

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 September 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 September 30, 2001, the number of common shares outstanding was: 12,598,499.

GIBRALTAR STEEL CORPORATION

INDEX

	PAGE NUMBER
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheet September 30, 2001 (unaudited) and December 31, 2000 (audited)	3
Condensed Consolidated Statement of Income Three and nine months ended September 30, 2001 and 2000 (unaudited)	4
Condensed Consolidated Statement of Cash Flows Nine months ended September 30, 2001 and 2000 (unaudited)	5
Notes to Condensed Consolidated Financial Statements (unaudited)	6 - 9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10 - 13
PART II. OTHER INFORMATION	14

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GIBRALTAR STEEL CORPORATION
 CONDENSED CONSOLIDATED BALANCE SHEET
 (in thousands)

	September 30, <u>2001</u> (unaudited)	December 31, <u>2000</u> (audited)
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 5,461	\$ 1,701
Accounts receivable	96,237	78,358
Inventories	83,688	100,987
Other current assets	<u>7,383</u>	<u>6,548</u>
Total current assets	192,769	187,594
Property, plant and equipment, net	230,837	229,159
Goodwill	133,766	130,368
Other assets	<u>7,556</u>	<u>8,925</u>
	<u>\$ 564,928</u>	<u>\$ 556,046</u>
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 60,404	\$ 39,285
Accrued expenses	18,195	15,575
Current maturities of long-term debt	<u>530</u>	<u>327</u>
Total current liabilities	79,129	55,187
Long-term debt	226,496	255,526
Deferred income taxes	36,445	34,325
Other non-current liabilities	6,202	2,660
Shareholders' equity		
Preferred shares	-	-
Common shares	126	126
Additional paid-in capital	69,032	68,475
Retained earnings	149,484	139,747
Accumulated comprehensive loss	<u>(1,986)</u>	<u>-</u>
Total shareholders' equity	<u>216,656</u>	<u>208,348</u>
	<u>\$ 564,928</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 September 30,		Nine Months Ended September 30,	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	(unaudited)		(unaudited)	
Net sales	\$ 161,484	\$ 178,326	\$ 475,584	\$ 527,483
Cost of sales	<u>131,154</u>	<u>142,463</u>	<u>384,688</u>	<u>420,456</u>
Gross profit	30,330	35,863	90,896	107,027
Selling, general and administrative expense	<u>20,479</u>	<u>18,595</u>	<u>59,249</u>	<u>58,025</u>
Income from operations	9,851	17,268	31,647	49,002
Interest expense	<u>3,811</u>	<u>5,086</u>	<u>13,163</u>	<u>13,511</u>
Income before taxes	6,040	12,182	18,484	35,491
Provision for income taxes	<u>2,446</u>	<u>4,934</u>	<u>7,486</u>	<u>14,374</u>
Net income	\$ <u><u>3,594</u></u>	\$ <u><u>7,248</u></u>	\$ <u><u>10,998</u></u>	\$ <u><u>21,117</u></u>
Net income per share - Basic	\$ <u><u>.29</u></u>	\$ <u><u>.58</u></u>	\$ <u><u>.87</u></u>	\$ <u><u>1.68</u></u>
Weighted average number of shares outstanding-Basic	<u>12,597</u>	<u>12,580</u>	<u>12,587</u>	<u>12,580</u>
Net income per share-Diluted	\$ <u><u>.28</u></u>	\$ <u><u>.57</u></u>	\$ <u><u>.86</u></u>	\$ <u><u>1.66</u></u>
Weighted average number of shares outstanding-Diluted	<u>12,821</u>	<u>12,708</u>	<u>12,768</u>	<u>12,700</u>

