

GIBRALTAR INDUSTRIES, INC.

Form 10-Q

November 06, 2008

**Table of Contents**

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

(Mark one)

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

**For the quarterly period ended September 30, 2008**

**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  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 the definitions 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  Non-accelerated filer  Smaller Reporting Company

(Do not check if a 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

As of November 3, 2008, the number of common shares outstanding was: 29,985,993.

GIBRALTAR INDUSTRIES, INC.  
INDEX

|   | PAGE<br>NUMBER |
|---|----------------|
| <u>PART I. FINANCIAL INFORMATION</u>  |                |
| <u>Item 1. Financial Statements (unaudited)</u>   |                |
| <u>Consolidated Balance Sheets as of</u><br>September 30, 2008 and December 31, 2007                        | 3              |
| <u>Consolidated Statements of Income</u><br>For the Three and Nine Months ended September 30, 2008 and 2007 | 4              |
| <u>Consolidated Statements of Cash Flows</u><br>For the Nine Months ended September 30, 2008 and 2007       | 5              |
| <u>Notes to Consolidated Financial Statements</u>   | 6-25           |
| <u>Item 2. Management's Discussion and Analysis of</u><br>Financial Condition and Results of Operations     | 26-33          |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>                                   | 34             |
| <u>Item 4. Controls and Procedures</u>  | 34             |
| <u>PART II. OTHER INFORMATION</u>   |                |
| <u>EX-31.1</u>  |                |
| <u>EX-31.2</u>  |                |
| <u>EX-31.3</u>  |                |
| <u>EX-32.1</u>  |                |
| <u>EX-32.2</u>  |                |
| <u>EX-32.3</u>  |                |

**Table of Contents**

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

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

|  | September<br>30,<br>2008<br>(unaudited) | December<br>31,<br>2007 |
|--|---|-------------------------|
| Assets   |   |                         |
| Current assets:  |   |                         |
| Cash and cash equivalents  | \$ 27,537                               | \$ 35,287               |
| Accounts receivable, net of reserve of \$3,940 and \$3,482 in 2008 and 2007, respectively                              | 205,573                                 | 167,595                 |
| Inventories  | 244,454                                 | 212,909                 |
| Other current assets   | 18,194                                  | 20,362                  |
| Assets of discontinued operations  | 1,511                                   | 4,592                   |
| Total current assets   | 497,269                                 | 440,745                 |
| Property, plant and equipment, net   | 259,746                                 | 273,283                 |
| Goodwill   | 455,204                                 | 453,228                 |
| Acquired intangibles   | 95,931                                  | 96,871                  |
| Investment in partnership  | 2,856                                   | 2,644                   |
| Other assets   | 14,666                                  | 14,637                  |
|  | \$ 1,325,672                            | \$ 1,281,408            |
| Liabilities and Shareholders' Equity   |   |                         |
| Current liabilities:   |   |                         |
| Accounts payable   | \$ 132,145                              | \$ 89,551               |
| Accrued expenses   | 64,108                                  | 41,062                  |
| Current maturities of long-term debt   | 2,728                                   | 2,955                   |
| Liabilities of discontinued operations   |   | 657                     |
| Total current liabilities  | 198,981                                 | 134,225                 |
| Long-term debt   | 426,069                                 | 485,654                 |
| Deferred income taxes  | 78,471                                  | 78,071                  |
| Other non-current liabilities  | 17,421                                  | 15,698                  |
| Shareholders' equity:  |   |                         |
| Preferred stock, \$0.01 par value; authorized: 10,000,000 shares; none outstanding                                     |   |                         |
| Common stock, \$0.01 par value; authorized 50,000,000 shares; issued 30,031,124 and 29,949,229 shares in 2008 and 2007 | 300                                     | 300                     |
| Additional paid-in capital   | 223,093                                 | 219,087                 |

Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q

|   |              |              |
|---|--------------|--------------|
| Retained earnings   | 379,485      | 337,929      |
| Accumulated other comprehensive income  | 2,294        | 10,837       |
|   | 605,172      | 568,153      |
| Less: cost of 64,777 and 61,467 common shares held in treasury in 2008 and 2007 | 442          | 393          |
| Total shareholders' equity  | 604,730      | 567,760      |
|   | \$ 1,325,672 | \$ 1,281,408 |

See accompanying notes to consolidated financial statements

3

---

**Table of Contents**

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

|   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |              |
|---|-------------------------------------|------------|------------------------------------|--------------|
|   | 2008                                | 2007       | 2008                               | 2007         |
| Net sales                                       |                                     |            |                                    |              |
|   | \$ 377,121                          | \$ 342,570 | \$ 1,081,877                       | \$ 1,003,116 |
| Cost of sales                                   | 298,210                             | 278,796    | 864,625                            | 821,539      |
| Gross profit                                    | 78,911                              | 63,774     | 217,252                            | 181,577      |
| Selling, general and administrative expense     | 43,405                              | 38,409     | 124,669                            | 110,029      |
| Income from operations                          | 35,506                              | 25,365     | 92,583                             | 71,548       |
| Other (income) expense:                         |                                     |            |                                    |              |
| Equity in partnership s income and other income | (612)                               | (356)      | (973)                              | (1,023)      |
| Interest expense                                | 6,629                               | 8,372      | 21,351                             | 23,063       |
| Total other expense                             | 6,017                               | 8,016      | 20,378                             | 22,040       |
| Income before taxes                             | 29,489                              | 17,349     | 72,205                             | 49,508       |
| Provision for income taxes                      | 10,222                              | 5,982      | 25,549                             | 18,072       |
| Income from continuing operations               | 19,267                              | 11,367     | 46,656                             | 31,436       |
| Discontinued operations:                        |                                     |            |                                    |              |
| Loss from discontinued operations before taxes  | (55)                                | (18,590)   | (968)                              | (21,733)     |
| Income tax benefit                              | (22)                                | (3,679)    | (359)                              | (4,847)      |
| Loss from discontinued operations               | (33)                                | (14,911)   | (609)                              | (16,886)     |
| Net income (loss)                               | \$ 19,234                           | \$ (3,544) | \$ 46,047                          | \$ 14,550    |
| Net income per share Basic:                     |                                     |            |                                    |              |
| Income from continuing operations               | \$ .64                              | \$ .38     | \$ 1.56                            | \$ 1.05      |
| Loss from discontinued operations               |                                     | (.50)      | (.02)                              | (.56)        |
| Net income (loss)                               | \$ .64                              | \$ (.12)   | \$ 1.54                            | \$ .49       |
| Weighted average shares outstanding Basic       | 29,999                              | 29,873     | 29,971                             | 29,847       |
| Net income per share Diluted:                   |                                     |            |                                    |              |
| Income from continuing operations               | \$ .64                              | \$ .38     | \$ 1.55                            | \$ 1.04      |
| Loss from discontinued operations               |                                     | (.50)      | (.02)                              | (.56)        |

Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q

|                                     |         |        |          |         |        |
|-------------------------------------|---------|--------|----------|---------|--------|
| Net income (loss)                   |         | \$ .64 | \$ (.12) | \$ 1.53 | \$ .48 |
| Weighted average shares outstanding | Diluted | 30,266 | 30,147   | 30,171  | 30,103 |

See accompanying notes to consolidated financial statements

4

---

**Table of Contents**

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

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2008                               | 2007      |
| Cash flows from operating activities  |                                    |           |
| Net income  | \$ 46,047                          | \$ 14,550 |
| Loss from discontinued operations   | (609)                              | (16,886)  |
| Income from continuing operations   | 46,656                             | 31,436    |
| Adjustments to reconcile net income to net cash provided by operating activities:             |                                    |           |
| Depreciation and amortization   | 27,430                             | 23,789    |
| Provision for deferred income taxes   | (610)                              | 797       |
| Equity in partnership's income and other income   | (596)                              | (778)     |
| Distributions from partnerships   | 609                                | 603       |
| Stock compensation expense  | 3,544                              | 2,043     |
| Noncash charges related to property, plant and equipment and other                            | 4,294                              | 551       |
| Increase (decrease) in cash resulting from changes in (net of acquisitions and dispositions): |                                    |           |
| Accounts receivable   | (39,529)                           | (22,360)  |
| Inventories   | (32,682)                           | 27,701    |
| Other current assets and other assets   | 1,363                              | 1,463     |
| Accounts payable  | 41,057                             | 13,628    |
| Accrued expenses and other non-current liabilities  | 23,764                             | (2,977)   |
| Net cash provided by continuing operations  | 75,300                             | 75,896    |
| Net cash provided by discontinued operations  | 1,653                              | 15,955    |
| Net cash provided by operating activities   | 76,953                             | 91,851    |
| Cash flows from investing activities  |                                    |           |
| Acquisitions, net of cash acquired  | (8,604)                            | (203,980) |
| Purchases of property, plant and equipment  | (14,107)                           | (12,826)  |
| Net proceeds from sale of property and equipment  | 2,096                              | 2,734     |
| Net proceeds from sale of business  |                                    | 1,680     |
| Net cash used in investing activities from continuing operations                              | (20,615)                           | (212,392) |
| Net cash provided by (used in) investing activities for discontinued operations               | 161                                | (69)      |
| Net cash used in investing activities   | (20,454)                           | (212,461) |
| Cash flows from financing activities  |                                    |           |
| Long-term debt reduction  | (113,506)                          | (2,128)   |
| Proceeds from long-term debt  | 53,439                             | 147,768   |



Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q

|  |           |           |
|--|-----------|-----------|
| Payment of deferred financing costs                  | (104)     | (1,440)   |
| Payment of dividends                                 | (4,491)   | (4,476)   |
| Purchase of treasury stock                           | (49)      |           |
| Net proceeds from issuance of common stock           | 200       | 136       |
| Tax benefit from equity compensation                 | 262       |           |
| Net cash (used in) provided by financing activities  | (64,249)  | 139,860   |
| Net (decrease) increase in cash and cash equivalents | (7,750)   | 19,250    |
| Cash and cash equivalents at beginning of year       | 35,287    | 13,475    |
| Cash and cash equivalents at end of period           | \$ 27,537 | \$ 32,725 |

See accompanying notes to condensed consolidated financial statements

5

---

**Table of Contents**

**GIBRALTAR INDUSTRIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**1. CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying consolidated financial statements as of and for the three and nine months ended September 30, 2008 and 2007 have been prepared by Gibraltar Industries, Inc. (the Company or Gibraltar) without audit. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) necessary to present fairly the financial position at September 30, 2008 and December 31, 2007, the results of operations for the three and nine months ended September 30, 2008 and 2007, and cash flows for the nine months ended September 30, 2008 and 2007, 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 to Shareholders for the year ended December 31, 2007, as filed on Form 10-K.

The consolidated balance sheet at December 31, 2007 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 nine month periods ended September 30, 2008 are not necessarily indicative of the results to be expected for the full year.

