GIBRALTAR INDUSTRIES, INC.
Form 10-Q
May 03, 2012
Table of Contents

UNITED STATES

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 March 31, 2012

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)	**(Zip Code)**

Registrant s telephone number, including area code: (716) 826-6500

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 April 30, 2012, the number of common shares outstanding was: 30,537,177

Table of Contents

GIBRALTAR INDUSTRIES, INC.

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GIBRALTAR INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net sales	$ 192,171	$ 163,563
Cost of sales	156,690	133,518
Gross profit	35,481	30,045
Selling, general, and administrative expense	28,458	22,823
Income from operations	7,023	7,222
Interest expense	4,674	4,454
Other income	(31)	(23)
Income before taxes	2,380	2,791
Provision for income taxes	931	1,350
Income from continuing operations	1,449	1,441
Discontinued operations:		
(Loss) income before taxes	(137)	12,946
(Benefit of) provision for income taxes	(50)	5,978
(Loss) income from discontinued operations	(87)	6,968
Net income	$ 1,362	$ 8,409
Net income per share Basic:		
Income from continuing operations	$ 0.05	$ 0.05
(Loss) income from discontinued operations	(0.01)	0.23
Net income	$ 0.04	$ 0.28
Weighted average shares outstanding Basic	30,718	30,425
Net income per share Diluted:		
Income from continuing operations	$ 0.05	$ 0.05
(Loss) income from discontinued operations	(0.01)	0.22
Net income	$ 0.04	$ 0.27

Weighted average shares outstanding	Diluted	30,851	30,594

See accompanying notes to consolidated financial statements.

Table of Contents

GIBRALTAR INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net income	$ 1,362	$ 8,409
Other comprehensive income:		
Foreign currency translation adjustment	1,935	2,634
Adjustment to retirement benefit liability, net of tax	2	(31)
Adjustment to post-retirement health care liability, net of tax	16	19
Other comprehensive income	1,953	2,622
Total comprehensive income	$ 3,315	$ 11,031

See accompanying notes to consolidated financial statements.

4

Table of Contents

GIBRALTAR INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

	March 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 35,327	$ 54,117
Accounts receivable, net of reserve of $4,529 and $4,614 in 2012 and 2011	105,783	90,595
Inventories	119,656	109,270
Other current assets	12,627	14,872
Total current assets	273,393	268,854
Property, plant, and equipment, net	150,185	151,974
Goodwill	349,136	348,326
Acquired intangibles	94,174	95,265
Other assets	7,290	7,636
	$ 874,178	$ 872,055
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 79,124	$ 67,320
Accrued expenses	43,624	60,687
Current maturities of long-term debt	416	417
Total current liabilities	123,164	128,424
Long-term debt	206,837	206,746
Deferred income taxes	55,914	55,801
Other non-current liabilities	24,472	21,148
Shareholders equity:		
Preferred stock, $0.01 par value; authorized 10,000 shares; none outstanding		
Common stock, $0.01 par value; authorized 50,000 shares; 30,879 and 30,702 shares issued in 2012 and 2011	309	307
Additional paid-in capital	238,099	236,673
Retained earnings	230,799	229,437
Accumulated other comprehensive loss	(1,397)	(3,350)
Cost of 343 and 281 common shares held in treasury in 2012 and 2011	(4,019)	(3,131)
Total shareholders equity	463,791	459,936
	$ 874,178	$ 872,055

See accompanying notes to consolidated financial statements.

Table of Contents

GIBRALTAR INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Cash Flows from Operating Activities		
Net income	$ 1,362	$ 8,409
(Loss) income from discontinued operations	(87)	6,968
Income from continuing operations	1,449	1,441
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,563	5,891
Stock compensation expense	1,330	2,276
Non-cash charges to interest expense	393	564
Other non-cash adjustments	277	537
Increase (decrease) in cash resulting from changes in the following (excluding the effects of acquisitions):		
Accounts receivable	(15,131)	(24,132)
Inventories	(7,964)	(13,847)
Other current assets and other assets	2,057	7,714
Accounts payable	12,014	14,577
Accrued expenses and other non-current liabilities	(14,037)	(4,445)
Net cash used in operating activities of continuing operations	(13,049)	(9,424)
Net cash used in operating activities of discontinued operations	(31)	(3,086)
Net cash used in operating activities	(13,080)	(12,510)
Cash Flows from Investing Activities		
Purchases of property, plant, and equipment	(2,743)	(1,785)
Cash paid for acquisitions, net of cash received	(2,705)	
Purchase of other investments		(250)
Net proceeds from sale of businesses		58,000
Net proceeds from sale of property and equipment	8	463
Net cash (used in) provided by investing activities	(5,440)	56,428
Cash Flows from Financing Activities		
Purchase of treasury stock at market prices	(888)	(730)
Long-term debt payments	(2)	
Net proceeds from issuance of common stock		10
Excess tax benefit from stock compensation	98	
Net cash used in financing activities	(792)	(720)
Effect of exchange rate changes on cash	522	440

