GIBRALTAR INDUSTRIES, INC.
Form 10-Q
August 01, 2013
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from __________ to __________

Commission file number 0-22462

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 x No ¨

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

As of July 29, 2013, the number of common shares outstanding was: 30,694,837.

Table of Contents

GIBRALTAR INDUSTRIES, INC.

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GIBRALTAR INDUSTRIES, INC.

CONSOLIDATED INCOME STATEMENTS

(in thousands, except per share data)

(unaudited)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net sales	$ 224,519	$ 219,734	$ 421,320	$ 411,905
Cost of sales	179,813	178,008	340,437	334,698
Gross profit	44,706	41,726	80,883	77,207
Selling, general, and administrative expense	28,423	25,433	59,404	53,891
Income from operations	16,283	16,293	21,479	23,316
Interest expense	3,690	4,627	14,850	9,301
Other income	(9)	(315)	(75)	(346)
Income before taxes	12,602	11,981	6,704	14,361
Provision for income taxes	4,870	4,066	2,615	4,997
Income from continuing operations	7,732	7,915	4,089	9,364
Discontinued operations:				
Loss before taxes		(16)	(7)	(153)
Benefit of income taxes		(7)	(3)	(57)
Loss from discontinued operations		(9)	(4)	(96)
Net income	$ 7,732	$ 7,906	$ 4,085	$ 9,268
Net earnings per share Basic:				
Income from continuing operations	$ 0.25	$ 0.26	$ 0.13	$ 0.30
Loss from discontinued operations				
Net income	$ 0.25	$ 0.26	$ 0.13	$ 0.30
Weighted average shares outstanding Basic	30,925	30,735	30,901	30,726
Net earnings per share Diluted:				
Income from continuing operations	$ 0.25	$ 0.26	$ 0.13	$ 0.30
Loss from discontinued operations				
Net income	$ 0.25	$ 0.26	$ 0.13	$ 0.30

Weighted average shares outstanding	Diluted	31,099	30,815	31,079	30,806

See accompanying notes to consolidated financial statements.

Table of Contents

GIBRALTAR INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$ 7,732	$ 7,906	$ 4,085	$ 9,268
Other comprehensive loss:				
Foreign currency translation adjustment	(804)	(1,996)	(3,901)	(61)
Adjustment to retirement benefit liability, net of tax	2	2	4	4
Adjustment to post-retirement health care liability, net of tax		15	38	31
Other comprehensive loss	(802)	(1,979)	(3,859)	(26)
Total comprehensive income	$ 6,930	$ 5,927	$ 226	$ 9,242

See accompanying notes to consolidated financial statements.

4

Table of Contents

GIBRALTAR INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	June 30, 2013 (unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 44,637	$ 48,028
Accounts receivable, net of reserve of $4,373 and $4,481 in 2013 and 2012, respectively	121,851	89,473
Inventories	119,022	116,357
Other current assets	17,051	13,380
Total current assets	302,561	267,238
Property, plant, and equipment, net	144,412	151,613
Goodwill	358,871	359,863
Acquired intangibles	94,966	98,759
Other assets	7,175	6,201
	$ 907,985	$ 883,674
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 81,812	$ 69,060
Accrued expenses	43,975	47,432
Current maturities of long-term debt	417	1,093
Total current liabilities	126,204	117,585
Long-term debt	213,604	206,710
Deferred income taxes	56,934	57,068
Other non-current liabilities	32,810	25,489
Shareholders equity:		
Preferred stock, $0.01 par value; authorized: 10,000 shares; none outstanding		
Common stock, $0.01 par value; authorized 50,000 shares; 31,085 and 30,938 shares issued in 2013 and 2012	310	309
Additional paid-in capital	242,127	240,107
Retained earnings	246,167	242,082
Accumulated other comprehensive loss	(5,434)	(1,575)
Cost of 389 and 350 common shares held in treasury in 2013 and 2012	(4,737)	(4,101)
Total shareholders equity	478,433	476,822
	$ 907,985	$ 883,674

See accompanying notes to consolidated financial statements.

