GIBRALTAR INDUSTRIES, INC.
Form 10-Q
May 07, 2015

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2015

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 (State or other jurisdiction of incorporation or organization)	16-1445150 (I.R.S. Employer Identification No.)
3556 Lake Shore Road, P.O. Box 2028 Buffalo, New York	14219-0228
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

As of May 5, 2015, the number of common shares outstanding was: 30,963,569

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
GIBRALTAR INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended March 31,	
	2015	2014
Net Sales	$200,615	$191,032
Cost of sales	170,700	161,168
Gross profit	29,915	29,864
Selling, general, and administrative expense	20,945	29,531
Income from operations	8,970	333
Interest expense	3,700	3,640
Other (income) expense	(3,559)	30
Income (loss) before taxes	8,829	(3,337)
Provision for (benefit of) income taxes	3,292	(1,251)
Income (loss) from continuing operations	5,537	(2,086)
Discontinued operations:		
Loss before taxes	(44)	—
Benefit of income taxes	(16)	—
Loss from discontinued operations	(28)	—
Net income (loss)	$5,509	$(2,086)
Net earnings per share – Basic:		
Income (loss) from continuing operations	$0.18	$(0.07)
Loss from discontinued operations	—	—
Net income (loss)	$0.18	$(0.07)
Weighted average shares outstanding – Basic	31,191	31,034
Net earnings per share – Diluted:		
Income (loss) from continuing operations	$0.18	$(0.07)
Loss from discontinued operations	—	—
Net income (loss)	$0.18	$(0.07)
Weighted average shares outstanding – Diluted	31,386	31,034

See accompanying notes to consolidated financial statements.

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GIBRALTAR INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2015	2014
Net income (loss)	$5,509	$(2,086)
Other comprehensive (loss) income:		
Foreign currency translation adjustment	(3,800)	(904)
Reclassification of loss on cash flow hedges, net of tax	143	—
Adjustment to retirement benefit liability, net of tax	2	2
Adjustment to post-retirement health care liability, net of tax	37	19
Other comprehensive loss	(3,618)	(883)
Total comprehensive income (loss)	$1,891	$(2,969)

See accompanying notes to consolidated financial statements.

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

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$118,300	$110,610
Accounts receivable, net of reserve of $4,154 and $4,280 in 2015 and 2014	115,284	101,141
Inventories	133,624	128,743
Other current assets	22,116	19,937
Total current assets	389,324	360,431
Property, plant, and equipment, net	113,769	129,575
Goodwill	235,523	236,044
Acquired intangibles	80,439	82,215
Other assets	4,702	5,895
	$823,757	$814,160
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$90,155	$81,246
Accrued expenses	48,419	52,439
Current maturities of long-term debt	400	400
Total current liabilities	138,974	134,085
Long-term debt	213,200	213,200
Deferred income taxes	49,652	49,772
Other non-current liabilities	32,572	29,874
Shareholders' equity:		
Preferred stock, $0.01 par value; authorized 10,000 shares; none outstanding	—	—
Common stock, $0.01 par value; authorized 50,000 shares; 31,401 and 31,342 shares issued in 2015 and 2014	314	313
Additional paid-in capital	247,826	247,232
Retained earnings	160,134	154,625
Accumulated other comprehensive loss	(13,169)	(9,551)
Cost of 451 and 429 common shares held in treasury in 2015 and 2014	(5,746)	(5,390)
Total shareholders' equity	389,359	387,229
	$823,757	$814,160

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2015	2014
Cash Flows from Operating Activities		
Net income (loss)	$5,509	$(2,086)
Loss from discontinued operations	(28)	—
Income (loss) from continuing operations	5,537	(2,086)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	6,149	6,566
Stock compensation expense	568	660
Net gain on sale of assets	(8,141)	—
Other non-cash adjustments	(1,718)	550
Non-cash charges to interest expense	179	261
Changes in operating assets and liabilities:		
Accounts receivable	(15,332)	(17,107)
Inventories	(5,361)	(6,266)
Other current assets and other assets	1,786	(2,248)
Accounts payable	8,450	13,060
Accrued expenses and other non-current liabilities	(6,869)	(8,016)
Net cash used in operating activities	(14,752)	(14,626)
Cash Flows from Investing Activities		
Purchases of property, plant, and equipment	(2,022)	(4,056)
Net proceeds from sale of property and equipment	26,181	137
Other investing activities	(61)	—
Net cash provided by (used in) investing activities	24,098	(3,919)
Cash Flows from Financing Activities		
Long-term debt payments	—	(2)
Purchase of treasury stock at market prices	(356)	(408)
Net proceeds from issuance of common stock	9	365
Excess tax benefit from stock compensation	18	91
Net cash (used in) provided by financing activities	(329)	46
Effect of exchange rate changes on cash	(1,327)	(354)
Net increase (decrease) in cash and cash equivalents	7,690	(18,853)
Cash and cash equivalents at beginning of year	110,610	97,039
Cash and cash equivalents at end of period	$118,300	$78,186

See accompanying notes to consolidated financial statements.

