

Strength Through Diversity

# Gibraltar

Annual Report 2000



## Performance Highlights

- Sales were up 9% to \$678 million, the ninth consecutive year of record sales
- Gross profit margin topped 20% for the second straight year
- EBITDA grew by 11% to a record \$81.1 million
- Net income was \$24.4 million, or \$1.92 per diluted share, a near record
- The July acquisition of Milcor expanded the building products business
- Manufactured end products increased to 46% of sales in 2000, versus 14% in 1993
- The February 2001 Pennsylvania Industrial acquisition diversified heat-treating capabilities
- Many other internal and external opportunities could accelerate growth

## Company Profile

Gibraltar is a growth-oriented company that continues to build on its core competencies by expanding its businesses in the building and construction products, metal processing, and commercial heat-treating markets.

The Company is actively seeking profitable, synergistic growth opportunities that increase its business, customer, and geographic diversification. It now serves more than 10,000 customers in a variety of industries.

Gibraltar's approximately 3,500 employees have established its reputation as an industry leader in quality, service, and innovation. With 54 facilities in 20 states and Mexico, the Company has the reach and resources to continually build and diversify its customer base.

### Strength Through Diversity

As our cover illustrates, Gibraltar does business in a wide variety of markets. With more products and services and greater customer and geographic diversification than ever, a focus on margin improvement, and nearly half of its revenues now coming from the sale of manufactured end products, Gibraltar has never been in a better position to continue its top- and bottom-line growth, and solidify its leadership position in each of its businesses.

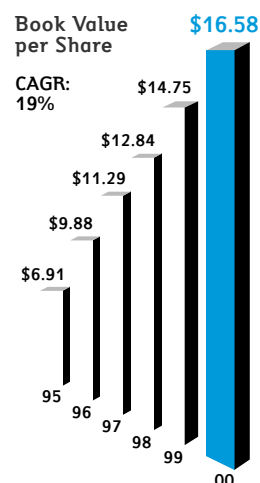
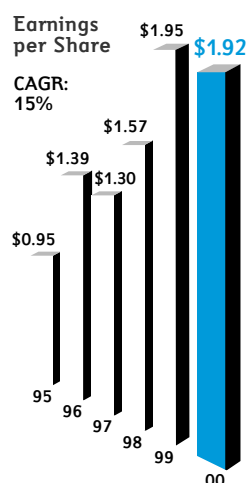
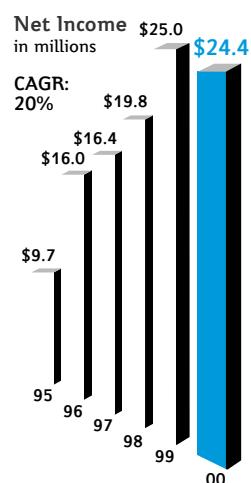
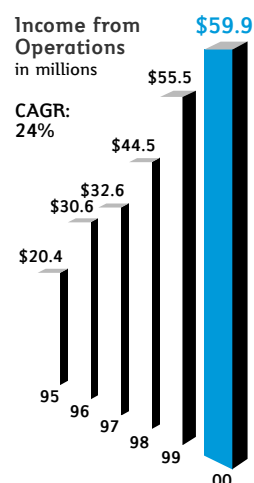
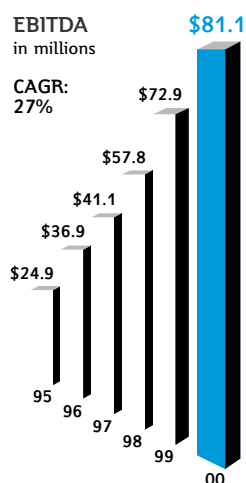
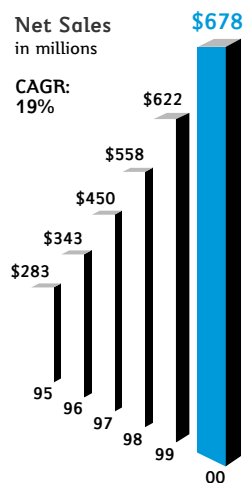
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## Financial Highlights

Year Ended (In thousands, except percent and per share data)	December 31, 2000	December 31, 1999	5-year CAGR*
Net sales	\$ 677,540	\$ 621,918	19 %
Gross profit	135,797	127,973	26 %
Income from operations	59,892	55,469	24 %
Net income	24,365	25,008	20 %
Net income per share, diluted	\$ 1.92	\$ 1.95	15 %
Weighted average shares outstanding, diluted	12,685	12,806	NA
Long-term debt	\$ 255,526	\$ 235,302	NA
Shareholders' equity	208,348	185,459	24 %
Capital expenditures	19,619	21,999	NA
Depreciation and amortization	\$ 21,188	\$ 17,452	NA
Return on average equity	12.4 %	14.5 %	NA
Return on sales	3.6 %	4.0 %	NA

\*CAGR = Compound Annual Growth Rate



## Fellow Shareholders

We generated our ninth consecutive sales record, record EBITDA, and our second-best earnings in 2000, in spite of a sharp fourth-quarter slowdown in the economy, rapidly rising interest rates, and much higher utility costs. The steps we have taken - and continue to take - to expand and diversify our customer base, shift more of our business into higher-margin activities, and focus on the fastest-growing geographic and steel-consuming markets have positioned us to deliver consistently strong results in a volatile and competitive market, and be a leader in our industry.



**Brian Lipke**  
Chairman of the Board and  
Chief Executive Officer

Gibraltar is unique in its ability to offer such a broad range of products and services, to a diverse group of customers, in many geographic markets. As a result of this "strength through diversity," we finished the year in much better shape than most of our competitors. We are, however, intensifying our focus on a few key areas to make our company stronger and improve our results. We already have one of the best inventory turnovers in the industry, but we are taking steps to drive our inventories even lower and improve our operating efficiency and profitability. We continue to focus on cutting and eliminating costs. And we are moving on many fronts to increase our return on assets, improve our margins, and grow our EBITDA.



**Walt Erazmus**  
President

As the strategic focus of our company has evolved toward higher value-added, higher-margin processes, products, and services, we have divested those operations that did not meet our margin and profitability targets. Accordingly, we sold one such operation in 2000, which slowed our sales growth during the year, but enhanced our profitability and returns on sales, assets, equity, and invested capital. We continue to scrutinize every part of our business.

### Key Developments in 2000

During 2000, we took many steps to position Gibraltar for continued growth, despite a cooling economy. Our major initiatives included:



**Neil Lipke**  
Senior Executive Vice President,  
Secretary, and Director

**Acquiring Milcor** – In July, we acquired Milcor, which manufactures a complete line of metal building products, including registers, vents, bath cabinets, access doors, roof hatches, and telescoping doors. Milcor's products are sold into residential, commercial, institutional, and industrial markets to more than 1,000 customers. With annual sales of approximately \$50 million, and facilities in Ohio and Michigan, Milcor's products and locations are an excellent complement to our five other building products companies: SEMCO, Solar, Appleton, United Steel Products, and Weather Guard.

**Growing our Existing Businesses** – We invested nearly \$20 million in our business during 2000, on top of the nearly \$100 million that we invested in the five years before that. Our goal is to generate top and bottom line growth that averages 20 percent per year, and we look for our existing businesses to produce half of that growth. While capital expenditures are an important part of that process, our people (most of whom have pay that is linked to performance) are

rewarded when they find ways to drive their sales higher through productivity and yield improvements, a relentless focus on quality, and by taking better care of customers than any of our competitors.

**Reducing Inventory** – Although our heat-treating, distribution, and trucking operations do not have a raw material cost component in their selling price, this is a major consideration in the other parts of our company. Consequently, during 2000, we established a goal of reducing our company-wide inventory – raw material, work in process, and finished goods – by 20 percent in the next three years. Since we had approximately \$100 million in inventories at the end of the year, this translates to a reduction of \$20 million. This will significantly improve our inventory turns, improve our return on assets, cut our annual costs by more than a million dollars (since we will have \$20 million less inventory to finance), and enhance our earnings.

**Using eBusiness Tools to Improve Performance** – eBusiness is nothing new for Gibraltar. We were a pioneer in developing a three-way EDI link among our facilities, customers, and suppliers in the 1980s. In 1990, we were the first to create and successfully operate a materials storage and transfer facility that linked a major automotive customer to its suppliers through a computer system that we designed specifically for that customer. Using the Internet and other eBusiness tools, we are taking decisive steps to reach our customers more efficiently, lower our costs, and increase our sales.