**Table of Contents****2. SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME**

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

|   | Comprehensive<br>Income | Common<br>Shares | Stock<br>Amount | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury<br>Stock<br>Shares | Treasury<br>Amount | Total<br>Shareholders<br>Equity |
|---|-------------------------|------------------|-----------------|----------------------------------|----------------------|---|-----------------------------|--------------------|---------------------------------|
| Balance at<br>January 1, 2008   |                         | 29,949           | \$ 300          | \$ 219,087                       | \$ 337,929           | \$ 10,837                                       | 61                          | \$ (393)           | \$ 567,760                      |
| Comprehensive<br>income:  |                         |                  |                 |                                  |                      |   |                             |                    |                                 |
| Net income  | \$ 46,047               |                  |                 |                                  | 46,047               |   |                             |                    | 46,047                          |
| Other<br>comprehensive<br>income (loss):  |                         |                  |                 |                                  |                      |   |                             |                    |                                 |
| Foreign currency<br>translation<br>adjustment   | (8,279)                 |                  |                 |                                  |                      |   |                             |                    |                                 |
| Amortization of<br>other post<br>retirement health<br>care costs, net of<br>tax of \$18 | 29                      |                  |                 |                                  |                      |   |                             |                    |                                 |
| Unrealized loss<br>on interest rate<br>swaps, net of tax<br>of \$172                    | (293)                   |                  |                 |                                  |                      |   |                             |                    |                                 |
| Other<br>comprehensive<br>income  | (8,543)                 |                  |                 |                                  |                      | (8,543)   |                             |                    | (8,543)                         |
| Total<br>comprehensive<br>income  | \$ 37,504               |                  |                 |                                  |                      |   |                             |                    |                                 |
| Equity based<br>compensation<br>expense   |                         |                  |                 | 3,544                            |                      |   |                             |                    | 3,544                           |
| Cash dividends<br>\$.15 per share   |                         |                  |                 |                                  | (4,491)              |   |                             |                    | (4,491)                         |
| Stock options<br>exercised  |                         | 22               |                 | 200                              |                      |   |                             |                    | 200                             |
| Net settlement of<br>restricted stock<br>units  |                         | 54               |                 |                                  |                      |   | 4                           | (49)               | (49)                            |
|   |                         | 6                |                 |                                  |                      |   |                             |                    |                                 |

|  |     |     |
|--|-----|-----|
| Issuance of restricted stock<br>Tax benefit from equity compensation | 262 | 262 |
|--|-----|-----|

|                               |        |        |            |            |          |    |          |            |
|-------------------------------|--------|--------|------------|------------|----------|----|----------|------------|
| Balance at September 30, 2008 | 30,031 | \$ 300 | \$ 223,093 | \$ 379,485 | \$ 2,294 | 65 | \$ (442) | \$ 604,730 |
|-------------------------------|--------|--------|------------|------------|----------|----|----------|------------|

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

|                               | Foreign<br>currency<br>translation<br>adjustment | Minimum<br>pension<br>liability<br>adjustment | Unamortized<br>post<br>retirement<br>health care<br>costs | Unrealized<br>gain/(loss)<br>on<br>interest rate<br>swaps | Accumulated<br>other<br>comprehensive<br>income |
|-------------------------------|--|---|---|---|---|
| Balance at January 1, 2008    | \$ 12,610  | \$ 42   | \$ (604)  | \$ (1,211)  | \$ 10,837                                       |
| Current period change         | (8,279)  |   | 29  | (293)   | (8,543)   |
| Balance at September 30, 2008 | \$ 4,331   | \$ 42   | \$ (575)  | \$ (1,504)  | \$ 2,294  |

**Table of Contents****3. FAIR VALUE MEASUREMENTS**

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, (SFAS 157), which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. This statement applies under other accounting pronouncements that require or permit fair value measurements. The statement indicates, among other things, that 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. SFAS 157 defines fair value based upon an exit price model.

Relative to SFAS 157, the FASB issued FASB Staff Positions (FSP) 157-1, 157-2 and 157-3. FSP 157-1 amends SFAS 157 to exclude SFAS No. 13, Accounting for Leases, (SFAS 13) and its related interpretive accounting pronouncements that address leasing transactions, while FSP 157-2 delays the effective date of the application of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. FSP 157-3 addresses considerations in determining the fair value of a financial asset when the market for that asset is not active.

We adopted SFAS 157 as of January 1, 2008, with the exception of the application of the statement to nonfinancial assets and nonfinancial liabilities. Nonfinancial assets and nonfinancial liabilities for which we have not applied the provisions of SFAS 157 include those measured at fair value in goodwill impairment testing, indefinite lived intangible assets measured at fair value for impairment testing and those initially measured at fair value in a business combination. The impact of adopting SFAS 157 was not significant.

SFAS 157 establishes a valuation hierarchy for disclosure of the inputs to valuation 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 following table provides the assets and liabilities carried at fair value measured on a recurring basis as of September 30, 2008 (in thousands):

|                    | Asset<br>(Liability) | Level<br>1 | Level 2 | Level<br>3 |
|--------------------|----------------------|------------|---------|------------|
| Interest rate swap | (2,308)              |            | (2,308) |            |

Interest rate swaps are over the counter securities with no quoted readily available Level 1 inputs, and therefore, are measured at fair value using inputs that are directly observable in active markets and are classified within Level 2 of the valuation hierarchy, using the income approach.

**4. EQUITY-BASED COMPENSATION**

The Gibraltar Industries, Inc. 2005 Equity Incentive Plan (the 2005 Equity Incentive Plan) is an incentive compensation plan that allows the Company to grant equity-based incentive compensation awards to eligible participants to provide them an additional incentive to promote the business of the Company, to increase their proprietary interest in the success of the Company and to encourage them to remain in the Company's employ. Awards under the plan may be in the form of options, restricted shares, restricted units, performance shares, performance units and rights. The 2005 Equity Incentive Plan provides for the issuance of up to

**Table of Contents**

2,250,000 shares of common stock. Of the total number of shares of common stock issuable under the plan, the aggregate number of shares that may be issued in connection with grants of restricted stock or restricted units cannot exceed 1,350,000 shares, and the aggregate number of shares which may be issued in connection with grants of incentive stock options and rights cannot exceed 900,000 shares. Vesting terms and award life are governed by the award document.

During the nine months ended September 30, 2008, the Company issued 167,274 restricted stock units with a grant date fair value of \$15.23 per unit, issued 6,000 restricted shares with a grant date fair value of \$14.84 per share, and granted 244,800 non-qualified stock options with a weighted average grant date fair value of \$6.72 per option. During the nine months ended September 30, 2007, the Company issued 116,372 restricted stock units with a weighted average grant date fair value of \$22.75, issued 6,000 restricted shares with a grant date fair value of \$21.46, and granted 166,800 non-qualified stock options with a weighted average grant date fair value of \$6.86 per option. The Management Stock Purchase Plan (MSPP) is an integral component of the 2005 Equity Incentive Plan and provides participants the ability to defer up to 50% of their annual bonus under the Management Incentive Compensation Plan. The deferral is converted to restricted stock units and credited to an account together with a Company match in restricted stock units equal to the deferral amount. The account is converted to cash at the current value of the Company's stock and payable to the participants upon a termination of their employment with the Company. The matching portion vests only if the participant has reached their sixtieth birthday. If a participant terminates prior to age 60, the match is forfeited. Upon termination, the account is converted to a cash account that accrues interest at 2% over the then current 10 year U. S. Treasury note. The account is then paid out in five equal annual cash installments.

The fair value of restricted stock units held in the MSPP equals the trailing 200 day closing price of our common stock as of the last day of the period. During the nine months ended September 30, 2008 and 2007, 63,274 and 65,576 restricted stock units, respectively, were credited to participant accounts. At September 30, 2008, the value of the restricted stock units in the MSPP was \$14.78 per share.

**5. INVENTORIES**

Inventories consist of the following (in thousands):

|                   | September<br>30,<br>2008 | December<br>31,<br>2007 |
|-------------------|--------------------------|-------------------------|
| Raw material      | \$ 97,210                | \$ 81,220               |
| Work-in process   | 41,063                   | 33,343                  |
| Finished goods    | 106,181                  | 98,346                  |
| <br>              |                          |                         |
| Total inventories | \$ 244,454               | \$ 212,909              |

**6. ACQUISITIONS**

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

**Table of Contents**

As part of the purchase agreement with the former owners of Home Impressions, the Company is required to pay additional consideration through May 2009 based upon the operating results of Home Impressions. The Company paid \$803,000 and \$128,000 of such additional consideration during the nine months ended September 30, 2008 and 2007, respectively. These payments were recorded as additional goodwill.

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

The aggregate purchase consideration for the acquisition of Dramex was \$22,677,000 in cash and acquisition costs. The purchase price was allocated to the assets acquired and liabilities assumed based upon respective fair values. The identifiable intangible assets consisted of a trademark with a value of \$1,795,000 (indefinite useful life), a trademark with a value of \$111,000 (5 year estimated useful life) and customer relationships with a value of \$1,828,000 (10 year estimated useful life). The excess consideration over fair value was recorded as goodwill and aggregated approximately \$11,514,000, none of which is deductible for tax purposes. The allocation of purchase consideration to the assets acquired and liabilities assumed is as follows (in thousands):

|                                  |           |
|----------------------------------|-----------|
| Working capital                  | \$ 5,566  |
| Property, plant and equipment    | 5,175     |
| Other long term liabilities, net | (3,313)   |
| Identifiable intangible assets   | 3,735     |
| Goodwill                         | 11,514    |
|                                  | \$ 22,677 |

On April 10, 2007 the Company acquired certain assets and liabilities of Noll Manufacturing Company and its affiliates (Noll) with locations in California, Oregon and Washington. The assets the Company acquired from Noll are used to manufacture, market and distribute products for the building, heating, ventilation and air conditioning (HVAC), and lawn and garden components of the building products market. The acquisition of Noll is expected to strengthen our manufacturing, marketing and distribution capabilities and to provide manufacturing and distribution synergies with our existing businesses. The results of Noll (included in the Company's Building Products segment) have been included in the Company's consolidated financial results from the date of acquisition. The acquisition of Noll is not considered significant to the Company's consolidated results of operations.

The aggregate purchase consideration was approximately \$63,726,000 in cash and direct acquisition costs. The purchase price has been allocated to the assets acquired and liabilities assumed based upon respective fair values. The valuation resulted in negative goodwill of \$9,491,000 which has been allocated to property, plant and equipment and intangibles on a pro rata basis. After giving effect to the allocation of the negative

**Table of Contents**

goodwill, the identifiable intangible assets consisted of patents with a value of \$57,000 (8 year estimated useful life), customer relationships with a value of \$2,679,000 (15 year estimated useful life), non-compete agreements valued at \$726,000 (5 year estimated useful life) and trademarks with a value of \$3,490,000 (indefinite useful life). The allocation of the purchase consideration to the assets acquired and liabilities assumed is as follows (in thousands):

|                                |           |
|--------------------------------|-----------|
| Working capital                | \$ 22,820 |
| Property, plant and equipment  | 33,954    |
| Identifiable intangible assets | 6,952     |
|                                | \$ 63,726 |

On August 31, 2007, the Company acquired all of the outstanding stock of Florence Corporation (Florence). Florence is located in Manhattan, Kansas and designs and manufactures storage solutions, including mail and package delivery products. The acquisition of Florence strengthens the Company's position in the storage solutions market. The results of Florence (included in the Company's Building Products segment) have been included in the Company's consolidated financial results since the date of acquisition. The acquisition of Florence is not considered significant to the Company's results of operations.