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GIBRALTAR INDUSTRIES, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(in thousands)
(unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance at December 31, 2014	31,342	$313	$247,232	$154,625	$ (9,551)	429	$(5,390)	$ 387,229
Net income	—	—	—	5,509	—	—	—	5,509
Foreign currency translation adjustment	—	—	—	—	(3,800)	—	—	(3,800)
Adjustment to pension benefit liability, net of taxes of $2	—	—	—	—	2	—	—	2
Adjustment to post employment health care benefit liability, net of taxes of $23	—	—	—	—	37	—	—	37
Reclassification of loss on cash flow hedges, net of tax of $82	—	—	—	—	143	—	—	143
Stock compensation expense	—	—	568	—	—	—	—	568
Excess tax benefit from stock compensation	—	—	18	—	—	—	—	18
Stock options exercised	1	—	9	—	—	—	—	9
Net settlement of restricted stock units	58	1	(1)	—	—	22	(356)	(356)
Balance at March 31, 2015	31,401	$314	$247,826	$160,134	$ (13,169)	451	$(5,746)	$ 389,359

See accompanying notes to consolidated financial statements.

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GIBRALTAR INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
1. CONSOLIDATED FINANCIAL STATEMENTS
The accompanying consolidated financial statements have been prepared by Gibraltar Industries, Inc. (the Company) without audit. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) necessary to present fairly the results of operations and other comprehensive income for the three months ended March 31, 2015 and 2014, the financial position at March 31, 2015 and December 31, 2014, the statements of cash flow for the three months ended March 31, 2015 and 2014, and the statement of shareholders' equity for the three months ended March 31, 2015 have been included therein in accordance with U.S. Securities and Exchange Commission (SEC) rules and regulations and prepared using the same accounting principles as are used for our annual audited financial statements.

Certain information and footnote disclosures, including significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted in accordance with the prescribed SEC rules. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and footnotes included in the Company's Annual Report for the year ended December 31, 2014 as filed on Form 10-K along with any new disclosures provided below:

The consolidated balance sheet at December 31, 2014 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The results of operations for the three month periods ended March 31, 2015 are not necessarily indicative of the results to be expected for the full year. The Company is subject to seasonal fluctuations in its businesses primarily due to reduced activity in the first and fourth quarters for the industries which we serve due to inclement weather.

Sale-Leaseback Transaction

During the first quarter of 2015, in order to capitalize on favorable real estate market conditions, the Company entered into a transaction to sell one of its real estate properties to an independent third party for $26,373,000. The Company leased back the entire property under a five year operating lease agreement. In accordance with U.S. generally accepted accounting principles, the Company accounted for the transaction as a sale-leaseback. The net present value of the Company's future minimum lease payments of $5,765,000 were less than the gain on sale of $13,144,000. As such, the portion of the gain equal to the fair value of the future minimum lease payments was deferred and is being amortized on a straight-line basis over the five year life of the lease. The gain exceeding the fair value of the minimum lease payments of $7,379,000 was recognized during the quarter ended March 31, 2015 as a component of selling, general, and administrative expenses. The minimum lease payment for each of the five years is $1,378,000.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In April 2014, the FASB issued Accounting Standards Update 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)". The amendments in this update affect the presentation on the financial statements of assets which are disposed of or classified as held for sale. The amendments in Topic 205 and 360 are effective prospectively beginning on or after December 15, 2014. Early adoption is permitted, but only for disposals, or classifications of assets held for sale, that have not been reported in financial statements previously issued or available for issuance. The Company does not expect the adoption of Update 2014-08 to have a material impact on the Company's consolidated financial results.

In May 2014, the FASB issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers" (Topic 606). The update clarifies the principles for recognizing revenue and develops a common standard for U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards. More specifically, the core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in Topic 606 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the impact of adopting the new standard on revenue recognition and its consolidated financial statements.

In January 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2015-01, "Income Statement - Extraordinary and Unusual Items" (Subtopic 225-20). The amendments in this Update simplify the income statement presentation by eliminating the concept of extraordinary items. The amendment in this Update is effective beginning

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after December 15, 2015, and early adoption is permitted. The Company adopted the amendments in this Update as of March 31, 2015, and the adoption does not have a material impact on either the Company's financial results, or the presentation of those results.

In February 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2015-02, "Consolidation" (Topic 810). The amendments in this Update change the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities specifically related to variable interest entities, limited partnerships, and other similar legal entities. The amendments in this Update are effective beginning after December 15, 2015, and early adoption is permitted. The Company adopted the amendments in this Update as of March 31, 2015, and the adoption does not have a material impact on the Company's financial results.

In April 2015, guidance was issued which changes the presentation of debt issuance costs from an asset to a direct deduction from the related liability. This guidance, which is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, may be early adopted for financial statements that have not been previously issued and its provisions are to be retrospectively applied as a change in accounting principle. Upon adoption, this guidance is expected to decrease Other assets, which includes our deferred financing costs on our debt obligations, and comparably decrease Long-term debt on our Balance Sheets. This guidance is not expected to have any impact on our Statements of Operations or our Statements of Cash Flows.