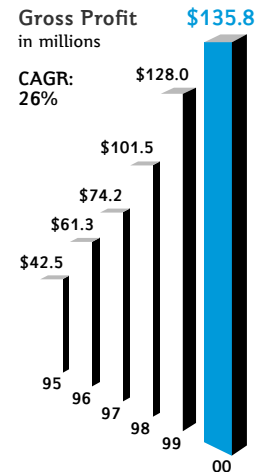
In 2000, our sales were \$678 million, a nine percent increase from \$622 million in 1999. Net income for the year was \$24.4 million, or \$1.92 per diluted share, compared to \$25 million, or \$1.95 per diluted share, in 1999. EBITDA increased to a record \$81.1 million, up 11 percent from \$72.9 million in 1999.

## The Strength of Our Diversified Business

In the seven years since our Initial Public Offering (1994-2000), we have grown our sales at a compound annual rate of 22 percent, while earnings have grown at a rate of 19 percent. We continue to believe that our strategy is sound, focusing on growing our existing businesses, making immediately accretive acquisitions (we have made 15 in the last six years), penetrating niche markets that require high-margin metal products where we can establish a leadership position, maximizing utilization of existing capacity, and fully leveraging our sales and distribution network. There are significant growth opportunities in every area of our business. We also recognize that we must be aware of the dynamics in the equity markets, and we are continuing to search for the best ways to create shareholder value, both short and long term.

### Cold-rolled Strip Steel and Strapping

We are one of the two largest processors of cold-rolled strip steel in North America, with approximately 20 percent of the \$1 billion market. Gibraltar is one



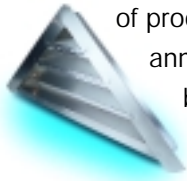
*Gibraltar has strategically positioned itself in the specialty, high-margin end of the strapping market by offering customized printing and painting services.*

of only four domestic manufacturers of high-tensile steel strapping, differentiating itself at the specialty, high-margin end of the market. We will continue to grow these businesses by filling any unused capacity at our facilities, strengthening our position as the low-cost and high-quality supplier of a wide range of products, and solidifying the longstanding partnerships we have with all of our key customers.

### Building and Construction Products

Our six building products companies operate 24 facilities in 14 states, manufacture thousands of products, serve the top customers in all of the major distribution channels, and have annualized sales approaching \$300 million. Growth in this part of our company will be driven by fully utilizing our manufacturing capacity, an increasing amount of metal content in new homes, and the aggressive expansion plans of some of our key customers (The Home Depot, for example, now our largest customer, plans to build 200 new stores in 2001, while Lowe's, another major customer, is adding 115-120 new stores in 2001).

*Gibraltar's construction products companies sell a wide range of ventilation products and accessories, including this peak ventilator.*



Our Hubbell Steel subsidiary operates two 100,000-square-foot facilities – one near Chicago and the other near Birmingham, AL – that provide steel in more than 500 colors and a variety of coatings, including galvanized and Galvalume, for use in standing seam roofs, insulated panels, steel framing, garage doors, walk-in coolers, PVC spiral pipe, and a host of residential and commercial applications. As Hubbell becomes an even more important raw material supplier to our building and construction products companies, it will allow them to purchase their materials at lower costs and reduce their inventories through "just-in-time" deliveries.



*Our Hubbell division provides steel that is used in a wide variety of products, including this standing seam roof.*

### Heat Treating

With our February 2001 acquisition of Pennsylvania Industrial Heat Treaters – the national leader in heat treating parts made using powdered metallurgy – we now operate 15 facilities in nine states, which gives us a leadership position in this fragmented and rapidly consolidating industry of more than 700 commercial providers. Even though our annualized revenue here approaches \$90 million (a comparatively small amount, since we do not own the parts we heat treat for our customers), this is among the highest-margin areas of our business. Since only ten percent of all heat treating is currently done by commercial providers, continued industry consolidation and increased outsourcing will fuel growth.

*Gibraltar's heat-treating facilities increase the strength, durability, and effectiveness of many types of power and hand tools, such as this chisel set from Dasco Pro.*



### Distribution and Services

We also operate two materials storage and transfer facilities (near Buffalo and Detroit), participate in a pickling joint venture (which processes steel for our own needs and other customers at two facilities in the Cleveland area), and assist in managing the transportation needs of our facilities, customers, and suppliers.

## More Growth Opportunities Than Ever

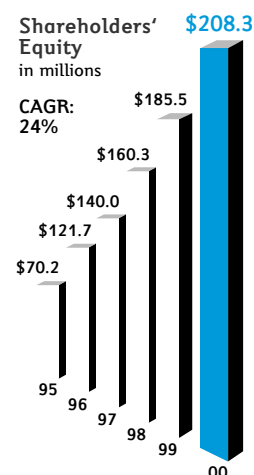
Even though 2000 was a good year in many ways – with record sales, record EBITDA, our second-best earnings, continued growth and diversification, and the Milcor acquisition – we were planning (and until late in the year, expecting) an even better year. Yet, in spite of the economic slowdown, we remain a solid company, with a clear and consistent strategic focus, a great team of people, an excellent and expanding customer list, a strong balance sheet, and more growth opportunities now than at any point in our history.

We have a tested and proven team leading this company: our top seven managers have more than 200 years of experience with Gibraltar. We have a leadership position in all of our businesses, and there are substantial opportunities for growth. We have a solid track record of selecting and integrating acquisitions (in many cases we are the “acquirer of choice”) and our acquisition pipeline (in the construction products and heat treating areas) has never been fuller. We have strategic and long-term partnerships with our key customers. We have consistently generated sales and earnings growth. And we are continuing to move our company into higher value-added, higher-margin businesses.

While we are proud of our past, we are focused on the future. As a result of our geographic, customer, and product diversification - our “strength through diversity” - we are confident that Gibraltar’s best days are in front of us.



Brian J. Lipke  
Chairman and Chief Executive Officer



## Strength Through Diversity

	1993	Today
Facilities	9	54
States	4	20 and Mexico
Employees	500	3,500
Customers	900	10,000
% of Sales from Automotive	58%	30%
Sales from Automotive	\$ 100 million	\$ 200 million
% of Sales from Manufactured End Products	14%	46%
Manufactured End Product Sales	\$ 24 million	\$ 312 million
Gross Margin	17%	20%
Operating Margin	7.7%	8.8%

# Strength Through Diversity

## Business

Our construction products companies serve a variety of large and growing markets including the \$200 billion home improvement industry. With annualized sales approaching \$300 million, construction products has evolved into our largest business area.



## Diversified Products and Services

- Ventilation products and accessories
- Mailboxes (largest manufacturer in U.S.)
- Steel lumber connectors (second-largest manufacturer in U.S.)
- Roof edging, flashing, and other products
- Aluminum soffit
- Drywall corner bead, wind brace, and starter strip
- Painted coil stock
- Metal roofing and accessories
- Steel framing
- Rain-carrying systems (gutters and accessories)
- Bath cabinets
- Access doors
- Roof hatches and smoke vents
- Builders' hardware (door knockers, door stops, shelving, closet rods, etc.)
- Grilles, registers, and diffusers

## Customer and Market Diversity

Gibraltar's construction products companies serve:

- Major home center stores like Home Depot, Lowe's, and Menards, and regional chains
- Lumber/building material wholesale customers including Georgia-Pacific, ABC, and Prime Source
- Buying groups including Tru-Serv, ACE, and Do it Best
- Discount stores such as Wal-Mart and Kmart
- HVAC distributors like RE Michel Company
- The fast growing "do-it-yourself" market
- General contractors in residential, commercial, and industrial construction

We are one of the largest processors of cold-rolled strip steel in North America, with annual sales of approximately \$200 million. This equates to a 20% share of the estimated \$1 billion domestic market for processed steel. We are also one of four domestic manufacturers of high-tensile steel strapping.



- More than 20 different processes and services including pickling, slitting, cold-rolling, and annealing
- High-quality cold-rolled strip steel and heavy-duty steel strapping
- Through our nine rolling mills, we produce steel to tolerances of plus or minus .0002 inches – one-twelfth the thickness of a sheet of paper – the most precise in the industry
- The widest rolling capability in North America

Primary markets for our cold-rolled strip steel include:

- The automotive market
- Power and hand tool component manufacturers
- Appliance makers
- Manufacturers of industrial chains and hardware
- Home and office furniture

With annualized sales of approximately \$90 million, Gibraltar's commercial heat-treating business is the nation's second largest. Our seven acquisitions over the last five years demonstrate our commitment to, and success at, building our position within this industry.