The aggregate purchase consideration for the acquisition of Florence was \$127,244,000 in cash, including direct acquisition costs, and the assumption of a \$6,496,000 capital lease. The purchase price was allocated to the assets acquired and liabilities assumed based upon respective fair values. The identifiable intangible assets consisted of unpatented technology and patents with a value of \$2,200,000 (10 year estimated useful life), customer contracts with a value of \$15,700,000 (13 year estimated useful life), customer relationships with a value of \$7,200,000 (15 year estimated useful life) and trademarks with a value of \$6,700,000 (indefinite useful life). The excess consideration over fair value was recorded as goodwill and aggregated approximately \$74,778,000. The allocation of purchase consideration to the assets acquired and liabilities assumed is as follows (in thousands):

|                                |            |
|--------------------------------|------------|
| Working capital                | \$ 20,451  |
| Property, plant and equipment  | 12,514     |
| Other assets                   | 265        |
| Long term debt                 | (6,068)    |
| Identifiable intangible assets | 31,800     |
| Goodwill                       | 74,778     |
|                                | \$ 133,740 |

The Company and the former owners of Florence have made a joint election under Internal Revenue Code (IRC) Section 338(h)(10) which allowed the Company to treat the stock purchase as an asset purchase for tax purposes. In connection with the 338(h)(10) election, and pursuant to the terms of the Stock Purchase Agreement, the Company made additional cash payments to the former shareholders of Florence totaling \$7,801,000 during the first six months of 2008. As a result of the 338(h)(10) election, goodwill in the amount of \$74,778,000 is fully deductible for tax purposes.



**Table of Contents****7. GOODWILL AND RELATED INTANGIBLE ASSETS***Goodwill*

The changes in the approximate carrying amount of goodwill by reportable segment for the nine months ended September 30, 2008 is as follows (in thousands):

|  | Building<br>Products<br>Segment | Processed<br>Metal<br>Products<br>Segment | Total      |
|--|---------------------------------|---|------------|
| Balance as of January 1, 2008          | \$ 445,072                      | \$ 8,156                                  | \$ 453,228 |
| Additional consideration               | 8,604                           |   | 8,604      |
| Adjustments to prior year acquisitions | (4,050)                         |   | (4,050)    |
| Foreign currency translation           | (2,869)                         | 291                                       | (2,578)    |
| Balance as of September 30, 2008       | \$ 446,757                      | \$ 8,447                                  | \$ 455,204 |

*Acquired Intangible Assets*

Acquired intangible assets at September 30, 2008 are as follows (in thousands):

|                                  | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Estimated Life |
|----------------------------------|-----------------------------|-----------------------------|----------------|
| Trademark / Trade Name           | \$ 42,354                   | \$                          | indefinite     |
| Trademark / Trade Name           | 2,123                       | 543                         | 2 to 15 years  |
| Unpatented Technology            | 7,484                       | 2,028                       | 5 to 20 years  |
| Customer Relationships           | 53,949                      | 9,391                       | 5 to 15 years  |
| Non-Competition Agreements       | 4,398                       | 2,415                       | 5 to 10 years  |
| Balance as of September 30, 2008 | \$ 110,308                  | \$ 14,377                   |                |

Acquired intangible asset amortization expense for the three and nine month periods ended September 30, 2008 and 2007 aggregated approximately \$1,525,000 and \$4,649,000 and \$923,000 and \$2,738,000, respectively.

Amortization expense related to acquired intangible assets for the remainder of fiscal 2008 and the next five years thereafter is estimated as follows (in thousands):

|      |         |
|------|---------|
| 2008 | \$1,525 |
| 2009 | \$6,018 |
| 2010 | \$5,947 |
| 2011 | \$5,766 |
| 2012 | \$5,629 |
| 2013 | \$5,223 |

**Table of Contents****8. DISCONTINUED OPERATIONS**

As part of its continuing evaluation of its businesses during 2007, the Company determined that both its bath cabinet manufacturing and steel service center businesses no longer provided a strategic fit with its long-term growth and operational objectives. On August 1, 2007, the Company sold certain assets of its bath cabinet manufacturing business, and committed to a plan to sell the remaining assets of the business. On September 27, 2007, the Company committed to a plan to dispose of the assets of its steel service center business. We expect to complete the liquidation of the remaining assets of the bath cabinet manufacturing business during 2008. The steel service center business was previously included in the Processed Metal Products segment and the bath cabinet manufacturing business was previously reported in the Building Products segment.

In accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), the results of operations for the bath cabinet manufacturing and steel service center businesses 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 the provisions of the Financial Accounting Standards Board's Emerging Issues Task Force item 87-24, *Allocation of Interest to Discontinued Operations*. Interest expense of \$266,000 and \$1,061,000 was allocated to discontinued operations during the three and nine months ended September 30, 2007, respectively. No interest was allocated to discontinued operations during the three and nine months ended September 30, 2008.

Components of the loss from discontinued operations are as follows (in thousands):

|  | Three Months Ended |             | Nine Months Ended |             |
|--|--------------------|-------------|-------------------|-------------|
|  | September 30,      |             | September 30,     |             |
|  | 2008               | 2007        | 2008              | 2007        |
| Net sales                                      | \$                 | \$ 9,258    | \$                | \$ 36,116   |
| Expenses                                       | 55                 | 27,848      | 968               | 57,849      |
| Loss from discontinued operations before taxes | \$ (55)            | \$ (18,590) | \$ (968)          | \$ (21,733) |

**9. NET INCOME PER SHARE**

Basic income per share is based on the weighted average number of common shares outstanding. Diluted income per share is based on the weighted average number of common shares outstanding, as well as dilutive potential common shares which, in the Company's case, comprise shares issuable under its equity compensation plans. The treasury stock method is used to calculate dilutive shares, which reduces the gross number of dilutive shares by the number of shares purchasable from the proceeds of the options assumed to be exercised and the unrecognized expense related to the restricted stock and restricted stock unit awards assumed to have vested. Income from discontinued operations per share is rounded for presentation purposes to allow net income per share to foot.

**Table of Contents**

The following table sets forth the computation of basic and diluted earnings per share as of September 30:

|   | Three Months Ended<br>September 30, |                | Nine Months Ended<br>September 30, |               |
|---|-------------------------------------|----------------|------------------------------------|---------------|
|   | 2008                                | 2007           | 2008                               | 2007          |
| Numerator:  |                                     |                |                                    |               |
| Income from continuing operations                                   | \$ 19,267,000                       | \$ 11,367,000  | \$ 46,656,000                      | \$ 31,436,000 |
| Loss from discontinued operations                                   | (33,000)                            | (14,911,000)   | (609,000)                          | (16,886,000)  |
| Income available to common stockholders                             | \$ 19,234,000                       | \$ (3,544,000) | \$ 46,047,000                      | \$ 14,550,000 |
| Denominator for basic income per share:                             |                                     |                |                                    |               |
| Weighted average shares outstanding                                 | 29,999,029                          | 29,873,456     | 29,971,424                         | 29,847,059    |
| Denominator for diluted income per share:                           |                                     |                |                                    |               |
| Weighted average shares outstanding                                 | 29,999,029                          | 29,873,456     | 29,971,424                         | 29,847,059    |
| Net effect of dilutive common stock options<br>and restricted stock | 267,286                             | 273,060        | 199,750                            | 255,451       |
| Weighted average shares and conversions                             | 30,266,315                          | 30,146,516     | 30,171,174                         | 30,102,510    |

**10. RELATED PARTY TRANSACTIONS**

Two members of our Board of Directors are partners in law firms that provide legal services to the Company. For the nine months ended September 30, 2008 and 2007, the Company incurred \$1,431,000 and \$1,692,000, respectively, for legal services from these firms. Of the amount incurred, \$1,431,000 and \$1,040,000, was expensed during the nine months ended September 30, 2008 and 2007, respectively. \$652,000 was capitalized as acquisition costs and deferred debt issuance costs during the nine months ended September 30, 2007.

At September 30, 2008 and December 31, 2007, the Company had \$668,000 and \$185,000, respectively, recorded in accounts payable for these law firms.

A member of our Board of Directors is Vice Chairman of the Board of one of the participating lenders in our Second Amended and Restated Credit Agreement dated August 31, 2007 (the Credit Agreement). The Credit Agreement provides a \$375,000,000 revolving facility and a \$122,700,000 term loan. At September 30, 2008 and December 31, 2007, \$135,000,000 and \$86,455,000 and \$157,916,000 and \$121,550,000 were outstanding on the revolving facility and the term loan, respectively. Loans under the Credit Agreement bear interest, at the borrowers' option at (i) LIBOR plus a margin ranging from 0.60% to 1.40%, depending on the Company's consolidated leverage ratio, or (ii) the higher of the administrative agent's prime rate or the federal funds effective rate plus 0.50%. Facility fees are payable to the lenders on their revolving commitments at a rate ranging from 0.150% to 0.350% and annual letter of credit fees range from 0.60% to 1.40% of the stated amount of the letter of credit.

**11. BORROWINGS UNDER REVOLVING CREDIT FACILITY**

The aggregate borrowing limit under the Company's revolving credit facility is \$375,000,000. At September 30, 2008, the Company had \$225,243,000 of availability under the revolving credit facility.

**Table of Contents****12. NET PERIODIC BENEFIT COSTS**

The following tables present the components of net periodic pension and other postretirement benefit costs charged to expense for the three and nine months ended September 30 (in thousands):

|                            | Pension Benefit    |       |                   |        |
|----------------------------|--------------------|-------|-------------------|--------|
|                            | Three Months Ended |       | Nine Months Ended |        |
|                            | September 30,      |       | September 30,     |        |
|                            | 2008               | 2007  | 2008              | 2007   |
| Service cost               | \$ 37              | \$ 41 | \$ 111            | \$ 123 |
| Interest cost              | 40                 | 35    | 120               | 105    |
| Net periodic benefit costs | \$ 77              | \$ 76 | \$ 231            | \$ 228 |

|   | Other Post Retirement Benefits |        |                   |        |
|---|--------------------------------|--------|-------------------|--------|
|   | Three Months Ended             |        | Nine Months Ended |        |
|   | September 30,                  |        | September 30,     |        |
|   | 2008                           | 2007   | 2008              | 2007   |
| Service cost                                    | \$ 18                          | \$ 29  | \$ 54             | \$ 87  |
| Interest cost                                   | 61                             | 58     | 185               | 174    |
| Amortization of unrecognized prior service cost | (5)                            | (5)    | (15)              | (15)   |
| Loss amortization                               | 21                             | 31     | 63                | 93     |
| Net periodic benefit costs                      | \$ 95                          | \$ 113 | \$ 287            | \$ 339 |

**13. SEGMENT INFORMATION**

The Company is organized into two reportable segments on the basis of the production process and products and services provided by each segment, identified as follows:

- (i) Building Products, which primarily includes the processing of sheet steel, aluminum and other materials to produce a wide variety of building and construction products; and
- (ii) Processed Metal Products, which primarily includes the intermediate processing of wide, open tolerance flat-rolled sheet steel and other metals through the application of several different processes to produce high-quality, value-added coiled steel and other metal products to be further processed by customers.

