GIBRALTAR INDUSTRIES, INC.
Form 10-Q
May 10, 2007

Table of Contents

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark one)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 0-22462

Gibraltar Industries, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	16-1445150
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3556 Lake Shore Road, P.O. Box 2028, Buffalo, New York 14219-0228
(Address of principal executive offices)
(716) 826-6500
(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.). Yes o No þ

As of May 7, 2007, the number of common shares outstanding was: 29,844,195.

GIBRALTAR INDUSTRIES, INC.
INDEX

Table of Contents

PART I FINANCIAL INFORMATION
Item 1. Financial Statements

GIBRALTAR INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	March 31, 2007 (unaudited)	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 20,675	$ 13,475
Accounts receivable, net	197,066	169,207
Inventories	248,797	254,991
Other current assets	19,082	18,107
Total current assets	485,620	455,780
Property, plant and equipment, net	245,189	243,138
Goodwill	388,874	374,821
Acquired intangibles	61,840	62,366
Investments in partnerships	2,719	2,440
Other assets	13,747	14,323
	$ 1,197,989	$ 1,152,868
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 92,003	$ 71,308
Accrued expenses	47,255	50,771
Current maturities of long-term debt	2,555	2,336
Total current liabilities	141,813	124,415
Long-term debt	418,174	398,217
Deferred income taxes	71,320	70,981
Other non-current liabilities	12,578	9,027
Shareholders equity:		
Preferred stock, $.01 par value; authorized: 10,000,000 shares; none outstanding		
Common stock, $.01 par value; authorized 50,000,000 shares; issued 29,883,795 shares in 2007 and 2006	299	299
Additional paid-in capital	216,485	215,944
Retained earnings	335,354	332,920
Accumulated other comprehensive income	1,966	1,065

	554,104	550,228
Less: cost of 44,100 and 42,600 common shares held in treasury in 2007 and 2006		
Total shareholders equity	554,104	550,228
	$ 1,197,989	$ 1,152,868

See accompanying notes to condensed consolidated financial statements

3

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share date)
(unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Net sales	$ 317,584	$ 322,637
Cost of sales	265,933	259,406
Gross profit	51,651	63,231
Selling, general and administrative expense	35,210	37,840
Income from operations	16,441	25,391
Other (income) expense:		
Equity in partnerships income and other income	(362)	(686)
Interest expense	7,237	6,779
Total other expense	6,875	6,093
Income before taxes	9,566	19,298
Provision for income taxes	3,398	7,565
Income from continuing operations	6,168	11,733
Discontinued operations:		
Income from discontinued operations before taxes		4,303
Income tax expense		1,639
Income from discontinued operations		2,664
Net income	$ 6,168	$ 14,397
Net income per share Basic:		
Income from continuing operations	$ .21	$ .40
Income from discontinued operations	.00	.09
Net Income	$ .21	$ .49

Weighted average shares outstanding Basic	29,844	29,652
Net income per share Diluted:		
Income from continuing operations	$ .21	$ .39
Income from discontinued operations	.00	.09
Net Income	$ .21	$ .48
Weighted average shares outstanding Diluted	30,056	29,944

See accompanying notes to condensed consolidated financial statements

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2007	2006
Cash flows from operating activities		
Net income	$ 6,168	$ 14,397
Income from discontinued operations		2,664
Income from continuing operations	6,168	11,733
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,461	6,816
Provision for deferred income taxes	(229)	
Equity in partnerships (loss) income	279	131
Distributions from partnerships		188
Stock compensation expense	541	706
Other noncash adjustments	3	25
Increase (decrease) in cash resulting from changes in (net of acquisitions):		
Accounts receivable	(23,291)	(31,252)
Inventories	10,565	(16,970)
Other current assets and other assets	384	73
Accounts payable	17,822	15,420
Accrued expenses and other non-current liabilities	(2,986)	4,056
Net cash provided by (used in) continuing operations	16,717	(9,074)
Net cash provided by discontinued operations		5,504
Net cash provided by (used in) operating activities	16,717	(3,570)
Cash flows from investing activities		
Purchases of property, plant and equipment	(5,369)	(5,303)
Net proceeds from sale of property and equipment	445	36
Acquisitions, net of cash acquired	(22,492)	
Net cash used in investing activities for continuing operations	(27,416)	(5,267)
Net cash used in investing activities for discontinued operations		(1,074)
Net cash used in investing activities	(27,416)	(6,341)
Cash flows from financing activities		
Long-term debt reduction	(885)	(8,320)
Proceeds from long-term debt	20,284	
Payment of deferred financing costs	(8)	(161)