Our heat-treating processes include:

- Carburizing
- Brazing
- Vacuum hardening
- Gas nitriding
- Normalizing
- Annealing
- Induction
- Neutral hardening

Our heat-treating business serves customers in these industries, among others:

- Automotive
- Stamping
- Electrical
- Textile
- Fabricators
- Platers
- Foundries
- Hardware
- Machinery
- Aerospace
- Office equipment
- Tool and die
- Medical equipment
- Construction
- Appliance
- Farm equipment

Our Hubbell Steel subsidiary is a national leader in the prepainted steel industry, with annual sales of approximately \$70 million. Hubbell is a steel service and distribution center capable of providing steel in more than 500 colors and a variety of coatings, including galvanized and Galvalume.



Product and service offerings include:

- Prepainted single bill packages
- PVC spiral prepainted product
- Purlin stock and liner panel stock
- Bare Galvalume and galvanized
- Precision slitting and cut to length
- Toll processing of customer material
- Inventory management
- Storage programs and "just-in-time" delivery

- Hubbell serves approximately 650 customers in a variety of markets
- A majority of Hubbell's annual sales are concentrated in the construction products, standing-seam roof, PVC spiral pipe, garage door, canopy, HVAC, insulated panels, and walk-in cooler markets

## Company and Geographic Diversity

Our construction products companies operate 24 facilities in 14 states:

- Southeastern Metals (SEMCO) is one of the largest manufacturers of building and construction products in the Southeastern U.S. with a distribution network of 1,900 locations
- The Solar Group's products are manufactured at three locations in Mississippi, and marketed throughout the U.S., Canada, Japan, and Germany; Solar is the nation's leading manufacturer of mailboxes, with more than 50% of the market
- Appleton Supply serves the Midwest from two facilities in Wisconsin, selling under the Appleton and Sell-Even brands
- United Steel Products (USP), the nation's second-largest manufacturer of steel lumber connectors, produces nearly 3,000 finished parts and gave Gibraltar its first West Coast facilities
- Weather Guard manufactures and distributes a full line of rain-carrying systems, trims and flashings, and metal roofing supplies from its facilities in Colorado
- Milcor manufactures a complete line of metal building products for residential, commercial, and industrial customers from three facilities in Michigan and Ohio

- Gibraltar processes and distributes steel from five facilities located in three states

We now have five heat-treating companies with 15 locations in nine states:

- Carolina Commercial Heat Treating is the largest commercial heat treater in the Southeastern U.S., serving more than 5,000 customers in 33 states
- Hi-Temp is one of the leading commercial heat treaters in the Midwest, operating four facilities in Illinois and Indiana
- Brazing Concepts provides a variety of value-added metal joining and assembly services from an 87,000-square-foot, state-of-the-art facility in Michigan
- Harbor Metal serves more than 1,000 customers in a variety of industries in the Midwest
- Pennsylvania Industrial Heat Treaters, acquired in February of 2001, is a Northwestern Pennsylvania company that specializes in heat treating powdered metal parts

- Hubbell services the Midwest and Southeast from two 100,000-square-foot facilities near Chicago and Birmingham, Alabama

## Growth Drivers

- Thousands of products that sell into a wide variety of markets
- The continuing modification of building codes resulting in an increased use of materials designed to withstand high winds and seismic activity; a house in an earthquake or hurricane zone may contain nearly \$2,000 worth of connectors
- Growth in the "do-it-yourself" market: In 2001, The Home Depot expects to add approximately 200 stores, while Lowe's plans to add 115-120 stores
- A growing metal roofing market, now estimated to be in excess of \$10 billion
- USP's position as the nation's second-largest manufacturer of steel lumber connectors
- SEMCO's leading position in the Southeastern U.S. within the building and construction products market
- Continued integration of businesses
- Fully utilizing the manufacturing capacity at our existing facilities

- Our commitment to continuously upgrade our equipment and our focus on filling any unused capacity at our facilities
- Our sterling reputation for producing high-quality products and delivering on time, every time
- Our position as the low-cost and high-quality supplier of a wide range of products, and our longstanding partnerships with key customers
- Our focus on providing the highest-margin, highest value-added services available

- Heat-treating business growth is being driven by steady expansion at our existing facilities and additional acquisitions
- With more than 700 smaller, independent heat treaters, and a continuing trend toward consolidation within the industry, additional acquisition opportunities are plentiful
- Approximately 90% of the \$20 billion of heat-treating work done in the U.S. annually is done in-house, offering significant growth potential to our "IS 21 Partnership" insourcing program
- An increasing amount of work is being outsourced by captive (or in-house) shops to commercial heat-treating companies like Gibraltar
- In the U.S., every additional 1% of outsourced business adds \$200 million to the commercial heat-treating market

- Hubbell's extensive inventories position it to provide timely service to its customers
- With the growth of our construction products companies, Hubbell is ideally positioned to become a significant raw material provider to Solar, SEMCO, USP, Appleton, Weather Guard, and Milcor
- Fully utilize the capacity at both Hubbell locations

## Gibraltar Locations

Gibraltar has grown from nine facilities in four states in 1993 to 54 facilities in 20 states and Mexico today. This growth and diversification strategy has led the Company into many of the country's fastest-growing markets, and helped it become a leader in each of its businesses.

### ● Building and Construction Products

#### SEMCO

- 1 Jacksonville, Florida
- 2 Miami, Florida
- 3 Tampa, Florida
- 4 Vidalia, Georgia
- 5 Joplin, Missouri
- 6 Nashville, Tennessee
- 7 Houston, Texas
- 8 San Antonio, Texas

#### United Steel Products

- 9 Livermore, California
- 10 Rancho Cucamonga, California
- 11 Largo, Florida
- 12 Montgomery, Minnesota
- 13 Hainesport, New Jersey
- 14 North Wilkesboro, North Carolina

#### The Solar Group

- 15 Enterprise, Mississippi
- 16 Taylorsville, Mississippi
- 17 (2 facilities)

#### Appleton Supply Co.

- 18 Appleton, Wisconsin
- 19 (2 facilities)

#### Weather Guard

- 20 Denver, Colorado
- 21 (2 facilities)

#### Milcor

- 22 Coopersville, Michigan
- 23 Holland, Ohio
- 24 Lima, Ohio

### ● Cold-rolled Strip Steel and Strapping

- 25 Buffalo, New York
- 26 Cheektowaga, New York
- 27 Ithaca, New York
- 28 Kenmore, New York
- 29 Dearborn, Michigan
- 30 Troy, Michigan
- 31 Cleveland, Ohio
- 32 Brownsville, Texas
- 33 Monterrey, N.L. Mexico

### ● Heat Treating

#### Carolina Commercial Heat Treating (CCHT)

- 34 Arden, North Carolina
- 35 Athens, Alabama
- 36 Conyers, Georgia
- 37 Charlotte, North Carolina
- 38 Reidsville, North Carolina
- 39 Fountain Inn, South Carolina
- 40 Morristown, Tennessee

#### Harbor Metal Treating Company

- 41 South Bend, Indiana
- 42 Benton Harbor, Michigan

#### Hi-Temp

- 43 Northlake, Illinois
- 44 Rockford, Illinois
- 45 (2 facilities)
- 46 Greensburg, Indiana