3. INVENTORIES

Inventories consist of the following (in thousands):

	March 31, 2015	December 31, 2014
Raw material	$62,451	$58,665
Work-in-process	14,251	12,841
Finished goods	56,922	57,237
Total inventories	$133,624	$128,743

4. ACQUISITIONS

In September 2013, the Company purchased the assets of a domestic designer and distributor of solar-powered roof and attic ventilation products. The results of this acquisition have been included in the Company’s consolidated financial results since the date of acquisition (included in the Company’s Residential Products segment). The fair value of the aggregate purchase consideration for the assets acquired was $7,454,000. As part of the purchase agreement, the Company is required to pay additional consideration, or an earn-out provision, based on the acquired business’s EBITDA (Earnings Before Interest, Taxes Depreciation and Amortization) through the last day of the twenty-fourth month following the closing date of the acquisition. The Company expects to make payments of additional consideration through the end of 2015. The purchase agreement does not provide for a limit of the amount of additional consideration. The Company recorded a payable of $2,322,000 to reflect the fair value of the Company’s obligation at the date of the acquisition. Adjustments to this payable are and will be reflected in the Company’s Statement of Operations. The fair value of the Company’s obligation was $305,000 as of March 31, 2015, which resulted in a $228,000 gain recorded in SG&A during the three months ended March 31, 2015. The Company also recorded $4,000 to interest expense for this obligation during the three months ended March 31, 2015.

The purchase price for the acquisition was allocated to the assets acquired and liabilities assumed based upon their respective fair values. The excess consideration was recorded as goodwill and totaled $2,466,000, all of which is deductible for tax purposes. Goodwill represents future economic benefits arising from other assets acquired that could not be individually identified including growth opportunities and increased presence in the building products markets.

The allocation of purchase consideration to the assets acquired and liabilities assumed during 2013 were as follows (in thousands):

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Working capital	$2,665
Property, plant, and equipment	153
Acquired intangible assets	2,170
Goodwill	2,466
Fair value of purchase consideration	$7,454

The intangible assets acquired in this acquisition consisted of the following (in thousands):

	Fair Value	Estimated Useful Life
Trademarks	$640	Indefinite
Technology	260	15 years
Customer relationships	1,130	15 years
Non-compete agreements	140	5 years
Total	$2,170	

The 2013 acquisition was financed through cash on hand. The Company incurred certain acquisition-related costs composed of legal and consulting fees, and these costs were recognized as a component of selling, general and administrative expenses in the consolidated statement of operations. The Company also recognized costs related to the sale of inventory at fair value as a result of allocating the purchase price of this acquisition. All acquisition related costs (including the gain recognized as a result of the calculation of the earn-out obligation at fair value) consisted of the following (in thousands):

	Three Months Ended March 31,	
	2015	2014
Selling, general and administrative costs	$(228)	$2
Cost of sales	—	206
Total acquisition related costs	$(228)	$208

5. GOODWILL AND RELATED INTANGIBLE ASSETS

Goodwill

The changes in the carrying amount of goodwill for the three months ended March 31, 2015 are as follows (in thousands):

	Residential Products	Industrial and Infrastructure Products	Total
Balance at December 31, 2014	$181,285	$54,759	$236,044
Foreign currency translation	—	(521)	(521)
Balance at March 31, 2015	$181,285	$54,238	$235,523

The goodwill balances as of March 31, 2015 and December 31, 2014 are net of accumulated impairment losses of $255,530,000.

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Acquired Intangible Assets

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

	March 31, 2015		December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Estimated Life
Indefinite-lived intangible assets:					
Trademarks	$41,785	$—	$42,720	$—	Indefinite
Finite-lived intangible assets:					
Trademarks	4,493	1,949	3,886	1,827	2 to 15 Years
Unpatented technology	24,527	9,210	24,527	8,768	5 to 20 Years
Customer relationships	52,336	31,775	52,974	31,554	5 to 16 Years
Non-compete agreements	1,807	1,575	1,807	1,550	4 to 10 Years
Backlog	1,330	1,330	1,330	1,330	1 to 2 Years
	84,493	45,839	84,524	45,029	
Total acquired intangible assets	$126,278	$45,839	$127,244	$45,029	

The following table summarizes the acquired intangible asset amortization expense for the three months ended March 31 (in thousands):

	Three Months Ended March 31,	
	2015	2014
Amortization expense	$1,426	$1,439

Amortization expense related to acquired intangible assets for the remainder of fiscal 2015 and the next five years thereafter is estimated as follows (in thousands):

2015	$4,169
2016	$5,254
2017	$4,916
2018	$4,358
2019	$3,688
2020	$3,327

6. LONG-TERM DEBT

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

	March 31, 2015	December 31, 2014
Senior Subordinated 6.25% Notes	$210,000	$210,000
Other debt	3,600	3,600
Total debt	213,600	213,600
Less current maturities	400	400
Total long-term debt	$213,200	$213,200