Net proceeds from issuance of common stock		552
Payment of dividends	(1,492)	(1,487)
Tax benefit from stock options		115
Net cash provided by (used in) financing activities	17,899	(9,301)
Net decrease in cash and cash equivalents	7,200	(19,212)
Cash and cash equivalents at beginning of year	13,475	28,529
Cash and cash equivalents at end of period	$ 20,675	$ 9,317

See accompanying notes to condensed consolidated financial statements

5

Table of Contents

GIBRALTAR INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements as of March 31, 2007 and 2006 have been prepared by Gibraltar Industries, Inc. (the Company) without audit. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) necessary to present fairly the financial position, results of operations and cash flows at March 31, 2007 and 2006 have been included therein.

Certain information and footnote disclosures, including significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements included in the Company s Annual Report to Shareholders for the year ended December 31, 2006, as filed on Form 10-K.

The consolidated balance sheet at December 31, 2006 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The results of operations for the three month period ended March 31, 2007 are not necessarily indicative of the results to be expected for the full year.

Table of Contents

2. SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

The changes in shareholders equity and comprehensive income consist of (in thousands):

	Comprehensive Income	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock Shares	Treasury Stock Amount	Total Shareholders Equity
Balance at January 1, 2007		29,841	$ 299	$ 215,944	$ 332,920	$ 1,065	43	$	$ 550,228
Cumulative effect of adoption of FIN 48					(750)				(750)
Comprehensive income:									
Net income	$ 6,168				6,168				6,168
Other comprehensive income (loss):									
Foreign currency translation adjustment,	1,087								
Unrealized gain on interest rate swaps, net of tax of $114	(186)								
Other comprehensive income	901					901			901
Total comprehensive income	$ 7,069								
Equity based compensation expense				541					541
Cash dividends $.10 per share					(2,984)				(2,984)
Forfeiture of restricted stock							1		
Balance at March 31, 2007		29,841	$ 299	$ 216,485	$ 335,354	$ 1,966	44	$	$ 554,104

The cumulative balance of each component of accumulated other comprehensive income, net of tax, is as follows (in thousands):

	Foreign currency translation adjustment	Minimum pension liability adjustment	Unamortized post retirement health care costs	Unrealized gain/(loss) on interest rate swaps	Accumulated other comprehensive income
Balance at January 1, 2007	$ 1,977	$ 3	$ (969)	$ 54	$ 1,065
Current period change	1,087			(186)	901
Balance at March 31, 2007	$ 3,064	$ 3	$ (969)	$ (132)	$ 1,966

Table of Contents

3. INCOME TAXES

The Company and its U. S. subsidiaries file a U.S. federal consolidated income tax return. The Internal Revenue Service has concluded its examination of the Company s income tax returns for the years prior to 2003. The U.S. federal statute of limitations remains open for the 2003 tax year and beyond. Foreign and U.S. state jurisdictions have statutes of limitations generally ranging from 4 to 6 years. Several of our tax returns are currently under examination in various U.S. state jurisdictions.

We adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48) effective January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a $750,000 increase in tax liabilities, with a corresponding reduction in retained earnings. The recognition was caused by uncertain tax positions of $408,000 and the provision for related interest and penalties of $342,000.