Net (decrease) increase in cash and cash equivalents	(18,790)	43,638
Cash and cash equivalents at beginning of year	54,117	60,866
Cash and cash equivalents at end of period	$ 35,327	$ 104,504

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, 2011	30,702	$ 307	$ 236,673	$ 229,437	$ (3,350)	281	$ (3,131)	$ 459,936
Net income				1,362				1,362
Foreign currency translation adjustment					1,935			1,935
Adjustment to pension benefit liability, net of taxes of $2					2			2
Adjustment to post-retirement healthcare benefit liability, net of taxes of $11					16			16
Stock compensation expense			1,330					1,330
Excess tax benefit from stock compensation			98					98
Net settlement of restricted stock units	177	2	(2)			62	(888)	(888)
Balance at March 31, 2012	30,879	$ 309	$ 238,099	$ 230,799	$ (1,397)	343	$ (4,019)	$ 463,791

See accompanying notes to consolidated financial statements.

7

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 financial position at March 31, 2012 and December 31, 2011, the results of operations, comprehensive income, and cash flows for the three months ended March 31, 2012 and 2011, and the statement of shareholders equity for the three months ended March 31, 2012 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, 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, 2011 as filed on Form 10-K.

The consolidated balance sheet at December 31, 2011 has been derived from the audited consolidated financial statements at that date, restated for discontinued operations, 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, 2012 are not necessarily indicative of the results to be expected for the full year.

Certain prior year amounts in the consolidated statement of cash flows have been reclassified to conform with the current year s presentation. The reclassification adjustments have been made to reflect the effects of exchange rate changes on cash equivalents as a separate line item.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the FASB issued Accounting Standards Update 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income. Under the amendments included in Update 2011-05, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and are to be applied retrospectively. The Company adopted Update 2011-05 retrospectively in 2011 which did not have a material impact on the Company s consolidated results from operations, financial position, or cash flows.

3. INVENTORIES

Inventories consist of the following (in thousands):

	March 31, 2012	December 31, 2011
Raw material	$ 44,752	$ 43,911
Work-in-process	14,830	12,003
Finished goods	60,074	53,356
Total inventories	$ 119,656	$ 109,270

4. ACQUISITIONS

On February 8, 2012, the Company acquired the assets of the metal grating fabrication and distribution business of Edvan Industries Inc. (Edvan), based near Edmonton, Alberta, Canada. The results of Edvan have been included in the Company s consolidated financial results since the date of acquisition. The aggregate purchase consideration for the acquisition of Edvan was $2,705,000.

Table of Contents

On June 3, 2011, the Company acquired all of the outstanding stock of Pacific Award Metals, Inc. (Award Metals). Award Metals operated six facilities in Arizona, California, Colorado, and Washington and is a leading regional manufacturer of roof ventilation, roof trims, flashing and rain ware, drywall trims, and specialized clips and connectors for concrete forms used in the new construction and repair and remodel markets. The acquisition of Award Metals expands the breadth of the Company s product offerings and allows the Company access to new customers. The results of Award Metals have been included in the Company s consolidated financial results since the date of acquisition. The fair value of the aggregate purchase consideration for the acquisition of Award Metals was $13,369,000, net of a working capital adjustment. A portion of the purchase consideration is payable in November 2012. A payable of $1,861,000 is included in accrued expenses in the consolidated balance sheet as of March 31, 2012 to reflect this obligation.