On January 31, 2013, the Company issued $210 million of 6.25% Senior Subordinated Notes (6.25% Notes) due February 1, 2021. In connection with the issuance of the 6.25% Notes, the Company initiated a tender offer for the purchase of the outstanding $204 million of 8% Senior Subordinated Notes (8% Notes). Simultaneously with the closing of the sale of the 6.25% Notes, the Company purchased tendered notes or called for redemption of all of the remaining 8% Notes that were not purchased. In connection with the redemption and tender offer, the Company satisfied and discharged its obligations under the

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8% Notes during the first quarter of 2013. The Company recorded a charge of approximately $7,166,000 in the first quarter of 2013, including $3,702,000 for the prepayment premium paid to holders of the 8% Notes, $2,199,000 to write-off deferred financing fees and $1,265,000 for the unamortized original issue discount related to the 8% Notes. In connection with the issuance of the 6.25% Notes, the Company paid $3,755,000 in placement and other fees which are recorded as deferred financing costs, which are included in other assets and are being amortized over the term of the 6.25% Notes.

Separately, we have a Senior Credit Agreement entered into during 2011 that provides both a revolving credit facility and letters of credit which in an aggregate amount, are not permitted to exceed the lesser of (i) $200 million and (ii) a borrowing base determined by reference to the trade receivables, inventories, and property, plant, and equipment of the Company's significant domestic subsidiaries. Borrowings under the Senior Credit Agreement are secured by the trade receivables, inventory, personal property, equipment, and certain real property of the Company's significant domestic subsidiaries. The Senior Credit Agreement is also guaranteed by each of the Company's significant domestic subsidiaries. The Company can request additional financing from the lenders under the Senior Credit Facility to increase the revolving credit facility to $250 million under the terms of the Senior Credit Agreement. We have had no revolver borrowing against the Senior Credit Agreement since October 2012.

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

Standby letters of credit issued under the Senior Credit Agreement to third parties on behalf of the Company, which, as of March 31, 2015 amounted to $19,641,000. These letters of credit reduce the amount otherwise available under the revolving credit facility. As of March 31, 2015, based upon the Company's current borrowing base calculation, the Company had $106,107,000 of availability under the revolving credit facility.

On a trailing four-quarter basis, the Senior Credit Agreement includes a single financial covenant that requires the Company to maintain a minimum fixed charge coverage ratio of 1.25 to 1.00 at the end of each quarter. As of March 31, 2015, the Company was in compliance with this financial covenant. The Senior Credit Agreement contains other provisions and events of default that are customary for similar agreements and may limit the Company's ability to take various actions.

7. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

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

	Foreign Currency Translation Adjustment	Cash Flow Hedges	Minimum Pension Liability Adjustment	Unamortized Post Retirement Health Care Costs	Total Pre-Tax Amount	Tax (Benefit) Expense	Accumulated Other Comprehensive (Loss) Income
Balance at December 31, 2014	$(6,565)	$(225)	$ 43	$ (4,521)	$(11,268)	$(1,717)	$(9,551)
Reclassified loss on cash flow hedge from other comprehensive income (loss)	—	225	—	—	225	82	143
Minimum pension and post retirement health care plan adjustments	—	—	4	60	64	25	39
Foreign currency translation loss	(3,800)	—	—	—	(3,800)	—	(3,800)

Balance at March 31, 2015	$(10,365)	$—	$ 47	$ (4,461)	$(14,779)	$(1,610)	$(13,169)

The realized losses relating to the Company's foreign currency cash flow hedges were reclassified from Accumulated Other Comprehensive Loss and included in net sales in the Consolidated Statements of Operations.
The realized adjustments relating to the Company's minimum pension liability and post retirement health care costs were reclassified from Accumulated Other Comprehensive Loss and included in Selling, General and Administrative Expenses in the Consolidated Statement of Operations.

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8. EQUITY-BASED COMPENSATION

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

The Gibraltar Industries, Inc. 2005 Equity Incentive Plan (the Plan) is an incentive compensation plan that allows the Company to grant equity-based incentive compensation awards to eligible participants to provide them an additional incentive to promote the business of the Company, to increase their proprietary interest in the success of the Company, and to encourage them to remain in the Company’s employ. Awards under the plan may be in the form of options, restricted shares, restricted units, performance shares, performance stock units, and rights. The Plan provides for the issuance of up to 3,000,000 shares of common stock. Of the total number of shares of common stock issuable under the Plan, the aggregate number of shares which may be issued in connection with grants of incentive stock options and rights cannot exceed 900,000 shares. Vesting terms and award life are governed by the award document.

Restricted Stock Units and Restricted Shares

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

	2015		2014	
Awards	Number of Awards	Weighted Average Grant Date Fair Value	Number of Awards	Weighted Average Grant Date Fair Value
Restricted stock units	101,788	$15.95	88,755	$18.42

Performance Stock Units

In January 2013, the Company awarded 304,000 performance stock units with a grant date fair value of $4,123,000. As of March 31, 2015, 237,000 of the originally awarded performance stock units remained outstanding after forfeitures. The final number of performance stock units earned was determined based on the Company’s actual return on invested capital (ROIC) for 2013 relative to the improved ROIC targeted for the performance period ending December 31, 2013. During the performance period, the participants earned an aggregate of 114,000 performance stock units, representing 50% of the targeted award of 237,000 units.

