GIBRALTAR PACKAGING GROUP INC
Form 10-Q
February 13, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: December 31, 2003

Commission File Number: 00-19800

GIBRALTAR PACKAGING GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware (State of incorporation)	**47-0496290** (I.R.S. Employer Identification Number)
2000 Summit Avenue **Hastings, Nebraska** (Address of principal executive offices)	**68901** (Zip Code)
(402) 463-1366 (Registrant's telephone number, including area code)	**www.gibraltarpackaginggroup.com** (Registrant's website)

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. x Yes o No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

As of December 31, 2003, there were 5,041,544 shares of the Company s common stock, par value $0.01 per share, issued and outstanding.

GIBRALTAR PACKAGING GROUP, INC. AND SUBSIDIARIES
INDEX

GIBRALTAR PACKAGING GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

	December 31, 2003	June 28, 2003
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash	$ 182	$ 453
Accounts receivable *(Net of allowance for doubtful accounts of $239 and $492, respectively)*	3,934	4,988
Inventories	5,729	7,144
Deferred income taxes	730	730
Prepaid and other current assets	1,312	795
Total current assets	11,887	14,110
PROPERTY, PLANT AND EQUIPMENT NET	14,604	15,294
GOODWILL	4,112	4,112
OTHER ASSETS *(Net of accumulated amortization of $276 and $213, respectively)*	755	744
TOTAL	$ 31,358	$ 34,260
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Checks not yet presented	$ 690	$ 931
Current portion of long-term debt	12,514	2,119
Accounts payable	2,049	2,688
Accrued expenses	2,663	2,983
Total current liabilities	17,916	8,721
LONG-TERM DEBT Net of current portion	166	13,339
DEFERRED INCOME TAXES	1,863	1,994

	December 31, 2003	June 28, 2003
OTHER LONG-TERM LIABILITIES	770	770
Total liabilities	20,715	24,824
STOCKHOLDERS EQUITY:		
Preferred stock, $.01 par value; 1,000,000 shares authorized; none issued		
Common stock, $.01 par value; 10,000,000 shares authorized; 5,041,544 issued and outstanding	50	50
Additional paid-in capital	28,162	28,162
Accumulated other comprehensive loss	(217)	(217)
Accumulated deficit	(17,352)	(18,559)
Total stockholders equity	10,643	9,436
TOTAL	$ 31,358	$ 34,260

See notes to unaudited consolidated financial statements.

1

GIBRALTAR PACKAGING GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands except share and per share data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2003	2002	2003	2002
NET SALES	$ 14,579	$ 17,469	$ 31,617	$ 34,816
COST OF GOODS SOLD	12,185	14,007	26,051	27,938
GROSS PROFIT	2,394	3,462	5,566	6,878
OPERATING EXPENSES:				
Selling, general and administrative	1,886	1,938	3,715	3,912
Insurance proceeds	(488)		(488)	
Total operating expenses	1,398	1,938	3,227	3,912
INCOME FROM OPERATIONS	996	1,524	2,339	2,966

	Three Months Ended December 31,		Six Months Ended December 31,	
OTHER EXPENSE (INCOME):				
Interest expense	177	251	376	523
Other expense (income) net	(2)	16	17	34
Total other expense	175	267	393	557
INCOME BEFORE INCOME TAXES	821	1,257	1,946	2,409
INCOME TAX PROVISION	311	503	739	964
NET INCOME	$ 510	$ 754	$ 1,207	$ 1,445
BASIC AND DILUTED PER COMMON SHARE AMOUNTS:				
Net Income	$ 0.10	$ 0.15	$ 0.24	$ 0.29
WEIGHTED AVERAGE SHARES OUTSTANDING: (basic and diluted)	5,041,544	5,041,544	5,041,544	5,041,544

See notes to unaudited consolidated financial statements.

