

GIBRALTAR INDUSTRIES, INC.

Form 10-Q

November 09, 2006

**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, 2006

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)

(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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate 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, 2006, the number of common shares outstanding was: 29,839,041.

GIBRALTAR INDUSTRIES, INC.  
INDEX

|                 | PAGE<br>NUMBER   |       |
|-----------------|--|-------|
| <u>PART I.</u>  | <u>FINANCIAL INFORMATION</u>   |       |
| <u>Item 1.</u>  | <u>Financial Statements (unaudited)</u>  |       |
|                 | <u>Condensed Consolidated Balance Sheets as of September 30, 2006 and December 31, 2005</u>                        | 3     |
|                 | <u>Condensed Consolidated Statements of Income For the Three and Nine Months Ended September 30, 2006 and 2005</u> | 4     |
|                 | <u>Condensed Consolidated Statements of Cash Flows For the Nine Months Ended September 30, 2006 and 2005</u>       | 5     |
|                 | <u>Notes to Condensed Consolidated Financial Statements</u>  | 6-28  |
| <u>Item 2.</u>  | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                       | 29-36 |
| <u>Item 3.</u>  | <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 36    |
| <u>Item 4.</u>  | <u>Controls and Procedures</u>   | 36    |
| <u>PART II.</u> | <u>OTHER INFORMATION</u>   | 37-39 |
| <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.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands, except per share data)

|  | September 30<br>2006<br>(unaudited) | December 31,<br>2005 |
|--|-------------------------------------|----------------------|
| Assets   |                                     |                      |
| Current assets:  |                                     |                      |
| Cash and cash equivalents  | \$ 12,804                           | \$ 28,529            |
| Accounts receivable, net   | 193,818                             | 162,300              |
| Inventories  | 263,932                             | 189,988              |
| Other current assets   | 15,900                              | 19,666               |
| Current assets of discontinued operations  |                                     | 23,521               |
| Total current assets   | 486,454                             | 424,004              |
| Property, plant and equipment, net   | 232,040                             | 229,644              |
| Goodwill   | 367,220                             | 360,663              |
| Investments in partnerships  | 4,840                               | 6,151                |
| Other assets   | 61,194                              | 55,099               |
| Assets of discontinued operations  |                                     | 129,451              |
|  | \$ 1,151,748                        | \$ 1,205,012         |
| Liabilities and Shareholders' Equity   |                                     |                      |
| Current liabilities:   |                                     |                      |
| Accounts payable   | \$ 98,997                           | \$ 83,266            |
| Accrued expenses   | 69,055                              | 59,289               |
| Current maturities of long-term debt   | 2,335                               | 2,331                |
| Current maturities of related party debt   |                                     | 5,833                |
| Current liabilities of discontinued operations   |                                     | 6,529                |
| Total current liabilities  | 170,387                             | 157,248              |
| Long-term debt   | 357,516                             | 453,349              |
| Deferred income taxes  | 68,255                              | 90,942               |
| Other non-current liabilities  | 6,951                               | 6,038                |
| Liabilities of discontinued operations   |                                     | 3,410                |
| Shareholders' equity:  |                                     |                      |
| Preferred stock, \$.01 par value; authorized:<br>10,000,000 shares; none outstanding   |                                     |                      |
| Common stock, \$.01 par value; authorized 50,000,000 shares; issued<br>29,881,641 and 29,734,986 shares in 2006 and 2005, respectively | 299                                 | 298                  |
| Additional paid-in capital   | 215,276                             | 216,897              |
| Retained earnings  | 331,358                             | 280,116              |

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|   |              |              |
|---|--------------|--------------|
| Unearned compensation   |              | (5,153)      |
| Accumulated other comprehensive loss  | 1,706        | 1,867        |
|   | 548,639      | 494,025      |
| Less: cost of 42,600 and 41,100 common shares held in treasury in 2006 and 2005 |              |              |
| Total shareholders' equity  | 548,639      | 494,025      |
|   | \$ 1,151,748 | \$ 1,205,012 |

See accompanying notes to condensed consolidated financial statements

3 of 39

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**Table of Contents**

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

|   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2006                                | 2005       | 2006                               | 2005       |
| Net sales   | \$ 336,471                          | \$ 247,771 | \$ 1,011,529                       | \$ 737,163 |
| Cost of sales   | 266,660                             | 200,193    | 801,222                            | 597,744    |
| Gross profit  | 69,811                              | 47,578     | 210,307                            | 139,419    |
| Selling, general and administrative expense             | 33,679                              | 26,353     | 110,469                            | 77,607     |
| Income from operations                                  | 36,132                              | 21,225     | 99,838                             | 61,812     |
| Other (income) expense:                                 |                                     |            |                                    |            |
| Equity in partnerships loss (income) and other income   | 103                                 | 820        | (445)                              | 469        |
| Interest expense  | 6,422                               | 2,657      | 20,302                             | 8,823      |
| Total other expense                                     | 6,525                               | 3,477      | 19,857                             | 9,292      |
| Income before taxes                                     | 29,607                              | 17,748     | 79,981                             | 52,520     |
| Provision for income taxes                              | 11,278                              | 6,922      | 30,158                             | 20,043     |
| Income from continuing operations                       | 18,329                              | 10,826     | 49,823                             | 32,477     |
| Discontinued operations:                                |                                     |            |                                    |            |
| (Loss) income from discontinued operations before taxes | (555)                               | 1,694      | 9,458                              | 9,179      |
| Income tax (benefit) expense                            | (222)                               | 661        | 3,575                              | 3,580      |
| (Loss) income from discontinued operations              | (333)                               | 1,033      | 5,883                              | 5,599      |
| Net income  | \$ 17,996                           | \$ 11,859  | \$ 55,706                          | \$ 38,076  |
| Net income per share Basic:                             |                                     |            |                                    |            |
| Income from continuing operations                       | .62                                 | .37        | 1.68                               | \$ 1.10    |
| (Loss) income from discontinued operations              | (.01)                               | \$ .03     | \$ .20                             | \$ .19     |
| Net income  | \$ .61                              | \$ .40     | \$ 1.88                            | \$ 1.29    |

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|  |         |        |        |         |         |
|--|---------|--------|--------|---------|---------|
| Weighted average shares outstanding      | Basic   | 29,747 | 29,622 | 29,691  | 29,560  |
| Net income per share - Diluted:          |         |        |        |         |         |
| Income from continuing operations        |         | .61    | .37    | 1.66    | \$ 1.09 |
| Loss income from discontinued operations |         | (.01)  | \$ .03 | \$ .20  | \$ .19  |
| Net income                               |         | \$ .60 | \$ .40 | \$ 1.86 | \$ 1.28 |
| Weighted average shares outstanding      | Diluted | 30,040 | 29,831 | 29,993  | 29,789  |

See accompanying notes to condensed consolidated financial statements

4 of 39

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**Table of Contents**

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

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2006                               | 2005      |
| Cash flows from operating activities  |                                    |           |
| Net income  | \$ 55,706                          | \$ 38,076 |
| Income from discontinued operations   | 5,883                              | 5,599     |
| Income from continuing operations   | 49,823                             | 32,477    |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: |                                    |           |
| Depreciation and amortization   | 20,024                             | 13,564    |
| Provision for deferred income taxes   |                                    | (51)      |
| Equity in partnerships loss   | 400                                | 554       |
| Distributions from partnerships   | 909                                | 850       |
| Stock compensation expense  | 2,192                              | 900       |
| Other noncash adjustments   | 783                                | 74        |
| Increase (decrease) in cash resulting from changes in (net of acquisitions):                |                                    |           |
| Accounts receivable   | (32,598)                           | (29,700)  |
| Inventories   | (68,872)                           | 32,572    |
| Other current assets and other assets   | 2,388                              | (93)      |
| Accounts payable  | 12,264                             | 4,139     |
| Accrued expenses and other non-current liabilities  | (18,225)                           | (10,898)  |
| Net cash (used in) provided by continuing operations  | (30,912)                           | 44,388    |
| Net cash provided by discontinued operations  | 6,750                              | 14,682    |
| Net cash (used in) provided by operating activities   | (24,162)                           | 59,070    |
| Cash flows from investing activities  |                                    |           |
| Acquisitions, net of cash acquired  | (13,206)                           | (27,582)  |
| Purchases of property, plant and equipment  | (17,057)                           | (11,795)  |
| Net proceeds from sale of property and equipment  | 388                                | 396       |
| Net proceeds from sale of businesses  | 151,511                            | 42,594    |
| Net cash provided by investing activities from continuing operations                        | 121,636                            | 3,613     |
| Net cash used in investing activities from discontinued operations                          | (3,319)                            | (3,302)   |
| Net cash provided by investing activities   | 118,317                            | 311       |



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|  |           |           |
|--|-----------|-----------|
| Cash flows from financing activities                               |           |           |
| Debt payments  | (114,292) | (182,320) |
| Proceeds from long-term debt                                       | 9,604     | 125,589   |
| Payment of deferred financing costs                                | (569)     | (1,477)   |
| Payment of dividends   | (4,464)   | (4,453)   |
| Net proceeds from issuance of common stock                         | 1,174     | 779       |
| Tax benefit from stock options                                     | 167       | 158       |
| Net cash used in financing activities for continuing operations    | (108,380) | (61,724)  |
| Net cash used in financing activities from discontinued operations | (1,500)   | (400)     |
| Net cash used in financing activities                              | (109,880) | (62,124)  |
| Net decrease in cash and cash equivalents                          | (15,725)  | (2,743)   |
| Cash and cash equivalents at beginning of year                     | 28,529    | 10,892    |
| Cash and cash equivalents at end of period                         | \$ 12,804 | \$ 8,149  |

See accompanying notes to condensed consolidated financial statements

5 of 39

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**Table of Contents**

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

(Unaudited)

**1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying condensed consolidated financial statements as of September 30, 2006 and 2005 have been prepared by Gibraltar Industries, Inc. (the Company) without audit. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) necessary to present fairly the financial position, results of operations and cash flows at September 30, 2006 and 2005 have been included.