In January 2014 and June 2014, the Company awarded 212,000 and 19,000, respectively, of performance stock units with a grant date fair value of $3,914,000 and $319,000, respectively. As of March 31, 2015, 224,000 of the originally awarded performance stock units remain outstanding after forfeitures. The final number of performance stock units earned was determined based on the Company’s actual return on invested capital (ROIC) for 2014. Based on the actual 2014 ROIC, no shares were earned during the performance period.

In January 2015, the Company awarded 219,000 performance stock units with a grant date fair value of $4,039,000. As of March 31, 2015, all of the originally awarded performance stock units remained outstanding. The final number of performance stock units earned will be determined based on the Company's actual ROIC for 2015.

The cost of the 2013, 2014, and 2015 performance stock units will be recognized over the requisite vesting period, which ranges between one year and three years, depending on the date a participant turns 60 and completes 5 years of service. After the vesting period, any performance stock units earned will convert to cash based on the trailing 90-day closing price of the Company’s common stock as of December 31, 2015, 2016, and 2017 and be payable to participants in January 2016, 2017, and 2018, respectively.

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The following table summarizes the compensation expense recognized for the performance stock units for the three months ended March 31, (in thousands):

	Three Months Ended March 31,	
	2015	2014
Performance stock unit compensation expense	$581	$1,137

Management Stock Purchase Plan

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

The fair value of restricted stock units held in the MSPP equals the trailing 200-day average closing price of the Company's common stock as of the last day of the period. During the three months ended March 31, 2015 and 2014, 74,549 and 108,043 restricted stock units, respectively, including the company-match, were credited to participant accounts. At March 31, 2015 and December 31, 2014, the value of the restricted stock units in the MSPP was $15.24 and $15.68 per unit, respectively. At March 31, 2015 and December 31, 2014, 596,683 and 647,371 restricted stock units, including the company-match, were credited to participant accounts including 76,580 and 62,455, respectively, of unvested restricted stock units. The Company made disbursements of $1,475,000 out of the MSPP during the three months ended March 31, 2015, and $395,000 out of the MSPP during the three months ended March 31, 2014.

9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to certain risks arising from both its business operations and economic conditions. The primary risks that the Company manages through its derivative instruments are foreign currency exchange rate risk and commodity pricing risk. Accordingly, we have instituted hedging programs that are accounted for in accordance with Topic 815, "Derivatives and Hedging."

- Our foreign currency hedging program is a cash flow hedge program designed to limit the Company's exposure to variability in expected future cash flows. The Company uses foreign currency forward agreements and currency options, all of which mature within eleven months, to manage its exposure to fluctuations in the foreign currency exchange rates. These contracts are not currently designated as hedging instruments in accordance with Topic 815 and, therefore, changes in fair value are recorded through earnings.

- Our commodity price hedging program is designed to mitigate the risks associated with market fluctuations in the price of commodities. The Company uses commodity options, which are classified as economic hedges, to manage this risk. All economic hedges are recorded at fair value through earnings, as the Company does not qualify to use the hedge accounting designation as prescribed by Topic 815.

Although certain of our derivative financial instruments do not qualify or are not accounted for under hedge accounting, we do not hold or issue derivative financial instruments for trading or other speculative purposes. We monitor our derivative positions using techniques including market valuations and sensitivity analyses. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability. These changes in fair value are attributable to the earnings effect of the hedged forecasted transactions in a cash flow hedge.

We consider the classification of the underlying hedged item's cash flows in determining the classification for the designated derivative instrument's cash flows. We classify derivative instrument cash flows from hedges of changes in foreign currency as operating activities due to the nature of the hedged item. Cash flows from derivative instruments not designated under hedge accounting, such as our aluminum price options, are classified as investing activities.

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Derivatives not designated as hedging instruments
To minimize commodity price exposure, the Company had commodity options with notional amounts of $8,100,000 at March 31, 2015. These derivative instruments mature at various times through January 2016.

To minimize foreign currency exposure, the Company had foreign currency options with notional amounts of $66,400,000 at March 31, 2015. These derivative instruments mature at various times through February 2016.

These commodity options, foreign exchange forward and forward exchange options are recorded in the consolidated balance sheet at fair value and the resulting gains or losses are recorded to other income in the consolidated statement of operations. The (gains) losses recognized for the three months ended March 31, are as follows (in thousands):

	Three Months Ended March 31,	
Derivatives not designated as hedging instruments	2015	2014
Commodity options	$429	$—
Foreign exchange options (1)	(4,169)	—
Total non-designated derivative realized (gain) loss, net	$(3,740)	$—

(1) Includes a loss of $182,000 for the discontinuation of cash flow hedges for which the forecasted transactions are not expected to occur within the originally forecasted time frame.