**Table of Contents**

The following unaudited table illustrates certain measurements used by management to assess the performance of the segments described above (in thousands):

|   | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |              |
|---|-------------------------------------|--------------|------------------------------------|--------------|
|   | 2008                                | 2007         | 2008                               | 2007         |
| Net sales                                     |                                     |              |                                    |              |
| Building Products                             | \$ 277,494                          | \$ 247,175   | \$ 787,875                         | \$ 710,522   |
| Processed Metal Products                      | 99,627                              | 95,395       | 294,002                            | 292,594      |
|   | \$ 377,121                          | \$ 342,570   | \$ 1,081,877                       | \$ 1,003,116 |
| Income (loss) from operations                 |                                     |              |                                    |              |
| Building Products                             | \$ 33,500                           | \$ 28,497    | \$ 93,938                          | \$ 78,382    |
| Processed Metal Products                      | 12,165                              | 5,540        | 24,826                             | 16,089       |
| Corporate                                     | (10,159)                            | (8,672)      | (26,181)                           | (22,923)     |
|   | \$ 35,506                           | \$ 25,365    | \$ 92,583                          | \$ 71,548    |
| Depreciation and amortization                 |                                     |              |                                    |              |
| Building Products                             | \$ 6,499                            | \$ 5,851     | \$ 19,647                          | \$ 16,558    |
| Processed Metal Products                      | 2,058                               | 1,666        | 5,502                              | 5,174        |
| Corporate                                     | 740                                 | 703          | 2,281                              | 2,057        |
|   | \$ 9,297                            | \$ 8,220     | \$ 27,430                          | \$ 23,789    |
| Capital expenditures (excluding acquisitions) |                                     |              |                                    |              |
| Building Products                             | \$ 2,728                            | \$ 2,054     | \$ 10,232                          | \$ 8,575     |
| Processed Metal Products                      | 590                                 | 1,314        | 2,076                              | 3,350        |
| Corporate                                     | 1,349                               | 62           | 1,799                              | 901          |
|   | \$ 4,667                            | \$ 3,430     | \$ 14,107                          | \$ 12,826    |
| Total identifiable assets                     |                                     |              |                                    |              |
| Building Products                             |                                     | \$ 1,042,229 |                                    | \$ 1,001,541 |
| Processed Metal Products                      |                                     | 245,816      |                                    | 219,014      |
| Corporate                                     |                                     | 37,627       |                                    | 60,853       |
|   |                                     | \$ 1,325,672 |                                    | \$ 1,281,408 |

**Table of Contents****14. EXIT ACTIVITY COSTS AND ASSET IMPAIRMENTS**

The following table provides a summary of exit activity costs and asset impairments (in thousands):

|  | Three Months Ended |        | Nine Months Ended |          |
|--|--------------------|--------|-------------------|----------|
|  | September 30,      |        | September 30,     |          |
|  | 2008               | 2007   | 2008              | 2007     |
| Exit activities costs                                  | \$ 1,238           | \$ 435 | \$ 4,089          | \$ 2,377 |
| Charges related to asset impairments                   | 2,509              |        | 2,509             |          |
| Total exit activity costs and asset impairment charges | \$ 3,747           | \$ 435 | \$ 6,598          | \$ 2,377 |

Exit activity costs of \$1,238,000 for the three months ended September 30, 2008 relate to facility consolidation and severance costs incurred by our Building Products segment. The \$2,509,000 of asset impairment charges for the three months ended September 30, 2008 include a \$1,370,000 impairment charge for a plant closed in our Building Products segment and a \$1,139,000 impairment charge for a corporate software application no longer in use. The \$435,000 of exit activity costs for the three months ended September 30, 2007 relate to facility consolidation and severance costs incurred by our Building Products segment and Processed Metal Products segment.

Exit activity costs of \$4,089,000 for the nine months ended September 30, 2008 relate to facility consolidation and severance costs incurred by our Building Products segment and Processed Metal Products segment. The \$2,509,000 of asset impairment charges for the nine months ended September 30, 2008 include a \$1,370,000 impairment charge for a plant closed in our Building Products segment and a \$1,139,000 impairment charge for a corporate software application no longer in use. The \$2,377,000 of exit activity costs for the nine months ended September 30, 2007 relate to facility consolidation and severance costs incurred by our Building Products and Processed Metals Products segment.

**15. SUBSEQUENT EVENT**

On October 3, 2008, the Company entered into a definitive agreement to sell the issued and outstanding capital stock of its SCM Metal Products subsidiaries (SCM), a powder metals business, for a purchase price of approximately \$47.3 million, subject to adjustment for working capital. We closed on the sale on November 5, 2008. The purchase price was payable by delivery of a promissory note in the principal amount of \$8.5 million and cash. Interest is payable on the promissory note quarterly at interest rates that increase over time from 8% to 12% per annum. We expect to incur a pre-tax loss of \$16.7 million from this transaction.

Net sales generated by SCM (included in the Processed Metal Products segment) were \$35,307,000 and \$98,952,000 and \$29,701,000 and \$84,429,000 for the three and nine month periods ended September 30, 2008 and 2007, respectively.

**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 8% senior subordinated 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 Balance Sheets  
September 30, 2008  
(in thousands)

|  | Gibraltar<br>Industries,<br>Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Total        |
|--|----------------------------------|---------------------------|-------------------------------|--------------|--------------|
| <b>Assets</b>                              |                                  |                           |                               |              |              |
| Current assets:                            |                                  |                           |                               |              |              |
| Cash and cash equivalents                  | \$                               | \$ 10,222                 | \$ 17,315                     | \$           | \$ 27,537    |
| Accounts receivable                        |                                  | 179,100                   | 26,473                        |              | 205,573      |
| Intercompany balances                      | 205,400                          | (184,342)                 | (21,058)                      |              |              |
| Inventories                                |                                  | 230,887                   | 13,567                        |              | 244,454      |
| Other current assets                       |                                  | 17,297                    | 897                           |              | 18,194       |
| Assets of discontinued operations          |                                  | 1,511                     |                               |              | 1,511        |
| Total current assets                       | 205,400                          | 254,675                   | 37,194                        |              | 497,269      |
|  |                                  |                           |                               |              |              |
| Property, plant and equipment, net         |                                  | 240,181                   | 19,565                        |              | 259,746      |
| Goodwill                                   |                                  | 417,256                   | 37,948                        |              | 455,204      |
| Acquired intangibles                       |                                  | 80,937                    | 14,994                        |              | 95,931       |
| Investment in partnership                  |                                  | 2,856                     |                               |              | 2,856        |
| Other assets                               | 5,239                            | 9,251                     | 176                           |              | 14,666       |
| Investment in subsidiaries                 | 600,813                          | 85,711                    |                               | (686,524)    |              |
|  | 811,452                          | 1,090,867                 | 109,877                       | (686,524)    | 1,325,672    |
|  |                                  |                           |                               |              |              |
| <b>Liabilities and Shareholders Equity</b> |                                  |                           |                               |              |              |
| Current liabilities:                       |                                  |                           |                               |              |              |
| Accounts payable                           |                                  | 119,478                   | 12,667                        |              | 132,145      |
| Accrued expenses                           | 5,440                            | 53,839                    | 4,829                         |              | 64,108       |
| Current maturities of long-term debt       |                                  | 2,728                     |                               |              | 2,728        |
| Total current liabilities                  | 5,440                            | 176,045                   | 17,496                        |              | 198,981      |
|  |                                  |                           |                               |              |              |
| Long-term debt                             | 201,282                          | 224,787                   |                               |              | 426,069      |
| Deferred income taxes                      |                                  | 72,251                    | 6,220                         |              | 78,471       |
| Other non-current liabilities              |                                  | 16,971                    | 450                           |              | 17,421       |
| Shareholders equity                        | 604,730                          | 600,813                   | 85,711                        | (686,524)    | 604,730      |
|  | \$ 811,452                       | \$ 1,090,867              | \$ 109,877                    | \$ (686,524) | \$ 1,325,672 |





**Table of Contents**

Gibraltar Industries, Inc.  
Consolidating Balance Sheets  
December 31, 2007  
(in thousands)

|  | Gibraltar<br>Industries,<br>Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Total          |
|--|----------------------------------|---------------------------|-------------------------------|--------------|----------------|
| <b>Assets</b>                              |                                  |                           |                               |              |                |
| Current assets:                            |                                  |                           |                               |              |                |
| Cash and cash equivalents                  | \$                               | \$ 11,090                 | \$ 24,197                     | \$           | \$ 35,287      |
| Accounts receivable, net                   |                                  | 146,379                   | 21,216                        |              | 167,595        |
| Intercompany balances                      | 210,891                          | (191,268)                 | (19,623)                      |              |                |
| Inventories                                |                                  | 199,516                   | 13,393                        |              | 212,909        |
| Other current assets                       |                                  | 19,524                    | 838                           |              | 20,362         |
| Assets of discontinued operations          |                                  | 4,592                     |                               |              | 4,592          |
| <b>Total current assets</b>                | <b>210,891</b>                   | <b>189,833</b>            | <b>40,021</b>                 |              | <b>440,745</b> |
| Property, plant and equipment, net         |                                  | 251,233                   | 22,050                        |              | 273,283        |
| Goodwill                                   |                                  | 405,869                   | 47,359                        |              | 453,228        |
| Acquired intangibles                       |                                  | 83,762                    | 13,109                        |              | 96,871         |
| Investment in partnership                  |                                  | 2,644                     |                               |              | 2,644          |
| Other assets                               | 5,781                            | 8,621                     | 235                           |              | 14,637         |
| Investment in subsidiaries                 | 553,526                          | 98,883                    |                               | (652,409)    |                |
|  | \$ 770,198                       | \$ 1,040,845              | \$ 122,774                    | \$ (652,409) | \$ 1,281,408   |
| <b>Liabilities and Shareholders Equity</b> |                                  |                           |                               |              |                |
| Current liabilities:                       |                                  |                           |                               |              |                |
| Accounts payable                           | \$                               | \$ 76,698                 | \$ 12,853                     | \$           | \$ 89,551      |
| Accrued expenses                           | 1,360                            | 35,797                    | 3,905                         |              | 41,062         |
| Current maturities of long-term debt       |                                  | 2,955                     |                               |              | 2,955          |
| Liabilities of discontinued operations     |                                  | 657                       |                               |              | 657            |
| <b>Total current liabilities</b>           | <b>1,360</b>                     | <b>116,107</b>            | <b>16,758</b>                 |              | <b>134,225</b> |
| Long-term debt                             | 201,078                          | 283,512                   | 1,064                         |              | 485,654        |
| Deferred income taxes                      |                                  | 72,463                    | 5,608                         |              | 78,071         |
| Other non-current liabilities              |                                  | 15,237                    | 461                           |              | 15,698         |
| Shareholders equity                        | 567,760                          | 553,526                   | 98,883                        | (652,409)    | 567,760        |
|  | \$ 770,198                       | \$ 1,040,845              | \$ 122,774                    | \$ (652,409) | \$ 1,281,408   |