#### Brazing Concepts

- 47 Coldwater, Michigan

#### Pennsylvania Industrial Heat Treaters, Inc.

- 48 St. Marys, Pennsylvania

### ● Painted Steel Products

#### Hubbell Steel

- 49 Fairfield, Alabama
- 50 Franklin Park, Illinois

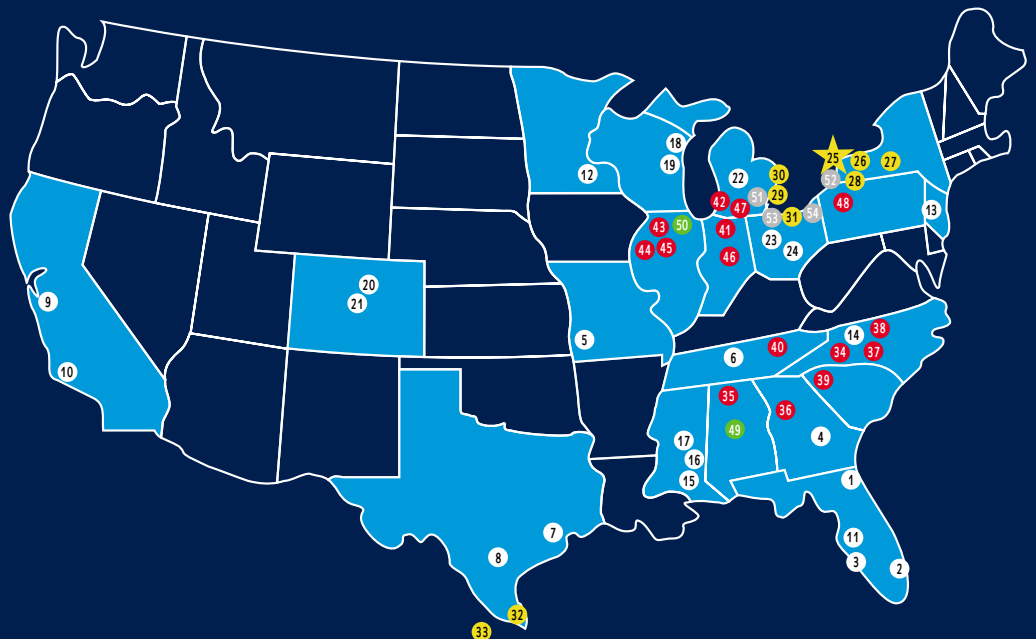
### ● Distribution and Services

#### Materials Management

- 51 Woodhaven, Michigan
- 52 Lackawanna, New York

#### Pickling Joint Venture

- 53 Cleveland, Ohio
- 54 Twinsburg, Ohio



## Eight-year Financial Highlights

(In thousands, except percent and per share data)	2000	1999	1998	1997	1996	1995	1994	1993
Net sales	\$677,540	\$621,918	\$557,944	\$449,700	\$342,974	\$282,833	\$200,142	\$167,883
EBITDA	81,080	72,921	57,788	41,081	36,863	24,906	19,624	16,333
Income from operations	59,892	55,469	44,455	32,603	30,617	20,368	16,179	12,934
Interest expense	18,942	13,439	11,389	5,115	3,827	3,984	1,374	1,621
Income before income taxes	40,950	42,030	33,066	27,488	26,790	16,384	14,805	11,513
Income taxes	16,585	17,022	13,226	11,072	10,815	6,662	5,996	6,300
Net income	24,365	25,008	19,840	16,416	15,975	9,722	8,809	7,337*
Net income per share – Basic	\$ 1.94	\$ 1.99	\$ 1.59	\$ 1.33	\$ 1.42	\$ 0.96	\$ 0.87	\$ 0.72*
Weighted average shares outstanding – Basic	12,577	12,540	12,456	12,357	11,261	10,164	10,163	10,163*
Net income per share – Diluted	\$ 1.92	\$ 1.95	\$ 1.57	\$ 1.30	\$ 1.39	\$ 0.95	\$ 0.86	\$ 0.72*
Weighted average shares outstanding – Diluted	12,685	12,806	12,651	12,591	11,464	10,213	10,200	10,165*
Cash dividends per common share	\$ 0.115	\$ 0.125	–	–	–	–	–	–
Book value per share	\$ 16.58	\$ 14.75	\$ 12.84	\$ 11.29	\$ 9.88	\$ 6.91	\$ 5.94	\$ 5.08
Working capital	\$132,407	\$112,923	\$124,236	\$ 87,645	\$ 68,673	\$ 57,515	\$ 48,524	\$ 28,597
Total assets	556,046	522,080	438,435	281,336	222,507	167,423	126,380	92,868
Total debt	255,853	236,621	200,746	83,024	49,841	59,054	38,658	14,179
Shareholders' equity	208,348	185,459	160,308	140,044	121,744	70,244	60,396	51,587
Capital expenditures	19,619	21,999	22,062	21,784	15,477	14,504	16,171	10,468
Depreciation and amortization	\$ 21,188	\$ 17,452	\$ 13,333	\$ 8,478	\$ 6,246	\$ 4,538	\$ 3,445	\$ 3,399
Return on sales (%)	3.6	4.0	3.6	3.7	4.7	3.4	4.4	
Return on average equity (%)	12.4	14.5	13.2	12.5	16.6	14.9	15.7	

\* Pro forma results

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Results of Operations

### Year Ended 2000 Compared to Year Ended 1999

Net sales increased \$55.6 million, or 8.9%, to a record \$677.5 million in 2000 from \$621.9 million in 1999, despite the elimination of \$19.4 million in sales from disposed of operations that were included in 1999 sales and a slowdown in the automotive and building products markets in the fourth quarter of 2000. This increase primarily resulted from including the net sales of Milcor (acquired July 17, 2000) (the 2000 acquisition) from its acquisition date, and a full year of net sales of Southeastern Heat Treating (acquired April 1, 1999), Weather Guard (acquired July 1, 1999), Hi-Temp (acquired August 1, 1999), Brazing Concepts (acquired November 1, 1999), and Hughes (acquired December 1, 1999) (the 1999 acquisitions), together with sales growth at existing operations.

Cost of sales increased \$47.8 million, or 9.7%, to \$541.7 million in 2000 from \$493.9 million in 1999. Cost of sales as a percentage of net sales increased to 80.0% in 2000 from 79.4% in 1999 primarily due to the impact of the slowdown in the automotive and construction products markets in the fourth quarter of 2000.

Selling, general and administrative expenses increased \$3.4 million, or 4.7%, to \$75.9 million in 2000 from \$72.5 million in 1999. Selling, general and administrative expenses as a percentage of net sales decreased to 11.2% in 2000 from 11.7% in 1999 primarily due to the elimination of expenses from disposed of operations and decreases in performance-based compensation, partially offset by higher costs attributable to the 1999 and 2000 acquisitions.

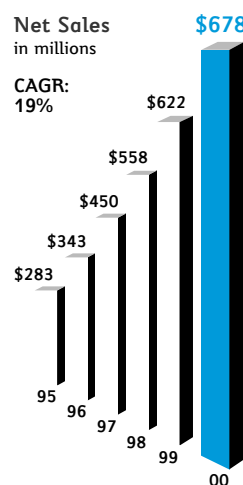
Interest expense increased \$5.5 million from 1999 to 2000 due to higher borrowings as a result of the acquisitions, current year capital expenditures, and due to a higher effective interest rate in 2000 than in 1999.

As a result of the above, income before taxes decreased \$1.1 million, or 2.6%, to \$40.9 million in 2000 from \$42.0 million in 1999.

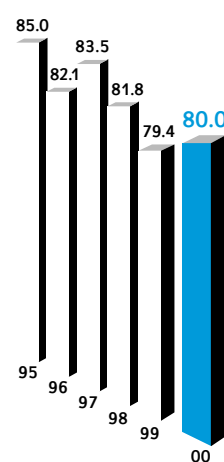
Income taxes approximated \$16.6 million in 2000, based on a 40.5% effective rate.

### Year Ended 1999 Compared to Year Ended 1998

Net sales increased \$64.0 million, or 11.5%, to \$621.9 million in 1999 from \$557.9 million in 1998. This increase primarily resulted from including the net sales of Southeastern Heat Treating (acquired April 1, 1999), Weather Guard (acquired July 1, 1999), Hi-Temp (acquired August 1, 1999), Brazing Concepts (acquired November 1, 1999), and Hughes (acquired December 1, 1999) (the 1999 acquisitions) from their respective acquisition dates, and a full year of net sales of Solar (acquired March 1, 1998), Appleton (acquired April 1, 1998), USP (acquired June 1, 1998), and Harbor (acquired October 1, 1998) (the 1998 acquisitions), together with sales growth at existing operations.



**Cost of Goods Sold**  
as a Percent of Sales



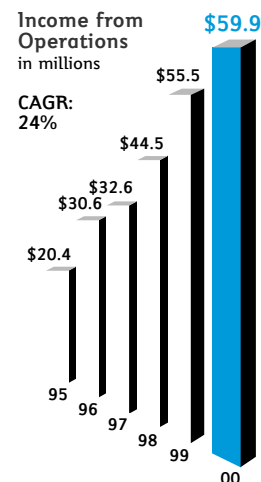
Cost of sales increased \$37.5 million, or 8.2%, to \$493.9 million in 1999 from \$456.4 million in 1998. Cost of sales as a percentage of net sales decreased to 79.4% in 1999 from 81.8% in 1998. This improvement was due to the 1999 and 1998 acquisitions, which have historically generated higher margins than the Company's existing operations, and due to lower raw material costs at existing operations.