Summary of Derivatives
Derivatives consist of the following (in thousands):

		March 31, 2015	December 31, 2014
Derivatives not designated as hedging instruments	Classification	Fair Value	Fair Value
Commodity options	Other current assets	$311	$591
Commodity options	Other assets	—	162
Foreign exchange options	Other current assets	5,454	1,851
Foreign exchange options	Other assets	—	445
	Total assets	$5,765	$3,049

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10. FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, “Fair Value Measurements and Disclosures,” defines fair value, sets out a framework for measuring fair value, and requires certain disclosures about fair value measurements. A fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability. Fair value is defined based upon an exit price model. ASC 820 establishes a valuation hierarchy for disclosure of the inputs used to measure fair value into three broad levels. A financial asset or liability’s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement as follows:

- Level 1 - Unadjusted quoted prices in active markets that are accessible to the reporting entity at the measurement date for identical assets and 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 - Unobservable inputs for the assets or liability supported by little or no market activity. Level 3 inputs are based on the Company’s assumptions used to measure assets and liabilities at fair value.

As described in Note 4 of the consolidated financial statements, the Company acquired the assets of one business during the year ended December 31, 2013. The estimated fair values allocated to the assets acquired and liabilities assumed relied upon fair value measurements based in part on Level 3 inputs. The valuation techniques used to assign fair values to inventory, property, plant and equipment, and intangible assets included the cost approach, market approach, relief-from-royalty approach, and other income approaches. The valuation techniques relied on a number of inputs that included the cost and condition of the property, plant and equipment, forecasted net sales and incomes, and royalty rates. In addition, the Company has a contingent consideration liability related to the earn-out provision for the 2013 acquisition discussed in Note 4 that is recorded at fair value on a recurring basis each reporting period. A discounted cash flow analysis, which takes into account a discount rate, forecasted EBITDA of the acquired business and the Company’s estimate of the probability of the acquired business achieving the forecasted EBITDA is used to determine the fair value of this liability at each reporting period until the liability will be settled in 2015. The fair value of this liability is determined using Level 3 inputs. The fair value of this liability is sensitive primarily to changes in the forecasted EBITDA of the acquired business.

As described in Note 10 of the consolidated financial statements, the Company holds derivative foreign currency exchange options and commodity options. The fair values of foreign currency exchange contracts are determined through the use of cash flow models that utilize observable market data inputs to estimate fair value. These observable market data inputs include foreign exchange rate and credit spread curves. In addition, the Company received fair value estimates from the foreign currency contract counterparties to verify the reasonableness of the Company’s estimates.

The fair value of commodity options is determined through the use of cash flow models that utilize observable market data inputs to estimate fair value. These observable market data inputs include forward rates and implied volatility. In addition, the Company received fair value estimates from the commodity contract counterparty to verify the reasonableness of the Company’s estimates.

The Company’s other financial instruments primarily consist of cash and cash equivalents, accounts receivable, notes receivable, and accounts payable, and long-term debt. The carrying values for our financial instruments approximate fair value with the exception, at times, of long-term debt. At March 31, 2015 and December 31, 2014, the carrying value of outstanding debt was $213,600,000 and $213,600,000, respectively. The fair value of the Company’s Senior Subordinated 6.25% Notes was estimated based on quoted market prices.

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The following table sets forth by level, within the fair value hierarchy, our assets (liabilities) carried at fair value as of March 31, 2015 and December 31, 2014 (in thousands):

		March 31, 2015			
	Classification	Level 1	Level 2	Level 3	Total
Carried at fair value					
Contingent consideration liability	Accrued expenses	$—	$—	$305	$305
Foreign currency exchange options	Other current assets	—	5,454	—	5,454
Commodity instruments	Other current assets	—	311	—	311
Disclosed at fair value					
Total long-term debt	Long-term debt	$217,275	$—	$—	$217,275

		December 31, 2014			
	Classification	Level 1	Level 2	Level 3	Total
Carried at fair value					
Contingent consideration liability	Accrued expenses	$—	$—	$328	$328
Foreign currency exchange options	Other current assets	—	1,851	—	1,851
Foreign currency exchange options	Other assets	—	445	—	445
Commodity instruments	Other current assets	—	591	—	591
Commodity instruments	Other assets	—	162	—	162
Disclosed at fair value					
Total long-term debt	Long-term debt	$215,831	$—	$—	$215,831

11. DISCONTINUED OPERATIONS

For certain divestiture transactions completed in prior years, the Company has agreed to indemnify the buyer for various liabilities that may arise after the disposal date, subject to limits of time and amount. The Company is a party to certain claims made under these indemnification provisions. As of March 31, 2015, the Company has a contingent liability recorded for such provisions related to discontinued operations. Management does not believe that the outcome of this claim, or other claims, would significantly affect the Company’s financial condition or results of operation.

12. EXIT ACTIVITY COSTS AND ASSET IMPAIRMENTS

The Company focuses on being the most efficient provider of its products by reducing operating costs and implementing lean manufacturing initiatives, which have in part led to the consolidation of facilities and product lines. During the three months ended March 31, 2015, the Company sold one facility and eliminated one product line. As a result, the Company recorded a net reduction of selling, general and administrative expense of $6,691,000, the net result of a gain on the sale of this facility, partially offset by impairment charges due to the elimination of the product line, along with other exit activity costs incurred during the quarter. During 2014, the Company consolidated two facilities in this effort. During the three months ended March 31, 2014, the Company incurred $83,000 of asset impairment charges along with exit activity costs, including contract termination costs, severance costs, and other moving and closing costs. If future opportunities for cost savings are identified, other facility consolidations and closings will be considered.