GIBRALTAR PACKAGING GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended December 31,	
	2003	**2002**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,207	$ 1,445
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	1,062	1,022
Provision for losses on accounts receivable	2	7
Loss (gain) on sale of property, plant and equipment	(22)	85
Deferred income taxes	(131)	845
Changes in operating assets and liabilities:		
Accounts receivable net	1,052	598

	Six Months Ended December 31,	
Inventories	1,415	156
Prepaid expenses and other assets	(592)	(163)
Accounts payable	(880)	(1,032)
Accrued expenses and other liabilities	(320)	(618)
Net Cash Flows from Operating Activities	2,793	2,345
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property, plant and equipment	52	31
Purchases of property, plant and equipment	(338)	(821)
Net Cash Flows from Investing Activities	(286)	(790)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (payments) under revolving credit facility	(1,716)	775
Principal repayments of long-term debt	(1,019)	(2,182)
Net repayments under capital leases	(43)	(30)
Net Cash Flows from Financing Activities	(2,778)	(1,437)
NET INCREASE (DECREASE) IN CASH	(271)	118
CASH AT BEGINNING OF PERIOD	453	45
CASH AT END OF PERIOD	$ 182	$ 163

See notes to unaudited consolidated financial statements.

GIBRALTAR PACKAGING GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

A. GENERAL

The accompanying unaudited consolidated financial statements of Gibraltar Packaging Group, Inc. (Gibraltar or the Company) have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission and do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. However, in the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company as of December 31, 2003, and the results of its operations and cash flows for the periods presented herein. Results of operations for the three and six months ended December 31, 2003 are not necessarily indicative of the results to be expected for the full fiscal year. The financial statements should be read in conjunction with the audited financial statements for the year ended June 28, 2003 and the notes thereto contained in the Company s Annual Report on Form 10-K.

B. INVENTORIES

Inventories consisted of the following *(In thousands)*:

	December 31, 2003	June 28, 2003
Finished goods	$ 3,725	$ 5,078
Work in process	827	877
Raw materials	899	880
Manufacturing supplies	278	309
	$ 5,729	$ 7,144

C. STOCK-BASED COMPENSATION

The Company accounts for its employees stock-based compensation plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation,* to stock-based employee compensation.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2003	2002	2003	2002
Reported net income per APB 25	$ 510	$ 754	$ 1,207	$ 1,445
Add back: Stock-based employee compensation expense included in reported net income, net of tax		9		9
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(9)		(9)
Pro forma net income per FASB 123	$ 510	$ 754	$ 1,207	$ 1,445
Earnings per share:				
As reported	$ 0.10	$ 0.15	$ 0.24	$ 0.29
Pro forma	$ 0.10	$ 0.15	$ 0.24	$ 0.29

Pre-tax stock-based employee compensation expense related to the 1998 Stock Appreciation Rights Plan of $15,000 for the second quarter and six months ended December 31, 2002 is reflected in net income for fiscal 2003. The expense reported in net income under APB Opinion No. 25 is the same as under FASB Statement No. 123. In accordance with APB Opinion No. 25, there is no stock-based employee compensation cost associated with any option plan as of December 31, 2003, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of the grant. Additionally, all outstanding options became fully vested prior to the periods presented. At December 31, 2003, the stock option exercise prices for all options outstanding under the 1992 Plan and Directors Plan exceeded the market value of the Company s common stock and, therefore, the options are considered anti-dilutive and are excluded from the Company s earnings per share calculation.

D. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46). FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or entitled to receive a majority of the entity s residual returns or both. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to existing entities in the first fiscal year or interim period beginning after December 15, 2003. The Company does not anticipate that the adoption of this interpretation will have a material impact on the Company s financial position or results of operations, as the Company has no variable interest entities.

In December 2003, the FASB revised Statement of Financial Accounting Standard No. 132, *Employers Disclosures About Pensions and Other Postretirement Benefits,* amending FASB Statements No. 87, 88 and 106. FASB Statement No. 132 requires additional disclosures regarding the assets, obligations, cash flows and net periodic benefit costs of defined benefit pension plans and other defined benefit post-retirement plans. FASB Statement No. 132 is effective for interim periods beginning after December 15, 2003 and fiscal years ending after December 15, 2003.

E. COMPREHENSIVE INCOME

Comprehensive income for the three and six months ended December 31, 2003 and 2002 was the same as net income.

F. RECLASSIFICATION

Certain amounts in the fiscal 2003 financial statements have been reclassified to conform with the fiscal 2004 presentation.

