

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

(Mark one)

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

For the quarterly period ended June 30, 2002

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 X. No \_\_\_.

As of June 30, 2002, the number of common shares outstanding was:  
15,917,232.

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, 2002 <u>(unaudited)</u>	December 31, 2001 <u>(audited)</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 3,814	\$ 8,150
Accounts receivable	103,258	76,696
Inventories	83,461	75,847
Other current assets	7,281	5,922
Total current assets	<u>197,814</u>	<u>166,615</u>
Property, plant and equipment, net	223,041	228,443
Goodwill	133,452	132,717
Other assets	7,386	7,265
	<u>\$ 561,693</u>	<u>\$ 535,040</u>
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 51,891	\$ 43,612
Accrued expenses	24,087	17,126
Current maturities of long-term debt	812	813
Total current liabilities	<u>76,790</u>	<u>61,551</u>
Long-term debt	156,737	211,462
Deferred income taxes	39,878	38,043
Other non-current liabilities	6,357	5,637
Shareholders' equity		
Preferred shares	-	-
Common shares	159	126
Additional paid-in capital	122,208	69,221
Retained earnings	161,432	150,578
Accumulated comprehensive loss	(1,868)	(1,578)
Total shareholder's equity	<u>281,931</u>	<u>218,347</u>
	<u>\$ 561,693</u>	<u>\$ 535,040</u>

See accompanying notes to financial statements

GIBRALTAR STEEL CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF INCOME  
(in thousands, except per share date)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2002	2001	2002	2001
	(unaudited)		(unaudited)	
Net sales	\$ 171,520	\$ 163,550	\$ 316,233	\$ 314,100
Cost of sales	<u>136,123</u>	<u>131,469</u>	<u>253,622</u>	<u>253,534</u>
Gross profit	35,397	32,081	62,611	60,566
Selling, general and administrative expense	<u>19,877</u>	<u>20,027</u>	<u>37,474</u>	<u>38,770</u>
Income from operations	15,520	12,054	25,137	21,796
Interest expense	<u>2,139</u>	<u>4,460</u>	<u>4,902</u>	<u>9,352</u>
Income before taxes	13,381	7,594	20,235	12,444
Provision for income taxes	<u>5,419</u>	<u>3,076</u>	<u>8,195</u>	<u>5,040</u>
Net income	<u>\$ 7,962</u>	<u>\$ 4,518</u>	<u>\$ 12,040</u>	<u>\$ 7,404</u>
Net income per share-Basic	<u>\$ 0.50</u>	<u>\$ 0.36</u>	<u>\$ 0.83</u>	<u>\$ 0.59</u>
Weighted average shares outstanding - Basic	<u>15,835</u>	<u>12,588</u>	<u>14,561</u>	<u>12,583</u>
Net income per share-Diluted	<u>\$ 0.49</u>	<u>\$ 0.35</u>	<u>\$ 0.81</u>	<u>\$ 0.58</u>
Weighted average share outstanding - Diluted	<u>16,158</u>	<u>12,802</u>	<u>14,808</u>	<u>12,741</u>

See accompanying notes to financial statements

GIBRALTAR STEEL CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(in thousands)

	Six Months Ended June 30,	
	2002	2001
	(unaudited)	
<u>Cash flows from operating activities</u>		
Net income	\$ 12,040	\$ 7,404
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,050	11,582
Provision for deferred income taxes	2,324	2,351
Undistributed equity investment income	133	266
Other noncash adjustments	228	58
Increase (decrease) in cash resulting from changes in (net of acquisitions):		
Accounts receivable	(26,562)	(18,997)
Inventories	(7,614)	11,291
Other current assets	(1,150)	(1,690)
Accounts payable and accrued expenses	15,328	20,612
Other assets	(1,271)	(694)
Net cash provided by operating activities	<u>3,506</u>	<u>32,183</u>
<u>Cash flows from investing activities</u>		
Acquisitions, net of cash acquired	-	(10,832)
Purchases of property, plant and equipment	(4,527)	(7,915)
Net proceeds from sale of property and equipment	160	177
Net cash used in investing activities	<u>(4,367)</u>	<u>(18,570)</u>
<u>Cash flows from financing activities</u>		
Long-term debt reduction	(75,942)	(35,334)
Proceeds from long-term debt	21,179	20,394
Payment of dividends	(994)	(755)
Net proceeds from issuance of common stock	52,282	419
Net cash used in financing activities	<u>(3,475)</u>	<u>(15,276)</u>
Net decrease in cash and cash equivalents	(4,336)	(1,663)
Cash and cash equivalents at beginning of year	<u>8,150</u>	<u>1,701</u>
Cash and cash equivalents at end of period	<u>\$ 3,814</u>	<u>\$ 38</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, 2002 and 2001 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, 2002 and 2001 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, 2001.