**Table of Contents**

Gibraltar Industries, Inc.  
 Consolidating Statements of Income  
 Three Months Ended September 30, 2008  
 (in thousands)

|   | Gibraltar<br>Industries,<br>Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Total      |
|---|----------------------------------|---------------------------|-------------------------------|--------------|------------|
| Net sales                                       | \$                               | \$ 340,999                | \$ 40,606                     | \$ (4,484)   | \$ 377,121 |
| Cost of sales                                   |                                  | 269,823                   | 32,871                        | (4,484)      | 298,210    |
| Gross profit                                    |                                  | 71,176                    | 7,735                         |              | 78,911     |
| Selling, general and administrative expense     | 645                              | 39,338                    | 3,422                         |              | 43,405     |
| Income from operations                          | (645)                            | 31,838                    | 4,313                         |              | 35,506     |
| Other (income) expense                          |                                  |                           |                               |              |            |
| Equity in partnership's income and other income |                                  | (612)                     |                               |              | (612)      |
| Interest expense (income)                       | 4,121                            | 2,563                     | (55)                          |              | 6,629      |
| Total other expense (income)                    | 4,121                            | 1,951                     | (55)                          |              | 6,017      |
| (Loss) income before taxes                      | (4,766)                          | 29,887                    | 4,368                         |              | 29,489     |
| (Benefit from) provision for income taxes       | (1,620)                          | 10,403                    | 1,439                         |              | 10,222     |
| (Loss) income from continuing operations        | (3,146)                          | 19,484                    | 2,929                         |              | 19,267     |
| Discontinued operations                         |                                  |                           |                               |              |            |
| Loss from discontinued operations before taxes  |                                  | (55)                      |                               |              | (55)       |
| Income tax benefit                              |                                  | (22)                      |                               |              | (22)       |
| Loss from discontinued operations               |                                  | (33)                      |                               |              | (33)       |
| Equity in earnings from subsidiaries            | 22,380                           | 2,929                     |                               | (25,309)     |            |

|            |    |        |    |        |    |       |    |          |    |        |
|------------|----|--------|----|--------|----|-------|----|----------|----|--------|
| Net income | \$ | 19,234 | \$ | 22,380 | \$ | 2,929 | \$ | (25,309) | \$ | 19,234 |
|------------|----|--------|----|--------|----|-------|----|----------|----|--------|

**Table of Contents**

Gibraltar Industries, Inc.  
 Consolidating Statements of Income  
 Three Months Ended September 30, 2007  
 (in thousands)

|  | Gibraltar<br>Industries,<br>Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Total      |
|--|----------------------------------|---------------------------|-------------------------------|--------------|------------|
| Net sales  | \$                               | \$ 305,572                | \$ 39,824                     | \$ (2,826)   | \$ 342,570 |
| Cost of sales                                      |                                  | 248,704                   | 32,918                        | (2,826)      | 278,796    |
| Gross profit                                       |                                  | 56,868                    | 6,906                         |              | 63,774     |
| Selling, general and administrative<br>expense     | (2)                              | 35,046                    | 3,365                         |              | 38,409     |
| Income from operations                             | 2                                | 21,822                    | 3,541                         |              | 25,365     |
| Other (income) expense                             |                                  |                           |                               |              |            |
| Equity in partnership's income and<br>other income |                                  | (343)                     | (13)                          |              | (356)      |
| Interest expense (income)                          | 4,208                            | 4,244                     | (80)                          |              | 8,372      |
| Total other expense (income)                       | 4,208                            | 3,901                     | (93)                          |              | 8,016      |
| (Loss) income before taxes                         | (4,206)                          | 17,921                    | 3,634                         |              | 17,349     |
| Provision for income taxes                         | (1,557)                          | 6,874                     | 665                           |              | 5,982      |
| (Loss) income from continuing<br>operations        | (2,649)                          | 11,047                    | 2,969                         |              | 11,367     |
| Discontinued operations                            |                                  |                           |                               |              |            |
| Loss from discontinued operations<br>before taxes  |                                  | (18,590)                  |                               |              | (18,590)   |
| Income tax benefit                                 |                                  | (3,679)                   |                               |              | (3,679)    |
| Loss from discontinued operations                  |                                  | (14,911)                  |                               |              | (14,911)   |
| Equity in earnings from<br>subsidiaries            | (895)                            | 2,969                     |                               | (2,074)      |            |

|                   |    |         |    |       |    |       |    |         |    |         |
|-------------------|----|---------|----|-------|----|-------|----|---------|----|---------|
| Net (loss) income | \$ | (3,544) | \$ | (895) | \$ | 2,969 | \$ | (2,074) | \$ | (3,544) |
|-------------------|----|---------|----|-------|----|-------|----|---------|----|---------|

21

---

**Table of Contents**

Gibraltar Industries, Inc.  
 Consolidating Statements of Income  
 Nine Months Ended September 30, 2008  
 (in thousands)

|  | Gibraltar<br>Industries,<br>Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Total        |
|--|----------------------------------|---------------------------|-------------------------------|--------------|--------------|
| Net sales  | \$                               | \$ 974,514                | \$ 120,687                    | \$ (13,324)  | \$ 1,081,877 |
| Cost of sales                                      |                                  | 781,145                   | 96,804                        | (13,324)     | 864,625      |
| Gross profit                                       |                                  | 193,369                   | 23,883                        |              | 217,252      |
| Selling, general and<br>administrative expense     | (598)                            | 114,185                   | 11,082                        |              | 124,669      |
| Income from operations                             | 598                              | 79,184                    | 12,801                        |              | 92,583       |
| Other (income) expense                             |                                  |                           |                               |              |              |
| Equity in partnership's income and<br>other income |                                  | (970)                     | (3)                           |              | (973)        |
| Interest expense                                   | 11,662                           | 9,237                     | 452                           |              | 21,351       |
| Total other expense                                | 11,662                           | 8,267                     | 449                           |              | 20,378       |
| (Loss) income before taxes                         | (11,064)                         | 70,917                    | 12,352                        |              | 72,205       |
| (Benefit from) provision for<br>income taxes       | (4,193)                          | 25,882                    | 3,860                         |              | 25,549       |
| (Loss) income from continuing<br>operations        | (6,871)                          | 45,035                    | 8,492                         |              | 46,656       |
| Discontinued operations                            |                                  |                           |                               |              |              |
| Loss from discontinued operations<br>before taxes  |                                  | (968)                     |                               |              | (968)        |
| Income tax benefit                                 |                                  | (359)                     |                               |              | (359)        |
| Loss from discontinued operations                  |                                  | (609)                     |                               |              | (609)        |
| Equity in earnings from<br>subsidiaries            | 52,918                           | 8,492                     |                               | (61,410)     |              |

|            |           |           |          |             |           |
|------------|-----------|-----------|----------|-------------|-----------|
| Net income | \$ 46,047 | \$ 52,918 | \$ 8,492 | \$ (61,410) | \$ 46,047 |
|------------|-----------|-----------|----------|-------------|-----------|



**Table of Contents**

Gibraltar Industries, Inc.  
Condensed Consolidating Statements of Income  
Nine Months Ended September 30, 2007  
(in thousands)

|  | Gibraltar<br>Industries,<br>Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Total        |
|--|----------------------------------|---------------------------|-------------------------------|--------------|--------------|
| Net sales  | \$                               | \$ 906,001                | \$ 106,219                    | \$ (9,104)   | \$ 1,003,116 |
| Cost of sales                                      |                                  | 743,771                   | 86,872                        | (9,104)      | 821,539      |
| Gross profit                                       |                                  | 162,230                   | 19,347                        |              | 181,577      |
| Selling, general and<br>administrative expense     | 193                              | 100,241                   | 9,595                         |              | 110,029      |
| (Loss) income from operations                      | (193)                            | 61,989                    | 9,752                         |              | 71,548       |
| Other (income) expense                             |                                  |                           |                               |              |              |
| Equity in partnership's income and<br>other income |                                  | (1,013)                   | (10)                          |              | (1,023)      |
| Interest expense (income)                          | 12,616                           | 10,609                    | (162)                         |              | 23,063       |
| Total other expense (income)                       | 12,616                           | 9,596                     | (172)                         |              | 22,040       |
| (Loss) income before taxes                         | (12,809)                         | 52,393                    | 9,924                         |              | 49,508       |
| (Benefit from) provision for<br>income taxes       | (4,740)                          | 19,775                    | 3,037                         |              | 18,072       |
| (Loss) Income from continuing<br>operations        | (8,069)                          | 32,618                    | 6,887                         |              | 31,436       |
| Discontinued operations                            |                                  |                           |                               |              |              |
| Loss from discontinued operations<br>before taxes  |                                  | (21,733)                  |                               |              | (21,733)     |
| Income tax benefit                                 |                                  | (4,847)                   |                               |              | (4,847)      |
| Loss from discontinued operations                  |                                  | (16,886)                  |                               |              | (16,886)     |
| Equity in earnings from<br>subsidiaries            | 22,619                           | 6,887                     |                               | (29,506)     |              |

|            |           |           |          |             |           |
|------------|-----------|-----------|----------|-------------|-----------|
| Net income | \$ 14,550 | \$ 22,619 | \$ 6,887 | \$ (29,506) | \$ 14,550 |
|------------|-----------|-----------|----------|-------------|-----------|