The following table provides a summary of asset impairments and exit activity (gains) costs incurred by segment during the three months ended March 31, (in thousands):

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	Three Months Ended March 31,	
	2015	2014
Residential Products	$(6,580)	$327
Industrial and Infrastructure Products	—	102
Net asset impairment and exit activity (gains) charges	$(6,580)	$429

The following table provides a summary of where the asset impairments and exit activity (gains) costs were recorded in the statement of operations for the three months ended March 31, (in thousands):

	Three Months Ended March 31,	
	2015	2014
Cost of sales	$188	$325
Selling, general, and administrative expense	(6,768)	104
Net asset impairment and exit activity (gains) charges	$(6,580)	$429

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

	2015	2014
Balance at January 1	$575	$1,092
Exit activity costs recognized	111	346
Cash payments	(323)	(536)
Balance at March 31	$363	$902

13. INCOME TAXES

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

	Three Months Ended March 31,	
	2015	2014
Provision for (benefit of) income taxes	$3,292	$(1,251)
Effective tax rate	37.3%	(37.5)%

The Company's provision for income taxes in interim periods is computed by applying forecasted annual effective tax rates to income or loss before income taxes for the interim period. In addition, non-recurring or discrete items, including interest on prior year tax liabilities, are recorded during the period in which they occur. To the extent that actual income or loss before taxes for the full year differs from the forecast estimates applied at the end of the most recent interim period, the actual tax rate recognized for the year ending December 31, 2015 could be materially different from the forecasted rate used for the three months ended March 31, 2015.

The effective tax rates for the first q uarters ended March 31, 2015 and March 31, 2014 exceeded the U.S. federal statutory rate of 35% due to state taxes partially offset by favorable permanent differences.

14. NET EARNINGS PER SHARE

Basic earnings per share is based on the weighted average number of common shares outstanding. Diluted earnings per share is based on the weighted average number of common shares outstanding, as well as dilutive potential common shares which, in the Company's case, comprise of shares issuable under its equity compensation plans described in Note 9 of the consolidated financial statements. The weighted average number of shares and conversions utilized in the calculation of diluted earnings per share does not include potential anti-dilutive common shares aggregating 453,000 and 515,000 at March 31, 2015 and 2014, respectively. The treasury stock method is used to calculate dilutive shares, which reduces the gross number of dilutive shares

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by the number of shares purchasable from the proceeds of the options assumed to be exercised and the unrecognized expense related to the restricted stock and restricted stock unit awards assumed to have vested.
The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, (in thousands):

	Three Months Ended March 31,	
	2015	2014
Numerator:		
Income (loss) from continuing operations	$5,537	$(2,086)
Loss from discontinued operations	(28)	—
Net income (loss) available to common shareholders	$5,509	$(2,086)
Denominator for basic earnings per share:		
Weighted average shares outstanding	31,191	31,034
Denominator for diluted earnings per share:		
Weighted average shares outstanding	31,191	31,034
Common stock options and restricted stock	195	—
Weighted average shares and conversions	$31,386	$31,034

For the three months ended March 31, 2014, all stock options, unvested restricted stock, and unvested restricted stock units were anti-dilutive and, therefore, not included in the dilutive loss per share calculation. The number of weighted average stock options, unvested restricted stock, and unvested restricted stock units that were not included in the dilutive loss per share calculation because the effect would have been anti-dilutive was 209,000 for the three months ended March 31, 2014.

15. SEGMENT INFORMATION

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

(i) Residential Products, which primarily includes roof and foundation ventilation products, mail and package storage products, rain dispersion products and roofing accessories; and

(ii) Industrial and Infrastructure Products, which primarily includes fabricated bar grating, expanded and perforated metal, expansion joints and structural bearings used in a variety of industrial and commercial-related markets.

When determining the reportable segments, the Company aggregated several operating segments based on their similar economic and operating characteristics.

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The following table sets forth the reconciliation of sales to earnings before income taxes by segment for the three months ended March 31, (in thousands):

	Three Months Ended March 31, 2015	2014
Net sales:		
Residential Products	$106,795	$86,983
Industrial and Infrastructure Products	94,285	104,346
Less: Intersegment sales	(465)	(297)
	93,820	104,049
Total consolidated net sales	$200,615	$191,032
Income (loss) from operations:		
Residential Products	$12,133	$2,093
Industrial and Infrastructure Products	2,006	3,108
Unallocated Corporate Expenses	(5,169)	(4,868)
Total income (loss) from operations	$8,970	$333

16. SUPPLEMENTAL FINANCIAL INFORMATION

The following information sets forth the consolidating summary financial statements of the issuer (Gibraltar Industries, Inc.) and guarantors, which guarantee the Senior Subordinated 6.25% Notes due February 1, 2021, and the non-guarantors. The guarantors are 100% 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.