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. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements included in the Company's Annual Report to Shareholders for the year ended December 31, 2005, as filed on Form 10-K.

The consolidated balance sheet at December 31, 2005 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.

Certain 2005 amounts have been reclassified to conform with 2006 presentation as discussed in Note 7.

The results of operations for the three and nine month periods ended September 30, 2006 are not necessarily indicative of the results to be expected for the full year.

**2. EQUITY-BASED COMPENSATION**

During the first quarter of 2006, the Company adopted SFAS 123(R) Share-Based Payment, applying the modified prospective method. This statement requires all equity-based payments to employees, including grants of stock options, to be recognized in the statement of income based on the grant date fair value of the award. Under the modified prospective method, the Company is required to record equity-based compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards outstanding as of the date of adoption. The Company uses the straight-line method of attributing the value of stock-based compensation expense based on vesting.

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 and executives and key employees.

On May 19, 2005, the Gibraltar Industries, Inc. 2005 Equity Incentive Plan (the 2005 Equity Incentive Plan) was approved by the Company's stockholders. 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 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.

6 of 39

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**Table of Contents**

The Management Stock Purchase Plan (MSPP) was approved by the shareholders in conjunction with the adoption of the 2005 Equity Incentive Plan. The MSPP 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 along with a match 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 their termination from employment with the Company. The matching portion is payable 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 rate of the then current 10 year U. S. Treasury note. The account is then paid out in five equal annual cash installments.

During the nine months ended September 30, 2006, the Company issued 6,000 restricted shares, 167,125 restricted stock units, and granted 174,052 non-qualified stock options. At September 30, 2006, 1,508,364 shares were available for issuance under this plan. Of this amount, 899,839 are available for restricted units and 900,000 are available for incentive stock options. The Company recognized compensation expense in connection with the vesting of stock options and the lapse of restrictions on restricted shares and restricted units issued under the 2005 Equity Incentive Plan in the amounts of \$2,050,000 and \$713,000 in the nine months ended September 30, 2006 and 2005, respectively.

In 1993, the Company adopted an incentive stock option plan, whereby the Company may grant incentive stock options to officers and other key employees. Under this plan, 2,437,500 shares of common stock were reserved for the granting of stock options at an exercise price not less than the fair market value of the shares at the date of grant. Options granted under this plan vest ratably over a four-year period from the grant date and expire ten years after the date of grant. In September 2003, this plan expired. The expiration of this plan did not modify, amend or otherwise affect the terms of any outstanding options on the date of the plan's expiration.

In 2003, the Company's Board of Directors approved the adoption of an incentive stock option plan, whereby the Company may grant incentive stock options to officers and other key employees. This plan was approved by the shareholders in 2004. Under this plan, 2,250,000 shares of common stock were reserved for the granting of stock options. These options are granted at an exercise price not less than the fair market value of the shares at the date of grant. Options granted under this plan vest ratably over a four-year period from the grant date and expire ten years after the date of grant. On May 22, 2006 the Company terminated this plan. The termination of this plan did not modify, amend or otherwise affect the terms of any outstanding awards on the date of the plan's termination.

The Company has a non-qualified stock option plan, whereby the Company may grant non-qualified stock options to officers, employees, non-employee directors and advisers. Under the non-qualified stock option plan, 600,000 shares of common stock were reserved for the granting of options. Options are granted under this plan at an exercise price not less than the fair market value of the shares at the date of grant. These options vest ratably over a four-year period from the grant date and expire ten years after the date of grant. On May 22, 2006 the Company terminated this plan. The termination of this plan did not modify, amend or otherwise affect the terms of any outstanding awards on the date of the plan's termination.

The Company has a restricted stock plan and has reserved for issuance 375,000 common shares for the grant of restricted stock awards to employees and non-employee directors at a purchase price of \$.01 per share. Shares of restricted stock issued under this plan vest on a straight-line basis over a period of 5 to 10 years. No shares were issued under this Plan in 2006 or 2005. On May 22, 2006 the Company terminated this plan. The termination of this plan did not modify, amend or otherwise affect the terms of any outstanding awards on the date of the plan's termination. The Company recognized compensation expense of \$142,000 and \$151,000, respectively in connection with the lapse of restrictions on restricted stock in the nine months ended, September 30, 2006 and 2005, respectively.

**Table of Contents**

The fair value of stock options granted was estimated on the date of grant using the Black-Scholes option pricing model. The weighted average fair value of the options was \$10.15 for options granted during the nine months ended September 30, 2006. The weighted average fair value of the options issued during the nine months ended September 30, 2005 was \$8.34. The following table provides the weighted average assumptions used to value stock options during the nine months ended September 30, 2006 and 2005:

|             | <b>Fair<br/>value</b> | <b>Expected<br/>life</b> | <b>Stock<br/>Volatility</b> | <b>Risk-free<br/>interest<br/>rate</b> | <b>Dividend<br/>yield</b> |
|-------------|-----------------------|--------------------------|-----------------------------|--|---------------------------|
| 2006 Grants | \$10.15               | 6.25<br>Years            | 39.3%                       | 4.7%                                   | 0.8%                      |
| 2005 Grant  | \$ 8.34               | 5.0 Years                | 42.5%                       | 3.9%                                   | 1.0%                      |

The fair value of restricted stock units granted was based on the grant date market price. During the nine months ended September 30, 2006, 97,027 restricted stock units were granted with a weighted average grant date fair value of \$24.29 per share. These awards vest ratably over three to four years.

The fair value of restricted stock units held in the MSPP equals the market value of our common stock on the last day of the period. During the nine months ended September 30, 2006, 70,098 restricted stock units were credited to participant accounts. At September 30, 2006, the market value of our common stock was \$22.18 per share.

8 of 39

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**Table of Contents**

The table below reflects income from continuing operations and income per share from continuing operations for the three and nine months ended September 30, 2006 compared with the pro forma information for the three and nine months ended September 30, 2005 as follows:

|  | Three Months<br>Ended<br>September 30, |           | Nine Months<br>Ended<br>September 30, |           |
|--|--|-----------|---------------------------------------|-----------|
|  | 2006                                   | 2005      | 2006                                  | 2005      |
| Income from continuing operations, as reported for the prior period(1)                           | N/A                                    | \$ 10,826 | N/A                                   | \$ 32,477 |
| Equity-based compensation expense, net of tax included in income as reported in prior period (2) | N/A                                    | 335       | N/A                                   | 549       |
| Equity-based compensation expense, net of tax(3)   | \$ 343                                 | \$ (339)  | \$ 1,370                              | \$ (553)  |
| Income from continuing operations including the effect of equity-based compensation expense(4)   | \$ 18,329                              | \$ 10,822 | \$ 49,823                             | \$ 32,473 |
| Income from continuing operations per share:   |  |           |                                       |           |
| Basic as reported for the prior period(1)  | \$ .62                                 | \$ .37    | \$ 1.68                               | \$ 1.10   |
| Basic including the effect of equity-based compensation expense(4)                               | \$ .62                                 | \$ .37    | \$ 1.68                               | \$ 1.10   |
| Diluted as reported for the prior period(1)  | \$ .61                                 | \$ .37    | \$ 1.66                               | \$ 1.09   |
| Diluted including the effect of equity- based compensation expense(4)                            | \$ .61                                 | \$ .37    | \$ 1.66                               | \$ 1.09   |

(1) Income from continuing operations and income from continuing operations per share prior to 2006 did not include equity-based compensation expense for stock options.

(2) Income from continuing operations and income from continuing

operations per share prior to 2006 included equity-based compensation expense for restricted shares and restricted share units.

(3) Equity-based compensation expense prior to 2006 is calculated based upon the pro forma application of SFAS No. 123.

(4) Income from continuing operations and income from continuing operations per share prior to 2006 represent pro forma information based on SFAS No.123.

**Table of Contents**

The following table summarizes the ranges of outstanding and exercisable options at September 30, 2006:

| <b>Range of</b>               | <b>Options</b>     | <b>Weighted<br/>average<br/>remaining<br/>contractual<br/>life in</b> | <b>Weighted<br/>average<br/>exercise<br/>price</b> | <b>Options</b>     | <b>Weighted<br/>average<br/>exercise<br/>price</b> |
|-------------------------------|--------------------|---|--|--------------------|--|
| <b><u>Exercise prices</u></b> | <b>outstanding</b> | <b>years</b>  | <b>price</b>                                       | <b>exercisable</b> | <b>price</b>                                       |
| \$ 9.38 - \$10.42             | 73,622             | 3.1   | \$ 9.76  | 73,622             | \$ 9.76  |
| \$14.50 - \$15.00             | 118,625            | 1.2   | \$ 14.82   | 118,625            | \$ 14.82   |
| \$20.52 - \$23.78             | 233,585            | 9.7   | \$ 22.79   | 14,890             | \$ 20.54   |

The following table summarizes information about stock option transactions:

|                               | <b>Options</b> | <b>Weighted<br/>average<br/>exercise price</b> | <b>Weighted<br/>average<br/>remaining<br/>life</b> | <b>Aggregate<br/>intrinsic value</b> |
|-------------------------------|----------------|--|--|--------------------------------------|
| Balance at January 1, 2006    | 383,426        | \$ 13.70                                       |  |                                      |
| Granted                       | 174,025        |  |  |                                      |
| Exercised                     | (120,655)      |  |  |                                      |
| Forfeited                     | (10,964)       |  |  |                                      |
| Balance at September 30, 2006 | 425,832        | \$ 18.32                                       | 6.1  | \$2,118,000                          |

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the \$22.18 per share market price of the Company's common stock as of September 30, 2006, which would have been received by the option holders had all option holders exercised their options as of that date. The aggregate intrinsic value of exercisable options as of September 30, 2006 was \$2,118,000.