On April 1, 2011, the Company acquired all of the outstanding stock of The D.S. Brown Company (D.S. Brown). D.S. Brown is located in North Baltimore, Ohio and is the largest U.S. manufacturer of components for the bridge and highway transportation infrastructure industry including expansion joint systems, bearing assemblies, pavement sealing systems, and other specialty components. The acquisition of D.S. Brown provides the Company with a diversified product offering to the infrastructure market. The results of D.S. Brown have been included in the Company s consolidated financial results since the date of acquisition. The aggregate purchase consideration for the acquisition of D.S. Brown was $97,643,000, net of a working capital adjustment. The acquisitions of D. S. Brown, Award Metals and Edvan were not considered significant to the Company s results of operations.

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 approximated $50,526,000, of which $5,241,000 is deductible for tax purposes. Goodwill represents future economic benefits arising from other assets acquired that could not be individually identified including workforce additions, growth opportunities, and increased presence in the building products markets.

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

	D.S. Brown	Award Metals
Working capital	$ 16,735	$ 4,177
Property, plant, and equipment	14,481	2,794
Intangible assets	33,300	2,101
Other assets	230	75
Other liabilities	(13,301)	(106)
Goodwill	46,198	4,328
Fair value of purchase consideration	$ 97,643	$ 13,369

The acquired intangible assets consisted of the following for the two acquisitions completed during the year ended December 31, 2011 (in thousands):

	Fair Value	Estimated Useful Life
Unpatented technology and patents	$ 16,560	15 Years
Trademarks	11,470	Indefinite
Customer relationships	5,970	16 Years
Backlog	1,200	1.5 Years
Non-compete agreements	201	4 Years
Total	$ 35,401	

Table of Contents

The acquisitions of Edvan, D.S. Brown, and Award Metals were financed through cash on hand and debt available under the Company s revolving credit facility. The Company incurred certain acquisition-related costs, primarily composed of legal and consulting fees of $80,000 in the three months ended March 31, 2012. 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 $60,000 in the three months ended March 31, 2012 related to the sale of inventory at fair value as a result of allocating the purchase price of the Edvan acquisition.

5. GOODWILL AND RELATED INTANGIBLE ASSETS

Goodwill

The changes in the carrying amount of goodwill for the three months ended March 31, 2012 are as follows (in thousands):

Balance as of December 31, 2011	$ 348,326
Acquired goodwill	50
Foreign currency translation	760
Balance as of March 31, 2012	$ 349,136

The goodwill balances as of March 31, 2012 and December 31, 2011 are net of accumulated impairment losses of $125,597,000.

Acquired Intangible Assets

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

	March 31, 2012		December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Estimated Life
Indefinite-lived intangible assets:					
Trademarks	$ 46,930	$	$ 46,760	$	Indefinite
Finite-lived intangible assets:					
Trademarks	1,970	941	1,968	921	2 to 15 Years
Unpatented technology	22,117	3,974	22,117	3,577	5 to 20 Years
Customer relationships	48,820	21,619	48,276	20,512	5 to 16 Years
Non-compete agreements	2,857	2,386	2,857	2,303	5 to 10 Years
Backlog	1,200	800	1,200	600	1 to 2 Years
	76,964	29,720	76,418	27,913	
Total acquired intangible assets	$ 123,894	$ 29,720	$ 123,178	$ 27,913	

The Company incurred $1,631,000 and $1,148,000 of acquired intangible asset amortization expense for the three months ended March 31, 2012 and 2011, respectively.

Amortization expense related to acquired intangible assets for the remainder of fiscal 2012 and the next five years thereafter is estimated as follows (in thousands):

2012	$ 4,879

2013	$ 5,716
2014	$ 4,828
2015	$ 4,692
2016	$ 4,357
2017	$ 3,988

Table of Contents

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 months ended March 31, 2012 and 2011, the Company incurred expense of $299,000 and $552,000, respectively, for legal services from this firm. Of the amounts incurred during the three months ended March 31, 2011, $170,000 related to the sale of businesses and was recognized as a component of discontinued operations. All other amounts incurred during the 2012 and 2011 periods were expensed as a component of selling, general, and administrative expenses. At March 31, 2012 and December 31, 2011, the Company had $312,000 and $277,000, respectively, recorded in accounts payable for amounts due to this law firm.