During the three months ended March 31, 2007, the Company incurred an additional $25,000 to account for uncertain tax positions. The Company does not anticipate significant increases or decreases in our uncertain tax positions within the next twelve months.

The Company recognizes penalties and interest relating to uncertain tax positions in the provision for income taxes.

4. EQUITY-BASED COMPENSATION

On May 19, 2005, the Gibraltar Industries, Inc. 2005 Equity Incentive Plan (the 2005 Equity Incentive Plan) was approved by the Company s stockholders. The 2005 Equity Incentive Plan is an incentive compensation plan that allows the Company to grant equity-based incentive compensation awards to eligible participants to provide them an additional incentive to promote the business of the Company, to increase their proprietary interest in the success of the Company and to encourage them to remain in the Company s employ. Awards under the plan may be in the form of options, restricted shares, restricted units, performance shares, performance units and rights. The 2005 Equity Incentive Plan provides for the issuance of up to 2,250,000 shares of common stock. Of the total number of shares of common stock issuable under the plan, the aggregate number of shares that may be issued in connection with grants of restricted stock or restricted units cannot exceed 1,350,000 shares, and the aggregate number of shares which may be issued in connection with grants of incentive stock options and rights cannot exceed 900,000 shares. Vesting terms and award life are governed by the award document.

The Management Stock Purchase Plan (MSPP) was approved by the shareholders in conjunction with the adoption of the 2005 Equity Incentive Plan. The MSPP provides participants the ability to defer up to 50% of their annual bonus under the Management Incentive Compensation Plan. The deferral is converted to restricted stock units and credited to an account along with a match equal to the deferral amount. The account is converted to cash at the current value of the Company s stock and payable to the participants upon their termination from employment with the Company. The matching portion is payable only if the participant has reached their sixtieth birthday. If a participant terminates prior to age 60, the match is forfeited. Upon termination, the account is converted to a cash account that accrues interest at 2% over the then current 10 year U. S. Treasury note. The account is then paid out in five equal annual cash installments.

During the three months ended March 31, 2006, the Company issued 164,125 restricted stock units, and granted 18,625 non-qualified stock options. There were no issuances of restricted stock units or options during the three months ended March 31, 2007.

Table of Contents

The fair value of restricted stock units held in the MSPP equals the market value of our common stock on the last day of the period. During the three months ended March 31, 2007, 55,757 restricted stock units were credited to participant accounts. At March 31, 2007, the market value of our common stock was $22.62 per share.

5. INVENTORIES

Inventories consist of the following (in thousands):

	March 31, 2007	December 31, 2006
Raw material	$ 125,655	$ 122,181
Work-in process	29,578	41,164
Finished goods	93,564	91,646
Total inventories	$ 248,797	$ 254,991

6. NET INCOME PER SHARE

Basic income per share is based on the weighted average number of common shares outstanding. Diluted income per share is based on the weighted average number of common shares outstanding, as well as dilutive potential common shares which, in the Company s case, comprise shares issuable under the stock option and restricted stock plans. The treasury stock method is used to calculate dilutive shares, which reduces the gross number of dilutive shares by the number of shares purchasable from the proceeds of the options assumed to be exercised.

The following table sets forth the computation of basic and diluted earnings per share as of March 31:

	2007	2006
Numerator:		
Income available to common stockholders from continuing operations	$ 6,168,000	$ 11,733,000
Denominator for basic income per share:		
Weighted average shares outstanding	29,844,213	29,652,487
Denominator for diluted income per share:		
Weighted average shares outstanding	29,844,213	29,652,487
Common stock options and restricted stock	212,088	291,874
Weighted average shares and conversions	30,056,301	29,944,361

7. ACQUISITIONS

On June 8, 2006, the Company acquired all of the outstanding stock of Home Impressions, Inc. (Home Impressions). Home Impressions is based in Hickory, North Carolina and markets and distributes mailboxes and postal accessories. The acquisition of Home Impressions served to strengthen the Company s position in the mailbox and storage systems markets, and is expected to provide marketing, manufacturing and distribution synergies with our existing operations. The results of Home Impressions (included in the Company s Building Products segment) have been included in the Company s consolidated financial results from the date of acquisition. The acquisition of Home Impressions is not considered significant to the Company s consolidated results of operations.