The following table summarizes information about restricted stock:

|                               | <b>Restricted<br/>Stock</b> |
|-------------------------------|-----------------------------|
| Balance at January 1, 2006    | 77,000                      |
| Granted                       | 6,000                       |
| Vested                        | (10,500)                    |
| Forfeited                     | (1,500)                     |
| Balance at September 30, 2006 | 71,000                      |

The following table summarizes information about restricted stock units:

|                            | <b>Restricted<br/>Stock Units</b> |
|----------------------------|-----------------------------------|
| Balance at January 1, 2006 | 283,036                           |
| Granted                    | 167,125                           |
| Vested                     |                                   |

Forfeited

Balance at September 30, 2006 450,161

As of September 30, 2006, there was \$8,488,000 of total unrecognized compensation cost related to non-vested options, restricted shares, and restricted share units. That cost is expected to be recognized over a weighted average period of 1.9 years.

10 of 39

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**Table of Contents****3. SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME**

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

|  | Comprehensive<br>Income | Common Stock<br>Shares | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Unearned<br>Compensation | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury<br>Stock<br>Shares | Total<br>Shareholders<br>Equity |            |
|--|-------------------------|------------------------|----------------------------------|----------------------|--------------------------|---|-----------------------------|---------------------------------|------------|
| Balance at<br>January 1, 2006  |                         | 29,694                 | \$ 298                           | \$ 216,897           | \$ 280,116               | \$ (5,153)                                      | \$ 1,867                    | 41                              | \$ 494,025 |
| Cumulative<br>effect of<br>adoption of<br>SFAS 123(r)                |                         |                        |                                  | (5,153)              | 5,153                    |   |                             |                                 |            |
| Comprehensive<br>income:   |                         |                        |                                  |                      |                          |   |                             |                                 |            |
| Net income   | \$ 55,706               |                        |                                  | 55,706               |                          |   |                             |                                 | 55,706     |
| Other<br>comprehensive<br>income (loss):                             |                         |                        |                                  |                      |                          |   |                             |                                 |            |
| Foreign<br>currency<br>translation<br>adjustment                     | (704)                   |                        |                                  |                      |                          |   |                             |                                 |            |
| Unrealized gain<br>on interest rate<br>swaps, net of tax<br>of \$223 | 543                     |                        |                                  |                      |                          |   |                             |                                 |            |
| Other<br>comprehensive<br>income                                     | (161)                   |                        |                                  |                      |                          | (161)   |                             |                                 | (161)      |
| Total<br>comprehensive<br>income                                     | \$ 55,545               |                        |                                  |                      |                          |   |                             |                                 |            |
| Issuance of<br>restricted shares                                     |                         | 26                     |                                  |                      |                          |   |                             |                                 |            |
| Equity based<br>compensation<br>expense                              |                         |                        |                                  | 2,192                |                          |   |                             |                                 | 2,192      |
| Stock options<br>exercised and<br>other                              |                         | 119                    | 1                                | 1,173                |                          |   |                             |                                 | 1,174      |
| Tax benefit from<br>exercise of stock                                |                         |                        |                                  | 167                  |                          |   |                             |                                 | 167        |

|                                |         |         |
|--------------------------------|---------|---------|
| options                        |         |         |
| Cash dividends                 |         |         |
| \$.15 per share                | (4,464) | (4,464) |
| Forfeiture of restricted stock |         | 2       |

|                               |        |        |            |            |    |          |    |    |            |
|-------------------------------|--------|--------|------------|------------|----|----------|----|----|------------|
| Balance at September 30, 2006 | 29,839 | \$ 299 | \$ 215,276 | \$ 331,358 | \$ | \$ 1,706 | 43 | \$ | \$ 548,639 |
|-------------------------------|--------|--------|------------|------------|----|----------|----|----|------------|

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

|                               | Foreign currency translation adjustment | Minimum pension liability adjustment | Unrealized gain/(loss) on interest rate swaps | Accumulated other comprehensive loss |
|-------------------------------|---|--------------------------------------|---|--------------------------------------|
| Balance at January 1, 2006    | \$ 2,435                                | \$ (30)                              | \$ (538)                                      | \$ 1,867                             |
| Current period change         | (704)                                   |                                      | 543   | (161)                                |
| Balance at September 30, 2006 | \$ 1,731                                | \$ (30)                              | \$ 5  | \$ 1,706                             |

Total comprehensive income for the three and nine months ended September 30, 2006, was \$17,118,000 and \$55,545,000, respectively and for the three and nine months ended September 30, 2005 was \$12,556,000 and \$38,683,000, respectively.

Dividends of \$.05 per share were declared in the three months ended September 30, 2006 and 2005 and \$.15 per share in the nine months ended September 30, 2006 and 2005.

**Table of Contents****4. INVENTORIES**

Inventories consist of the following (in thousands):

|                   | September<br>30,<br>2006 | December<br>31,<br>2005 |
|-------------------|--------------------------|-------------------------|
| Raw material      | \$ 123,043               | \$ 87,888               |
| Work-in process   | 46,377                   | 32,251                  |
| Finished goods    | 94,512                   | 69,849                  |
| <br>              |                          |                         |
| Total inventories | \$ 263,932               | \$ 189,988              |

**5. 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 the stock option and restricted stock 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.

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

|   | Three Months Ended<br>September 30, |               | Nine Months Ended<br>September 30, |               |
|---|-------------------------------------|---------------|------------------------------------|---------------|
|   | 2006                                | 2005          | 2006                               | 2005          |
| Numerator:  |                                     |               |                                    |               |
| Income available to common stockholders<br>from continuing operations | 18,329<br>\$ ,000                   | \$ 10,826,000 | \$ 49,823,000                      | \$ 32,477,000 |
| <br>  |                                     |               |                                    |               |
| Weighted average shares outstanding                                   | 29,747,231                          | 29,621,946    | 29,690,616                         | 29,599,655    |
| <br>  |                                     |               |                                    |               |
| Denominator for diluted income per share:                             |                                     |               |                                    |               |
| Weighted average shares outstanding                                   |                                     |               |                                    |               |
| Common stock options and restricted stock                             | 292,359                             | 209,014       | 302,434                            | 189,710       |
| <br>  |                                     |               |                                    |               |
| Weighted average shares and conversions                               | 30,039,590                          | 29,830,960    | 29,993,050                         | 29,789,365    |

**Table of Contents****6. ACQUISITIONS**

On April 1, 2003, the Company acquired all of the outstanding stock of Construction Metals, Inc. (Construction Metals). As part of the purchase agreement between the Company and the former owners of Construction Metals, the Company was required to pay additional consideration if certain net sales levels as defined in the purchase agreement were achieved during the period from acquisition up to March 31, 2006. During the second quarter of 2006 and 2005 payments of \$1,754,000 and \$1,332,000, respectively, were made pursuant to the additional consideration.

On September 15, 2005, the Company acquired all of the outstanding stock of Curie International (Suzhou) Co., Ltd. (SCM Asia). SCM Asia is located in Suzhou, China and manufactures, markets and distributes non-ferrous metal powder products to customers in a number of different industries, including the powder metallurgy and thermal processing markets. The acquisition of SCM Asia provided the Company with an on-the-ground presence in the rapidly growing Chinese industrial market, which strengthens our ability to grow our business in this market. The results of SCM Asia (included in the Company's Processed Metal Products segment) are included in the Company's consolidated financial results from the date of acquisition on a one month lag. The acquisition of SCM Asia is not considered significant to the Company's consolidated results of operations.

The aggregate purchase consideration for the acquisition of SCM Asia was approximately \$7,631,000 in cash, a seller note, and acquisition costs. The seller note of \$1,000,000 was satisfied in September 2006. The purchase price was allocated to the assets acquired and liabilities assumed based upon respective fair market values. The fair market values of the property, plant and equipment and identifiable intangible assets were determined with the assistance of an independent valuation. The identifiable intangible assets consisted of a non-compete agreement with a value of \$645,000 (7 year estimated useful life) and unpatented technology of \$715,000 (5 year estimated useful life). The excess consideration over fair value was recorded as goodwill and aggregated approximately \$3,056,000, none of which is deductible for tax purposes. The allocation of purchase consideration to the assets acquired and liabilities assumed is as follow (in thousands):

|                               |          |
|-------------------------------|----------|
| Working capital               | \$ 681   |
| Property, plant and equipment | 2,160    |
| Other assets                  | 374      |
| Intangible assets             | 1,360    |
| Goodwill                      | 3,056    |
|                               | \$ 7,631 |

On October 3, 2005, the Company acquired all the outstanding shares of Alabama Metal Industries Corporation (AMICO). AMICO is headquartered in Birmingham, Alabama, and manufactures, markets and distributes a diverse line of products used in the commercial and industrial sectors of the building products market. The acquisition of AMICO increased the Company's participation in the industrial and commercial sectors of the building products markets and increased our product offerings in the residential sector of the building products market. The results of operations of AMICO (included in the Company's Building Products segment) have been included in the Company's consolidated results of operations from the date of acquisition.