The results of operations for the six month period ended June 30, 2002 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, <u>2002</u> (unaudited)	December 31, <u>2001</u> (audited)
Raw material	\$ 41,274	\$ 36,378
Finished goods and work-in-process	<u>42,187</u>	<u>39,469</u>
Total inventories	\$ 83,461 =====	\$ 75,847 =====

### 3. GOODWILL

On January 1, 2002, the Company implemented Statement of Financial Accounting Standards (SFAS) No. 141 Business Combinations which required that all business combinations be accounted for under the purchase method only and that certain acquired assets in a business combination be accounted for apart from goodwill. The implementation of SFAS No. 141 did not impact the Company's financial position or results of operations.

Also on January 1, 2002, the Company implemented SFAS No. 142 Goodwill and Other Intangible Assets which requires that ratable amortization of goodwill be replaced with periodic tests of the goodwill's impairment and that intangible assets other than goodwill should be amortized over their useful lives. The Company performed the required tests of goodwill as of January 1, 2002 and determined that no impairments were indicated. The impact of the adoption of SFAS No. 142 is summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	(in thousands, except for per share data)			
Net income as reported	\$ 7,962	\$ 4,518	\$ 12,040	\$ 7,404
Add back: goodwill amortization after-tax	-	606	-	1,231
Adjusted net income	<u>\$ 7,962</u>	<u>\$ 5,124</u>	<u>\$ 12,040</u>	<u>\$ 8,635</u>
	=====	=====	=====	=====
Basic earnings per share:				
Net income as reported	\$ 0.50	\$ 0.36	\$ 0.83	\$ 0.59
Goodwill amortization after-tax	-	.05	-	0.10
Adjusted net income	<u>\$ 0.50</u>	<u>\$ 0.41</u>	<u>\$ 0.83</u>	<u>\$ 0.69</u>
	=====	=====	=====	=====
Diluted earnings per share:				
Net income as reported	\$ 0.49	\$ 0.35	\$ 0.81	\$ 0.58
Goodwill amortization after-tax	-	0.05	-	0.10
Adjusted net income	<u>\$ 0.49</u>	<u>\$ 0.40</u>	<u>\$ 0.81</u>	<u>\$ 0.68</u>
	=====	=====	=====	=====

#### 4. 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, 2001	12,607	\$ 126	\$ 69,221	\$150,578	\$(1,578)
Net income	-	-	-	12,040	-
Issuance of common stock	3,150	32	50,679	-	-
Stock options exercised and tax benefit	104	1	1,715	-	-
Restricted stock granted	56	-	521	-	-
Earned portion of restricted stock	-	-	72	-	-
Cash dividends-\$ .035 per share	-	-	-	(1,186)	-
Interest rate swap adjustments	-	-	-	-	(290)
June 30, 2002	15,917	\$ 159	\$122,208	\$161,432	\$(1,868)
	=====				

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.

#### 5. EARNINGS PER SHARE

Basic net income per share equals net income divided by the weighted average shares outstanding for the three and six months ended June 30, 2002 and 2001. The computation of diluted net income per share includes all dilutive common stock equivalents in the weighted average shares outstanding.

Options to purchase 970,321 shares of the Company's common stock are outstanding as of June 30, 2002 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 247,486 and 158,754 for the six month periods ended June 30, 2002 and 2001, respectively.

## **6. DEBT**

In June 2002, the Company extended its \$225 million secured revolving credit facility, which includes a \$50 million expansion feature, which was scheduled to expire in April 2003 for a five-year term ending June 30, 2007.

## **7. SEGMENT INFORMATION**

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

- (i) Processed steel products, which primarily includes the intermediate processing of wide, open tolerance flat-rolled sheet steel through the application of several different processes to produce high-quality, value-added coiled steel products to be further processed by customers.
- (ii) Building products, which primarily includes the processing of sheet steel to produce a wide variety of building and construction products.
- (iii) Heat treating, which includes a wide range of metallurgical heat treating processes in which customer-owned metal parts are exposed to precise temperatures, atmospheres and quenchants to improve their mechanical properties, durability and wear resistance.