Table of Contents

GIBRALTAR INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30, 2013	2012
Cash Flows from Operating Activities		
Net income	$ 4,085	$ 9,268
Loss from discontinued operations	(4)	(96)
Income from continuing operations	4,089	9,364
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	13,716	13,292
Loss on early note redemption	7,166	
Stock compensation expense	1,623	2,038
Non-cash charges to interest expense	496	789
Other non-cash adjustments	1,653	2,806
Increase (decrease) in cash resulting from changes in the following (excluding the effects of acquisitions):		
Accounts receivable	(34,296)	(24,860)
Inventories	(3,628)	(7,146)
Other current assets and other assets	(3,206)	805
Accounts payable	13,487	15,851
Accrued expenses and other non-current liabilities	4,169	(14,937)
Net cash provided by (used in) operating activities of continuing operations	5,269	(1,998)
Net cash used in operating activities of discontinued operations	(7)	(36)
Net cash provided by (used in) operating activities	5,262	(2,034)
Cash Flows from Investing Activities		
Cash paid for acquisitions, net of cash acquired	(146)	(2,705)
Purchases of property, plant, and equipment	(4,741)	(4,562)
Net proceeds from sale of property and equipment	247	414
Net cash used in investing activities	(4,640)	(6,853)
Cash Flows from Financing Activities		
Proceeds from long-term debt	210,000	
Long-term debt payments	(205,080)	(404)
Payment of deferred financing costs	(3,755)	
Payment of note redemption fees	(3,702)	
Purchase of treasury stock at market prices	(636)	(968)
Net proceeds from issuance of common stock	336	10
Excess tax benefit from stock compensation	62	59
Net cash used in financing activities	(2,775)	(1,303)

Effect of exchange rate changes on cash	(1,238)	136
Net decrease in cash and cash equivalents	(3,391)	(10,054)
Cash and cash equivalents at beginning of year	48,028	54,117
Cash and cash equivalents at end of period	$ 44,637	$ 44,063

See accompanying notes to consolidated financial statements.

Table of Contents

GIBRALTAR INDUSTRIES, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(in thousands)

(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock Amount	Total Shareholders Equity
Balance at December 31, 2012	30,938	$ 309	$ 240,107	$ 242,082	$ (1,575)	350	$ (4,101)	$ 476,822
Net income				4,085				4,085
Foreign currency translation adjustment					(3,901)			(3,901)
Adjustment to pension benefit liability, net of taxes of $3					4			4
Adjustment to post-retirement healthcare benefit liability, net of taxes of $24					38			38
Stock compensation expense			1,623					1,623
Excess tax benefit from compensation			62					62
Net settlement of restricted stock units	102	1	(1)			39	(636)	(636)
Issuance of restricted stock	13							
Stock options exercised	32		336					336
Balance at June 30, 2013	31,085	$ 310	$ 242,127	$ 246,167	$ (5,434)	389	$ (4,737)	$ 478,433

See accompanying notes to consolidated financial statements.

Table of Contents

GIBRALTAR INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements 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 results of operations and other comprehensive income for the three and six months ended June 30, 2013 and 2012, the financial position at June 30, 2013 and December 31, 2012, the statements of cash flow for the six months ended June 30, 2013 and 2012, and the statement of shareholders equity for the six months ended June 30, 2013 have been included therein in accordance with U.S. Securities and Exchange Commission (SEC) rules and regulations and prepared using the same accounting principles as are used for our annual audited financial statements.

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 (GAAP), have been condensed or omitted in accordance with the prescribed SEC rules. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and footnotes included in the Company s Annual Report for the year ended December 31, 2012 as filed on Form 10-K.

The consolidated balance sheet at December 31, 2012 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 and six month periods ended June 30, 2013 are not necessarily indicative of the results to be expected for the full year.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2013-02, Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (Topic 220 Update). The amendments in Topic 220 Update require a company to report the effect of significant reclassifications out of accumulated other comprehensive income (AOCI) on the respective line items in net income if the amount is required by U.S. GAAP to be reclassified in its entirety to net income. For amounts not required under U.S. GAAP to be reclassified in their entirety, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2012 and are to be applied prospectively. The Company adopted Topic 220 Update 2013-02 prospectively in 2013 and its adoption does not have a material impact on the Company s consolidated financial statements.

In March 2013, the FASB issued Accounting Standards Update 2013-05, Foreign Currency Matters (Topic 830) Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (Topic 830 Update). The amendments in Topic 830 Update require a company to release the cumulative translation adjustment into net income upon the loss of a controlling financial interest in a foreign subsidiary or group of assets. The amendments are effective prospectively beginning after December 15, 2013, and early adoption is permitted. The Company does not expect the adoption of Topic 830 Update 2013-05 to have a material impact of the Company s consolidated financial results.

Table of Contents

3. INVENTORIES

Inventories consist of the following (in thousands):

	June 30, 2013	December 31, 2012
Raw material	$ 53,874	$ 49,750
Work-in-process	10,931	12,430
Finished goods	54,217	54,177
Total inventories	$ 119,022	$ 116,357

4. ACQUISITIONS

During 2012, Gibraltar purchased the assets of four businesses in separate transactions, one of which occurred during the first quarter of 2012. The acquired product lines complement and expand the Company s product portfolio and customer base in four key U.S. and Canadian markets:

Metal grating products for the oil sands region of Western Canada;

Function-critical components for transportation infrastructure construction and maintenance;

Perforated metal products for industrial applications; and

Exterior, retractable awnings and sun protection accessory products for new residential construction and home remodeling.