The aggregate purchase consideration for the acquisition of AMICO was approximately \$240,871,000 in cash and acquisition costs. The purchase price was allocated to the assets acquired and liabilities assumed based upon respective fair market values. The fair market values of property, plant and equipment and identifiable intangible assets were determined with the assistance of an independent valuation. The identifiable intangible assets consisted of trademark with a value of \$25,000,000 (indefinite useful life), customer relationships with a value of \$11,300,000 (13 year estimated useful life), and unpatented technology with a value of \$2,400,000 (10 year estimated useful life). The excess consideration over fair value was recorded as goodwill and aggregated approximately \$110,490,000 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):



**Table of Contents**

|                                  |            |
|----------------------------------|------------|
| Working capital                  | \$ 66,250  |
| Property, plant and equipment    | 55,151     |
| Other long term liabilities, net | (29,720)   |
| Intangible assets                | 38,700     |
| Goodwill                         | 110,490    |
|                                  | \$ 240,871 |

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 mail boxes and postal accessories. The acquisition of Home Impressions served to strengthen the Company's position in the mail box 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) are 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.

The aggregate initial consideration was approximately \$12,468,000 which consisted of \$9,607,000 in cash and the assumption of \$2,861,000 notes payable, including direct acquisition costs, with the final purchase price subject to adjustment for operating results through May 2009. The initial purchase price has been allocated to the assets acquired and liabilities assumed based upon a preliminary valuation of respective fair market values. A final valuation is expected to be completed during the fourth quarter of 2006. The excess consideration over fair value was recorded as goodwill and aggregated approximately \$9,606,000, none of which is deductible for tax purposes. The allocation of purchase consideration to the assets and liabilities assumed is as follows (in thousands):

|                               |           |
|-------------------------------|-----------|
| Working capital               | \$ 1,619  |
| Property, plant and equipment | 1,243     |
| Goodwill                      | 9,606     |
|                               | \$ 12,468 |

On June 30, 2006 the Company acquired certain assets of Steel City Hardware, LLC (Steel City). The assets the Company acquired from Steel City are used to manufacture mail boxes and postal accessories. The acquisition of the assets of Steel City served to vertically integrate Home Impressions' major domestic supplier and expanded our manufacturing competency in the storage market. The results of Steel City (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 Steel City is not considered significant to the Company's consolidated results of operations.

The aggregate initial consideration was approximately \$5,000,000, subject to adjustment for working capital and direct acquisition costs. The initial purchase price has been allocated to the assets acquired based upon a preliminary valuation of respective fair market values. A final valuation is expected to be completed during the fourth quarter of 2006. The excess consideration over fair value was recorded as goodwill and aggregated approximately \$1,926,000, none of which is deductible for tax purposes. The allocation of purchase consideration to the assets and liabilities assumed is as follows (in thousands):

|                               |          |
|-------------------------------|----------|
| Working capital               | \$ 2,617 |
| Property, plant and equipment | 457      |
| Goodwill                      | 1,926    |
|                               | \$ 5,000 |



**Table of Contents**

The following unaudited pro forma financial information presents the combined results of operations as if the AMICO acquisition had occurred on January 1, 2005. The pro forma information includes certain adjustments, including depreciation expense, interest expense and certain other adjustments, together with related income tax effects. The pro forma amounts may not be indicative of the results that actually would have been achieved had the acquisition occurred as of January 1, 2005 and are not necessarily indicative of future results of the combined companies (in thousands, except per share amounts):

|   | Three Months<br>Ended<br>September 30,<br>2005<br>(unaudited) | Nine Months<br>Ended<br>September 30,<br>2005<br>(unaudited) |
|---|---|--|
| Net sales   | \$ 327,709  | \$ 976,978   |
| Income from continuing operations                   | \$ 16,039   | \$ 45,693  |
| Income from continuing operations per share Basic   | \$ .54  | \$ 1.55  |
| Income from continuing operations per share Diluted | \$ .54  | \$ 1.53  |

15 of 39



**Table of Contents****7. DISCONTINUED OPERATIONS**

As part of its continuing evaluation of its businesses, the Company determined that its thermal processing and strapping businesses no longer provided a strategic fit with its long-term growth and operational objectives. On June 16, 2006 and June 30, 2006, in separate transactions, the Company sold certain assets and liabilities of both its strapping and thermal processing businesses, respectively. The proceeds from the sale of the strapping assets were \$15,193,000, subject to an adjustment for working capital, and resulted in a pre-tax gain of \$5,351,000. The proceeds from the sale of the thermal assets were \$136,318,000 and resulted in a pre-tax loss of \$2,613,000.

In January 2005, the Company determined that Milcor was not positioned to obtain a leadership position in its marketplace. We were approached by a market leader from Milcor's marketplace and on January 27, 2005, the Company sold the net assets of its Milcor subsidiary, which included Portals Plus, for approximately \$42,594,000. In accordance with the Provisions of Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the results of operations for the thermal processing business, the strapping business and Milcor for the current and prior period have been classified as discontinued operations in the condensed consolidated statements of income. Components of the net income from discontinued operations are as follows (in thousands):

|   | Three Months Ended |           | Nine Months Ended |            |
|---|--------------------|-----------|-------------------|------------|
|   | September 30,      |           | September 30,     |            |
|   | 2006               | 2005      | 2006              | 2005       |
| Net sales   | \$ 4,902           | \$ 34,368 | \$ 80,533         | \$ 110,395 |
| Expenses  | 5,457              | 32,674    | 71,075            | 101,216    |
| (Loss) income from discontinued operations before taxes | \$ (555)           | \$ 1,694  | \$ 9,458          | \$ 9,179   |

In connection with the disposal of Milcor, we retained a liability related to a multi-employer pension plan to fund the terminated pensions of the union employees of Milcor. We accrued \$59,000 for the termination based on the information that was available at the time of disposal. During the second quarter of 2006, we received notification from the administrator of the plan that we had no further liability to the plan. Accordingly, we reversed the accrual.

**Table of Contents****8. 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, 2006 are as follows (in thousands):

|                                  | Building<br>Products<br>Segment | Processed<br>Metal<br>Products<br>Segment | Total      |
|----------------------------------|---------------------------------|---|------------|
| Balance as of January 1, 2006    | \$ 332,029                      | \$ 28,634                                 | \$ 360,663 |
| Purchase price adjustments       | (3,288)                         | (1,931)                                   | (5,219)    |
| Goodwill acquired                | 11,532                          |   | 11,532     |
| Foreign currency translation     | 173                             | 71  | 244        |
| Balance as of September 30, 2006 | \$ 340,446                      | \$ 26,774                                 | \$ 367,220 |

*Intangible Assets*

At September 30, 2006, intangible assets subject to amortization related to the Company's acquisitions are included as part of the total other assets on the Company's condensed consolidated balance sheet. Intangible assets at September 30, 2006 are as follows (in thousands):

|                                  | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Estimated<br>Life |
|----------------------------------|-----------------------------|-----------------------------|-------------------|
| Trademark / Trade Name           | \$ 660                      | \$ 164                      | 2 to 10 years     |
| Unpatented Technology            | 4,555                       | 536                         | 5 to 20 years     |
| Customer Relationships           | 17,340                      | 1,684                       | 3 to 15 years     |
| Non-Competition Agreements       | 3,010                       | 1,228                       | 5 to 10 years     |
| Balance as of September 30, 2006 | \$ 25,565                   | \$ 3,612                    |                   |

Intangible assets with indefinite useful lives not subject to amortization consist of trademarks and trade names valued at \$25,440,000.

Intangible asset amortization expense for the three and nine month periods ended September 30, 2006 and 2005 aggregated approximately \$537,000 and \$1,650,000, and \$223,000 and \$661,000, respectively.

**Table of Contents**

Amortization expense related to intangible assets for the remainder of fiscal 2006 and the next five years thereafter is estimated as follows (in thousands)

|                         |         |
|-------------------------|---------|
| Year Ended December 31, |         |
| 2006                    | \$ 756  |
| 2007                    | \$2,322 |
| 2008                    | \$2,194 |
| 2009                    | \$2,116 |
| 2010                    | \$2,053 |
| 2011                    | \$1,886 |

**9. 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.
- (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.

18 of 39

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**Table of Contents**

The following 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, |              |
|---|-------------------------------------|--------------|------------------------------------|--------------|
|   | 2006                                | 2005         | 2006                               | 2005         |
| Net sales                                     |                                     |              |                                    |              |
| Building products                             | \$ 226,351                          | \$ 149,116   | \$ 680,151                         | \$ 410,942   |
| Processed metal products                      | 110,120                             | 98,655       | 331,378                            | 326,221      |
|   | \$ 336,471                          | \$ 247,771   | \$ 1,011,529                       | \$ 737,163   |
| Income (loss) from operations                 |                                     |              |                                    |              |
| Building products                             | \$ 34,662                           | \$ 23,229    | \$ 106,454                         | \$ 55,930    |
| Processed metal products                      | 7,569                               | 4,322        | 21,332                             | 24,807       |
| Corporate                                     | (6,099)                             | (6,326)      | (27,948)                           | (18,925)     |
|   | \$ 36,132                           | \$ 21,225    | \$ 99,838                          | \$ 61,812    |
| Depreciation and amortization                 |                                     |              |                                    |              |
| Building products                             | \$ 3,517                            | \$ 2,235     | \$ 12,021                          | \$ 7,237     |
| Processed metal products                      | 1,552                               | 1,743        | 5,679                              | 5,216        |
| Corporate                                     | 780                                 | 289          | 2,324                              | 1,111        |
|   | \$ 5,849                            | \$ 4,267     | \$ 20,024                          | \$ 13,564    |
| Capital expenditures (excluding acquisitions) |                                     |              |                                    |              |
| Building products                             | \$ 4,445                            | \$ 2,149     | \$ 12,899                          | \$ 6,645     |
| Processed metal products                      | 487                                 | 1,154        | 2,141                              | 3,672        |
| Corporate                                     | 673                                 | 419          | 2,017                              | 1,478        |
|   | \$ 5,605                            | \$ 3,722     | \$ 17,057                          | \$ 11,795    |
| Total identifiable assets                     |                                     |              |                                    |              |
| Building products                             |                                     | \$ 797,153   |                                    | \$ 730,846   |
| Processed metal products                      |                                     | 316,885      |                                    | 232,294      |
| Sub-total                                     |                                     | 1,114,038    |                                    | 963,140      |
| Corporate *                                   |                                     | 37,710       |                                    | 241,872      |
|   |                                     | \$ 1,151,748 |                                    | \$ 1,205,012 |