A member of the Company s Board of Directors, Robert E. Sadler, Jr., is a member of the Board of Directors of M&T Bank Corporation, one of the ten participating lenders which have committed capital under the Company s Fourth Amended and Restated Credit Agreement dated October 11, 2011 (the Senior Credit Agreement). As of March 31, 2012 and December 31, 2011, the Senior Credit Agreement provided the Company with a revolving credit facility with availability up to $200 million. See Note 7 to the consolidated financial statements for the amounts outstanding on the revolving credit facility as of March 31, 2012 and December 31, 2011.

7. LONG-TERM DEBT

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

	March 31, 2012	December 31, 2011
Senior Subordinated 8% Notes recorded net of unamortized discount of $1,585 and $1,677 in 2012 and 2011	$ 202,415	$ 202,323
Other debt	4,838	4,840
Total debt	207,253	207,163
Less current maturities	416	417
Total long-term debt	$ 206,837	$ 206,746

Borrowings under the Senior Credit Agreement are secured by the trade receivables, inventory, personal property, equipment, and certain real property of the Company s significant domestic subsidiaries. The Senior Credit Agreement is also guaranteed by each 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 and (ii) a borrowing base determined by reference to the trade receivables, 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 the earlier of October 10, 2016 or six months prior to the maturity date of the Company s 8% Notes, which are due December 1, 2015. All revolving credit borrowings must be repaid on or before the maturity date. Interest rates on the revolving credit facility continue to be 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 $13,995,000 have been issued under the Senior Credit Agreement to third parties on behalf of the Company as of March 31, 2012. These letters of credit reduce the amount otherwise available under the revolving credit facility. As of March 31, 2012, the Company had $140,337,000 of availability under the revolving credit facility.

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 March 31, 2012, 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.

11

Table of Contents

On December 8, 2005, the Company issued $204,000,000 of Senior Subordinated 8% Notes (8% Notes), due December 1, 2015, at a discount to yield 8.25%. The 8% Notes are guaranteed by certain existing and future domestic subsidiaries and are not subject to any sinking fund requirements.

8. EMPLOYEE RETIREMENT AND OTHER POST-RETIREMENT BENEFIT PLANS

The following tables present the components of net periodic pension and other post-retirement benefit costs charged to expense for the three months ended March 31 (in thousands):

	Pension Benefit	
	2012	2011
Interest cost	$ 27	$ 35
Amortization of unrecognized prior service cost	4	4
Service cost		11
Gain amortization		(55)
Net periodic benefit cost	$ 31	$ (5)

	Other Post-Retirement Benefits	
	2012	2011
Service cost	$ 4	$ 3
Interest cost	56	70
Loss amortization	27	31
Net periodic benefit cost	$ 87	$ 104

9. 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 as of December 31, 2011	$ (2,446)	$ 71	$ (975)	$ (3,350)
Current period change	1,935	2	16	1,953
Balance as of March 31, 2012	$ (511)	$ 73	$ (959)	$ (1,397)

10. EQUITY-BASED COMPENSATION

The Company awards equity-based compensation to employees and directors that are both settled in cash and stock. Cash settled equity-based compensation includes performance stock units and restricted stock units granted under the Management Stock Purchase Plan. These awards are recognized as liabilities on the consolidated balance sheet and the related compensation expense is recognized as the awards vest and fair value fluctuates each reporting period. Stock settled equity awards include stock options, restricted stock units, and restricted stock. Compensation expense related to these awards is recognized over the vesting period 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.

Table of Contents

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 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 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.

The following table provides the number of restricted stock units (that will convert to shares upon vesting), shares of restricted stock, and non-qualified stock options that were issued during the three months ended March 31 along with the weighted average grant date fair value of each award:

	2012		2011	
Awards	Number of Awards	Weighted Average Grant Date Fair Value	Number of Awards	Weighted Average Grant Date Fair Value
Restricted stock units	74,532	$ 14.36	163,834	$ 13.95

On March 24, 2011, the Company s Chairman and Chief Executive Officer surrendered a portion of his 2010 restricted stock unit grant. The unamortized portion of compensation expense related to these awards, totaling $885,000, was accelerated and recognized as compensation included in selling, general, and administrative expense for the three months ended March 31, 2011.

In September 2009, the Company awarded 905,000 performance stock units with a grant-date fair value of $12,643,000 with a vesting period of three years. The final number of performance stock units earned was determined based on the Company s total stockholder returns relative to a peer group for three separate performance periods, consisting of the years ended December 31, 2009, 2010, and 2011. The performance stock units earned were converted to cash based on the trailing 90-day closing price of the Company s common stock as of the last day of the third performance period and totaled $8,319,000 which was paid in January 2012.