Gibraltar funded the aggregate investment of $43,263,000 from existing cash on hand of which $146,000 was remitted in the second quarter of 2013 for working capital settlements. In the first quarter of 2012, $2,705,000 was paid for the metal grating product assets acquired. The purchase price for each acquisition was allocated to the assets acquired and liabilities assumed based upon their respective fair values. The excess consideration was recorded as goodwill and totaled $15,263,000, all of which is deductible for tax purposes. Goodwill represents future economic benefits arising from other assets acquired that could not be individually identified including growth opportunities and increased presence in the building products markets.

The allocation of purchase consideration to the assets acquired and liabilities assumed during 2012 are as follows (in thousands):

Working capital	$ 8,868
Property, plant, and equipment	9,682
Acquired intangible assets	10,183
Other liabilities	(733)
Goodwill	15,263
Fair value of purchase consideration	$ 43,263

The acquired intangible assets consisted of the following for the four acquisitions completed during the year ended December 31, 2012 (in thousands):

	Fair Value	Estimated Useful Life
Customer relationships	$ 4,470	5-15 Years
Unpatented technology and patents	2,313	15 Years
Trademarks	2,130	Indefinite
Amortizable trademarks	800	5 Years
Non-compete agreements	340	5-10 Years
Backlog	130	0.5 Years
Total	$ 10,183	

Table of Contents

The Company incurred certain acquisition-related costs, primarily composed of legal and consulting fees of $2,000 and $32,000 for the three months ended June 30, 2013 and 2012, respectively, and $119,000 and $112,000 for the six months ended June 30, 2013 and 2012, respectively. All acquisition-related costs were recognized as a component of selling, general, and administrative expenses in the consolidated statement of operations. The Company also recognized additional cost of sales of $89,000 for the three months ended June 30, 2012, and $203,000 and $150,000 for the six months ended June 30, 2013 and June 30, 2012, respectively, related to the sale of inventory at fair value as a result of allocating the purchase price of the recent acquisitions.

5. GOODWILL AND RELATED INTANGIBLE ASSETS

Goodwill

The changes in the carrying amount of goodwill for the six months ended June 30, 2013 are as follows (in thousands):

Balance as of December 31, 2012	$ 359,863
Working capital/acquisition adjustment	252
Foreign currency translation	(1,244)
Balance as of June 30, 2013	$ 358,871

The goodwill balances as of June 30, 2013 and December 31, 2012 are net of accumulated impairment losses of $129,925,000.

Acquired Intangible Assets

Acquired intangible assets consist of the following (in thousands):

	June 30, 2013		December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Estimated Life
Indefinite-lived intangible assets:					
Trademarks	$ 48,482	$	$ 48,774	$	indefinite
Finite-lived intangible assets:					
Trademarks	2,766	1,231	2,771	1,085	2 to 15 years
Unpatented technology	24,430	6,089	24,427	5,204	5 to 20 years
Customer relationships	52,606	26,474	53,043	24,687	5 to 16 years
Non-compete agreements	1,797	1,321	3,207	2,598	4 to 10 years
Backlog	1,330	1,330	1,330	1,219	0.5 to 2 years
	82,929	36,445	84,778	34,793	
Total acquired intangible assets	$ 131,411	$ 36,445	$ 133,552	$ 34,793	

The following table summarizes the acquired intangible asset amortization expense for the three and six months ended June 30 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Amortization expense	$ 1,677	$ 1,879	$ 3,396	$ 3,510

10

Table of Contents

Amortization expense related to acquired intangible assets for the remainder of fiscal 2013 and the next five years thereafter is estimated as follows (in thousands):

2013	$ 3,086
2014	$ 5,496
2015	$ 5,360
2016	$ 5,025
2017	$ 3,190
2018	$ 2,613

6. RELATED PARTY TRANSACTIONS

A member of the Company s Board of Directors, Gerald S. Lippes, is a partner in a law firm that provides legal services to the Company. For the three and six months ended June 30, 2013, the Company incurred expense of $146,000 and $658,000, respectively, for legal services from this firm. The Company incurred $367,000 and $666,000 for legal services from this firm during the three and six months ended June 30, 2012, respectively. Of the amounts incurred during the six months ended June 30, 2012, $12,000 related to services provided in connection with the sale of businesses and were recognized as a component of discontinued operations. All other amounts incurred during the 2013 and 2012 periods were expensed as a component of selling, general, and administrative expenses. At June 30, 2013 and December 31, 2012, the Company had $359,000 and $530,000, respectively, recorded in accounts payable for amounts due to this law firm.

7. LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	June 30, 2013	December 31, 2012
Senior Subordinated 6.25% Notes	$ 210,000	$
Senior Subordinated 8% Notes recorded net of unamortized discount of $1,298		202,702
Other debt	4,021	5,101
Total debt	214,021	207,803
Less current maturities	417	1,093
Total long-term debt	$ 213,604	$ 206,710

Borrowings under the Senior Credit Agreement are secured by the trade receivables, inventory, personal property and equipment, and certain real property of the Company s significant domestic subsidiaries. The Senior Credit Agreement provides for a revolving credit facility and letters of credit in an aggregate amount that does not exceed the lesser of (i) $200 million or (ii) a borrowing base determined by reference to the trade receivable, inventories, and property, plant, and equipment of the Company s significant domestic subsidiaries. The Company can request additional financing from the banks to increase the revolving credit facility to $250 million under the terms of the Senior Credit Agreement.

The terms of the Senior Credit Agreement provide that the revolving credit facility will terminate on October 10, 2016. Interest rates on the revolving credit facility are based on the London Interbank Offering Rate (LIBOR) plus an additional margin of 2.0% to 2.5%. In addition, the revolving credit facility is subject to an annual commitment fee calculated as 0.375% of the daily average undrawn balance.

Standby letters of credit of $13,888,000 have been issued under the Senior Credit Agreement to third parties on behalf of the Company as of June 30, 2013. These letters of credit reduce the amount otherwise available under the revolving credit facility. As of June 30, 2013, the Company had $142,049,000 of availability under the revolving credit facility. No borrowings were outstanding under the revolving credit facility at June 30, 2013 and December 31, 2012.

Table of Contents

On a trailing four-quarter basis, the Senior Credit Agreement includes a single financial covenant that requires the Company to maintain a minimum fixed charge coverage ratio of 1.25 to 1.00 at the end of each quarter. As of June 30, 2013, the Company was in compliance with this financial covenant. The Senior Credit Agreement contains other provisions and events of default that are customary for similar agreements and may limit the Company s ability to take various actions.

On January 31, 2013, the Company issued $210 million of 6.25% Senior Subordinated Notes (6.25% Notes) due February 1, 2021. In connection with the issuance of the 6.25% Notes, the Company initiated a tender offer for the purchase of the outstanding $204 million of 8% Senior Subordinated Notes (8% Notes). Simultaneously with the closing of the sale of the 6.25% Notes, the Company purchased tendered notes or called for redemption of all of the remaining 8% Notes that were not purchased. In connection with the redemption and tender offer, the Company satisfied and discharged its obligations under the 8% Notes during six months ended June 30, 2013. The Company recorded a charge of approximately $7,166,000 in the first quarter of 2013, including $3,702,000 for the prepayment premium paid to holders of the 8% Notes, $2,199,000 to write-off deferred financing fees and $1,265,000 for the unamortized original issue discount related to the 8% Notes. In connection with the issuance of the 6.25% Notes, the Company paid $3,755,000 in placement and other fees which are recorded as deferred financing costs and included in other assets.

The provisions of the 6.25% Notes include, without limitation, restrictions on indebtedness, liens, and distributions from restricted subsidiaries, asset sales, affiliate transactions, dividends, and other restricted payments. Dividend payments are subject to annual limits of the greater of $0.25 per share or $25 million. The 6.25% Notes are redeemable at the option of the Company, in whole or in part, at any time on or after February 1, 2017, at the redemption price (as defined in the Senior Subordinated 6.25% Notes Indenture). The redemption prices are 103.13%, and 101.56% of the principal amount thereof if the redemption occurs during the 12-month periods beginning February 1, of the years 2017 and 2018, respectively, and 100% of the principal amount thereof on and after February 1, 2019, in each case plus accrued and unpaid interest to the applicable redemption date. In addition, prior to February 1, 2016, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of certain equity offerings by the Company at a redemption price of 106.25% of the principal amount thereof, plus accrued and unpaid interest to the redemption date. In the event of a Change in Control, each holder of the 6.25% Notes may require the Company to repurchase all or a portion of such holder s 6.25% Notes at a purchase price equal to 101% of the principal amount thereof.