\*

includes assets  
associated with  
the discontinued  
operations

19 of 39

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**Table of Contents****10. RELATED PARTY TRANSACTIONS**

In connection with the acquisition of Construction Metals, the Company entered into two unsecured subordinated notes each in the amount of \$8,750,000 (aggregate total of \$17,500,000). These notes were payable to the two former owners of Construction Metals and were considered related party in nature due to the former owners' continuing employment relationship with the Company. These notes were payable in annual principal installments of \$2,917,000 per note on April 1, and were satisfied on April 1, 2006. These notes required quarterly interest payments at an interest rate of 5.0% per annum. Interest expense related to these notes was approximately \$72,000 and \$290,000 for the nine months ended September 30, 2006 and 2005, respectively.

The Company has certain operating lease agreements related to operating locations and facilities with the former owners of Construction Metals or companies controlled by these parties. These operating leases are considered to be related party in nature. Rental expense associated with these related party operating leases aggregated approximately \$1,015,000 and \$1,079,000 for the nine months ended September 30, 2006 and 2005, respectively.

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, 2006 and 2005, the Company incurred \$1,413,000 and \$1,166,000, respectively, for legal services from these firms. Of the amount incurred, \$1,116,000 and \$841,000, was expensed during the nine months ended September 30, 2006 and 2005, respectively. \$297,000 and \$325,000 were capitalized as acquisition costs and deferred debt issuance costs during the nine months ended September 30, 2006 and 2005, respectively. \$295,000 and \$389,000 were included in accounts payable at September 30, 2006 and 2005, respectively.

**11. BORROWINGS UNDER REVOLVING CREDIT FACILITY**

The aggregate borrowing limit under the Company's revolving credit facility is \$300,000,000. At September 30, 2006, the Company had \$252,788,000 of availability under the revolving credit facility.

**12. NET PERIODIC BENEFIT COSTS**

The following tables present the components of net periodic pension and other postretirement benefit costs charged to expense (in thousands):

|                            | Three Months Ended |       | <u>Pension Benefit</u> |        |
|----------------------------|--------------------|-------|------------------------|--------|
|                            | September 30,      |       | September 30,          |        |
|                            | 2006               | 2005  | 2006                   | 2005   |
| Service cost               | \$ 40              | \$ 44 | \$ 120                 | \$ 132 |
| Interest cost              | 30                 | 31    | 91                     | 93     |
| Net periodic benefit costs | \$ 70              | \$ 75 | \$ 211                 | \$ 225 |

**Table of Contents**

|   | Other Post Retirement Benefits |       |                   |        |
|---|--------------------------------|-------|-------------------|--------|
|   | Three Months Ended             |       | Nine Months Ended |        |
|   | September 30,                  |       | September 30,     |        |
|   | 2006                           | 2005  | 2006              | 2005   |
| Service cost                                    | \$ 26                          | \$ 23 | \$ 78             | \$ 69  |
| Interest cost                                   | 56                             | 53    | 168               | 159    |
| Amortization of unrecognized prior service cost | (6)                            | (5)   | (18)              | (15)   |
| Loss amortization                               | 28                             | 27    | 84                | 81     |
| Net periodic benefit costs                      | \$ 104                         | \$ 98 | \$ 312            | \$ 294 |

**13. 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.

21 of 39

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**Table of Contents**

Gibraltar Industries, Inc.  
Condensed Consolidating Balance Sheets  
September 30, 2006  
(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                      | \$                               | \$ 9,109                  | \$ 3,695                      | \$           | \$ 12,804    |
| Accounts receivable, net                       |                                  | 182,734                   | 11,084                        |              | 193,818      |
| Intercompany balances                          | 379,456                          | (368,097)                 | (11,359)                      |              |              |
| Inventories                                    |                                  | 257,123                   | 6,809                         |              | 263,932      |
| Other current assets                           |                                  | 15,610                    | 290                           |              | 15,900       |
| Total current assets                           | 379,456                          | 96,479                    | 10,519                        |              | 486,454      |
| Property, plant and equipment,<br>net          |                                  | 223,768                   | 8,272                         |              | 232,040      |
| Goodwill                                       |                                  | 359,633                   | 7,587                         |              | 367,220      |
| Investments in partnerships                    |                                  | 4,840                     |                               |              | 4,840        |
| Other assets                                   | 6,575                            | 52,972                    | 1,647                         |              | 61,194       |
| Investment in subsidiaries                     | 368,995                          | 21,837                    |                               | (390,832)    |              |
|  | 755,026                          | 759,529                   | 28,025                        | (390,832)    | 1,151,748    |
| <b>Liabilities and Shareholders<br/>Equity</b> |                                  |                           |                               |              |              |
| Current liabilities:                           |                                  |                           |                               |              |              |
| Accounts payable                               |                                  | 95,704                    | 3,293                         |              | 98,997       |
| Accrued expenses                               | 5,622                            | 63,051                    | 382                           |              | 69,055       |
| Current maturities of long-term<br>debt        |                                  | 2,335                     |                               |              | 2,335        |
| Total current liabilities                      | 5,622                            | 161,090                   | 3,675                         |              | 170,387      |
| Long-term debt                                 | 200,765                          | 155,043                   | 1,708                         |              | 357,516      |
| Deferred income taxes                          |                                  | 67,450                    | 805                           |              | 68,255       |
| Other non-current liabilities                  |                                  | 6,951                     |                               |              | 6,951        |
| Shareholders' equity                           | 548,639                          | 368,995                   | 21,837                        | (390,832)    | 548,639      |
|  | \$ 755,026                       | \$ 759,529                | \$ 28,025                     | \$ (390,832) | \$ 1,151,748 |





**Table of Contents**

Gibraltar Industries, Inc.  
Condensed Consolidating Balance Sheets  
December 31, 2005  
(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                      | \$                               | \$ 24,759                 | \$ 3,770                      | \$           | \$ 28,529    |
| Accounts receivable, net                       |                                  | 154,864                   | 7,436                         |              | 162,300      |
| Intercompany balances                          | 384,669                          | (381,419)                 | (3,250)                       |              |              |
| Inventories                                    |                                  | 184,404                   | 5,584                         |              | 189,988      |
| Other current assets                           | 155                              | 19,361                    | 150                           |              | 19,666       |
| Current assets of discontinued operations      |                                  | 23,521                    |                               |              | 23,521       |
| Total current assets                           | 384,824                          | 25,490                    | 13,690                        |              | 424,004      |
| Property, plant and equipment, net             |                                  | 220,993                   | 8,651                         |              | 229,644      |
| Goodwill                                       |                                  | 351,389                   | 9,274                         |              | 360,633      |
| Investments in partnerships                    |                                  | 6,151                     |                               |              | 6,151        |
| Other assets                                   | 6,531                            | 48,271                    | 297                           |              | 55,099       |
| Investment in subsidiaries                     | 305,808                          | 24,158                    |                               | (329,966)    |              |
| Assets of discontinued operations              |                                  | 129,451                   |                               |              | 129,451      |
|  | \$ 697,163                       | \$ 805,903                | \$ 31,912                     | \$ (329,966) | \$ 1,205,012 |
| <b>Liabilities and Shareholders Equity</b>     |                                  |                           |                               |              |              |
| Current liabilities:                           |                                  |                           |                               |              |              |
| Accounts payable                               | \$                               | \$ 77,995                 | \$ 5,271                      | \$           | \$ 83,266    |
| Accrued expenses                               | 2,538                            | 55,344                    | 1,407                         |              | 59,289       |
| Current maturities of long-term debt           |                                  | 2,331                     |                               |              | 2,331        |
| Current maturities of related party debt       |                                  | 5,833                     |                               |              | 5,833        |
| Current liabilities of discontinued operations |                                  | 6,366                     | 163                           |              | 6,529        |
| Total current liabilities                      | 2,538                            | 147,869                   | 6,841                         |              | 157,248      |
| Long-term debt                                 | 200,600                          | 252,749                   |                               |              | 453,349      |
| Long-term related party debt                   |                                  |                           |                               |              |              |

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|  |            |            |           |              |              |
|--|------------|------------|-----------|--------------|--------------|
| Deferred income taxes                  |            | 90,029     | 913       |              | 90,942       |
| Other non-current liabilities          |            | 6,038      |           |              | 6,038        |
| Liabilities of discontinued operations |            | 3,410      |           |              | 3,410        |
| Shareholders' equity                   | 494,025    | 305,808    | 24,158    | (329,966)    | 494,025      |
|  | \$ 697,163 | \$ 805,903 | \$ 31,912 | \$ (329,966) | \$ 1,205,012 |