Selling, general and administrative expenses increased \$15.5 million, or 27.1%, to \$72.5 million in 1999 from \$57.0 in 1998. Selling, general and administrative expenses as a percentage of net sales increased to 11.7% in 1999 from 10.2% in 1998. This increase was due to higher costs as a percentage of net sales attributable to the 1999 and 1998 acquisitions, and due to performance-based compensation linked to the Company's sales and profitability.

Interest expense increased by \$2.0 million from 1998 to 1999 primarily due to higher borrowings in 1999 as a result of the Company's current year acquisitions and capital expenditures and due to a higher effective interest rate in 1999 than in 1998.

As a result of the above, income before taxes increased \$9.0 million, or 27.1%, to \$42.0 million in 1999 from \$33.1 million in 1998.

Income taxes approximated \$17.0 million in 1999, based on a 40.5% effective rate compared with a 40.0% effective rate in 1998.

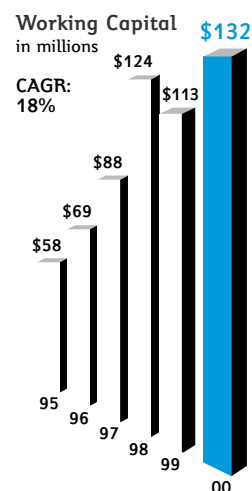


## Liquidity and Capital Resources

During 2000, the Company's working capital increased by \$19.5 million to \$132.4 million at December 31, 2000, from \$112.9 million at December 31, 1999, primarily from the inclusion of inventories of the 2000 acquisition, and a decrease in accounts payable and accrued expenses resulting from decreased purchases during the fourth quarter of 2000 in response to the slowdown in the automotive and construction products markets. Long-term debt decreased to 55% of total capitalization, despite increasing by \$20.2 million to \$255.5 million, at December 31, 2000. Additionally, shareholders' equity increased by 12.3% to \$208.3 million.

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

The Company's primary sources of liquidity are from cash provided by operating activities and the Company's revolving credit facility. Net cash provided by operations of \$34.1 million resulted primarily from net income of \$24.4 million, depreciation and amortization of \$21.2 million, the provision for deferred income taxes of \$5.3 million, and a decrease in accounts receivable of \$5.7 million, offset by decreases in accounts payable and accrued expenses of \$16.6 million and increases in other current assets of \$2.8 million and other assets of \$2.6 million.



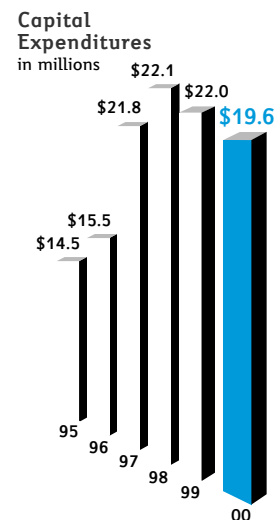
During 2000, the Company amended its revolving credit agreement with its bank group to increase the capacity of its revolver to \$310 million. Borrowings thereunder are secured with its accounts receivable, inventories, and property and equipment. At December 31, 2000, the Company had interest rate swap agreements outstanding

which effectively converted \$50 million of borrowings under the revolving credit agreement to fixed rates ranging from 7.47% to 8.18%. The Company accounts for interest rate swap agreements on an accrual basis. Additional borrowings under the revolving credit facility carry interest at LIBOR plus a fixed rate. The weighted average interest rate of these borrowings was 8.70% at December 31, 2000.

Net cash provided by operations of \$34.1 million, \$7.8 million net proceeds from the sale of property and equipment, and the net proceeds from long-term debt of \$19.2 million were primarily used for the acquisition of Milcor, capital expenditures, and payment of cash dividends.

The Company believes that availability under its credit facility, together with funds generated from operations, will be more than sufficient to provide the Company with the liquidity and capital resources necessary to fund its anticipated working capital requirements, acquisitions and capital expenditure commitments for the next 12 months.

The Company believes that environmental issues will not require the expenditure of material amounts for environmental compliance in the future.



### Recent Accounting Pronouncement

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 Accounting for Derivative Instruments and Hedging Activities (FAS No. 133) which requires recognition of the fair value of derivatives in the statement of financial position, with changes in the fair value recognized either in earnings or as a component of other comprehensive income dependent upon the hedging nature of the derivative. Implementation of FAS No. 133 is required for fiscal 2001. FAS No. 133 will not have a material impact on the Company's earnings or other comprehensive income.

## Consolidated Balance Sheet

(In thousands, except share and per share data)	December 31, 2000	December 31, 1999
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,701	\$ 4,687
Accounts receivable	78,358	78,418
Inventories	100,987	94,994
Other current assets	6,548	4,492
<b>Total current assets</b>	<b>187,594</b>	<b>182,591</b>
Property, plant and equipment, net	229,159	216,030
Goodwill	130,368	115,350
Other assets	8,925	8,109
	<b>\$ 556,046</b>	<b>\$ 522,080</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 39,285	\$ 48,857
Accrued expenses	15,575	19,492
Current maturities of long-term debt	327	1,319
<b>Total current liabilities</b>	<b>55,187</b>	<b>69,668</b>
Long-term debt	255,526	235,302
Deferred income taxes	34,325	29,328
Other non-current liabilities	2,660	2,323
Shareholders' equity		
Preferred shares, \$.01 par value; authorized: 10,000,000 shares; none outstanding	-	-
Common shares, \$.01 par value; authorized: 50,000,000 shares; outstanding: 12,567,147 shares in 2000 and 12,577,464 shares in 1999	126	126
Additional paid-in capital	68,475	68,323
Retained earnings	139,747	117,010
<b>Total shareholders' equity</b>	<b>208,348</b>	<b>185,459</b>
	<b>\$ 556,046</b>	<b>\$ 522,080</b>

The accompanying notes are an integral part of these financial statements.

## Consolidated Statement of Income

<b>Year Ended</b> (In thousands, except per share data)	<b>December 31, 2000</b>	<b>December 31, 1999</b>	<b>December 31, 1998</b>
Net sales	\$ 677,540	\$ 621,918	\$ 557,944
Cost of sales	541,743	493,945	456,449
Gross profit	135,797	127,973	101,495
Selling, general and administrative expense	75,905	72,504	57,040
Income from operations	59,892	55,469	44,455
Interest expense	18,942	13,439	11,389
Income before taxes	40,950	42,030	33,066
Provision for income taxes	16,585	17,022	13,226
Net income	\$ 24,365	\$ 25,008	\$ 19,840
Net income per share - Basic	\$ 1.94	\$ 1.99	\$ 1.59
Weighted average shares outstanding - Basic	12,577	12,540	12,456
Net income per share - Diluted	\$ 1.92	\$ 1.95	\$ 1.57
Weighted average shares outstanding - Diluted	12,685	12,806	12,651

The accompanying notes are an integral part of these financial statements.

## Consolidated Statement of Cash Flows

Year Ended (In thousands)	December 31, 2000	December 31, 1999	December 31, 1998
<b>Cash Flows From Operating Activities</b>			
Net income	\$ 24,365	\$ 25,008	\$ 19,840
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	21,188	17,452	13,333
Provision for deferred income taxes	5,252	2,383	1,693
Undistributed equity investment income	(253)	(466)	(284)
Other noncash adjustments	116	697	304
Increase (decrease) in cash resulting from changes in (net of effects from acquisitions):			
Accounts receivable	5,660	(118)	(5,363)
Inventories	(206)	6,873	(6,309)
Other current assets	(2,829)	(272)	(1,430)
Accounts payable and accrued expenses	(16,551)	10,242	(7,572)
Other assets	(2,622)	(1,130)	(899)
Net cash provided by operating activities	34,120	60,669	13,313
<b>Cash Flows From Investing Activities</b>			
Acquisitions, net of cash acquired	(42,880)	(65,380)	(99,415)
Investments in property, plant and equipment	(19,619)	(21,999)	(22,062)
Net proceeds from sale of property and equipment	7,753	2,838	187
Net cash used in investing activities	(54,746)	(84,541)	(121,290)
<b>Cash Flows From Financing Activities</b>			
Long-term debt reduction	(63,157)	(67,160)	(61,508)
Proceeds from long-term debt	82,389	94,081	168,825
Repurchase of common stock	(181)	—	—
Net proceeds from issuance of common stock	36	1,014	100
Payment of dividends	(1,447)	(1,253)	—
Net cash provided by financing activities	17,640	26,682	107,417
Net (decrease) increase in cash and cash equivalents	(2,986)	2,810	(560)
Cash and cash equivalents at beginning of year	4,687	1,877	2,437
Cash and cash equivalents at end of year	\$ 1,701	\$ 4,687	\$ 1,877

The accompanying notes are an integral part of these financial statements.