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Foreign Currency Translation Adjustment	Minimum Pension Liability Adjustment	Unamortized Post-Retirement Health Care Costs	Accumulated Other Comprehensive (Loss) Income
Balance at December 31, 2012	$ (93)	$ (8)	$ (1,474)	$ (1,575)
Current period change	(3,901)	4	38	(3,859)
Balance at June 30, 2013	$ (3,994)	$ (4)	$ (1,436)	$ (5,434)

9. EQUITY-BASED COMPENSATION

The Gibraltar Industries, Inc. 2005 Equity Incentive Plan (the 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 increase the value 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 stock units, and rights. The Plan provides for the issuance of up to 3,000,000 shares of common stock. Of the total number of shares of common stock issuable under the Plan, 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.

Table of Contents

Equity-based awards to employees and directors, including grants of stock options, restricted stock units, and restricted stock, are recognized in the income statements based on the grant-date fair value of the award. The Company uses the straight-line method of attributing the value of stock-based compensation expense over the vesting periods. Stock compensation expense recognized during the period is based on the value of the portion of equity-based awards that is ultimately expected to vest during the period. Vesting requirements vary for directors, executives, and key employees with a vesting period that typically equals four years with graded vesting.

The following table provides the number of restricted stock units (that will convert to shares upon vesting) and restricted stock that were issued during the six months ended June 30 along with the weighted average grant date fair value of each award:

	2013		2012	
Awards	Number of Awards	Weighted Average Grant Date Fair Value	Number of Awards	Weighted Average Grant Date Fair Value
Restricted stock units	72,165	$ 16.50	74,532	$ 14.36
Restricted shares	13,188	$ 16.83	11,130	$ 11.86

In January 2012, the Company awarded 295,000 performance stock units with grant date fair value of $4,152,000, of which 280,000 remained outstanding after forfeitures at the end of the performance period on December 31, 2012. The final number of performance stock units earned was calculated at the end of the measurement period based on the Company s total stockholder returns relative to the S&P Small Cap 600 Index for the calendar year of 2012. As a result, the participants earned 58.3% of the 280,000 target adjusted for forfeitures, which resulted in an award of 163,200 performance stock units.

In January 2013, the Company awarded 304,000 performance stock units with grant date fair value of $4,123,000. As of June 30, 2013, 298,000 of the originally awarded performance stock units remained outstanding after forfeitures. The final number of performance stock units earned will be determined based on the Company s actual return on invested capital (ROIC) for 2013 relative to the improved ROIC targeted for the performance period ending December 31, 2013.

The cost of the 2012 and 2013 performance stock awards will be recognized over the requisite vesting period, which ranges between one year and three years, depending on the date a participant turns 60 and completes 5 years of service. After the vesting period, any performance stock units earned will convert to cash based on the trailing 90-day closing price of the Company s common stock as of December 31, 2014 and 2015 and be payable to participants in January 2015 and 2016, respectively.

The following table summarizes the compensation expense (recovery) recognized from the change in fair value and vesting of performance stock units for the three and six months ended June 30 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Performance stock unit compensation expense (recovery)	$ 596	$ (563)	$ 2,097	$ 116

The Management Stock Purchase Plan (MSPP) is an integral component of the Plan and provides participants the ability to defer a portion of their salary, their annual bonus under the Management Incentive Compensation Plan, and Directors fees. The deferral is converted to restricted stock units and credited to an account together with a company-match in restricted stock units equal to a percentage of the deferral amount. The account is converted to cash at the trailing 200-day average closing price of the Company s stock and payable to the participants upon termination of their service to the Company. The matching portion vests only if the participant has reached their sixtieth (60^{th}) birthday. If a participant terminates their service to the Company prior to age sixty (60), the match is forfeited. Upon termination, the account is converted to a cash account that accrues interest at 2% over the then current ten-year U.S. Treasury note rate. The account is then paid out in either one lump sum, or in five or ten equal annual cash installments at the participant s election.

The fair value of restricted stock units held in the MSPP equals the trailing 200-day average closing price of the Company s common stock as of the last day of the period. During the six months ended June 30, 2013 and 2012, 189,291 and 230,673 restricted stock units, respectively, including the company-match, were credited to participant accounts. At June 30, 2013 and December 31, 2012, the value of the restricted stock units in the MSPP was $15.67 and $12.30 per unit, respectively. At June 30, 2013 and December 31, 2012, 966,470 and 777,159 restricted stock units, including the company-match, were credited to participant accounts including 94,146 and 71,992, respectively, of unvested restricted stock units. The Company made disbursements of $531,000 and $542,000 out of MSPP accounts during the six months ended June 30, 2013 and 2012, respectively.

The following table summarizes the compensation expense recognized from the change in fair value of the restricted stock units held in the MSPP for the three and six months ended June 30 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
MSPP compensation expense	$ 2,045	$ 668	$ 3,322	$ 1,276

10. FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures, defines fair value, sets out a framework for measuring fair value, and requires certain disclosures about fair value measurements. A fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability. Fair value is defined based upon an exit price model.