See accompanying notes to financial statements

GIBRALTAR STEEL CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

	Nine Months Ended September 30,	
	<u>2001</u>	<u>2000</u>
	(unaudited)	
Cash flows from operating activities		
Net income	\$ 10,998	\$ 21,117
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,539	15,763
Provision for deferred income taxes	3,578	3,358
Undistributed equity investment income	478	(461)
Other noncash adjustments	88	87
Increase (decrease) in cash resulting from changes in (net of effects from acquisitions):		
Accounts receivable	(17,251)	(14,481)
Inventories	17,299	(1,977)
Other current assets	(1,332)	(460)
Accounts payable and accrued expenses	23,639	(96)
Other assets	<u>626</u>	<u>(3,175)</u>
Net cash provided by operating activities	<u>55,662</u>	<u>19,675</u>
Cash flows from investing activities		
Acquisitions, net of cash acquired	(10,832)	(43,267)
Purchases of property, plant and equipment	(11,831)	(13,849)
Net proceeds from sale of property and equipment	<u>316</u>	<u>7,335</u>
Net cash used in investing activities	<u>(22,347)</u>	<u>(49,781)</u>
Cash flows from financing activities		
Long-term debt reduction	(62,822)	(43,929)
Proceeds from long-term debt	33,995	73,911
Payment of dividends	(1,197)	(1,069)
Net proceeds from issuance of common stock	<u>469</u>	<u>35</u>
Net cash (used in) provided by financing activities	<u>(29,555)</u>	<u>28,948</u>
Net increase (decrease) in cash and cash equivalents	3,760	(1,158)
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>\$ 5,461</u>	<u>\$ 3,529</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 September 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 September 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 nine month period ended September 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)	
	September 30, 2001	December 31, 2000
	(unaudited)	(audited)
Raw material	\$ 39,951	\$ 54,640
Finished goods and work-in-process	<u>43,737</u>	<u>46,347</u>
Total inventories	\$ 83,688 =====	\$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	-	-	-	10,998	-
Stock options exercised	31	-	469	-	-
Earned portion of restricted stock	-	-	88	-	-
Cash dividends- \$.10 per share	-	-	-	(1,261)	-
Interest rate swap adjustments	-	-	-	-	(1,795)
September 30, 2001	12,598	\$ 126	\$ 69,032	\$149,484	\$(1,986)
	=====				

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 nine months ended September 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 1,088,742 shares of the Company's common stock are outstanding as of September 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 180,425 and 120,064 for the nine month periods ended September 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)	
	Nine Months Ended	
	September 30,	
	2001	2000
	(unaudited)	
Net sales	\$ 476,244	\$ 558,962
	=====	=====
Income before taxes	\$ 18,542	\$ 37,089
	=====	=====
Net income	\$ 11,033	\$ 22,066
	=====	=====
Net income per share-Basic	\$.88	\$ 1.75
	=====	=====

6. 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 up to 12 different processes to produce high-quality, value-added coiled steel products to be further processed by customers.
- (ii) Construction 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 nine month periods ended September 30, 2000 and 2001 (in thousands):