GIBRALTAR PACKAGING GROUP, INC. AND SUBSIDIARIES

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Three Months Ended December 31, 2003 Compared
to Three Months Ended December 31, 2002

In the second quarter of fiscal 2004, the Company had net sales of $14.6 million compared with $17.5 million in the corresponding period of fiscal 2003, a decrease of $2.9 million or 16.5%. As discussed in previous filings, business from two major customers was lost in the latter part of fiscal 2003. $1.5 million of the decrease in sales represents the loss of a substantial part of the business from these two customers for this time period. The remaining decrease is attributed to additional losses experienced in other accounts, partially offset by additional business from new and existing customers.

Gross profit for the second quarter of fiscal 2004 decreased to 16.4% of net sales from 19.8% in the corresponding period of fiscal 2003. Cost reductions of $0.4 million from reducing labor costs were offset by spreading fixed costs over a smaller revenue base and higher material costs from changes in customer mix. Fixed costs remained level, as slightly higher lease costs associated with equipment acquired during the last twelve months were offset by reductions in various other costs.

Income from operations for the second quarter of fiscal 2004 was $1.0 million compared with $1.5 million in the corresponding period of fiscal 2003, a decrease of $0.5 million or 34.6%. This decrease is primarily the result of lower sales, partially offset by $0.5 million in insurance proceeds related to the embezzlement discovered in fiscal 2003, as previously disclosed in the fiscal 2003 Form 10-K. During the fourth quarter of fiscal 2003, the Company determined that approximately $0.5 million had been embezzled over a period of seven years. The insurance claim was settled in full, net of the Company s deductible.

Total interest expense decreased $0.1 million or 29.5% to $0.2 million in the second quarter of fiscal 2004 from $0.3 million in the corresponding period of fiscal 2003. This decrease is the result of $4.4 million in lower average borrowings and a reduction in average interest rates to 4.4% from 5.0%.

The income tax provision as a percentage of pre-tax income for the second quarter of fiscal 2004 was 37.9%, compared with an income tax provision of 40.0% for the corresponding period in fiscal 2003.

Net income for the second quarter of fiscal 2004 was $0.5 million or $0.10 per share, compared to $0.8 million or $0.15 per share in the second quarter of fiscal 2003.

Six Months Ended December 31, 2003 Compared to
Six Months Ended December 31, 2002

In the first six months of fiscal 2004, the Company had net sales of $31.6 million compared with $34.8 million in the corresponding period of fiscal 2003, a decrease of $3.2 million or 9.2%. As discussed in previous filings, business from two major customers was lost in the latter part of fiscal 2003. $1.3

GIBRALTAR PACKAGING GROUP, INC. AND SUBSIDIARIES

million of the decrease in sales represents the loss of a substantial part of the business from these two customers for this time period. The remaining decrease is attributed to losses experienced in other accounts, partially offset by additional business from new and existing customers.

Gross profit for the first six months of fiscal 2004 decreased to 17.6% of net sales from 19.8% in the corresponding period of fiscal 2003. Cost reductions of $0.6 million from reducing labor costs were offset by spreading slightly higher fixed costs over a smaller revenue base and higher material costs from changes in customer mix. Fixed costs were slightly higher, as additional lease costs of $0.1 million associated with equipment acquired during the last twelve months were partially offset by reductions in various other costs.

Income from operations for the first six months of fiscal 2004 was $2.3 million compared with $3.0 million in the corresponding period of fiscal 2003, a decrease of $0.6 million or 21.1%. This decrease is primarily the result of lower sales, partially offset by lower outside services and compensation costs in selling, general and administrative and $0.5 million in insurance proceeds related to the embezzlement discovered in fiscal 2003, as previously disclosed in the fiscal 2003 Form 10-K. During the fourth quarter of fiscal 2003, the Company determined that approximately $0.5 million had been embezzled over a period of seven years. The insurance claim was settled in full, net of the Company s deductible.

Total interest expense decreased $0.1 million or 28.1% to $0.4 million in the first six months of fiscal 2004 from $0.5 million in the corresponding period of fiscal 2003. This decrease is the result of $3.7 million in lower average borrowings and a reduction in average interest rates to 4.5% from 5.2%.

The income tax provision as a percentage of pre-tax income for the first six months of fiscal 2004 was 38.0%, compared with an income tax provision of 40.0% for the corresponding period in fiscal 2003.

Net income for the first six months of fiscal 2004 was $1.2 million or $0.24 per share, compared to $1.4 million or $0.29 per share in the first quarte