In January 2012, the Company awarded 295,000 performance stock units with grant date fair value of $4,152,000. As of March 31, 2012, 280,000 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 total stockholder returns relative to the S&P Small Cap 600 Index during the calendar year of 2012. The cost of the January 2012 performance stock awards will be recognized over the performance period of 2012, plus an additional two years of vesting. After the three-year 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 be payable in January 2015.

The following table summarizes the compensation expense recognized from the change in fair value and vesting of performance stock units for the three months ended March 31 (in thousands):

	2012	2011
Performance stock unit compensation expense (recovery)	$ 679	$ (1,166)

13

Table of Contents

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 a 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 five equal annual cash installments.

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 three months ended March 31, 2012 and 2011, 222,551 and 153,144 restricted stock units, respectively, including the company-match, were credited to participant accounts. At March 31, 2012 and December 31, 2011, the value of the restricted stock units in the MSPP was $12.12 and $11.15 per unit, respectively. At March 31, 2012 and December 31, 2011, 746,142 and 533,548 restricted stock units, including the company-match, were credited to participant accounts including 90,488 and 65,374, respectively, of unvested restricted stock units. The Company made disbursements of $542,000 and $518,000 out of the MSPP during the three months ended March 31, 2012 and 2011, respectively.

11. FAIR VALUE MEASUREMENTS

FASB 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 or, in the absence of a principal market, the most advantageous 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 our own 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.

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 March 31, 2012, the fair value of outstanding debt was $237,333,000 compared to its carrying value of $207,253,000. The fair value of the Company s Senior Subordinated 8% Notes was estimated based on quoted market prices, a level one input.

As described in Note 4 of the consolidated financial statements, the Company completed an acquisition during the three months ended March 31, 2012 and two acquisitions during the year ended December 31, 2011. 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 allocate fair values to inventory; property, plant, and equipment; and intangible assets included the cost approach, market approach, relief-from-royalty income approach, and other income approaches. The valuation techniques relied on a number of inputs which included the cost and condition of property, plant, and equipment, forecasted net sales and incomes, and royalty rates.

Table of Contents

12. DISCONTINUED OPERATIONS

On March 10, 2011, the Company sold the stock of the United Steel Products business (USP) for cash proceeds of $59,029,000, inclusive of $1,029,000 related to a working capital adjustment received in June 2011. The divestiture of USP allowed the Company to allocate capital resources to businesses with strong market leadership positions and growth potential. The Company recognized a pre-tax gain of $14,022,000 from the transaction.

On February 1, 2010, the Company sold the majority of the assets of the Processed Metal Products business. This transaction finalized the Company s exit from the steel processing business and established the Company solely as a manufacturer and distributor of products for building and industrial markets. The transactions to dispose of the remaining assets of this business were completed during the year ended December 31, 2011 which resulted in the recognition of additional gains and losses classified in discontinued operations.

The results of operations for USP and the Processed Metal Products business have been classified as discontinued operations in the consolidated financial statements for all periods presented.

The Company allocates interest to its discontinued operations in accordance with FASB ASC Subtopic 205-20, Presentation of Financial Statements Discontinued Operations .

Components of the income (loss) from discontinued operations, including the interest allocated to discontinued operations, for the three months ended March 31 are as follows (in thousands):

	2012	2011
Net sales	$	$ 9,057
Operating expenses	(137)	(8,842)
Gain on sale of business		12,993
Interest expense allocation		(262)
(Loss) income from discontinued operations before taxes	$ (137)	$ 12,946

For certain transactions, 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. The Company is a party to certain claims made under these indemnification provisions. For the quarter ended March 31, 2012, management recorded a contingent liability for an 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.

13. EXIT ACTIVITY COSTS AND ASSET IMPAIRMENTS

The Company has focused 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 its facilities and production lines. The Company consolidated two facilities in the three months ended March 31, 2012 and three facilities during 2011 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 $1,037,000 and $196,000 of asset impairment charges related to the facility consolidations during the three months ended March 31, 2012 and 2011, respectively.

