

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

(Mark one)

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

For the quarterly period ended June 30, 2001

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 Steel Corporation  
(Exact name of Registrant as specified in its charter)

Delaware 16-1445150  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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 .

As of June 30, 2001, the number of common shares outstanding was: 12,595,374.

GIBRALTAR STEEL CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GIBRALTAR STEEL CORPORATION  
 CONDENSED CONSOLIDATED BALANCE SHEET  
 (in thousands)

	June 30, <u>2001</u> (unaudited)	December 31, <u>2000</u> (audited)
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 38	\$ 1,701
Accounts receivable	97,983	78,358
Inventories	89,696	100,987
Other current assets	<u>7,836</u>	<u>6,548</u>
Total current assets	195,553	187,594
Property, plant and equipment, net	231,885	229,159
Goodwill	134,814	130,368
Other assets	<u>9,173</u>	<u>8,925</u>
	<u>\$ 571,425</u>	<u>\$ 556,046</u>
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 59,367	\$ 39,285
Accrued expenses	17,296	15,575
Current maturities of long-term debt	<u>329</u>	<u>327</u>
Total current liabilities	76,992	55,187
Long-term debt	239,584	255,526
Deferred income taxes	36,148	34,325
Other non-current liabilities	3,929	2,660
Shareholders' equity		
Preferred shares	-	-
Common shares	126	126
Additional paid-in capital	68,952	68,475
Retained earnings	146,333	139,747
Accumulated comprehensive loss	<u>(639)</u>	<u>-</u>
Total shareholders' equity	<u>214,772</u>	<u>208,348</u>
	<u>\$ 571,425</u>	<u>\$ 556,046</u>

See accompanying notes to financial statements

GIBRALTAR STEEL CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF INCOME

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	(unaudited)		(unaudited)	
Net sales	\$ 163,550	\$ 181,523	\$ 314,100	\$ 349,157
Cost of sales	<u>131,469</u>	<u>144,907</u>	<u>253,534</u>	<u>277,993</u>
Gross profit	32,081	36,616	60,566	71,164
Selling, general and administrative expense	<u>20,027</u>	<u>19,200</u>	<u>38,770</u>	<u>39,430</u>
Income from operations	12,054	17,416	21,796	31,734
Interest expense	<u>4,460</u>	<u>4,217</u>	<u>9,352</u>	<u>8,425</u>
Income before taxes	7,594	13,199	12,444	23,309
Provision for income taxes	<u>3,076</u>	<u>5,345</u>	<u>5,040</u>	<u>9,440</u>
Net income	\$ <u>4,518</u>	\$ <u>7,854</u>	\$ <u>7,404</u>	\$ <u>13,869</u>
Net income per share - Basic	\$ <u>.36</u>	\$ <u>.62</u>	\$ <u>.59</u>	\$ <u>1.10</u>
Weighted average number of shares outstanding-Basic	<u>12,588</u>	<u>12,580</u>	<u>12,583</u>	<u>12,580</u>
Net income per share-Diluted	\$ <u>.35</u>	\$ <u>.62</u>	\$ <u>.58</u>	\$ <u>1.09</u>
Weighted average number of shares outstanding-Diluted	<u>12,802</u>	<u>12,674</u>	<u>12,741</u>	<u>12,696</u>

See accompanying notes to financial statements

## GIBRALTAR STEEL CORPORATION

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

	Six Months Ended	
	June 30,	
	<u>2001</u>	<u>2000</u>
	(unaudited)	
<del>Cash flows from operating activities</del>		
Net income	\$ 7,404	\$ 13,869
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,582	10,291
Provision for deferred income taxes	2,351	1,050
Undistributed equity investment income	266	(232)
Other noncash adjustments	58	58
Increase (decrease) in cash resulting from changes in (net of effects from acquisitions):		
Accounts receivable	(18,997)	(18,173)
Inventories	11,291	(1,313)
Other current assets	(1,690)	(681)
Accounts payable and accrued expenses	20,612	12,244
Other assets	<u>(694)</u>	<u>(3,150)</u>
Net cash provided by operating activities	<u>32,183</u>	<u>13,963</u>
<del>Cash flows from investing activities</del>		
Acquisitions, net of cash acquired	(10,832)	-
Purchases of property, plant and equipment	(7,915)	(9,338)
Net proceeds from sale of property and equipment	<u>177</u>	<u>7,249</u>
Net cash used in investing activities	<u>(18,570)</u>	<u>(2,089)</u>
<del>Cash flows from financing activities</del>		
Long-term debt reduction	(35,334)	(32,363)
Proceeds from long-term debt	20,394	22,411
Payment of dividends	(755)	(692)
Net proceeds from issuance of common stock	<u>419</u>	<u>35</u>
Net cash used in financing activities	<u>(15,276)</u>	<u>(10,609)</u>
Net (decrease) increase in cash and cash equivalents	(1,663)	1,265
Cash and cash equivalents at beginning of year	<u>1,701</u>	<u>4,687</u>
Cash and cash equivalents at end of period	<u>\$ 38</u>	<u>\$ 5,952</u>