23 of 39

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**Table of Contents**

Gibraltar Industries, Inc.  
Condensed Consolidating Statements of Income  
Nine Months Ended September 30, 2006  
(in thousands)

|   | Gibraltar<br>Industries,<br>Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Total        |
|---|----------------------------------|---------------------------|-------------------------------|--------------|--------------|
| Net sales   | \$                               | \$ 972,799                | \$ 40,073                     | \$ (1,343)   | \$ 1,011,529 |
| Cost of sales   |                                  | 770,367                   | 32,198                        | (1,343)      | 801,222      |
| Gross profit  |                                  | 202,432                   | 7,875                         |              | 210,307      |
| Selling, general and administrative<br>expense        | 504                              | 107,030                   | 2,935                         |              | 110,469      |
| Income from operations                                | (504)                            | 95,402                    | 4,940                         |              | 99,838       |
| Other (income) expense                                |                                  |                           |                               |              |              |
| Interest expense                                      | 12,596                           | 7,606                     | 100                           |              | 20,302       |
| Equity in partnerships income and<br>other (income)   |                                  | (445)                     |                               |              | (445)        |
| Total other expense                                   | 12,596                           | 7,161                     | 100                           |              | 19,857       |
| (Loss) income before taxes                            | (13,100)                         | 88,241                    | 4,840                         |              | 79,981       |
| Provision (benefit) for income<br>taxes               | (5,109)                          | 33,435                    | 1,832                         |              | 30,158       |
| (Loss) income from continuing<br>operations           | (7,991)                          | 54,806                    | 3,008                         |              | 49,823       |
| Discontinued operations                               |                                  |                           |                               |              |              |
| (Loss) income discontinued<br>operations before taxes |                                  | 9,579                     | (121)                         |              | 9,458        |
| Income tax (benefit) expense                          |                                  | 3,622                     | (47)                          |              | 3,575        |
| (Loss) income from discontinued<br>operations         |                                  | 5,957                     | (74)                          |              | 5,883        |
| Equity in earnings from<br>subsidiaries               | 63,697                           | 2,934                     |                               | (66,631)     |              |

|            |    |        |    |        |    |       |    |          |    |        |
|------------|----|--------|----|--------|----|-------|----|----------|----|--------|
| Net income | \$ | 55,706 | \$ | 63,697 | \$ | 2,934 | \$ | (66,631) | \$ | 55,706 |
|------------|----|--------|----|--------|----|-------|----|----------|----|--------|

24 of 39

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**Table of Contents**

Gibraltar Industries, Inc.  
Condensed Consolidating Statements of Income  
Nine Months Ended September 30, 2005  
(in thousands)

|   | Gibraltar<br>Industries,<br>Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Total      |
|---|----------------------------------|---------------------------|-------------------------------|--------------|------------|
| Net sales   | \$                               | \$ 728,510                | \$ 9,890                      | \$ (1,237)   | \$ 737,163 |
| Cost of sales   |                                  | 591,511                   | 7,470                         | (1,237)      | 597,744    |
| Gross profit  |                                  | 136,999                   | 2,420                         |              | 139,419    |
| Selling, general and administrative<br>expense        |                                  | 76,547                    | 1,060                         |              | 77,607     |
| Income from operations                                |                                  | 60,452                    | 1,360                         |              | 61,812     |
| Other (income) expense                                |                                  |                           |                               |              |            |
| Interest expense                                      |                                  | 8,666                     | 157                           |              | 8,823      |
| Equity in partnerships loss and<br>other income       |                                  | 469                       |                               |              | 469        |
| Total other expense                                   |                                  | 9,135                     | 157                           |              | 9,292      |
| Income before taxes                                   |                                  | 51,317                    | 1,203                         |              | 52,520     |
| Provision for income taxes                            |                                  | 19,574                    | 469                           |              | 20,043     |
| Income from continuing operations                     |                                  | 31,743                    | 734                           |              | 32,477     |
| Discontinued operations                               |                                  |                           |                               |              |            |
| (Loss) income discontinued<br>operations before taxes |                                  | 11,160                    | (1,981)                       |              | 9,179      |
| Income tax (benefit) expense                          |                                  | 4,352                     | (772)                         |              | 3,580      |
| (Loss) income from discontinued<br>operations         |                                  | 6,808                     | (1,209)                       |              | 5,599      |
| Equity in earnings (loss) from<br>subsidiaries        | 38,076                           | (475)                     |                               | (37,601)     |            |

|                   |    |        |    |        |    |       |    |          |    |        |
|-------------------|----|--------|----|--------|----|-------|----|----------|----|--------|
| Net income (loss) | \$ | 38,076 | \$ | 38,076 | \$ | (475) | \$ | (37,601) | \$ | 38,076 |
|-------------------|----|--------|----|--------|----|-------|----|----------|----|--------|

25 of 39

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**Table of Contents**

Gibraltar Industries, Inc.  
Condensed Consolidating Statements of Cash Flows  
Nine Months Ended September 30, 2006  
(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 continuing operations   | \$ (2,050)                       | \$ (25,359)               | \$ (3,503)                    | \$           | \$ (30,912) |
| Net cash provided by discontinued operations                                   |                                  | 6,750                     |                               |              | 6,750       |
| Net cash used in operating activities  | (2,050)                          | (18,609)                  | (3,503)                       |              | (24,162)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                    |                                  |                           |                               |              |             |
| Acquisitions, net of cash acquired   |                                  | (13,206)                  |                               |              | (13,206)    |
| Purchases of property, plant and equipment                                     |                                  | (16,918)                  | (139)                         |              | (17,057)    |
| Net proceeds from sale of property and equipment                               |                                  | 388                       |                               |              | 388         |
| Net proceeds from sale of businesses   |                                  | 151,511                   |                               |              | 151,511     |
| Net cash provided by (used in) investing activities from continuing operations |                                  | 121,775                   | (139)                         |              | 121,636     |
| Net cash used in investing activities for discontinued operations              |                                  | (3,319)                   |                               |              | (3,319)     |
| Net cash provided by (used in) investing activities                            |                                  | 118,456                   | (139)                         |              | 118,317     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                    |                                  |                           |                               |              |             |
| Long-term debt reduction   |                                  | (114,292)                 |                               |              | (114,292)   |
| Proceeds from long-term debt   |                                  | 7,896                     | 1,708                         |              | 9,604       |
| Intercompany financing   | 5,723                            | (7,582)                   | 1,859                         |              |             |



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|  |         |           |          |           |
|--|---------|-----------|----------|-----------|
| Payment of deferred financing costs  | (550)   | (19)      |          | (569)     |
| Net proceeds from issuance of common stock                                     | 1,174   |           |          | 1,174     |
| Payment of dividends   | (4,464) |           |          | (4,464)   |
| Tax benefit from stock compensation  | 167     |           |          | 167       |
| Net cash (used in) provided by financing activities from continuing operations | 2,050   | (113,997) | 3,567    | (108,380) |
| Net cash used in financing activities from discontinued operations             |         | (1,500)   |          | (1,500)   |
| Net cash provided by (used in) financing activities                            | 2,050   | (115,497) | 3,567    | (109,880) |
| Net decrease in cash and cash equivalents                                      |         | (15,650)  | (75)     | (15,725)  |
| Cash and cash equivalents at beginning of year                                 |         | 24,759    | 3,770    | 28,529    |
| Cash and cash equivalents at end of year                                       | \$      | \$ 9,109  | \$ 3,695 | \$ 12,804 |

26 of 39

**Table of Contents**

Gibraltar Industries, Inc.  
Condensed Consolidating Statements of Cash Flows  
Nine Months Ended September 30, 2005  
(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 provided by (used in) continuing operations                            | \$ 900                           | \$ 42,602                 | \$ 886                        | \$           | \$ 44,388 |
| Net cash provided by (used in) discontinued operations                          |                                  | 16,084                    | (1,402)                       |              | 14,682    |
| Net cash provided by (used in) operating activities                             | 900                              | 58,686                    | (516)                         |              | 59,070    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                     |                                  |                           |                               |              |           |
| Acquisitions, net of cash acquired  |                                  | (27,582)                  |                               |              | (27,582)  |
| Purchases of property, plant and equipment                                      |                                  | (11,774)                  | (21)                          |              | (11,795)  |
| Net proceeds from sale of property and equipment                                |                                  | 153                       | 243                           |              | 396       |
| Net proceeds from sale of business  |                                  | 42,594                    |                               |              | 42,594    |
| Net cash provided by investing activities from continuing operations            |                                  | 3,391                     | 222                           |              | 3,613     |
| Net cash (used in) provided by investing activities for discontinued operations |                                  | (2,971)                   | (331)                         |              | (3,302)   |
| Net cash provided by investing activities                                       |                                  | 420                       | (109)                         |              | 311       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                     |                                  |                           |                               |              |           |
| Long-term debt reduction  |                                  | (182,320)                 |                               |              | (182,320) |
| Proceeds from long-term debt  |                                  | 125,589                   |                               |              | 125,589   |
| Intercompany financing  | 2,616                            | (405)                     | (2,211)                       |              |           |

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|  |         |          |         |          |
|--|---------|----------|---------|----------|
| Payment of deferred financing costs  |         | (1,477)  |         | (1,477)  |
| Net proceeds from issuance of common stock                                       | 779     |          |         | 779      |
| Payment of dividends   | (4,453) |          |         | (4,453)  |
| Tax benefit from stock compensation  | 158     |          |         | 158      |
| Net cash (used in) provided by financing activities from continuing operations   | (900)   | (58,613) | (2,211) | (61,724) |
| Net cash provided by (used in) financing activities from discontinued operations |         | (400)    |         | (400)    |
| Net cash provided by (used in) financing activities                              | (900)   | (59,013) | (2,211) | (62,124) |
| Net increase (decrease) in cash and cash equivalents                             |         | 93       | (2,836) | (2,743)  |
| Cash and cash equivalents at beginning of year                                   |         | 6,353    | 4,539   | 10,892   |
| Cash and cash equivalents at end of year   | \$      | \$ 6,446 | 1,703   | 8,149    |

27 of 39

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**Table of Contents**

**14. SUBSEQUENT EVENTS**

On October 30, 2006, the Company amended its credit agreement to increase the allowable investment and loans with foreign subsidiaries from \$25,000,000 to \$100,000,000. The amendment also increased the threshold for delivery of an officers certificate in connection with an acquisition from \$5,000,000 to \$25,000,000.