The following table illustrates certain measurements used by management to assess the performance of the segments described above as of and for the three and six month periods ended June 30, 2002 and 2001 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	(unaudited)		(unaudited)	
Net sales				
Processed steel products	\$ 70,622	\$ 63,492	\$ 133,634	\$ 126,337
Building products	81,086	81,553	144,306	150,036
Heat treating	19,812	18,505	38,293	37,727
	<u>\$ 171,520</u>	<u>\$ 163,550</u>	<u>\$ 316,233</u>	<u>\$ 314,100</u>
	=====	=====	=====	=====
Income from operations				
Processed steel products	\$ 8,812	\$ 8,083	\$ 16,280	\$ 14,759
Building products	8,314	7,054	10,809	10,950
Heat treating	2,710	2,268	5,327	5,336
Corporate	(4,316)	(5,351)	(7,279)	(9,249)
	<u>\$ 15,520</u>	<u>\$ 12,054</u>	<u>\$ 25,137</u>	<u>\$ 21,796</u>
	=====	=====	=====	=====
Depreciation and amortization				
Processed steel products	\$ 1,467	\$ 1,436	\$ 2,919	\$ 2,850
Building products	1,834	1,764	3,651	3,411
Heat treating	1,466	1,438	2,933	2,820
Corporate	274	1,274	547	2,501
	<u>\$ 5,041</u>	<u>\$ 5,912</u>	<u>\$ 10,050</u>	<u>\$ 11,582</u>
	=====	=====	=====	=====
Total assets				
Processed steel products			\$ 142,051	\$ 150,951
Building products			169,257	167,509
Heat treating			80,663	84,144
Corporate			169,722	168,821
			<u>\$ 561,693</u>	<u>\$ 571,425</u>
			=====	=====
Capital expenditures				
Processed steel products	\$ 627	\$ -	\$ 1,002	\$ 1,993
Building products	951	2,001	2,476	4,178
Heat treating	421	409	710	1,341
Corporate	141	133	339	403
	<u>\$ 2,140</u>	<u>\$ 2,543</u>	<u>\$ 4,527</u>	<u>\$ 7,915</u>
	=====	=====	=====	=====

## **8. SUBSEQUENT EVENTS**

On July 1, 2002, the Company purchased all the outstanding capital stock of B&W Heat Treating (1975) Limited (B&W Heat Treating) for approximately \$8.6 million. The purchase price consisted of approximately \$7.9 million payable in cash and 32,655 shares of the Company's common stock valued at \$.7 million. B&W Heat Treating is located in Ontario, Canada and is Canada's largest independent commercial heat treater.

On July 3, 2002, the Company entered into a \$50 million private placement of debt with a financial institution. The private placement, which has an average term of 5.25 years and a blended rate of 8.17%, consists of a \$25 million senior secured note and a \$25 million senior subordinated note.

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

Results of Operations

*Consolidated*

Net sales of \$171.5 million for the second quarter ended June 30, 2002, increased approximately 5% from net sales of \$163.6 million for the prior year's second quarter. Net sales of \$316.2 million for the six months ended June 30, 2002 increased approximately 1% from sales of \$314.1 million for the six months ended June 30, 2001. These increases were primarily due to increased sales resulting from increased production levels in the automotive industry in 2002.

Gross profit as a percentage of net sales increased to 20.6% for the second quarter ended June 30, 2002 from 19.6% in the second quarter of 2001. Gross margin for the first six months of 2002 was 19.8% compared to 19.3% for the same period in 2001. These increases were primarily due to lower raw material and freight costs in 2002 compared to the same period in 2001.

Selling, general and administrative expenses decreased to 11.6% and 11.9% respectively, for the three and six months ended June 30, 2002 compared to 12.2% and 12.3% for the same periods in 2001. These decreases were primarily due to the elimination of goodwill amortization of \$1.1 million and \$2.2 million for the three and six months ended June 30, 2002, respectively, as a result of the implementation of new accounting rules in 2002 partially offset by increased incentive compensation.

As a result of the above, income from operation as a percentage of net sales for the second quarter ended June 30, 2002 increased to 9.0% from 7.4% for the prior year's second quarter. Income from operation as a percentage of net sales for the six months ended June 30, 2002 was 7.9% compared to 7.0% for the same period in 2001.

Interest expense decreased by \$2.3 million and \$4.4 million for the second quarter and six months ended June 30, 2002 compared to the prior year's comparable periods, primarily due to lower interest rates, lower average borrowings during 2002 due to the use of the proceeds from the Company's stock offering in mid-March 2002 and reduced working capital requirements resulting from the Company's focus on asset management.

As a result of the above, income before taxes increased by \$5.8 million and \$7.8 million for the second quarter and six months ended June 30, 2002 from the same periods in 2001.