See accompanying notes to financial statements

**GIBRALTAR STEEL CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying condensed consolidated financial statements as of June 30, 2001 and 2000 have been prepared by the Company without audit. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations and cash flows at June 30, 2001 and 2000 have been included.

Certain information and footnote disclosures including significant accounting policies normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements included in the Company's Annual Report to Shareholders for the year ended December 31, 2000.

The results of operations for the six month period ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year.

**2. INVENTORIES**

Inventories consist of the following:

	(in thousands)	
	June 30, 2001 (unaudited)	December 31, 2000 (audited)
Raw material	\$ 43,016	\$ 54,640
Finished goods and work-in-process	<u>46,680</u>	<u>46,347</u>
Total inventories	\$ 89,696 =====	\$100,987 =====

### 3. SHAREHOLDERS' EQUITY

The changes in shareholders' equity consist of:

(in thousands)

	<u>Common Shares</u>	<u>Shares Amount</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Comprehensive Loss</u>
December 31, 2000	12,567	\$ 126	\$ 68,475	\$139,747	\$ -
Implementation of FAS 133	-	-	-	-	(191)
Net income	-	-	-	7,404	-
Stock options exercised	28	-	419	-	-
Earned portion of restricted stock	-	-	58	-	-
Cash dividends- \$.065 per share	-	-	-	(818)	-
Interest rate swap adjustments	-	-	-	-	(448)
June 30, 2001	12,595	\$ 126	\$ 68,952	\$146,333	\$ (639)
	=====				

On January 1, 2001, the Company implemented the provisions of Statement of Financial Accounting Standards No. 133 *Accounting for Derivative Instruments and Hedging Activities* (FAS 133) and recognized the fair value of its interest rate swap agreements as other non-current liabilities. Gains or losses from changes in the fair value of the swap agreements are recorded, net of taxes, as components of Accumulated Comprehensive Loss.

### 4. EARNINGS PER SHARE

Basic net income per share equals net income divided by the weighted average shares outstanding for the six months ended June 30, 2001 and 2000. The computation of diluted net income per share includes all dilutive common stock equivalents in the weighted average shares outstanding.

Options to purchase 1,096,517 shares of the Company's common stock are outstanding as of June 30, 2001 and are exercisable at prices ranging from \$10.00 to \$22.50 per share. Included in diluted shares, are common stock equivalents relating to options of 158,754 and 116,017, for the six month periods ended June 30, 2001 and 2000, respectively.

## 5. ACQUISITIONS

On February 13, 2001, the Company purchased all the outstanding capital stock of Pennsylvania Industrial Heat Treaters, Inc. (PIHT) for approximately \$11 million, net of cash acquired. PIHT provides metallurgical heat treating services and specializes in heat treating powdered metal parts.

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.

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 following information presents the pro forma consolidated condensed results of operations as if the acquisitions had occurred on January 1, 2000. 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, 2000 and are not necessarily indicative of future results of the combined companies.

	(in thousands, except per share data)	
	Six Months Ended	
	June 30,	
	<u>2001</u>	<u>2000</u>
	(unaudited)	
Net sales	\$ 314,760	\$ 377,190
	=====	=====
Income before taxes	\$ 12,502	\$ 24,426
	=====	=====
Net income	\$ 7,439	\$ 14,532
	=====	=====
Net income per share-Basic	\$ .59	\$ 1.16
	=====	=====

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

### Results of Operations

Net sales of \$163.6 million for the second quarter ended June 30, 2001, decreased 9.9% from net sales of \$181.5 million for the prior year's second quarter. Net sales of \$314.1 million for the six months ended June 30, 2001, which included net sales of Milcor (acquired July 17, 2000) and PIHT (acquired February 13, 2001) (collectively, the Acquisitions), decreased 10.0% from sales of \$349.2 million for the six months ended June 30, 2000. These decreases resulted primarily from changes in the general economy, particularly in the automotive industry.