	Three Months Ended September 30, <u>2001</u> <u>2000</u> (unaudited)		Nine Months Ended September 30, <u>2001</u> <u>2000</u> (unaudited)	
Net sales				
Processed steel products	\$ 66,319	\$ 79,769	\$ 192,656	\$ 253,197
Construction products	78,297	79,856	228,333	214,225
Heat treating	<u>16,868</u>	<u>18,701</u>	<u>54,595</u>	<u>60,061</u>
	\$161,484	\$178,326	\$ 475,584	\$ 527,483
	=====	=====	=====	=====
Income from operations				
Processed steel products	\$ 7,332	\$ 9,950	\$ 22,091	\$ 31,444
Construction products	5,254	7,449	16,204	18,767
Heat treating	1,643	2,434	6,979	10,320
Corporate	<u>(4,378)</u>	<u>(2,565)</u>	<u>(13,627)</u>	<u>(11,529)</u>
	\$ 9,851	\$ 17,268	\$ 31,647	\$ 49,002
	=====	=====	=====	=====
Depreciation and amortization				
Processed steel products	\$ 1,457	\$ 1,491	\$ 4,307	\$ 4,395
Construction products	1,765	1,556	5,176	4,271
Heat treating	1,461	1,281	4,281	3,810
Corporate	<u>1,274</u>	<u>1,144</u>	<u>3,775</u>	<u>3,287</u>
	\$ 5,957	\$ 5,472	\$ 17,539	\$ 15,763
	=====	=====	=====	=====
Total assets				
Processed steel products			\$ 147,894	\$ 166,675
Construction products			162,266	163,424
Heat treating			83,275	80,555
Corporate			<u>171,493</u>	<u>168,285</u>
			\$ 564,928	\$ 578,939
			=====	=====
Capital expenditures				
Processed steel products	\$ 1,208	\$ 1,398	\$ 3,201	\$ 3,380
Construction products	2,008	1,335	6,186	5,039
Heat treating	595	1,478	1,936	4,896
Corporate	<u>105</u>	<u>300</u>	<u>508</u>	<u>534</u>
	\$ 3,916	\$ 4,511	\$ 11,831	\$ 13,849
	=====	=====	=====	=====

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

Results of Operations

Consolidated

Net sales of \$161.5 million for the third quarter ended September 30, 2001, decreased 9.4% from net sales of \$178.3 million for the prior year's third quarter. Net sales of \$475.6 million for the nine months ended September 30, 2001, which included net sales of Milcor (acquired July 17, 2000) and PIHT (acquired February 13, 2001) (collectively, the Acquisitions), decreased 9.8% from sales of \$527.5 million for the nine months ended September 30, 2000. These decreases resulted primarily from changes in the general economy, particularly reduced production levels in the automotive industry.

Gross profit decreased to 18.8% of net sales for the third quarter ended September 30, 2001 from 20.1% for the prior year's third quarter. Gross profit decreased to 19.1% of net sales for the first nine months of 2001 from 20.3% for the nine months ended September 30, 2000. These decreases were due primarily to higher transportation, health insurance, utility, labor costs and fixed costs as a percentage of net sales due to lower sales volume in 2001 compared to the same periods for 2000, partially offset by lower raw material costs in 2001.

Selling, general and administrative expenses increased to 12.7% and 12.5% of net sales for the third quarter and nine months ended September 30, 2001, in comparison to 10.4% and 11.0% of net sales for the same periods of 2000. These increases were primarily due to the non-cash charge of \$1.0 million relating to the Company's E-Commerce investment and costs from the Acquisitions, which have higher selling, general and administrative costs as a percentage of net sales than our existing operations, partially offset by decreases in incentive based compensation.

As a result of the above, income from operations as a percentage of net sales for the third quarter ended September 30, 2001 decreased to 6.1% from 9.7% for the prior year's third quarter and to 6.6% for the nine months ended September 30, 2001 from 9.3% for the same period in the prior year.

Interest expense decreased by approximately \$1.3 million and \$.3 million for the third quarter and nine months ended September 30, 2001 over the prior year's comparable periods, primarily due to decreases in interest rates offset by interest costs related to higher average borrowings during 2001 to finance acquisitions and capital expenditures.

As a result of the above, income before taxes decreased by \$6.1 million and \$17.0 million for the third quarter and nine months ended September 30, 2001 from the same periods in 2000.

Income taxes for the third quarter and nine months ended September 30, 2001 approximated \$2.4 million and \$7.5 million 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 \$66.3 million for the third quarter ended September 30, 2001, decreased 16.9% from net sales of \$79.8 million for the prior year's third quarter. Net sales of \$192.7 million for the nine months ended September 30, 2001, decreased 23.9% from sales of \$253.2 for the nine months ended September 30, 2000. These decreases were primarily due to changes in the general economy, particularly reduced production levels in the automotive industry.