Table of Contents

As part of the purchase agreement with the former owners of Home Impressions, the Company is required to pay additional consideration through May 2009 based upon the operating results of Home Impressions. The Company paid $57,000 of such additional consideration during the three months ended March 31, 2007. These payments were recorded as additional goodwill.

On June 30, 2006, the Company acquired certain assets of Steel City Hardware, LLC (Steel City). The assets the Company acquired from Steel City are used to manufacture mailboxes and postal accessories. The acquisition of the assets of Steel City served to vertically integrate Home Impression s major domestic supplier and expanded our manufacturing competency in the storage market. The results of Steel City (included in the Company s Building Products segment) are included in the Company s consolidated financial results from the date of acquisition. The acquisition of Steel City is not considered significant to the Company s consolidated results of operations.

The aggregate initial consideration was approximately $4,879,000, in cash and acquisition costs. The purchase price has been allocated to the assets acquired based upon a preliminary valuation of respective fair market values. A final valuation is expected to be completed during the second quarter of 2007. The excess consideration over fair value was recorded as goodwill and aggregated approximately $2,566,000, which is deductible for tax purposes. The allocation of purchase consideration to the assets and liabilities assumed is as follows (in thousands):

Working capital	$ 1,736
Property, plant and equipment	577
Goodwill	2,566
	$ 4,879

On November 1, 2006, the Company acquired all of the outstanding stock of The Expanded Metal Company Limited and Sorst Streckmetall GmbH (EMC). EMC has locations in England, Germany and Poland and manufactures, markets and distributes a diverse line of products used in the commercial and industrial sectors of the building products market. The acquisition of EMC is expected to strengthen the Company s position in the expanded metal market and provide expanded market exposure for both EMC products and certain products currently manufactured by the Company. The results of operations of EMC (included in the Company s Building Products segment) have been included in the Company s consolidated results of operations from the date of acquisition.

The aggregate purchase consideration for the acquisition of EMC was approximately $44,629,000 in cash and acquisition costs. The purchase price was allocated to the assets acquired and liabilities assumed based upon a preliminary valuation of respective fair values. The identifiable intangible assets consisted of a trademark with a value of $4,771,000 (indefinite useful life) and customer relationships with a value of $7,443,000 (7 year estimated useful life). A final valuation is expected to be completed during the second quarter of 2007. The excess consideration over fair value was recorded as goodwill and aggregated approximately $20,244,000, none of which is deductible for tax purposes. The allocation of purchase consideration to the assets acquired and liabilities assumed is as follows (in thousands):

Working capital	$ 5,790
Property, plant and equipment	11,338
Other long term liabilities, net	(4,957)
Intangible assets	12,214
Goodwill	20,244
	$ 44,629

Table of Contents

On March 9, 2007 the Company acquired all of the outstanding stock of Dramex Corporation (Dramex). Dramex has locations in Ohio, Canada and England and manufactures, markets and distributes a diverse line of expanded metal products used in the commercial and industrial sectors of the building products market. The acquisition of Dramex is expected to strengthen the Company s position in the expanded metal market and provide additional exposure for both Dramex s products and certain products currently manufactured by the Company. The results of Dramex (included in the Company s Building Products segment) are included in the Company s consolidated financial results from the date of acquisition. The acquisition of Dramex is not considered significant to the Company s consolidated results of operations.

The aggregate purchase consideration for the acquisition of Dramex was $22,492,000 in cash and acquisition costs. The purchase price was allocated to the assets acquired and liabilities assumed based upon a preliminary valuation of r