TO BE INCORPORATED BY REFERENCE BY ANY GENERAL STATEMENT INCORPORATING BY REFERENCE THIS PROXY STATEMENT INTO ANY FILING BY SIMPSON MANUFACTURING CO., INC. WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, EXCEPT TO THE EXTENT THAT SIMPSON MANUFACTURING CO., INC. INCORPORATES THIS INFORMATION BY SPECIFIC REFERENCE, AND SUCH INFORMATION SHALL NOT OTHERWISE BE DEEMED FILED UNDER SUCH ACTS.

STOCKHOLDER PROPOSALS

We must receive stockholder proposals for inclusion in our proxy statement and form of proxy relating to our 2014 Annual Meeting of Stockholders a reasonable time before we begin our solicitation, and in any event not later than November 9, 2013.

BY ORDER OF THE BOARD

Brian J. Magstadt
Secretary

TO ASSURE THAT YOUR SHARES ARE REPRESENTED AT THE MEETING, WE URGE YOU TO COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND MAIL IT PROMPTLY IN THE POSTAGE-PAID ENVELOPE PROVIDED, OR VOTE BY TELEPHONE OR THE INTERNET AS INSTRUCTED ON THE PROXY OR THE NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS, WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING. YOU CAN REVOKE YOUR PROXY AT ANY TIME BEFORE IT IS VOTED.

EXHIBIT A

SIMPSON MANUFACTURING CO., INC.
EXECUTIVE OFFICER CASH PROFIT SHARING PLAN

Adopted January 14, 2003

and Amended through February 25, 2008

Purpose

The purpose of this Plan is to recognize outstanding effort and achievement by executive officers of Simpson Manufacturing Co., Inc. and its subsidiaries (together, the Company). The Plan is intended to provide qualified performance-based compensation in accordance with section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulations and interpretations thereunder (the Code).

Committee

The Plan shall be administered by a Compensation Committee (the Committee) of the Board of Directors of the Company. The Committee shall consist of at least two outside directors of the Company who satisfy the requirements of Code section 162(m). The Committee shall have the sole discretion and authority to administer and interpret the Plan in accordance with Code section 162(m).

Covered Employees

Any employee of the Company treated as a covered employee pursuant to section 162(m) of the Code, as amended and as interpreted in Treasury Regulations and notices or other rulings issued by the Internal Revenue Service, and any other employee of the Company designated by the Committee.

Amount of Award

The Committee will determine the amount of the award that each covered employee will be eligible to receive under the Plan each fiscal quarter. Awards will be based on a percentage of the amount by which net profits of the Company or a branch or subsidiary of the Company for a fiscal quarter exceed a qualifying level of net profits for the Company or such branch or subsidiary, respectively, for that fiscal quarter. The results for each fiscal quarter will be determined independently of the results for any other fiscal quarter; profits or losses in one fiscal quarter will not be used to calculate net profits in any subsequent fiscal quarter.

The Committee shall set the standards for determining net profits, the qualifying levels and the percentages of excess profits that covered employees are eligible to receive with respect to a fiscal quarter, no later than the latest time permitted by the Code for that fiscal quarter. Qualifying levels will be based on the value of net operating assets of the Company, the branch or the subsidiary, multiplied by a rate of return on those assets. Individual percentages will be based on job function.

No award in excess of $2,500,000 will be paid to any covered employee under this Plan with respect to any fiscal year. The Committee, in its sole discretion, may reduce or eliminate the award to any covered employee in any year. The reduction in the amount of an award to any covered employee shall not, however, affect the amount of the award to any other covered employee.

Payment of Awards

Awards will be paid quarterly, within five weeks of the last day of the fiscal quarter. No bonus shall be paid unless and until the Committee certifies in writing that the performance goals of the Plan are satisfied.

No covered employee is eligible to receive an award under the Plan until he or she works an entire fiscal quarter for the Company. Anyone who is terminated by the Company without cause, as determined by the Committee in its sole discretion, dies, is on disability or voluntarily quits the Company before the last day of a fiscal quarter, will be paid on a pro-rata basis for the days actually worked in that fiscal quarter.

Scope of the Plan

Nothing in this Plan shall be construed as precluding or prohibiting the Company from establishing or maintaining other bonus or compensation arrangements, which may be applicable to all employees and officers or applicable only to selected employees or officers; provided, however, that an individual who receives an award under this Plan with respect to a fiscal quarter shall not be permitted to participate in any other bonus arrangement or plan of the Company for that fiscal quarter that provides bonuses similarly calculated as a percentage of profits in excess of a qualifying level.

Amendment and Termination

The Company reserves the right to amend or terminate this Plan at any time with respect to future services of covered employees. Plan amendments will require stockholder approval only to the extent required by applicable law.

General

The establishment of the Plan shall not confer any legal right on any covered employee or other person to continued employment, nor shall it interfere with the right of the Company to discharge any covered employee and treat him or her without regard to the effect that such treatment might have on him or her as a participant in the Plan. The laws of the State of California will govern any legal dispute involving the Plan.

No Funding

The Company shall not be required to fund or otherwise segregate any cash or any other assets that may at any time be paid to participants under the Plan. The Plan shall constitute an unfunded plan of the Company. Neither the Company nor the Committee shall, by any provision of the Plan, be deemed to be a trustee of any property, and any obligations of the Company to any participant under the Plan shall be those of a debtor and any rights of any participant or former participant shall be limited to those of a general unsecured creditor.

Non-Transferability of Benefits and Interests

Except as expressly provided by the Committee, no benefit payable under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any such attempted action shall be void. No benefit payable under the Plan shall be in any manner liable for or subject to debts, contracts, liabilities, engagements or torts of any participant or former participant. This section shall not apply to an assignment of a contingency or payment due after the death of the covered employee to the deceased covered employee s legal representative or beneficiary.