On November 1, 2006 the Company acquired all of the outstanding stock of The Expanded Metal Company Limited and Sorst Streckmetall GmbH, which together are known as EMCO, for approximately \$41,700,000 in cash, subject to an adjustment for working capital changes. EMCO, a leading supplier of expanded metal mesh components and finished goods in key European markets, manufactures and distributes large, small and micromesh expanded metal products through its operations in the United Kingdom, Germany and Poland. The results of operations of EMCO (which will be included in the Company's Building Products Segment) will be included in our consolidated results of operations from the date of acquisition.

28 of 39

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company's condensed consolidated financial statements and notes thereto included in Item 1 of this Form 10-Q.

**Executive Summary**

The condensed consolidated financial statements present the financial condition of the Company as of September 30, 2006 and December 31, 2005, and the condensed consolidated results of operations for the three and nine months ended September 30, 2006 and 2005 and cash flows of the Company for the nine months ended September 30, 2006 and 2005.

The Company is organized into two reportable segments—Building Products and Processed Metal Products. The Company also held equity positions in two joint ventures (in the Processed Metal Products segment) as of September 30, 2006.

The Building Products segment processes primarily sheet steel, aluminum and other materials to produce a wide variety of building and construction products. This segment's products are sold to major retail home centers, such as The Home Depot, Lowe's, Menards and Wal-Mart, wholesale distributors, and metal service centers.

The Processed Metal Products segment produces a wide variety of cold-rolled strip steel products, coated sheet steel products and powdered metal products. This segment primarily serves the automotive industry's leaders, such as General Motors, Ford, DaimlerChrysler and Honda. This segment also serves the automotive supply and commercial and residential metal building industries, as well as the power and hand tool and hardware industries.

As part of its continuing evaluation of its businesses, the Company determined that its thermal processing and strapping businesses no longer provided a strategic fit with its long-term growth and operational objectives. During the second quarter of 2006 the Company sold certain net assets of its thermal processing business, which had previously been reported as a separate segment, and certain net assets of its strapping business, which had previously been reported in the processed metals segment. As discussed in note 7 to the condensed consolidated financial statements, the historical results of these businesses have been reclassified as discontinued operations.

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

|                              | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                              | 2006                                | 2005       | 2006                               | 2005       |
| Net sales                    |                                     |            |                                    |            |
| Building products            | \$ 226,351                          | \$ 149,116 | \$ 680,151                         | \$ 410,942 |
| Processed metal products     | 110,120                             | 98,655     | 331,378                            | 326,221    |
| Total consolidated net sales | \$ 336,471                          | \$ 247,771 | \$ 1,011,529                       | \$ 737,163 |

**Table of Contents****Results of Operations****Consolidated**

Net sales increased by approximately \$88.7 million, or 35.8% to \$336.5 million for the quarter ended September 30, 2006, from net sales of \$247.8 million for the quarter ended September 30, 2005. Net sales increased by \$274.4 million, or 37.2% to \$1.0 billion for the nine months ended September 30, 2006, from net sales of \$737.2 million for the nine months ended September 30, 2005. The increase in net sales for the quarter was primarily due to the addition of net sales of AMICO (acquired October 3, 2005) which contributed approximately \$87.3 million in additional net sales and SCM Asia (acquired September 15, 2005) which contributed \$2.0 million in additional net sales. These increases more than offset a slight decrease in sales due to a decrease in product shipping volumes to the automotive and new build residential markets. The increase in the net sales for the nine months ended September 30, 2006 was primarily due to the addition of net sales of AMICO which contributed approximately \$270.1 million in additional net sales and SCM Asia which contributed \$4.2 million in additional net sales. Results from our historic businesses have been relatively flat for the nine months as the decreases in shipping volumes to the domestic automotive and new build residential markets have been offset by higher selling prices.

Gross profit as a percentage of net sales increased to 20.7 % for the quarter ended September 30, 2006, from 19.2% for the quarter ended September 30, 2005. Gross profit margins increased to 20.8% for the nine months ended September 30, 2006, from 18.9% for the same period in 2005. These increases were the result of reductions in material costs, the recovery of material cost increases the Company experienced in 2005 through increased selling prices and the acquisition of AMICO, which provided slightly higher margins. The increase in gross margins for both the three and nine month periods ended September 30, 2006 were partially offset by increases in transportation expenses and utility costs as a percentage of net sales, as compared to the same periods in the prior year.

Selling, general and administrative expenses increased to \$33.7 million during the third quarter of 2006 from \$26.4 million in the same quarter of 2005, an increase of approximately \$7.3 million, or 27.8%. Selling, general and administrative expenses for the nine months ended September 30, 2006 increased to \$110.5 million from \$77.6 million for the same period in 2005, an increase of \$32.9 million or approximately 42.4%. The primary reason for the increase in the three month period is the acquisition of AMICO, which resulted in an additional \$7.0 million of costs. The primary reason for the increase in the nine month period is the acquisition of AMICO, which resulted in an additional \$20.8 million of costs. The remainder of the increase was the result of several items including increased expenses related to compensation of approximately \$3.7 million, \$1.9 million in bad debt and, \$1.1 million in amortization, \$0.8 million in professional services. As a result, selling, general and administrative expenses as a percentage of net sales decreased to 10.0% from 10.6% for the three month period, and increased to 10.9% from 10.5% for the nine month period.

As a result of the above, income from operations as a percentage of net sales for the quarter ended September 30, 2006 increased to 10.7% from 8.6% for the same period in 2005. Income from operations for the nine months ended September 30, 2006 increased to 9.9% from 8.4% for the comparable period last year.

**Table of Contents**

Interest expense increased by approximately \$3.7 million for the quarter ended September 30, 2006 to \$6.4 million from \$2.7 million for the quarter ended September 30, 2005. Interest expense increased by approximately \$11.5 million for the nine months ended September 30, 2006 to \$20.3 million from \$8.8 million for the nine months ended September 30, 2005. This increase was due to primarily to the higher average borrowings in 2006 caused by the acquisition of AMICO in October 2005, and higher overall interest rates compared to the same periods in the prior year, primarily the result of higher market interest rates and the issuance of the 8% Senior Subordinated Notes in December 2005.

As a result of the above, income from continuing operations before taxes increased by \$11.9 million to \$29.6 million for the quarter ended September 30, 2006 and \$27.4 million to \$80.0 million for the nine months ended September 30, 2006, compared to the same periods in 2005.

Income taxes for continuing operations for the quarter and nine months ended September 30, 2006 approximated \$11.3 million and \$30.2 million, respectively and were based on an expected annual tax rate of 38.1% compared to 39.0% in 2005. The income tax rate during the second quarter of 2006 was impacted by a change in Texas law which resulted in a decrease in tax expense of \$0.5 million. The income tax during the second quarter of 2005 was impacted due to a change in Ohio law which resulted in a decrease in tax expense of \$0.4 million.

Income from discontinued operations for the quarter ended September 30, 2006 reflects a net loss of \$0.3 million which reflects the costs incurred during the disposal and closure of the thermal processing and strapping businesses. Income from discontinued operations for the nine months ended September 30, 2006 reflects the results of operations of the discontinued businesses, along with the gain realized upon disposal of these businesses.

The following provides further information by segment:

*Building Products*

Net sales in the quarter ended September 30, 2006 increased to \$226.4 million, or 51.8%, from net sales of \$149.1 million in the third quarter of 2005. Net sales increased to \$680.2 million for the nine months ended September 30, 2006 from net sales of \$410.9 million for the same period in 2005, an increase of \$269.2 million or 65.5%. Excluding the impact of the acquisition of AMICO (acquired in October 2005), sales decreased 6.8% and 0.2% for the three and nine months ended September 30, 2006, respectively, when compared to the same period in 2005. The decrease in net sales during both periods, excluding the effect of the acquisition of AMICO, was due to decreased volumes to the new build residential markets.

Income from operations as a percentage of net sales decreased to 15.3% for the quarter ended September 30, 2006 from 15.6% a year ago. For the nine months ended September 30, 2006, income from operations as a percentage of net sales increased to 15.7% from 13.6% for the same period in 2005. The decrease in operating margin in the quarter was primarily due to 3.9% increase in labor costs partially offset by a 3.4% decrease in material costs as a percentage of sales. The increase in operating margin for the nine months was primarily the result of a 3.9% reduction in material costs as a percentage of sales, partially offset by a 1.5% increase in labor costs.

*Processed Metal Products*

Net sales increased by approximately \$11.4 million, or 11.6%, to \$110.1 million for the quarter ended September 30, 2006, from net sales of \$98.7 million for the quarter ended September 30, 2005. Net sales increased by approximately \$5.2 million, or 1.6%, to \$331.4 million for the nine months ended September 30, 2006 from net sales of \$326.2 million for the same period in 2005. The increases in net sales for the quarter was driven by the acquisition of SCM Asia (acquired September 15, 2005) and increased net sales in our powdered metal products business, a result of increased selling prices due to the increase in the

**Table of Contents**

market price of copper. The increase in net sales for the nine months was primarily a function of the acquisition of SCM Asia, increased net sales in our powdered metal products business, a result of increased selling prices due to the increase in the market price of copper which more than offset volume reductions in our strip steel business, primarily due to the pressures faced by the domestic auto manufacturers.