## Consolidated Statement of Shareholders' Equity

(In thousands)	Common Shares	Common Shares Amount	Additional Paid-in Capital	Retained Earnings
Balance at December 31, 1997	12,410	\$ 124	\$ 66,190	\$ 73,730
Net income	-	-	-	19,840
Stock options exercised and tax benefit	8	-	119	-
Restricted stock granted	55	1	-	-
Earned portion of restricted stock	-	-	87	-
Profit-sharing plan contribution	11	-	217	-
Balance at December 31, 1998	12,484	125	66,613	93,570
Net income	-	-	-	25,008
Stock options exercised and tax benefit	72	1	1,124	-
Cash dividend - \$.125 per share	-	-	-	(1,568)
Earned portion of restricted stock	-	-	116	-
Profit-sharing plan contribution	21	-	470	-
Balance at December 31, 1999	12,577	126	68,323	117,010
Net income	-	-	-	24,365
Stock options exercised and tax benefit	3	-	36	-
Cash dividend - \$.115 per share	-	-	-	(1,447)
Earned portion of restricted stock	-	-	116	-
Repurchase of common stock	(13)	-	-	(181)
<b>Balance at December 31, 2000</b>	<b>12,567</b>	<b>\$ 126</b>	<b>\$68,475</b>	<b>\$139,747</b>

The accompanying notes are an integral part of these financial statements.

# Notes to Consolidated Financial Statements

## 1. Summary of Significant Accounting Policies

### Principles of Consolidation

The consolidated financial statements include the accounts of Gibraltar Steel Corporation and subsidiaries (the Company). Significant intercompany accounts and transactions have been eliminated.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, checking accounts and all highly liquid investments with a maturity of three months or less.

### Inventories

Inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out method.

### Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method. Accelerated methods are used for income tax purposes. Interest is capitalized in connection with construction of qualified assets. Under this policy, interest of \$552,000, \$357,000 and \$404,000 was capitalized in 2000, 1999 and 1998, respectively.

### Goodwill

Goodwill is amortized over 35 years. Amortization expense related to goodwill was \$3,710,000, \$2,647,000 and \$1,949,000 in 2000, 1999, and 1998, respectively. Accumulated amortization was \$9,961,000 and \$6,251,000 at December 31, 2000 and 1999.

### Shareholders' Equity

In 1999 and 1998, the Company issued 20,572 and 11,000, respectively, of its common shares as contributions to its profit-sharing plans. The Company did not contribute any of its shares to its profit-sharing plans during 2000.

During 2000 and 1999, the Company declared dividends of \$1,447,000 and \$1,568,000, respectively, of which \$377,000 and \$315,000 are accrued at December 31, 2000 and 1999, respectively.

During 2000, the Company purchased 12,572 shares of its outstanding common stock at a cost of \$14.38 per share. The Company did not repurchase any shares of its common stock in prior years.

### Interest Rate Exchange Agreements

Interest rate swap agreements, which are used by the Company in the management of interest rate risk, are accounted for on an accrual basis. Amounts to be paid or received under interest rate swap agreements are recognized as interest expense or income in the periods in which they accrue. Swaps are not used for trading purposes.

### Income Taxes

The financial statements of the Company have been prepared using the asset and liability approach in accounting for income taxes which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of other assets and liabilities.

### Earnings Per Share

Basic net income per share equals net income divided by the weighted average shares outstanding during the year. The computation of diluted net income per share includes all dilutive common stock equivalents in the weighted average shares outstanding.

## 2. Acquisitions

On July 17, 2000, the Company purchased all the outstanding capital stock of Milcor Limited Partnership (Milcor) for approximately \$43 million in cash. Milcor manufactures a complete line of metal building products, including registers, vents, bath cabinets, access doors, roof hatches, and telescoping doors.

On December 1, 1999, the Company purchased all the outstanding capital stock of Hughes Manufacturing, Inc. (Hughes) for approximately \$11.5 million in cash. Hughes manufactures a broad line of fully engineered, code-approved steel lumber connectors and other metal hardware products.

On November 1, 1999, the Company purchased all the outstanding capital stock of Brazing Concepts Company (Brazing Concepts) for approximately \$25 million in cash. Brazing Concepts provides a wide variety of value-added brazing (i.e., metal joining), assembly, and other metallurgical heat-treating services on customer-owned materials.

On August 1, 1999, the Company purchased the assets and business of Hi-Temp Incorporated (Hi-Temp) for approximately \$24 million in cash. Hi-Temp provides metallurgical heat-treating services in which customer-owned parts are exposed to precise temperature and other conditions to improve their material properties, strength, and durability.

On July 1, 1999, the Company purchased all the outstanding capital stock of K & W Metal Fabricators, Inc. d/b/a Weather Guard Building Products (Weather Guard) for approximately \$7 million in cash. Weather Guard manufactures a full line of metal building products, including rain-carrying systems, metal roofing, and roofing accessories, for industrial, commercial, and residential applications.

These acquisitions have been accounted for under the purchase method with the results of their operations consolidated with the Company's results of operations from the respective acquisition dates. The aggregate excess of the purchase prices of these acquisitions over the fair market values of the net assets of the acquired companies is being amortized over 35 years from the acquisition dates using the straight-line method.

The accompanying information presents the pro forma consolidated condensed results of operations as if the acquisitions had occurred on January 1, 1999. The pro forma amounts may not be indicative of the results that actually would have been achieved had the acquisitions occurred as of January 1, 1999, and are not necessarily indicative of future results of the combined companies.

Year Ended (unaudited) (In thousands, except per share data)	December 31, 2000	December 31, 1999
Net sales	\$ 704,349	\$ 712,383
Income before taxes	\$ 41,449	\$ 44,891
Net income	\$ 24,662	\$ 26,647
Net income per share - Basic	\$ 1.96	\$ 2.12

## 3. Accounts Receivable

Accounts receivable are expected to be collected within one year and are net of reserves for doubtful accounts of \$1,643,000 and \$1,511,000 at December 31, 2000, and 1999, respectively.

#### 4. Inventories

Inventories at December 31 consist of the following:

(In thousands)	2000	1999
Raw material	\$ 54,640	\$ 59,899
Finished goods and work-in-process	46,347	35,095
<b>Total inventories</b>	<b>\$ 100,987</b>	<b>\$ 94,994</b>

#### 5. Property, Plant and Equipment

Property, plant and equipment, at cost less accumulated depreciation, at December 31 consists of the following:

(In thousands)	2000	1999
Land and land improvements	\$ 7,507	\$ 6,961
Building and improvements	61,968	54,782
Machinery and equipment	222,811	204,012
Construction in progress	10,101	8,758
	<b>302,387</b>	<b>274,513</b>
Less accumulated depreciation and amortization	73,228	58,483
<b>Property, plant and equipment, net</b>	<b>\$ 229,159</b>	<b>\$ 216,030</b>

#### 6. Other Assets

Other assets at December 31 consist of the following:

The Company's 31% partnership interest is accounted for using the equity method of accounting. The partnership provides a steel cleaning process called pickling to steel mills and steel processors, including the Company.

(In thousands)	2000	1999
Equity interest in partnership	\$ 4,738	\$ 4,485
Other	4,187	3,624
<b>Total other assets</b>	<b>\$ 8,925</b>	<b>\$ 8,109</b>

#### 7. Debt

Long-term debt at December 31 consists of the following:

In 2000, the Company amended its debt agreement increasing its revolving credit facility to \$310,000,000.

The facility is secured by the Company's accounts receivable, inventories, and property and equipment and is committed through April 2003. This facility has various interest rate options which are no greater than the bank's prime rate. In addition, the Company may

enter into interest rate exchange agreements (swaps) to manage interest costs and exposure to changing interest rates. At December 31, 2000 the Company had interest rate swap agreements outstanding which effectively converted \$50,000,000 of floating rate debt to fixed rates ranging from 7.47% to 8.18%. At December 31, 2000, additional credit facility borrowings consisted of \$200,251,000 with an interest rate of LIBOR plus a fixed rate. The weighted average interest rate of these borrowings was 8.70% at December 31, 2000.