FASB ASC Topic 820 establishes a valuation hierarchy for disclosure of the inputs used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company s assumptions used to measure assets and liabilities at fair value. A financial asset or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

As described in Note 4 of the consolidated financial statements, the Company completed four acquisitions during the year ended December 31, 2012. The estimated fair values allocated to the assets acquired and liabilities assumed relied upon fair value measurements based in part on Level 3 inputs. The valuation techniques used to assign fair values to inventory, property, plant and equipment, and intangible assets included the cost approach, market approach, relief-from-royalty approach, and other income approaches. The valuation techniques relied on a number of inputs which included the cost and condition of the property, plant and equipment, forecasted net sales and incomes, and royalty rates.

Table of Contents

The Company s financial instruments primarily consist of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, and long-term debt. The carrying values for our financial instruments approximate fair value with the exception, at times, of long-term debt. At June 30, 2013, the fair value of outstanding debt was $216,121,000 compared to its carrying value of $214,021,000. The fair value of the Company s Senior Subordinated 6.25% Notes was estimated based on quoted prices for similar liabilities, a Level 2 input.

11. DISCONTINUED OPERATIONS

For certain divestitures, the Company has agreed to indemnify the buyer for various liabilities that may arise after the disposal date, subject to limits of time and amount. As of June 30, 2013, the Company recognized a contingent liability for environmental remediation related to a discontinued operation. Management does not believe that the outcome of this claim, or other claims, would significantly affect the Company s financial condition or results of operation.

12. EXIT ACTIVITY COSTS AND ASSET IMPAIRMENTS

The Company focuses on being the low-cost provider of its products by reducing operating costs and implementing lean manufacturing initiatives, which have in part led to the consolidation of facilities and product lines. The Company eliminated a product line and consolidated two facilities during 2012 in this effort. During this process, the Company has incurred exit activity costs, including contract termination costs, severance costs, and other moving and closing costs. These restructuring activities also resulted in $616,000 and $1,467,000 of asset impairment charges related to the facility consolidations and product line rationalization during the six months ended June 30, 2013 and 2012, respectively.

The following table provides a summary of where the exit activity costs and asset impairments were recorded in the statement of operations for the three and six months ended June 30 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Cost of sales	$ 681	$ 1,113	$ 710	$ 2,879
Selling, general and administrative expense	75	4	75	18
Total exit activity costs and asset impairments	$ 756	$ 1,117	$ 785	$ 2,897

The following table reconciles the beginning and ending liability for exit activity costs relating to the Company s facility consolidation efforts (in thousands):

	2013	2012
Accrued costs as of January 1	$ 1,323	$ 2,315
Exit activity costs recognized	169	1,430
Cash payments	(610)	(2,129)
Accrued costs as of June 30	$ 882	$ 1,616

Table of Contents

13. INCOME TAXES

The following table summarizes the provision for income taxes for continuing operations for the three and six months ended June 30 and the applicable effective tax rates (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Provision for income taxes	$ 4,870	$ 4,066	$ 2,615	$ 4,997
Effective tax rate	38.6%	33.9%	39.0%	34.8%

The Company s provision for income taxes in interim periods is computed by applying forecasted annual effective tax rates to income or loss before income taxes for the interim period. In addition, non-recurring or discrete items, including interest on prior year tax liabilities, are recorded during the period in which they occur. To the extent that actual income or loss before taxes for the full year differs from the forecast estimates applied at the end of the most recent interim period, the actual tax rate recognized for the year ending December 31, 2013 could be materially different from the forecasted rate used for the six months ended June 30, 2013.

The effective tax rates for the three and six months ended June 30, 2013 exceeded U.S. federal statutory rate of 35% due to state taxes. The effective tax rates for the three and six months ended June 30, 2012 were lower than their comparable time periods in 2013 as well as the U.S. federal statutory rate of 35% primarily due to the reversal of an uncertain tax position of $0.6 million during the second quarter of that year.

14. NET EARNINGS PER SHARE

Basic earnings per share is based on the weighted average number of common shares outstanding. Diluted earnings 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 of shares issuable under its equity compensation plans described in Note 9 of the consolidated financial statements. 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 and the unrecognized expense related to the restricted stock and restricted stock unit awards assumed to have vested.