Income taxes for the second quarter and six months ended June 30, 2002 approximated \$5.4 million and \$8.2 million, respectively and were based on a 40.5% effective tax rate in both periods.

The following provides further information by segment:

*Processed Steel Products*

Net sales of \$70.6 million for the second quarter ended June 30, 2002 increased 11.2% from \$63.5 million for the second quarter of 2001. Net sales for the first six months of 2002 increased by 5.8% to \$133.6 million from \$126.3 million for the comparable period in 2001. These increases were primarily due to increased sales resulting from increased production levels in the automotive industry in 2002.

Income from operations as a percentage of sales for the second quarter ended June 30, 2002 was comparable to the same period in 2001. For the six months ended June 30, 2002, income from operations increased to 12.2% from 11.7% for 2001. The increase for the six months was due primarily to lower raw material and freight costs partially offset by increased direct labor costs.

*Building Products*

Net sales of \$81.1 million for the second quarter ended June 30, 2002, decreased slightly from \$81.6 million for the second quarter of 2001. Net sales for the first six months of 2002 decreased by 3.8% to \$144.3 million from \$150.0 million for the comparable period in 2001. These decreases were primarily due to weaker demand due to general economic conditions in this segment's industry.

Income from operations increased to 10.3% of net sales for the second quarter ended June 30, 2002 from 8.6% for the prior year's second quarter. Income from operations for the first six months of 2002 increased to 7.5% of net sales from 7.3% for the comparable period in 2001. These increases were primarily due to lower raw material costs during the second quarter and six months ended June 30, 2002 than in comparable periods of the prior year.

*Heat Treating*

Net sales of \$19.8 million for the second quarter ended June 30, 2002, increased 7.1% from \$18.5 million for the second quarter of 2001. Net sales for the first six months of 2002 increased by 1.5% to \$38.3 million from \$37.7 million for the comparable period in 2001. These increases were primarily due to increased sales resulting from increased production levels in the automotive industry in 2002.

Income from operations increased to 13.7% of net sales for the second quarter ended June 30, 2002 compared to 12.3% for the same period in 2001. For the six months ended June 30, 2002, income from

operations were comparable to the same period for 2001. The increase for the quarter was due primarily to decreased utility, direct labor and fixed costs as a percentage of higher net sales.

### Liquidity and Capital Resources

The Company's shareholders' equity increased by approximately \$63.6 million to \$281.9 million at June 30, 2002. This increase was primarily due to the receipt of \$50.7 million in net proceeds from the Company's stock offering in March of 2002. These proceeds were used to repay existing debt. During the first six months of 2002, the Company's working capital increased \$16.0 million to approximately \$121.0 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 income of \$12.0 million plus depreciation and amortization of \$10.1 million, combined with an increase in accounts payable and accrued expenses of \$15.3 million, provided cash of \$37.4 million. This cash was offset by \$36.6 million used for working capital purposes, primarily due to an increase in accounts receivable of \$26.6 million as a result of increased sales in the second quarter of 2002 compared to the fourth quarter of 2001 and \$7.6 million increase in inventory levels to support this increased sales volume.

The net proceeds of \$50.7 million from the Company's stock offering plus cash on hand at the beginning of the period were used to pay down \$54.8 million of the Company's revolving credit facility, to fund operations, capital expenditures of \$4.5 million and cash dividends of \$1.0 million.

In June 2002, the Company extended its \$225 million secured revolving credit facility, which includes a \$50 million expansion feature, which was scheduled to expire in April 2003 for a five-year term ending June 30, 2007. At June 30, 2002, the Company's borrowings under this facility were approximately \$152 million resulting in \$73 million of availability.

In July 2002, the Company entered into a \$50 million private placement of debt, which consists of a \$25 million senior secured note due July 3, 2007 with a 7.35% interest rate and a \$25 million senior subordinated note due January 3, 2008 with an 8.98% interest rate. The proceeds of this private placement were used to pay down the Company's secured revolving credit facility.

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

#### 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 - Fourth amended and restated senior secured credit agreement among Gibraltar Steel Corporation, Gibraltar Steel Corporation of New York, JPMorgan Chase Bank as administrative agent and various financial institutions that are signatories thereto.

b. Exhibit 99.1 - Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

2. Reports on Form 8-K. There were no reports on Form 8-K during the three months ended June 30, 2002.

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

By /s/ Walter T. Erazmus  
Walter T. Erazmus  
President

By /s/ John E. Flint  
John E. Flint  
Vice President  
Chief Financial Officer  
(Principal Financial and  
Chief Accounting Officer)

Date August 13, 2002