(In thousands)	2000	1999
Revolving credit notes payable	\$ 250,251	\$ 228,128
Industrial Development Revenue Bonds	3,500	6,362
Other debt	2,102	2,131
	<b>255,853</b>	<b>236,621</b>
Less current maturities	327	1,319
<b>Total long-term debt</b>	<b>\$ 255,526</b>	<b>\$ 235,302</b>

In addition, the Company has Industrial Development Revenue Bonds payable in installments through September 2018, with interest rates ranging from a fixed rate of 4.22% to variable rates of up to 5.20% at December 31, 2000, which financed the cost of the expansion of its Coldwater, Michigan, heat-treating facility under a capital lease agreement. The cost of the facility and equipment equals the amount of the bonds and includes accumulated amortization of \$186,000. The agreement provides for the purchase of the facility and equipment at any time during the lease term at scheduled amounts or at the end of the lease for a nominal amount.

The aggregate maturities on long-term debt including lease purchase obligations for the five years following December 31, 2000, are as follows: 2001, \$327,000; 2002, \$813,000; 2003, \$250,875,000; 2004, \$629,000; and 2005, \$480,000. The Company had no amounts outstanding under short-term borrowing for the years ended December 31, 2000, and 1999.

The 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. The Company is in compliance with the terms and provisions of all its financing agreements.

Total cash paid for interest in the years ended December 31, 2000, 1999, and 1998 was \$19,935,000, \$13,357,000 and \$11,257,000, respectively.

## 8. Leases

The Company leases certain facilities and equipment under operating leases. Rent expense under operating leases for the years ended December 31, 2000, 1999, and 1998 was \$5,187,000, \$4,899,000 and \$3,554,000, respectively. Future minimum lease payments under these operating leases are \$5,067,000, \$3,980,000, \$2,969,000, \$1,867,000 and \$1,244,000 for the years 2001, 2002, 2003, 2004, and 2005, respectively, and \$7,470,000 thereafter through 2038.

## 9. Employee Retirement Plans

Certain subsidiaries participate in the Company's 401(k) Plan. In addition, certain subsidiaries have multi-employer non-contributory retirement plans providing for defined contributions to union retirement funds.

A supplemental pension plan provides defined pension benefits to certain salaried employees upon retirement. Net unfunded periodic pension costs of \$171,000 and \$199,000 were accrued under this plan in 2000 and 1999, respectively, and consisted primarily of service cost using a discount rate of 8.0% in each year.

Total expense for all retirement plans was \$2,204,000, \$1,957,000 and \$1,774,000 for the years ended December 31, 2000, 1999, and 1998, respectively.

During 1998, the Company adopted the provisions of Statement of Financial Accounting Standards No. 132 *Employers' Disclosures about Pensions and Other Post-Retirement Benefits* (FAS No. 132). Adoption of FAS No. 132 did not affect the Company's results of operations or financial position.

## 10. Other Post-Retirement Benefits

Certain subsidiaries of the Company provide health and life insurance to substantially all of their employees and to a number of retirees and their spouses. The net periodic post-retirement benefit cost charged to expense consisting of service cost, interest cost, and amortization of transition obligations was \$261,000, \$291,000 and \$255,000 for the years ended December 31, 2000, 1999, and 1998, respectively.

The approximate unfunded accumulated post-retirement benefit obligation at December 31, consists of the accompanying (in thousands):

	Benefit Obligation at January 1	Service Cost	Interest Cost	Actuarial (Gain)/Loss	Benefit Payments	Benefit Obligation at December 31
2000	\$ 1,844	71	145	(1)	(76)	\$ 1,983
1999	\$ 2,105	90	135	(445)	(41)	\$ 1,844

The accumulated post-retirement benefit obligation was determined using a weighted average discount rate of 8.0% in 2000 and 1999. The medical inflation rate was assumed to be 5.0% in 2000 and thereafter. The effect of a 1% increase or decrease in the annual medical inflation rate would increase or decrease the accumulated post-retirement benefit obligation at December 31, 2000 by approximately \$312,000 and \$266,000, respectively, and increase or decrease the annual service and interest costs by approximately \$38,000.

One of the Company's subsidiaries also provides post-retirement health care benefits to its unionized employees through contributions to a multi-employer health care plan.

## 11. Income Taxes

The provision for income taxes consists of the following:

(In thousands)	2000	1999	1998
<b>Current tax expense</b>			
Federal	\$ 9,507	\$ 12,332	\$ 9,749
State	1,826	2,307	1,784
<b>Total current</b>	<b>11,333</b>	<b>14,639</b>	<b>11,533</b>
<b>Deferred tax expense</b>			
Federal	4,593	2,040	1,628
State	659	343	65
<b>Total deferred</b>	<b>5,252</b>	<b>2,383</b>	<b>1,693</b>
<b>Total provision</b>	<b>\$ 16,585</b>	<b>\$ 17,022</b>	<b>\$ 13,226</b>

Deferred tax liabilities (assets) at December 31, consist of the following:

(In thousands)	2000	1999
Depreciation	\$ 33,773	\$ 29,460
Goodwill	3,167	1,770
Other	1,002	1,685
Gross deferred tax liabilities	37,942	32,915
State taxes	(1,652)	(1,382)
Other	(4,504)	(4,999)
Gross deferred tax assets	(6,156)	(6,381)
<b>Net deferred tax liabilities</b>	<b>\$ 31,786</b>	<b>\$ 26,534</b>

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to income before taxes as a result of the following differences:

(In thousands)	2000	1999	1998
Statutory U.S. tax rates	\$ 14,333	\$ 14,711	\$ 11,573
Increase in rates resulting from:			
State and local taxes, net	1,615	1,723	1,202
Other	637	588	451
<b>Total</b>	<b>\$ 16,585</b>	<b>\$ 17,022</b>	<b>\$ 13,226</b>

Cash paid for income taxes, net of tax refunds, in the years ended December 31, 2000, 1999, and 1998 was \$16,189,000, \$11,857,000 and \$9,180,000, respectively.

## 12. Earnings Per Share

Statement of Financial Accounting Standards No. 128 *Earnings Per Share* requires dual presentation of basic and diluted earnings per share on the face of the income statement. The reconciliation between the computations is as follows:

	Income	Basic Shares	Basic EPS	Diluted Shares	Diluted EPS
2000	\$ 24,365,000	12,577,240	\$ 1.94	12,685,072	\$ 1.92
1999	\$ 25,008,000	12,540,105	\$ 1.99	12,806,338	\$ 1.95
1998	\$ 19,840,000	12,455,554	\$ 1.59	12,651,119	\$ 1.57

Included in diluted shares are common stock equivalents of 107,832, 266,233, and 195,565 relating to options for the years ended December 31, 2000, 1999, and 1998, respectively.

## 13. Stock Options

The Company may grant non-qualified stock options to officers, employees, non-employee directors, and advisers at an exercise price equal to 100% of market price, and incentive stock options to officers and other key employees at an exercise price not less than 100% of market price, up to an aggregate of 400,000 and 1,475,000 shares, respectively. The options may be exercised over a four-year period from the grant date and expire ten years after the date of grant.

The following table summarizes information about stock option transactions:

Tax benefits of \$111,000 realized in the year ended December 31, 1999, associated with the exercise of certain stock options have been credited to additional paid-in-capital. The Company did not realize any related tax benefit during 2000.

	Options Outstanding	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
Balance at December 31, 1997	693,231	\$ 15.68	282,781	\$ 11.55
Granted	336,650	17.36		
Exercised	(8,749)	11.12		
Forfeited	(24,502)	17.48		
Balance at December 31, 1998	996,630	\$ 16.24	406,993	\$ 13.30
Granted	10,000	20.56		
Exercised	(72,474)	13.99		
Forfeited	(11,450)	18.54		
Balance at December 31, 1999	922,706	\$ 16.44	528,819	\$ 14.88
Granted	270,250	14.07		
Exercised	(2,255)	15.52		
Forfeited	(30,107)	17.68		
Balance at December 31, 2000	1,160,594	\$ 15.86	686,582	\$ 15.72

Options outstanding at December 31, 2000 consisted of:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$10.00 - \$14.07	528,127	6.5 years	\$ 12.46	260,127	\$ 10.80
\$15.63 - \$22.50	632,467	6.9 years	\$ 18.70	426,455	\$ 18.72
	1,160,594	6.7 years	\$ 15.86	686,582	\$ 15.72

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 *Accounting for*

*Stock-Based Compensation* (FAS No. 123). Accordingly, no compensation cost has been recognized for the option plans as stock options granted under these plans have an exercise price equal to 100% of the market price on the date of grant. If the compensation cost for these plans had been determined based on the fair value

at the grant dates for awards consistent with the method of FAS No. 123, the unaudited pro forma effect on the years ended December 31, 2000, and 1999 is as follows:

	As Reported 2000	Pro Forma 2000	As Reported 1999	Pro Forma 1999
Net income	\$ 24,365,000	\$ 23,073,000	\$ 25,008,000	\$ 23,566,000
Net income per share - Basic	\$ 1.94	\$ 1.83	\$ 1.99	\$ 1.88

The Black-Scholes option-pricing model was used to estimate the fair value of the options granted on the date of grant. The fair values and assumptions used in the model, assuming no dividends, are as follows:

	Fair Value	Expected Life	Stock Volatility	Risk-Free Interest Rate	Dividend Yield
2000 Grant	\$ 6.31	5 years	43.7 %	6.3 %	.7 %
1999 Grant	\$ 9.18	5 years	45.1 %	4.4 %	.2 %
1998 Grant	\$ 7.74	5 years	43.7 %	4.4 %	—

The Company also has a Restricted Stock Plan reserved for issuance of 100,000

common shares for the grant of restricted stock awards to employees and non-employee directors at a purchase price of \$.01 per share. Since the inception of this plan, 59,000 common shares have been awarded.