As of March 31, 2012, the Company expects to incur approximately $1,000,000 of additional moving and severance costs related to a facility to be closed during 2012. Other than this facility, the Company has not specifically identified any other facilities to close or consolidate and, therefore does not expect to incur any other material exit activity costs for future restructuring activities. However, if future opportunities for cost savings are identified, other facility consolidations will be considered.

Table of Contents

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 months ended March 31 (in thousands):

	2012	2011
Cost of sales	$ 1,766	$ 858
Selling, general, and administrative expense	14	10
Total exit activity costs and asset impairments	$ 1,780	$ 868

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

	2012	2011
Balance as of December 31	$ 2,315	$ 2,069
Exit activity costs recognized	743	672
Cash payments	(1,294)	(593)
Balance as of March 31	$ 1,764	$ 2,148

14. INCOME TAXES

The following table summarizes the provision for income taxes for continuing operations for the three months ended March 31 and the applicable effective tax rates (in thousands):

	2012	2011
Provision for income taxes	$ 931	$ 1,350
Effective tax rate	39.1%	48.4%

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, 2012 could be materially different from the forecasted rate used for the three months ended March 31, 2012.

The provision of income taxes resulted in an effective tax rate of 39.1% and 48.4% for the three months ended March 31, 2012 and 2011, respectively, which exceeded the U.S. federal statutory tax rate of 35%. These rates exceeded 35% due to the recognition of non-deductible permanent items and state taxes.

The effective tax rate was higher during the three months ended March 31, 2011 due to the recognition of the $885,000 charge related to surrendered equity compensation described in Note 10. As this was a permanent difference, no tax benefit was recognized to offset the charge.

15. 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 shares issuable under its equity compensation plans described in Note 10 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.

Table of Contents

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31 (in thousands):

	2012	2011
Numerator:		
Income from continuing operations	$ 1,449	$ 1,441
(Loss) income from discontinued operations	(87)	6,968
Net income available to common shareholders	$ 1,362	$ 8,409
Denominator for basic earnings per share:		
Weighted average shares outstanding	30,718	30,425
Denominator for diluted earnings per share:		
Weighted average shares outstanding	30,718	30,425
Common stock options and restricted stock	133	169
Weighted average shares and conversions	30,851	30,594

16. 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 8% Notes due December 1, 2015, and the non-guarantors. The guarantors are wholly owned subsidiaries of the issuer and the guarantees are full, unconditional, joint and several.

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 STATEMENTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2012

(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$	$ 169,900	$ 27,614	$ (5,343)	$ 192,171
Cost of sales		137,798	23,877	(4,985)	156,690
Gross profit		32,102	3,737	(358)	35,481
Selling, general, and administrative expense	(30)	26,220	2,268		28,458
Income from operations	30	5,882	1,469	(358)	7,023
Interest expense (income)	4,235	472	(33)		4,674
Other income		(30)	(1)		(31)
(Loss) income before taxes	(4,205)	5,440	1,503	(358)	2,380
(Benefit of) provision for income taxes	(1,575)	2,098	408		931
(Loss) income from continuing operations	(2,630)	3,342	1,095	(358)	1,449
Discontinued operations:					
Loss from discontinued operations before taxes		(137)			(137)
Benefit of income taxes		(50)			(50)
Loss from discontinued operations		(87)			(87)
Equity in earnings from subsidiaries	4,350	1,095		(5,445)	
Net income	$ 1,720	$ 4,350	$ 1,095	$ (5,803)	$ 1,362

18

Table of Contents

GIBRALTAR INDUSTRIES, INC.

CONSOLIDATING STATEMENTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2011

(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$	$ 142,272	$ 27,725	$ (6,434)	$ 163,563
Cost of sales		115,219	24,115	(5,816)	133,518
Gross profit		27,053	3,610	(618)	30,045
Selling, general, and administrative expense	(130)	20,778	2,175		22,823
Income from operations	130	6,275	1,435	(618)	7,222
Interest expense (income)	4,345	111	(2)		4,454
Other income		(16)	(7)		(23)
(Loss) income before taxes	(4,215)	6,180	1,444	(618)	2,791
(Benefit of) provision for income taxes	(1,644)	2,433	561		1,350
(Loss) income from continuing operations	(2,571)	3,747	883	(618)	1,441
Discontinued operations:					
Income from discontinued operations before taxes		12,727	219		12,946
Provision for income taxes		5,877	101		