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GIBRALTAR INDUSTRIES, INC.
CONSOLIDATING STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2015
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$—	$184,350	$ 19,748	$(3,483)	$200,615
Cost of sales	—	156,864	17,216	(3,380)	170,700
Gross profit	—	27,486	2,532	(103)	29,915
Selling, general, and administrative expense	40	19,362	1,543	—	20,945
(Loss) income from operations	(40)	8,124	989	(103)	8,970
Interest expense (income)	3,402	327	(29)	—	3,700
Other expense (income)	7	(3,523)	(43)	—	(3,559)
(Loss) income before taxes	(3,449)	11,320	1,061	(103)	8,829
(Benefit of) provision for income taxes	(1,210)	4,261	241	—	3,292
(Loss) income from continuing operations	(2,239)	7,059	820	(103)	5,537
Discontinued operations:					
Loss from discontinued operations before taxes	—	(44)	—	—	(44)
Benefit of income taxes	—	(16)	—	—	(16)
Loss from discontinued operations	—	(28)	—	—	(28)
Equity in earnings from subsidiaries	7,851	820	—	(8,671)	—
Net income	$5,612	$7,851	$ 820	$(8,774)	$5,509

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GIBRALTAR INDUSTRIES, INC.
CONSOLIDATING STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2014
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$—	$172,781	$22,919	$(4,668)	$191,032
Cost of sales	—	145,161	20,494	(4,487)	161,168
Gross profit	—	27,620	2,425	(181)	29,864
Selling, general, and administrative expense	36	27,763	1,732	—	29,531
(Loss) income from operations	(36)	(143)	693	(181)	333
Interest expense (income)	3,361	314	(35)	—	3,640
Other expense	—	30	—	—	30
(Loss) income before taxes	(3,397)	(487)	728	(181)	(3,337)
(Benefit of) provision for income taxes	(1,177)	(234)	160	—	(1,251)
(Loss) income from continuing operations	(2,220)	(253)	568	(181)	(2,086)
Equity in earnings from subsidiaries	315	568	—	(883)	—
Net (loss) income	$(1,905)	$315	$568	$(1,064)	$(2,086)

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GIBRALTAR INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31, 2015
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net income	$5,612	$7,851	$ 820	$(8,774)	$5,509
Other comprehensive (loss) income:					
Foreign currency translation adjustment	—	—	(3,800)	—	(3,800)
Reclassification of loss on cash flow hedges, net of tax	—	143	—	—	143
Adjustment to retirement benefit liability, net of tax	—	2	—	—	2
Adjustment to post-retirement health care liability, net of tax	—	37	—	—	37
Other comprehensive income (loss)	—	182	(3,800)	—	(3,618)
Total comprehensive income (loss)	$5,612	$8,033	$ (2,980)	$(8,774)	$1,891

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GIBRALTAR INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31, 2014
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net (loss) income	$(1,905)	$315	$ 568	$(1,064)	$(2,086)
Other comprehensive (loss) income:					
Foreign currency translation adjustment	—	—	(904)	—	(904)
Adjustment to retirement benefit liability, net of tax	—	2	—	—	2
Adjustment to post-retirement health care liability, net of tax	—	19	—	—	19
Other comprehensive income (loss)	—	21	(904)	—	(883)
Total comprehensive (loss) income	$(1,905)	$336	$ (336)	$(1,064)	$(2,969)

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GIBRALTAR INDUSTRIES, INC.
CONSOLIDATING BALANCE SHEETS
MARCH 31, 2015
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	$—	$100,829	$ 17,471	$—	$118,300
Accounts receivable, net	—	104,708	10,576	—	115,284
Intercompany balances	18,298	(400)	(17,898)	—	—
Inventories	—	126,248	7,376	—	133,624
Other current assets	1,283	19,885	948	—	22,116
Total current assets	19,581	351,270	18,473	—	389,324
Property, plant, and equipment, net	—	101,858	11,911	—	113,769
Goodwill	—	229,558	5,965	—	235,523
Acquired intangibles	—	75,915	4,524	—	80,439
Other assets	2,810	1,892	—	—	4,702
Investment in subsidiaries	578,899	30,541	—	(609,440)	—
	$601,290	$791,034	$ 40,873	$(609,440)	$823,757
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable	$—	$83,969	$ 6,186	$—	$90,155
Accrued expenses	1,931	44,667	1,821	—	48,419
Current maturities of long-term debt	—	400	—	—	400
Total current liabilities	1,931	129,036	8,007	—	138,974
Long-term debt	210,000	3,200	—	—	213,200
Deferred income taxes	—	47,741	1,911	—	49,652
Other non-current liabilities	—	32,158	414	—	32,572
Shareholders' equity	389,359	578,899	30,541	(609,440)	389,359
	$601,290	$791,034	$ 40,873	$(609,440)	$823,757

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GIBRALTAR INDUSTRIES, INC.
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2014
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	$—	$91,466	$ 19,144	$—	$110,610
Accounts receivable, net	—	91,713	9,428	—	101,141
Intercompany balances	21,619	(1,850)	(19,769)	—	—
Inventories	—				