**Table of Contents**

Gibraltar Industries, Inc.  
 Consolidating Statements of Cash Flows  
 Nine Months Ended September 30, 2008  
 (in thousands)

|   | Gibraltar<br>Industries,<br>Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Total     |
|---|----------------------------------|---------------------------|-------------------------------|--------------|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                           |                                  |                           |                               |              |           |
| Net cash (used in) provided by continuing operations                  | \$ (3,973)                       | \$ 74,712                 | \$ 4,561                      | \$           | \$ 75,300 |
| Net cash provided by discontinued operations                          |                                  | 1,653                     |                               |              | 1,653     |
| Net cash (used in) provided by operating activities                   | (3,973)                          | 76,365                    | 4,561                         |              | 76,953    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                           |                                  |                           |                               |              |           |
| Acquisitions, net of cash acquired                                    |                                  | (8,604)                   |                               |              | (8,604)   |
| Purchases of property, plant and equipment                            |                                  | (12,295)                  | (1,812)                       |              | (14,107)  |
| Net proceeds from sale of property and equipment                      |                                  | 2,066                     | 30                            |              | 2,096     |
| Net cash used in investing activities from continuing operations      |                                  | (18,833)                  | (1,782)                       |              | (20,615)  |
| Net cash provided by investing activities for discontinued operations |                                  | 161                       |                               |              | 161       |
| Net cash used in investing activities                                 |                                  | (18,672)                  | (1,782)                       |              | (20,454)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                           |                                  |                           |                               |              |           |
| Long-term debt reduction  |                                  | (111,952)                 | (1,554)                       |              | (113,506) |
| Proceeds from long-term debt  |                                  | 53,000                    | 439                           |              | 53,439    |
| Intercompany financing  | 8,051                            | 495                       | (8,546)                       |              |           |
| Payment of deferred financing costs                                   |                                  | (104)                     |                               |              | (104)     |
| Payment of dividends  | (4,491)                          |                           |                               |              | (4,491)   |

Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q

|   |       |           |           |           |
|---|-------|-----------|-----------|-----------|
| Purchase of treasury stock                          | (49)  |           |           | (49)      |
| Net proceeds from issuance of common stock          | 200   |           |           | 200       |
| Tax benefit from equity compensation                | 262   |           |           | 262       |
| Net cash provided by (used in) financing activities | 3,973 | (58,561)  | (9,661)   | (64,249)  |
| Net decrease in cash and cash equivalents           |       | (868)     | (6,882)   | (7,750)   |
| Cash and cash equivalents at beginning of year      |       | 11,090    | 24,197    | 35,287    |
| Cash and cash equivalents at end of period          | \$    | \$ 10,222 | \$ 17,315 | \$ 27,537 |

**Table of Contents**

Gibraltar Industries, Inc.  
Condensed Consolidating Statements of Cash Flows  
Nine Months Ended September 30, 2007  
(in thousands)

|   | Gibraltar<br>Industries,<br>Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Total     |
|---|----------------------------------|---------------------------|-------------------------------|--------------|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                       |                                  |                           |                               |              |           |
| Net cash (used in) provided by continuing operations              | \$ (8,170)                       | \$ 72,008                 | \$ 12,058                     | \$           | \$ 75,896 |
| Net cash provided by discontinued operations                      |                                  | 15,955                    |                               |              | 15,955    |
| Net cash (used in) provided by operating activities               | (8,170)                          | 87,963                    | 12,058                        |              | 91,851    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                       |                                  |                           |                               |              |           |
| Acquisitions, net of cash acquired                                |                                  | (183,498)                 | (20,482)                      |              | (203,980) |
| Purchases of property, plant and equipment                        |                                  | (11,756)                  | (1,070)                       |              | (12,826)  |
| Net proceeds from sale of property and equipment                  |                                  | 2,715                     | 19                            |              | 2,734     |
| Net proceeds from sale of business                                |                                  | 1,680                     |                               |              | 1,680     |
| Net cash used in investing activities from continuing operations  |                                  | (190,859)                 | (21,533)                      |              | (212,392) |
| Net cash used in investing activities for discontinued operations |                                  | (69)                      |                               |              | (69)      |
| Net cash used in investing activities                             |                                  | (190,928)                 | (21,533)                      |              | (212,461) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                       |                                  |                           |                               |              |           |
| Long-term debt reduction  |                                  | (1,859)                   | (269)                         |              | (2,128)   |
| Proceeds from long-term debt                                      |                                  | 147,768                   |                               |              | 147,768   |
| Intercompany financing  | 12,510                           | (35,650)                  | 23,140                        |              | (1,440)   |
|   |                                  | (1,440)                   |                               |              | (1,440)   |

|  |         |           |           |           |
|--|---------|-----------|-----------|-----------|
| Payment of deferred financing costs            |         |           |           |           |
| Payment of dividends                           | (4,476) |           |           | (4,476)   |
| Net proceeds from issuance of common stock     | 136     |           |           | 136       |
| Net cash provided by financing activities      | 8,170   | 108,819   | 22,871    | 139,860   |
| Net increase in cash and cash equivalents      |         | 5,854     | 13,396    | 19,250    |
| Cash and cash equivalents at beginning of year |         | 4,982     | 8,493     | 13,475    |
| Cash and cash equivalents at end of year       | \$      | \$ 10,836 | \$ 21,889 | \$ 32,725 |

**Table of Contents**

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

*Certain information set forth herein contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about the Company's business, and management's beliefs about future operating results and financial position. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions. Statements by the Company, other than historical information, constitute forward looking statements as defined in the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on forward-looking statements. Such statements are based on current expectations, are inherently uncertain, are subject to risks and should be viewed with caution. Actual results and experience may differ materially from the forward-looking statements. Factors that could affect these statements include, but are not limited to, the following: the impact of changing steel prices on the Company's results of operations; changes in raw material pricing and availability; changing demand for the Company's products and services; changes in the liquidity of the capital and credit markets; and changes in interest or tax rates. In addition, such forward-looking statements could also be affected by general industry and market conditions, as well as general economic and political conditions. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except in very limited circumstances when required by applicable law or regulation.*

Gibraltar is a leading manufacturer, processor, and distributor of products for the building, industrial and vehicular markets which include ventilation products, mailboxes, bar grating, expanded metal and cold-rolled strip steel. Our full year 2007 net sales and income from continuing operations were \$1,312 million and \$31.1 million, respectively. Our business strategy is to focus on manufacturing high value-added products within niche markets where we can capture market leading positions. Our strategy includes organic initiatives which are complemented by strategic acquisitions that strengthen product and end market leadership. Gibraltar reports in two business segments: Building Products and Processed Metal Products.

Our Building Products segment focuses on expanding market share in the residential markets; further penetrating domestic and international commercial building, industrial, and architectural markets; participating as a buyer in our industry consolidation; and improving its operational productivity and efficiency through both operational excellence and facility consolidation.

Our Processed Metal Products segment focuses on increased penetration with transplant auto manufacturers; expanding international market opportunities; and serving the global shift toward automatic transmissions which require more components. This segment is also striving to increase its operational productivity and efficiency through similar means.

We have deployed capital in completing 31 strategic acquisitions over the past 13 years. In 2007, we completed three acquisitions with combined annualized revenues of \$160 million that are now part of our Building Products segment. In our continual evaluation of our businesses' performance, we also evaluate each business' current and expected performance, with the goal that every business contribute to Gibraltar's growth in sales, operating margins and cash flow. In 2007, we determined that two businesses would not be strong contributors to Gibraltar's long term financial success and, therefore, divested a steel service center business and a bath cabinet manufacturing business. On October 3, 2008, we entered into a definitive agreement to sell our powder metals business, SCM Metal Products (SCM). We closed on the sale on November 5, 2008. SCM is reported in our Processed Metal Products segment. We expect to continue focusing our resources and capital on those areas that we expect to provide the best long-term strategic fit.

**Table of Contents**

In the first nine months of 2008, we continued to face slowdowns in two of the key end markets we serve, automotive and residential new housing construction, that affected sales volumes in both of our segments. Despite the market slowdowns, Gibraltar has been able to increase its net sales through the third quarter of 2008 compared to the prior year period. We offset the sales decline from lower residential new home construction in our Building Products segment was offset by increased activity in the commercial, industrial, architectural, and international markets. We are also managing increased costs from raw material suppliers by working with customers to obtain price increases to allow us to achieve better margin alignment. Due to these factors, our historic businesses collectively had modest sales increases compared to 2007, which was amplified in 2008 by the benefit of the incremental sales and profits from our 2007 acquisitions.

We have also focused on operational excellence through lean initiatives and consolidating facilities to reduce our operating costs. We closed or consolidated a total of 22 facilities since January 2007. Operating margins have improved during 2008 due to better alignment of customer selling prices to material costs and savings from lean initiatives and facility consolidations completed during 2007 and 2008.

*Results of Operations for the Three Months Ended September 30, 2008 Compared to the Three Months Ended September 30, 2007*

The following table sets forth the Company's net sales by reportable segment for the three months ended September 30 (in thousands):

|                          | 2008       | 2007       | Total<br>Change | Acquisitions | Change due to<br>Foreign<br>Currency | Operations |
|--------------------------|------------|------------|-----------------|--------------|--------------------------------------|------------|
| Net sales:               |            |            |                 |              |                                      |            |
| Building Products        | \$ 277,494 | \$ 247,175 | \$ 30,319       | \$ 13,716    | \$ 877                               | \$ 15,726  |
| Processed Metal Products | 99,627     | 95,395     | 4,232           |              | 250                                  | 3,982      |
|                          | \$ 377,121 | \$ 342,570 | \$ 34,551       | \$ 13,716    | \$ 1,127                             | \$ 19,708  |

Net sales increased by \$34.6 million, or 10% to \$377.1 million for the quarter ended September 30, 2008, compared to the quarter ended September 30, 2007. The 2007 acquisition of Florence provided incremental sales of \$13.7 million, or 4%, of the third quarter increase. Changes in foreign currency exchange rates have contributed to \$1.1 million, or less than one percent, of the third quarter increase. Sales by our historic businesses without the effects of exchange rate fluctuations increased \$19.7 million, or 6%.

Net sales in our Building Products segment increased by \$30.3 million, or 12%, to \$277.5 million for the quarter ended September 30, 2008, from net sales of \$247.2 million for the quarter ended September 30, 2007. Excluding the \$13.7 million in incremental net sales provided by the 2007 acquisition of Florence and the \$0.9 million impact of exchange rate fluctuations, the increase in net sales was \$15.7 million, or 6% from the same period in the prior year, a net result of higher customer selling prices on products used in the commercial, industrial, architectural, and international markets which offset declining volumes from our residential products due to the effects of the slowdown in the residential housing market.

Net sales in our Processed Metal Products segment increased by \$4.2 million, or 4%, to \$99.6 million for the quarter ended September 30, 2008, from net sales of \$95.4 million for the quarter ended September 30, 2007. Excluding the \$0.2 million impact of exchange rate fluctuations, the increase in net sales was \$4.0 million, or 4%, from the same period in the prior year. The increase in net sales was primarily a function of increased sales in Asia and increased selling prices that allow us to achieve better margin alignment offset by volume reductions due to the decline in domestic automotive production.



**Table of Contents**

Gross margin increased to 20.9% for the quarter ended September 30, 2008, from 18.6% for the quarter ended September 30, 2007. The increase in gross margin was the result of a better alignment of customer selling prices to raw material costs and lower costs due to our lean initiatives and facility consolidations, partially offset by the effects of reductions in volume and product mix.