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Numerator:				
Income from continuing operations	$ 7,732	$ 7,915	$ 4,089	$ 9,364
Loss from discontinued operations		(9)	(4)	(96)
Income available to common stockholders	$ 7,732	$ 7,906	$ 4,085	$ 9,268
Denominator for basic income per share:				
Weighted average shares outstanding	30,925	30,735	30,901	30,726
Denominator for diluted income per share:				
Weighted average shares outstanding	30,925	30,735	30,901	30,726
Common stock options and restricted stock	174	80	178	80
Weighted average shares and conversions	31,099	30,815	31,079	30,806

15. SUPPLEMENTAL FINANCIAL INFORMATION

The following information sets forth the consolidating summary financial statements of the issuer (Gibraltar Industries, Inc.) and guarantors, which guarantee the Senior Subordinated 6.25% Notes due February 1, 2021, and the non-guarantors. The guarantors are wholly owned subsidiaries of the issuer and the guarantees are full, unconditional, joint and several.

Table of Contents

Investments in subsidiaries are accounted for by the parent using the equity method of accounting. The guarantor subsidiaries and non-guarantor subsidiaries are presented on a combined basis. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions.

Table of Contents

GIBRALTAR INDUSTRIES, INC.

CONSOLIDATING INCOME STATEMENTS

THREE MONTHS ENDED JUNE 30, 2013

(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$	$ 207,328	$ 23,288	$ (6,097)	$ 224,519
Cost of sales		164,557	20,829	(5,573)	179,813
Gross profit		42,771	2,459	(524)	44,706
Selling, general, and administrative expense	26	26,559	1,838		28,423
(Loss) income from operations	(26)	16,212	621	(524)	16,283
Interest expense (income)	3,399	324	(33)		3,690
Other income		(9)			(9)
(Loss) income before taxes	(3,425)	15,897	654	(524)	12,602
(Benefit of) provision for income taxes	(1,224)	5,853	241		4,870
(Loss) income from continuing operations	(2,201)	10,044	413	(524)	7,732
Discontinued operations:					
Loss from discontinued operations before taxes					
Benefit of income taxes					
Loss from discontinued operations					
Equity in earnings from subsidiaries	10,457	413		(10,870)	
Net income	$ 8,256	10,457	$ 413	$ (11,394)	$ 7,732

Table of Contents

GIBRALTAR INDUSTRIES, INC.

CONSOLIDATING INCOME STATEMENTS

THREE MONTHS ENDED JUNE 30, 2012

(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$	$ 199,229	$ 25,891	$ (5,386)	$ 219,734
Cost of sales		161,007	21,981	(4,980)	178,008
Gross profit		38,222	3,910	(406)	41,726
Selling, general, and administrative expense	85	23,127	2,221		25,433
(Loss) income from operations	(85)	15,095	1,689	(406)	16,293
Interest expense (income)	4,239	416	(28)		4,627
Other income		(312)	(3)		(315)
(Loss) income before taxes	(4,324)	14,991	1,720	(406)	11,981
(Benefit of) provision for income taxes	(1,701)	5,337	430		4,066
(Loss) income from continuing operations	(2,623)	9,654	1,290	(406)	7,915
Discontinued operations:					
Loss from discontinued operations before taxes		(16)			(16)
Benefit of income taxes		(7)			(7)
Loss from discontinued operations		(9)			(9)
Equity in earnings from subsidiaries	10,935	1,290		(12,225)	
Net income	$ 8,312	10,935	$ 1,290	$ (12,631)	$ 7,906

19

Table of Contents

GIBRALTAR INDUSTRIES, INC.

CONSOLIDATING INCOME STATEMENTS

SIX MONTHS ENDED JUNE 30, 2013

(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$	$ 385,377	$ 46,505	$ (10,562)	$ 421,320
Cost of sales		308,952	41,313	(9,828)	340,437
Gross profit		76,425	5,192	(734)	80,883
Selling, general, and administrative expense	184	55,440	3,780		59,404
(Loss) income from operations	(184)	20,985	1,412	(734)	21,479
Interest expense (income)	14,282	632	(64)		14,850
Other income		(75)			(75)
(Loss) income before taxes	(14,466)	20,428	1,476	(734)	6,704
(Benefit of) provision for income taxes	(5,421)	7,611	425		2,615
(Loss) income from continuing operations	(9,045)	12,817	1,051	(734)	4,089
Discontinued operations:					
Loss from discontinued operations before taxes		(7)			(7)
Benefit of income taxes		(3)			(3)
Loss from discontinued operations		(4)			(4)
Equity in earnings from subsidiaries	13,864	1,051		(14,915)	
Net income	$ 4,819	$ 13,864	$ 1,051	$ (15,649)	$ 4,085

Table of Contents

GIBRALTAR INDUSTRIES, INC.