Income from operations decreased to 11.1% of net sales for the third quarter ended September 30, 2001 from 12.5% for the prior year's third quarter. Income from operations decreased to 11.5% of net sales for the nine months ended September 30, 2001 from 12.4% for the same period in 2000. These decreases were primarily due to higher health insurance and utility costs as a percentage of net sales, partially offset by lower raw material costs.

Construction Products

Net sales of \$78.3 million for the third quarter ended September 30, 2001, decreased 2.0% from net sales of \$79.8 million for the prior year's third quarter. Net sales of \$228.3 million for the nine months ended September 30, 2001, increased 6.6% from sales of \$214.2 million for the nine months ended September 30, 2000. The sales decrease in the third quarter of 2001 was primarily due to changes in the general economy. The sales increase for the nine months ended September 30, 2001 was primarily due to including the sales of Milcor (the 2000 acquisition), partially offset by sales decreases at existing operations due to changes in the general economy.

Income from operations decreased to 6.7% of net sales for the third quarter ended September 30, 2001 from 9.3% for the prior year's third quarter. Income from operations for the nine months ended September 30, 2001 decreased to 7.1% of net sales from 8.8% for the same period in 2000. These decreases were primarily due to higher costs as a percentage of net sales from the 2000 acquisition, higher freight, transportation and utility costs at existing operations, and during the third quarter higher material costs. These cost increases were partially offset by decreases as a percentage of net sales in incentive based compensation and other employee costs at existing operations.

Heat Treating

Net sales of \$16.9 million for the third quarter ended September 30, 2001, decreased 9.8% from net sales of \$18.7 million for the prior year's third quarter. Net sales of \$54.6 million for the nine months ended September 30, 2001, decreased 9.1% from sales of \$60.1 million for the nine months ended September 30, 2000. These decreases were primarily due to changes in the general economy, particularly reduced production levels in the automotive industry, partially offset by including the net sales of PIHT (the 2001 acquisition).

Income from operations decreased to 9.7% of net sales for the third quarter ended September 30, 2001 from 13.0% for the prior year's third quarter. Income from operations decreased to 12.8% of net sales for the nine months ended September 30, 2001 from 17.2% for the same period in 2000. These decreases were primarily due to higher health insurance and utility costs as a percentage of net sales at existing operations, partially offset by decreases in incentive based compensation and by lower costs as a percentage of net sales resulting from the 2001 acquisition.

Liquidity and Capital Resources

Shareholders' equity increased by approximately \$8.3 million at September 30, 2001 to \$216.7 million. During the first nine months of 2001, the Company's working capital decreased \$18.8 million to approximately \$113.6 million, primarily due to the use of working capital to pay down long-term debt related to the Company's revolving credit facility.

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 \$55.7 million resulted primarily from net income of \$11.0 million, depreciation and amortization of \$17.5 million, and a decrease in inventories of \$17.3 million. These sources of cash together with \$23.6 million of cash provided from an increase in accounts payable and accruals were partially offset by an increase in accounts receivable of \$17.3 million due to increased sales in the third quarter of 2001 compared to the fourth quarter of 2000.

The \$55.7 million of net cash provided by operations was used to pay down \$28.8 million of the Company's revolving credit and to fund the \$10.8 million acquisition of PIHT, capital expenditures of \$11.8 million and cash dividends of \$1.2 million.

At September 30, 2001 the Company's revolving credit facility available approximated \$310 million, with borrowings of approximately \$222 million and an additional availability of approximately \$88 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. Management is currently assessing the impact FAS No. 141 or FAS No. 142 will have on the Company's results of operations.

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 - Second Amendment to Third Amended and Restated Credit Agreement.

2. Reports on Form 8-K. There were no reports on Form 8-K during the three months ended September 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 /x/ Brian J. Lipke
Brian J. Lipke
Chief Executive Officer and
Chairman of the Board

By /x/ Walter T. Erazmus
Walter T. Erazmus
President

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

Date November 13, 2001