Selling, general and administrative expenses increased by approximately \$5.0 million, or 13%, to \$43.4 million for the quarter ended September 30, 2008, from \$38.4 million for the quarter ended September 30, 2007. The acquisition of Florence generated a \$1.5 million increase in selling, general and administrative expenses. Excluding the effect of acquisitions, selling, general and administrative expenses increased \$3.5 million, or 9% during the quarter. Selling, general and administrative expenses as a percentage of net sales increased to 11.5% for the quarter ended September 30, 2008, from 11.2% for the quarter ended September 30, 2007 as a result of a \$1.1 million charge for software no longer in use, higher incentive compensation costs due to improved operating results, and costs incurred from our continued facility consolidation efforts.

As a result of the above, income from operations as a percentage of net sales for the quarter ended September 30, 2008 increased to 9.4% from 7.4% for the prior year's comparable period.

The following table sets forth the Company's income from operations by reportable segment for the three months ending September 30 (in thousands):

|                          | 2008      | 2007      | Total<br>Change | Acquisitions | Change due to<br>Foreign<br>Currency | Operations |
|--------------------------|-----------|-----------|-----------------|--------------|--------------------------------------|------------|
| Income from operations:  |           |           |                 |              |                                      |            |
| Building Products        | \$ 33,500 | \$ 28,497 | \$ 5,003        | \$ 1,619     | \$ 650                               | \$ 2,734   |
| Processed Metal Products | 12,165    | 5,540     | 6,625           |              | 31                                   | 6,594      |
| Corporate                | (10,159)  | (8,672)   | (1,487)         |              |                                      | (1,487)    |
|                          | \$ 35,506 | \$ 25,365 | \$ 10,141       | \$ 1,619     | \$ 681                               | \$ 7,841   |

Income from operations as a percentage of net sales in our Building Products segment for the quarter ended September 30, 2008 increased to 12.1% from 11.5% in the quarter ended September 30, 2007. The increase in income from operations is the result of our continued efforts to reduce manufacturing costs and scale our operations for lower unit volumes through lean initiatives and facility consolidations and the acquisition of Florence all of which more than offset \$2.7 million of reorganization costs related to facility consolidations.

Income from operations as a percentage of net sales in our Processed Metal Products segment increased to 12.2% of net sales for the quarter ended September 30, 2008 from 5.8% for the prior year's comparable period. The increase in operating margin percentage is a result of lower costs due to the completion of our consolidation of the flat rolled business and a better alignment of customer selling prices to raw material costs.

Corporate expenses increased \$1.5 million, or 17%, to \$10.2 million for the quarter ended September 30, 2008 from \$8.7 million in the quarter ended September 30, 2007. The increase in corporate expenses is primarily due to a \$1.1 million charge for software no longer in use and higher incentive compensation costs due to improved operating results.

Interest expense decreased by approximately \$1.8 million to \$6.6 million for the quarter ended September 30, 2008, from \$8.4 million for the quarter ended September 30, 2007. The decrease in interest expense was due to a combination of lower average borrowings and lower average interest rates during the quarter ended September 30, 2008 compared to the comparable period in the prior year.

**Table of Contents**

As a result of the above, income from continuing operations before taxes increased by approximately \$12.2 million, or 70%, to \$29.5 million for the quarter ended September 30, 2008, compared to \$17.3 million for the quarter ended September 30, 2007.

Income taxes for the quarter ended September 30, 2008 were \$10.2 million, an effective tax rate of 34.7%, compared with \$6.0 million, an effective rate of 34.5%, for the same period in 2007.

*Results of Operations for the Nine Months Ended September 30, 2008 Compared to the Nine Months Ended September 30, 2007*

The following table sets forth the Company's net sales by reportable segment for the nine months ended September 30 (in thousands):

|                          | 2008       | 2007       | Total<br>Change | Acquisitions | Change due to<br>Foreign<br>Currency | Operations |
|--------------------------|------------|------------|-----------------|--------------|--------------------------------------|------------|
| Net sales:               |            |            |                 |              |                                      |            |
| Building Products        | \$ 787,875 | \$ 710,522 | \$ 77,353       | \$ 72,782    | \$ 8,437                             | \$ (3,866) |
| Processed Metal Products | 294,002    | 292,594    | 1,408           |              | 555                                  | 853        |

Net sales increased by \$78.8 million, or 8% to \$1,081.9 million for the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007. The 2007 acquisitions of Dramex, Noll and Florence provided incremental sales of \$72.8 million, or 7%, in the first nine months of 2008. Changes in foreign currency exchange rates have contributed to \$9.0 million, or 1%, of the year to date increase. Sales by our historic businesses without the effects of exchange rate fluctuations decreased \$3.0 million, or less than one percent.

Net sales in our Building Products segment increased by \$77.4 million, or 11%, to \$787.9 million for the nine months ended September 30, 2008, from net sales of \$710.5 million for the nine months ended September 30, 2007.

Excluding the \$72.8 million in incremental net sales provided by the 2007 acquisitions of Dramex, Noll and Florence and the \$8.4 million impact of exchange rate fluctuations, net sales decreased \$3.9 million, or 1%, from the same period in the prior year, the net result of declining volumes from our residential products due to the effects of the slowdown in the residential housing market which offset higher customer selling prices on products used in the commercial, industrial, architectural, and international markets.

Net sales in our Processed Metal Products segment increased by \$1.4 million to \$294.0 million for the nine months ended September 30, 2008, from net sales of \$292.6 million for the nine months ended September 30, 2007.

Excluding the \$0.6 million impact of exchange rate fluctuations, the increase in net sales was \$0.9 million, or less than one percent, from the same period in the prior year. Net sales have remained flat due to the net result of increased customer selling prices that allow us to achieve better margin alignment, exchange rate fluctuations, and volume reductions due to the decline in domestic automotive production.

Gross margin increased to 20.1% for the nine months ended September 30, 2008, from 18.1% for the nine months ended September 30, 2007. The increase in gross margin was the result of a better alignment of customer selling prices to raw material costs and lower costs due to our lean initiatives and facility consolidations, partially offset by the effects of an increase in freight costs, reductions in volume, and product mix. The 2007 acquisitions of Dramex and Florence also contributed to the higher gross margin during the nine months ended September 30, 2008.

**Table of Contents**

Selling, general and administrative expenses increased by approximately \$14.7 million, or 13%, to \$124.7 million for the nine months ended September 30, 2008, from \$110.0 million for the nine months ended September 30, 2007. The increase in selling, general and administrative expenses was due primarily to the acquisitions noted above. Excluding the effect of acquisitions, selling, general and administrative expenses increased \$6.1 million, or 6%, over the prior year period. Selling, general and administrative expenses as a percentage of net sales increased to 11.5% for the nine months ended September 30, 2008, from 11.0% for the nine months ended September 30, 2007 as a result of a \$1.1 million charge for software no longer in use, increased amortization of acquired intangible assets due to the 2007 acquisitions, and higher incentive compensation costs due to improved operating results.

As a result of the above, income from operations as a percentage of net sales for the nine months ended September 30, 2008 increased to 8.6% from 7.1% for the prior year's comparable period.

The following table sets forth the Company's income from operations by reportable segment for the nine months ending September 30 (in thousands):

|                          | 2008      | 2007      | Total<br>Change | Acquisitions | Change due to<br>Foreign<br>Currency | Operations |
|--------------------------|-----------|-----------|-----------------|--------------|--------------------------------------|------------|
| Income from operations:  |           |           |                 |              |                                      |            |
| Building Products        | \$ 93,938 | \$ 78,382 | \$ 15,556       | \$ 8,874     | \$ 52                                | \$ 6,630   |
| Processed Metal Products | 24,826    | 16,089    | 8,737           |              | 2,597                                | 6,140      |
| Corporate                | (26,181)  | (22,923)  | (3,258)         |              |                                      | (3,258)    |
|                          | \$ 92,583 | \$ 71,548 | \$ 21,035       | \$ 8,874     | \$ 2,649                             | \$ 9,512   |

Income from operations as a percentage of net sales in our Building Products segment for the nine months ended September 30, 2008 increased to 11.9% from 11.0% in the same period in 2007. The increase in income from operations is the result of our continued efforts to reduce manufacturing costs and scale our operations for lower unit volumes through lean initiatives and facility consolidations along with improved alignment of customer selling prices to raw material costs offset by a \$3.6 million increase in reorganization costs compared to the prior year period related to our facility consolidation process.

Income from operations as a percentage of net sales in our Processed Metal Products segment increased to 8.4% of net sales for the nine months ended September 30, 2008 from 5.5% for the prior year's comparable period. The increase in operating margin percentage is a result of lower costs due to the completion of our consolidation of the flat rolled business and a better alignment of customer selling prices to raw material costs.

Corporate expenses increased \$3.3 million, or 14%, to \$26.2 million for the nine months ended September 30, 2008 from \$22.9 million in the nine months ended September 30, 2007. The increase in corporate expenses is due to a \$1.1 million charge for software no longer in use and higher incentive compensation costs due to improved operating results.

Interest expense decreased by approximately \$1.7 million to \$21.4 million for the nine months ended September 30, 2008, from \$23.1 million for the nine months ended September 30, 2007. Interest expense remained consistent with the prior year for the first six months of the year as lower average interest rates offset the effect of higher average borrowings during the six months ended June 30, 2008. Interest expense decrease during the third quarter of 2008 compared to the same period in the prior year due to a combination of lower average borrowings and lower average interest rates.

**Table of Contents**

As a result of the above, income from continuing operations before taxes increased by approximately \$22.7 million, or 46%, to \$72.2 million for the nine months ended September 30, 2008, compared to \$49.5 million for the nine months ended September 30, 2007.

Income taxes for the nine months ended September 30, 2008 were \$25.5 million, an effective tax rate of 35.4%, compared with \$18.1 million, an effective rate of 36.5%, for the same period in 2007. The lower effective rate for the first nine months of 2008 reflects the benefit of a decrease in our overall state income tax rate.

**Outlook**

We expect a more significant seasonal slowdown in sales volume during the fourth quarter primarily driven by the overall volatility of the U.S. economy. We expect 2008 earnings per share from continuing operations to be in the range of \$1.61 to \$1.68 per diluted share if the sale of SCM had not occurred, compared to previous guidance of \$1.50 to \$1.65, and \$1.03 in 2007, barring a significant change in current business conditions. However, we closed the SCM transaction on November 5; therefore, the results of SCM will be reclassified to discontinued operations for all periods presented. As a result, we expect 2008 earnings per share from continuing operations in the range of \$1.47 to \$1.54 per diluted share compared to earnings per share from continuing operations of \$0.89 per diluted share for 2007. The reduction of 2008 and 2007 earnings per share from continuing operations includes the reclassification to discontinued operations of SCM's profits plus a portion of interest expense related to SCM's net assets.

**Liquidity and Capital Resources**

The Company's principal capital requirements are to fund its operations, including working capital, the purchase and funding of improvements to its facilities, machinery and equipment and to fund acquisitions.