CONSOLIDATING INCOME STATEMENTS

SIX MONTHS ENDED JUNE 30, 2012

(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$	$ 369,129	$ 53,505	$ (10,729)	$ 411,905
Cost of sales		298,805	45,858	(9,965)	334,698
Gross profit		70,324	7,647	(764)	77,207
Selling, general, and administrative expense	55	49,347	4,489		53,891
(Loss) income from operations	(55)	20,977	3,158	(764)	23,316
Interest expense (income)	8,474	888	(61)		9,301
Other income		(342)	(4)		(346)
(Loss) income before taxes	(8,529)	20,431	3,223	(764)	14,361
(Benefit of) provision for income taxes	(3,276)	7,435	838		4,997
(Loss) income from continuing operations	(5,253)	12,996	2,385	(764)	9,364
Discontinued operations:					
Loss from discontinued operations before taxes		(153)			(153)
Benefit of income taxes		(57)			(57)
Loss from discontinued operations		(96)			(96)
Equity in earnings from subsidiaries	15,285	2,385		(17,670)	
Net income	$ 10,032	$ 15,285	$ 2,385	$ (18,434)	$ 9,268

21

Table of Contents

GIBRALTAR INDUSTRIES, INC.

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

THREE MONTHS ENDED JUNE 30, 2013

(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net income	$ 8,256	$ 10,457	$ 413	$ (11,394)	$ 7,732
Other comprehensive income:					
Foreign currency translation adjustment			(804)		(804)
Adjustment to retirement benefit liability, net of tax		2			2
Adjustment to post-retirement health care liability, net of tax					
Other comprehensive income (loss)		2	(804)		(802)
Total comprehensive income (loss)	$ 8,256	$ 10,459	$ (391)	$ (11,394)	$ 6,930

Table of Contents

GIBRALTAR INDUSTRIES, INC.

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

THREE MONTHS ENDED JUNE 30, 2012

(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net income	$ 8,312	$ 10,935	$ 1,290	$ (12,631)	$ 7,906
Other comprehensive income:					
Foreign currency translation adjustment			(1,996)		(1,996)
Adjustment to retirement benefit liability, net of tax		2			2
Adjustment to post-retirement health care liability, net of tax		15			15
Other comprehensive income (loss)		17	(1,996)		(1,979)
Total comprehensive income (loss)	$ 8,312	$ 10,952	$ (706)	$ (12,631)	$ 5,927

Table of Contents

GIBRALTAR INDUSTRIES, INC.

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

SIX MONTHS ENDED JUNE 30, 2013

(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net income	$ 4,819	$ 13,864	$ 1,051	$ (15,649)	$ 4,085
Other comprehensive income:					
Foreign currency translation adjustment			(3,901)		(3,901)
Adjustment to retirement benefit liability, net of tax		4			4
Adjustment to post-retirement health care liability, net of tax		38			38
Other comprehensive income (loss)		42	(3,901)		(3,859)
Total comprehensive income (loss)	$ 4,819	$ 13,906	$ (2,850)	$ (15,649)	$ 226

Table of Contents

GIBRALTAR INDUSTRIES, INC.

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

SIX MONTHS ENDED JUNE 30, 2012

(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net income	$ 10,032	$ 15,285	$ 2,385	$ (18,434)	$ 9,268
Other comprehensive income:					
Foreign currency translation adjustment			(61)		(61)
Adjustment to retirement benefit liability, net of tax		4			4
Adjustment to post-retirement health care liability, net of tax		31			31
Other comprehensive income (loss)		35	(61)		(26)
Total comprehensive income	$ 10,032	$ 15,320	$ 2,324	$ (18,434)	$ 9,242

25

Table of Contents

GIBRALTAR INDUSTRIES, INC.

CONSOLIDATING BALANCE SHEETS

JUNE 30, 2013

(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	$	$ 24,639	$ 19,998	$	$ 44,637
Accounts receivable, net		109,105	12,746		121,851
Intercompany balances	24,550	(4,480)	(20,070)		
Inventories		110,145	8,877		119,022
Other current assets	5,458	10,249	1,344		17,051
Total current assets	30,008	249,658	22,895		302,561
Property, plant, and equipment, net		133,578	10,834		144,412
Goodwill		331,656	27,215		358,871
Acquired intangibles		87,517	7,449		94,966
Other assets	3,561	3,613	1		7,175
Investment in subsidiaries	659,767	54,339		(714,106)	
	$ 693,336	$ 860,361	$ 68,394	$ (714,106)	$ 907,985
Liabilities and Shareholders Equity					
Current liabilities:					
Accounts payable	$	$ 74,015	$ 7,797	$	$ 81,812
Accrued expenses	4,903	36,677	2,395		43,975
Current maturities of long-term debt		417			417
Total current liabilities	4,903	111,109	10,192		126,204
Long-term debt	210,000	3,604			213,604
Deferred income taxes		53,666	3,268		56,934
Other non-current liabilities		32,215	595		32,810