Income from operations as a percentage of net sales increased to 6.9% of net sales for the quarter ended September 30, 2006 compared to 4.4% in the third quarter a year ago. For the nine months ended September 30, 2006, income from operations as a percentage of net sales decreased to 6.4% from 7.6% for the comparable 2005 period. The increase in operating margin in the quarter was due primarily to decreases in labor and material costs, partially offset by increases in transportation and utilities costs, as a percentage of sales. The decrease in operating margin for the nine months was due primarily to a 0.9% increase in material costs as a percentage of sales.

**Outlook**

Consistent with the quarter ended September 30, 2005, we expect a challenging fourth quarter in 2006. The fourth quarter is historically one of the seasonally slowest periods of the Company's fiscal cycle. While the Company believes it is positioned to benefit from many of its internal growth initiatives and cost reduction programs, as well as the many operational improvements recently put in place, we expect that net sales in the fourth quarter of 2006 will decrease from the fourth quarter of 2005 due to reductions in sales volumes to the domestic auto manufacturers and the new build housing market and decreases in volume due to the lack of hurricane related activity in the southeastern United States, which caused a significant increase in sales during the fourth quarter of 2005.

In 2006, the Company will realize a full year's worth of sales and earnings from the 2005 acquisitions of AMICO, SCM Asia, Gutter Helmet and American Wilcon, along with sales and earnings from the 2006 acquisitions of Home Impressions and Steel City.

**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.

The Company's shareholders' equity increased by approximately \$54.6 million or 11.1%, to \$548.6 million, at September 30, 2006. This increase in shareholder's equity was primarily due to net income of \$55.7 million, equity compensation of \$2.2 million, the receipt of \$1.2 million from the exercise of stock options, and an increase in the market value of our interest rate swaps of \$.5 million, partially offset by the declaration of approximately \$4.5 million in shareholder dividends, and a \$0.7 million reduction in the foreign currency translation adjustment.

During the first nine months of 2006, the Company's working capital (inclusive of the impact of working capital acquired with Home Impressions and Steel City) increased by approximately \$49.3 million, or 18.5%, to approximately \$316.0 million. This increase in working capital was primarily the result of increases in accounts receivable and inventories of \$31.5 million and \$73.9 million, partially offset by decreases in cash, current assets and current assets of discontinued operations of \$15.7 million, \$3.8 million and \$23.5 million, respectively, and increases in accounts payable and accrued expenses and other liabilities which aggregated \$13.1 million.

Net cash used by continuing operating activities for the nine months ended September 30, 2006 was approximately \$30.9 million and was primarily the result of income from continuing operations of \$49.8 million combined with depreciation and amortization of \$20.0 million, increases in accounts receivable and inventories, and accounts payable of \$32.6 million, \$68.9 million and \$12.3 million, respectively and a decrease of \$18.2 million in accrued expenses and other non-current liabilities. The increases in receivables are consistent with the seasonal nature of our business, while the increase in inventories and accounts



**Table of Contents**

payable are the result of strategic buys of raw materials along with the slowing business with the domestic auto and new build housing markets.

During 2006, the Company sold the assets of its thermal processing and strapping businesses for approximately \$151.5 million. The cash generated from these dispositions was used to purchase the outstanding stock of Home Impressions, Inc. and acquire certain assets from Steel City Hardware, LLC for approximately \$13.2 million, fund capital expenditures of \$17.1 million, repay approximately \$104.7 million of our long-term debt, and pay dividends of \$4.5 million.

**Senior credit facility and senior subordinated notes**

The Company's credit agreement provides a revolving credit facility, which expires in December 2010, and a term loan, which is due in December 2012. The revolving credit facility of up to \$300.0 million and the term loan of \$230.0 million are secured with the Company's accounts receivable, inventories and personal property and equipment. At September 30, 2006, the Company had used approximately \$32.9 million of the revolving credit facility and had letters of credit outstanding of \$14.3 million, resulting in \$252.8 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 6.29% at September 30, 2006. At September 30, 2006, the term loan balance was \$124.4 million. Borrowings under the term loan carry interest at LIBOR plus a fixed rate. The rate in effect on September 30, 2006 was 6.77%.

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. 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, 2006 the Company was in compliance with terms and provisions of all of its financing agreements.

For the third quarter and remainder of 2006, the Company continues to focus on maximizing positive cash flow, working capital management and debt reduction. As of September 30, 2006, the Company believes that availability of funds under its 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.

The Company regularly considers various strategic business opportunities including acquisitions and other portfolio strengthening transactions. The Company evaluates potential acquisitions on the basis of their 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 the above. Dispositions are evaluated based upon the Company's operating margin goals and the availability of better investment opportunities.

**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, 2005, as filed on Form 10-K.

The Company tests its indefinite-lived intangible assets for impairment on an annual basis during the fourth quarter, or more frequently if an event occurs or circumstances change that indicate that the fair value of an indefinite-lived intangible asset could be below its carrying amount. The impairment test consists of comparing the fair value of the indefinite-lived intangible asset, determined using discounted cash flows, with its carrying amount. An impairment loss would be recognized for the carrying amount in excess of its implied fair value.

There have been no other changes in critical accounting policies in the current year from those described in our 2005 Form 10-K.

**Recent Accounting Pronouncements**

The Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48) *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes*, in July 2006. FIN 48 creates a single model to address uncertainty in tax positions by proscribing a minimum recognition threshold that a tax position is required to meet, and scopes income taxes out of FASB Statement No. 5, Accounting for Contingencies. FIN 48 is effective for the Company in the first quarter of 2007. The Company has not determined what impact, if any, that this Interpretation will have on its consolidated financial position or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158). FAS 158 requires the employer to recognize the overfunded or underfunded status of a single-employer defined benefit postretirement plan as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. FAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end balance sheet. FAS 158 is effective for fiscal years ending after December 15, 2006. Based on unfunded obligations for the supplemental retirement plan and postretirement plan as of December 31, 2005, the adoption of FAS 158 would increase total liabilities by approximately \$1.5 million. In addition, accumulated other comprehensive income would be reduced by approximately \$1.0 million, net of tax, for those deferred costs not yet recognized as a component of net periodic pension cost. The adoption of FAS 158 is not expected to impact the consolidated statements of income or consolidated statements of cash flows. The Company will reevaluate this estimate upon adoption of FAS 158, based upon its latest actuarial valuation, which will likely impact the above described amounts.

**Related Party Transactions**

In connection with the acquisition of Construction Metals, the Company entered into two unsecured subordinated notes each in the amount of \$8,750,000 (aggregate total of \$17,500,000). These notes were payable to the two former owners of Construction Metals and were considered related party in nature due to the

**Table of Contents**

former owners continuing employment relationship with the Company. These notes were payable in annual principal installments of \$2,917,000 per note on April 1, and were satisfied on April 1, 2006. These notes required quarterly interest payments at an interest rate of 5.0% per annum. Interest expense related to these notes was approximately \$72,000 and \$290,000 for the nine months ended September 30, 2006 and 2005, respectively.

The Company has certain operating lease agreements related to operating locations and facilities with the former owners of Construction Metals or companies controlled by these parties. These operating leases are considered to be related party in nature. Rental expense associated with these related party operating leases aggregated approximately \$1,015,000 and \$1,079,000 for the nine months ended September 30, 2006 and 2005, respectively.

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, 2006 and 2005, the Company incurred \$1,413,000 and \$1,166,000, respectively, for legal services from these firms. Of the amount incurred, \$1,116,000 and \$841,000, was expensed during the nine months ended September 30, 2006 and 2005, respectively. \$297,000 and \$325,000 were capitalized as acquisition costs and deferred debt issuance costs during the nine months ended September 30, 2006 and 2005, respectively. \$295,000 and \$389,000 were included in accounts payable at September 30, 2006 and 2005, respectively.

35 of 39

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**Table of Contents**

**Forward-Looking Information – Safe Harbor Statement**

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 within 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: general economic conditions, the impact of changing raw material prices on the Company's results of operations; energy prices and usage; the ability to pass through cost increases to customers; changing demand for the Company's products and services; risks associated with the integration of acquisitions; 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 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 as may be required by applicable law or regulation.

**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 and interest rate risk, primarily related to its long-term debt. To manage interest rate risk, the Company uses both fixed and variable interest rate debt. There have been no material changes to the Company's exposure to market risk or interest rate risk since December 31, 2005.

**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 Executive Vice President, Chief Financial Officer, and Treasurer 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, Executive Vice President, Chief Financial Officer, and Treasurer, have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

**(b) Changes in Internal Controls**

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 this 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

There is no change to the risk factors disclosed in our 2005 annual report on Form 10-K.

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.

37 of 39

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**Table of Contents**

Item 6. Exhibits.

6(a) Exhibits

- a. Exhibit 31.1 Certification of Chief Executive Officer and Chairman of the Board pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- b. Exhibit 31.2 Certification of President pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- c. Exhibit 31.3 Certification of Executive Vice President, Chief Financial Officer and Treasurer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- d. Exhibit 32.1 Certification of the Chief Executive Officer and Chairman of the Board 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 Executive Vice President, Chief Financial Officer, and Treasurer 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  
Chief Executive Officer and Chairman of the  
Board

/s/ Henning Kornbrekke

Henning Kornbrekke  
President and Chief Operating Officer

/s/ David W. Kay

David W. Kay  
Executive Vice President, Chief Financial  
Officer, and Treasurer

Date: November 9, 2006

39 of 39