During the first nine months of 2008, the Company's cash flows from continuing operations totaled \$75.3 million driven by profitable operating results and working capital management. Net cash provided by operating activities for the nine months ended September 30, 2008 was \$77.0 million and was primarily the result of net income from continuing operations of \$46.7 million combined with depreciation and amortization of \$27.4 million.

During the nine months ended September 30, 2008, working capital decreased by approximately \$8.2 million, or 2.7%, to \$298.3 million. This decrease in working capital was primarily driven by our focus on working capital efficiency. The net change included a \$42.6 million increase in accounts payable, and a \$23.0 million increase in accrued expenses along with a decrease of \$7.8 million in cash, partially offset by a \$38.0 million increase in accounts receivable and a \$31.5 million increase in inventories. The increase in receivables is the result of the increase in sales during the third quarter of 2008, compared to sales during the fourth quarter of 2007. The increase in inventories was the result of the seasonality of our business and the increase in raw material costs during the first nine months of 2008. The increase in payables is due to the timing of purchases of, and payment for, raw material and the increase in accrued expenses is a result of the timing of payment for income taxes, incentive compensation, customer rebates and insurance coverage.

The cash on hand at the beginning of the nine month period and cash generated by operations was used to fund capital expenditures of \$14.1 million, additional acquisition costs of \$8.6 million primarily related to a payment to the former owners of Florence for the 338(h)(10) election, provide for net reduction in outstanding indebtedness by \$60.1 million and pay cash dividends of \$4.5 million.

We are using the cash proceeds from the sale of SCM to repay a portion of our term loan and revolving credit facility during the fourth quarter of 2008.

**Table of Contents**

**Senior credit facility and senior subordinated notes**

The Company's credit agreement provides a revolving credit facility and a term loan, which is due in December 2012. The revolving credit facility of up to \$375.0 million and the term loan with a balance of \$86.5 million as of September 30, 2008 are secured with the Company's accounts receivable, inventories and personal property and equipment. At September 30, 2008, the Company had used \$135.0 million of the revolving credit facility and had letters of credit outstanding of \$14.8 million, resulting in \$225.2 million in availability. Borrowings under the revolving credit facility carry interest at LIBOR plus a fixed rate. The weighted average interest rate of these borrowings was 3.43% at September 30, 2008. Borrowings under the term loan carry interest at LIBOR plus a fixed rate. The weighted average rate in effect on September 30, 2008 was 4.97%.

The Company's \$204.0 million of 8% senior subordinated notes were issued in December 2005 at a discount to yield 8.25%. Provisions of the 8% notes include, without limitation, restrictions on indebtedness, liens, distributions from restricted subsidiaries, asset sales, affiliate transactions, dividends and other restricted payments. Dividend payments are subject to annual limits of \$0.25 per share and \$10 million. Prior to December 1, 2008, up to 35% of the 8% notes are redeemable at the option of the Company from the proceeds of an equity offering at a premium of 108% of the face value, plus accrued and unpaid interest. After December 1, 2010 the notes are redeemable at the option of the Company, in whole or in part, at the redemption price (as defined in the notes agreement), which declines annually from 104% to 100% on and after December 1, 2013. In the event of a Change of Control (as defined in the indenture for such notes), each holder of the 8% notes may require the Company to repurchase all or a portion of such holder's 8% Notes at a purchase price equal to 101% of the principal amount thereof. The 8% notes are guaranteed by certain existing and future domestic subsidiaries and are not subject to any sinking fund requirements.

The Company's various loan agreements, which do not require compensating balances, contain provisions that limit additional borrowings and require maintenance of minimum net worth and financial ratios. At September 30, 2008 the Company was in compliance with terms and provisions of all of its financing agreements.

For the remainder of 2008, the Company is focused on maximizing positive cash flow, working capital management, and debt reduction. As of September 30, 2008, we believe that availability of funds under our existing credit facility together with the cash generated from operations will be sufficient to provide the Company with the liquidity and capital resources necessary to support its principal capital requirements, including operating activities, capital expenditures, and dividends. One of the banks in our syndicate was acquired by another bank in our syndicate in October 2008. We continue to monitor the financial condition of the members in our syndicate, and based upon this monitoring, believe that our current banking relationships will continue to provide the liquidity needed to support the capital requirements described above.

The Company regularly considers various strategic business opportunities including acquisitions. The Company evaluates such potential acquisitions on the basis of their expected ability to enhance the Company's existing products, operations, or capabilities, as well as provide access to new products, markets and customers. Although no assurances can be given that any acquisition will be consummated, the Company may finance such acquisitions through a number of sources including internally available cash resources, new debt financing, the issuance of equity securities or any combination of these sources.

**Contractual Obligations and Commercial Commitments**

Our contractual obligations and commercial commitments have not changed materially from the disclosures in our 2007 Form 10-K.

**Table of Contents**

**Critical Accounting Policies**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make decisions based upon estimates, assumptions, and factors it considers relevant to the circumstances. Such decisions include the selection of applicable principles and the use of judgment in their application, the results of which could differ from those anticipated.

A summary of the Company's significant accounting policies are described in Note 1 of the Company's consolidated financial statements included in the Company's Annual Report to Shareholders for the year ended December 31, 2007, as filed on Form 10-K.

As of January 1, 2008, the Company adopted the provisions of SFAS No. 157 Fair Value Measurements as discussed in Note 3 to the consolidated financial statements included in Item 1, herein.

Other than the adoption of SFAS No. 157 discussed above, there have been no changes in critical accounting policies in the current year from those described in our 2007 Form 10-K.

**Recent Accounting Pronouncements**

The Financial Accounting Standards Board (FASB) issued SFAS No. 161 (SFAS No. 161) Disclosures about Derivative Instruments and Hedging Activities in March 2008. SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Companies are required to provide disclosures about (a) how and why a company uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008 and requires comparative disclosures only for periods subsequent to initial adoption. The adoption of the provisions of SFAS No. 161 is not anticipated to materially impact the Company's consolidated financial position and results of operations.

**Related Party Transactions**

Two members of our Board of Directors are partners in law firms that provide legal services to the Company. For the nine months ended September 30, 2008 and 2007, the Company incurred \$1,431,000 and \$1,692,000, respectively, for legal services from these firms. Of the amount incurred, \$1,431,000 and \$1,040,000, was expensed during the nine months ended September 30, 2008 and 2007, respectively. \$652,000 was capitalized as acquisition costs and deferred debt issuance costs during the nine months ended September 30, 2007.

At September 30, 2008 and December 31, 2007, the Company had \$668,000 and \$185,000, respectively, recorded in accounts payable for these law firms.

A member of our Board of Directors is Vice Chairman of the Board of one of the participating lenders in our Second Amended and Restated Credit Agreement dated August 31, 2007 (the Credit Agreement). The Credit Agreement provides a \$375,000,000 revolving facility and a \$122,700,000 term loan. At September 30, 2008 and December 31, 2007 \$135,000,000 and \$86,455,000 and \$157,916,000 and \$121,550,000 were outstanding on the revolving facility and the term loan, respectively. Loans under the Credit Agreement bear interest, at the borrowers' option at (i) LIBOR plus a margin ranging from 0.60% to 1.40%, depending on the Company's consolidated leverage ratio, or (ii) the higher of the administrative agent's prime rate or the federal funds effective rate plus 0.50%. Facility fees are payable to the lenders on their revolving commitments at a rate ranging from 0.150% to 0.350% and annual letter of credit fees range from 0.60% to 1.40% of the stated amount of the letter of credit.

**Table of Contents**

**Item 3. Qualitative and Quantitative Disclosures About Market Risk**

In the ordinary course of business, the Company is exposed to various market risk factors, including changes in general economic conditions, competition and raw materials pricing and availability. In addition, the Company is exposed to market risk, primarily related to its long-term debt. To manage interest rate risk, the Company uses both fixed and variable interest rate debt. The Company also entered into an interest rate swap agreement that converted a portion of its variable rate debt to fixed rate debt. At September 30, 2008, the Company had \$57.5 million of revolving credit borrowings that had been converted to fixed rate debt pursuant to this agreement. There have been no material changes to the Company's exposure to market risk since December 31, 2007.

**Item 4. Controls and Procedures**

**(a) Evaluation of Disclosure Controls and Procedures**

The Company maintains a system of disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures contained in this report. The Company's Chief Executive Officer and Chairman of the Board, President and Chief Operating Officer, and Senior Vice President and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls as of the end of the period covered in this report. Based upon that evaluation, the Company's Chief Executive Officer and Chairman of the Board, President and Chief Operating Officer, Senior Vice President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective.

**(b) Changes in Internal Controls over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting (as defined by Rule 13a-15(f)) that occurred during the period covered by the report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents**

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the risks discussed in Part I, Item 1A. Risk Factors in our Form 10-K for the fiscal year ended December 31, 2007. These risks and uncertainties have the potential to affect materially our business, financial condition, results of operation, cash flows and future prospects. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may materially adversely impact our business, financial condition or operating results.

Other than as described below, we do not believe that there have been any material changes to the risk factors previously disclosed in our Form 10-K for the fiscal year ended December 31, 2007.

**The United States and worldwide capital and credit markets have recently experienced significant price volatility, dislocations and liquidity disruptions.**

These events have caused market prices of many stocks to fluctuate substantially, the spreads on prospective debt financings to widen considerably and have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in some cases have resulted in the unavailability of financing. Continued uncertainty in the capital and credit markets may negatively impact our business, including our ability to access additional financing at reasonable terms, which may negatively affect our ability to make future acquisitions. A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital through the issuance of our equity securities and could reduce our net income by increasing our interest expense and other costs of capital. The disruptions in the financial markets may have a material adverse effect on the market value of our common stock. These events are also being experienced by our customers and could result in lower sales volumes, increased credit risks and may have other adverse effects on our business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

Item 5. Other Information.

Not applicable.



**Table of Contents**

Item 6. Exhibits.

6(a) Exhibits

- a. Exhibit 31.1 Certification of Chairman of the Board and Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- b. Exhibit 31.2 Certification of President and Chief Operating Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- c. Exhibit 31.3 Certification of Senior Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- d. Exhibit 32.1 Certification of the Chairman of the Board and Chief Executive Officer pursuant to Title 18, United States Code, Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
- e. Exhibit 32.2 Certification of the President and Chief Operating Officer pursuant to Title 18, United States Code, Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
- f. Exhibit 32.3 Certification of the Senior Vice President and Chief Financial Officer, pursuant to Title 18, United States Code, Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

**Table of Contents**

**SIGNATURES**

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

**GIBRALTAR INDUSTRIES, INC.**

(Registrant)

/s/ Brian J. Lipke

Brian J. Lipke

Chairman of the Board and

Chief Executive Officer

/s/ Henning N. Kornbrekke

Henning N. Kornbrekke

President and Chief Operating Officer

/s/ Kenneth W. Smith

Kenneth W. Smith

Senior Vice President and Chief Financial

Officer

Date: November 6, 2008