Cost of sales increased to 80.4% of net sales for the second quarter ended June 30, 2001 from 79.8% for the prior year's second quarter. Cost of sales increased to 80.7% of net sales for the first six months of 2001 from 79.6% for the six months ended June 30, 2000. These increases were primarily due to higher health care and utility costs.

Selling, general and administrative expenses were relatively constant at 12.2% and 12.3% of net sales for the second quarter and six months ended June 30, 2001, in comparison to 10.6% and 11.3% of net sales for the same periods of 2000. These increases were primarily due to costs from the Acquisitions, which have higher costs as a percentage of net sales, offset by decreases in incentive based compensation.

Interest expense increased by \$.2 million and \$.9 million for the second quarter and six months ended June 30, 2001 over the prior year's comparable periods, primarily due to higher average borrowings during 2001 to finance acquisitions and capital expenditures, offset by decreases in interest rates.

As a result of the above, income before taxes decreased by \$5.6 million and \$10.9 million for the second quarter and six months ended June 30, 2001 from the same periods in 2000.

Income taxes for the second quarter and six months ended June 30, 2001 approximated \$3.1 million and \$5.0 million and were based on a 40.5% effective tax rate in both periods.

### Liquidity and Capital Resources

Shareholders' equity increased by approximately \$6.4 million at June 30, 2001 to \$214.8 million. During the first six months of 2001, the Company's working capital decreased \$13.8 million to approximately \$118.6 million.

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.

Net cash provided by operations of \$32.2 million resulted primarily from net income of \$7.4 million, depreciation and amortization of \$11.6 million, decreases in inventories of \$11.3 million and increases in accounts payable and accrued expenses of \$20.6 million. These sources of cash from operations were offset by an increase in accounts receivable of \$19.0 million due to increased sales in the second quarter of 2001 compared to the fourth quarter of 2000.

The \$32.2 million of net cash provided by operations was used to pay down \$14.9 million of the Company's revolving credit and to fund the \$10.8 million acquisition of PIHT, capital expenditures of \$7.9 million and cash dividends of \$.8 million.

At June 30, 2001 the Company's revolving credit facility available approximated \$310 million, with borrowings of approximately \$234 million and an additional availability of approximately \$76 million.

The Company believes that availability of funds under its credit facilities together with cash generated from operations will be sufficient to provide the Company with the liquidity and capital resources necessary to support its existing operations.

#### Recent Accounting Pronouncements

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. FAS No. 133 was implemented in 2001 and did not have a material impact on our earnings.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 *Business Combinations* (FAS No. 141) and Statement of Financial Accounting Standards No. 142 *Goodwill and Other Intangible Assets* (FAS No. 142). FAS No. 141 requires that all business combinations be accounted for under the purchase method only and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. FAS No. 142 requires that ratable amortization of goodwill be replaced with periodic tests of the goodwill's impairment and that intangible assets other than goodwill be amortized over their useful lives. Implementation of FAS No. 141 and FAS No. 142 is required for fiscal 2002. However, the Financial Accounting Standards Board has not yet published FAS No. 141 or FAS No. 142 that would allow management to calculate their effect on the Company.

## Safe Harbor Statement

The Company wishes to take advantage of the Safe Harbor provisions included in the Private Securities Litigation Reform Act of 1995 (the "Act"). Statements by the Company, other than historical information, constitute "forward looking statements" within the meaning of the Act and may be subject to a number of risk factors. Factors that could affect these statements include, but are not limited to, the following: the impact of changing steel prices on the Company's results of operations; changing demand for the Company's products and services; and changes in interest or tax rates.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

1. Exhibits

- a. Exhibit 10.1 - Agreement dated December 22, 2000  
for Adoption by Gibraltar Steel  
Corporation of New York of the Dreyfus  
Nonstandardized Prototype Profit Sharing  
Plan and Trust

2. Reports on Form 8-K. There were no reports on Form 8-K  
during the three months ended June 30, 2001.

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 STEEL CORPORATION  
(Registrant)

By \_\_\_\_\_  
Brian J. Lipke  
Chief Executive Officer and  
Chairman of the Board

By \_\_\_\_\_  
Walter T. Erazmus  
President

By \_\_\_\_\_  
John E. Flint  
Vice President and  
Chief Financial Officer  
(Principal Financial and Chief  
Accounting Officer)

Date: July 20, 2001