#### 14. Commitments and Contingencies

The Company is a party to certain claims and legal actions generally incidental to its business. Management does not believe that the outcome of these actions, which is not clearly determinable at the present time, would significantly affect the Company's financial condition or results of operations.

#### 15. Subsequent Event

In February 2001, the Company purchased all the outstanding capital stock of Pennsylvania Industrial Heat Treaters, Inc. (PIHT) for approximately \$11 million, net of cash. PIHT provides metallurgical heat-treating services and specializes in heat treating powdered metal parts. The results of operations of PIHT will be consolidated with the Company's results of operations from the acquisition date for the quarter ending March 31, 2001.

## Quarterly Unaudited Financial Data

(In thousands, except per share data)					
2000 Quarter Ended	March 31	June 30	Sept. 30	Dec. 31	Total
Net sales	\$ 167,634	\$ 181,523	\$ 178,326	\$ 150,057	\$ 677,540
Gross profit	34,548	36,616	35,863	28,770	135,797
Income from operations	14,318	17,416	17,268	10,890	59,892
Net income	6,015	7,854	7,248	3,248	24,365
Net income per share - Basic	\$ .48	\$ .62	\$ .58	\$ .26	\$ 1.94
Net income per share - Diluted	\$ .47	\$ .62	\$ .57	\$ .26	\$ 1.92
1999 Quarter Ended	March 31	June 30	Sept. 30	Dec. 31	Total
Net sales	\$ 143,804	\$ 160,241	\$ 162,909	\$ 154,964	\$ 621,918
Gross profit	28,418	33,001	34,245	32,309	127,973
Income from operations	11,683	15,353	15,426	13,007	55,469
Net income	4,977	7,288	7,205	5,538	25,008
Net income per share - Basic	\$ .40	\$ .58	\$ .57	\$ .44	\$ 1.99
Net income per share - Diluted	\$ .39	\$ .57	\$ .56	\$ .43	\$ 1.95

## Report of Independent Accountants

To the Board of Directors and Shareholders of Gibraltar Steel Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in shareholders' equity present fairly, in all material respects, the financial position of Gibraltar Steel Corporation and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.



PricewaterhouseCoopers LLP

January 24, 2001

## Company Responsibility For Financial Statements

The accompanying consolidated financial statements of Gibraltar Steel Corporation have been prepared by management, which is responsible for their integrity and objectivity. The statements have been prepared in conformity with accounting principles generally accepted in the United States and include amounts based on management's best estimates and judgments. Financial information elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company has established and maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded and that the financial records reflect the authorized transactions of the Company.

The financial statements have been audited by PricewaterhouseCoopers LLP, independent accountants. As part of their audit of the Company's 2000 financial statements, PricewaterhouseCoopers LLP considered the Company's system of internal control to the extent they deemed necessary to determine the nature, timing and extent of their audit tests.

The Board of Directors pursues its responsibility for the Company's financial reporting through its Audit Committee, which is composed entirely of outside directors. The independent accountants have direct access to the Audit Committee, with and without the presence of management representatives, to discuss the results of their audit work and their comments on the adequacy of internal accounting controls and the quality of financial reporting.

**Brian J. Lipke**  
Chairman of the Board  
and Chief Executive Officer

**Walter T. Erasmus**  
President

**John E. Flint**  
Vice President  
and Chief Financial Officer

## Shareholder and Corporate Information

### Trading Information

Gibraltar's stock trades on The Nasdaq Stock Market® under the symbol "ROCK."

### Quarterly Stock Price Data

The following table represents the quarterly high, low, and closing prices of Gibraltar's common stock for 2000.

2000	High	Low	Close
Q1	24	14 <sup>3</sup> / <sub>4</sub>	16 <sup>7</sup> / <sub>16</sub>
Q2	18 <sup>13</sup> / <sub>16</sub>	12 <sup>13</sup> / <sub>16</sub>	14
Q3	19 <sup>3</sup> / <sub>8</sub>	14	16 <sup>1</sup> / <sub>2</sub>
Q4	18	11 <sup>1</sup> / <sub>2</sub>	17 <sup>9</sup> / <sub>16</sub>

### Shareholders

As of December 31, 2000, there were 129 shareholders of record of the Company's stock. The Company believes it has a significantly higher number of shareholders because of the number of shares that are held by nominees.

### Company Information on the Internet

Gibraltar maintains a comprehensive Web site, which can be accessed at [www.gibraltar1.com](http://www.gibraltar1.com).

### Form 10-K and Other Information

In addition to the Company's Web site, information may be requested by writing or calling:  
 Kenneth P. Houseknecht  
 Director of Investor Relations  
 PO Box 2028; Buffalo, NY 14219-0228  
 716/826-6500 phone; 716/826-1589 fax  
[khouseknecht@gibraltar1.com](mailto:khouseknecht@gibraltar1.com)

### Transfer Agent

Please direct questions about lost certificates, changes of address, and consolidation of accounts to the Company's transfer agent and registrar: American Stock Transfer and Trust Company, 40 Wall Street, New York, NY 10005; 212/936-5100.

### Independent Accountants

PricewaterhouseCoopers LLP, 3600 HSBC Center, Buffalo, NY 14203

### Annual Meeting

May 15, 2001, 10 a.m., Gibraltar, 3556 Lake Shore Road, Buffalo, NY 14219-0228.

### Dividend Policy

In 2000, Gibraltar's Board paid an annual cash dividend of \$.12 per share, payable at the quarterly rate of \$.03, and it reviews the payment of this quarterly.

### Analyst Coverage

The following analysts published research about Gibraltar in 2000:

Firm	Analyst	Telephone
BB&T Capital Markets	Lloyd T. O'Carroll	804/782-8773
Bear, Stearns & Co.	Anthony B. Rizzuto, Jr.	212/272-4269
H&R Block Financial Advs.	Lori Wilking	313/961-6666
McDonald & Co.	Mark L. Parr	216/443-3858
Merrill Lynch & Co.	Robert J. Schenosky	212/449-2341
Morgan Stanley Dean Witter	Waldo T. Best	212/761-8043
Salomon Smith Barney	Michele G. Applebaum	847/266-7080

### Officers and Directors

**Brian J. Lipke**  
 Chairman of the Board  
 and Chief Executive Officer

**Walter T. Erazmus**  
 President

**Neil E. Lipke**  
 Senior Executive Vice  
 President, Secretary,  
 and Director

**Joseph A. Rosenecker**  
 Executive Vice President

**Carl P. Spezio**  
 Executive Vice President

**Eric R. Lipke**  
 Vice President

**Andrew S. Tsakos**  
 Vice President

**John E. Flint**  
 Vice President and  
 Chief Financial Officer

**Richard A. Pytak Jr.**  
 Treasurer

**Gerald S. Lippes**  
 Director  
 Partner, Lippes, Silverstein,  
 Mathias & Wexler LLP

**Arthur A. Russ, Jr.**  
 Director  
 Partner, Phillips, Lytle,  
 Hitchcock, Blaine & Huber

**David N. Campbell**  
 Director  
 Former President and Chief  
 Executive Officer, Xpedior, Inc.

**William P. Montague**  
 Director  
 President, Chief Operating  
 Officer, and Director,  
 Mark IV Industries, Inc.

## Investor Mission Statement

Gibraltar is committed to achieving 20% compound average annual growth of sales and earnings. This will be accomplished by internal growth, geographic and product expansion, joint ventures, and strategic acquisitions, and will result in more than \$1 billion in revenues and more than \$45 million in net income by 2003, or sooner.



GIBALTAR

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