GIBRALTAR INDUSTRIES, INC.
Form 10-Q
October 28, 2014

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from to

Commission File Number 0-22462

GIBRALTAR INDUSTRIES, INC.
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	16-1445150 (I.R.S. Employer Identification No.)
3556 Lake Shore Road, P.O. Box 2028 Buffalo, New York	14219-0228
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (716) 826-6500

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 ¨

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.). Yes ¨ No x

As of October 24, 2014, the number of common shares outstanding was: 30,904,533

Table of Contents

GIBRALTAR INDUSTRIES, INC.
INDEX

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
GIBRALTAR INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net Sales	$234,101	$217,412	$660,093	$638,732
Cost of sales	192,523	175,650	548,528	516,087
Gross profit	41,578	41,762	111,565	122,645
Selling, general, and administrative expense	23,186	24,754	78,167	84,158
Intangible asset impairment	—	23,160	—	23,160
Income (loss) from operations	18,392	(6,152)	33,398	15,327
Interest expense	3,657	3,828	10,988	18,678
Other income	(664)	(66)	(172)	(141)
Income (loss) before taxes	15,399	(9,914)	22,582	(3,210)
Provision for income taxes	5,828	3,813	8,666	6,428
Income (loss) from continuing operations	9,571	(13,727)	13,916	(9,638)
Discontinued operations:				
Loss before taxes	(51)	—	(51)	(7)
Benefit of income taxes	(20)	—	(20)	(3)
Loss from discontinued operations	(31)	—	(31)	(4)
Net income (loss)	$9,540	$(13,727)	$13,885	$(9,642)
Net earnings per share – Basic:				
Income (loss) from continuing operations	$0.31	$(0.44)	$0.45	$(0.31)
Loss from discontinued operations	(0.01)	—	(0.01)	—
Net income (loss)	$0.30	$(0.44)	$0.44	$(0.31)
Weighted average shares outstanding – Basic	31,083	30,946	31,046	30,916
Net earnings per share – Diluted:				
Income (loss) from continuing operations	$0.31	$(0.44)	$0.45	$(0.31)
Loss from discontinued operations	(0.01)	—	(0.01)	—
Net income (loss)	$0.30	$(0.44)	$0.44	$(0.31)
Weighted average shares outstanding – Diluted	31,298	30,946	31,256	30,916

See accompanying notes to consolidated financial statements.

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss)	$9,540	$(13,727)	$13,885	$(9,642)
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(2,734)	2,539	(2,096)	(1,362)
Net change in unrealized gain (loss) on cash flow hedges, net of tax	714	—	(242)	—
Adjustment to retirement benefit liability, net of tax	2	3	6	7
Adjustment to post-retirement health care liability, net of tax	19	18	56	56
Other comprehensive (loss) income	(1,999)	2,560	(2,276)	(1,299)
Total comprehensive income (loss)	$7,541	$(11,167)	$11,609	$(10,941)

See accompanying notes to consolidated financial statements.

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
(unaudited)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$101,013	$97,039
Accounts receivable, net of reserve of $4,625 and $4,774 in 2014 and 2013	120,257	90,082
Inventories	126,085	121,152
Other current assets	15,992	14,127
Total current assets	363,347	322,400
Property, plant, and equipment, net	130,819	131,752
Goodwill	340,882	341,174
Acquired intangibles	87,259	91,777
Other assets	7,201	7,059
	$929,508	$894,162
Liabilities and Shareholders’ Equity		
Current liabilities:		
Accounts payable	$92,163	$69,625
Accrued expenses	52,031	49,879
Current maturities of long-term debt	400	409
Total current liabilities	144,594	119,913
Long-term debt	213,200	213,598
Deferred income taxes	55,144	55,124
Other non-current liabilities	30,730	33,778
Shareholders’ equity:		
Preferred stock, $0.01 par value; authorized 10,000 shares; none outstanding	—	—
Common stock, $0.01 par value; authorized 50,000 shares; 31,318 and 31,131 shares issued in 2014 and 2013	313	311
Additional paid-in capital	246,374	243,389
Retained earnings	250,334	236,449
Accumulated other comprehensive loss	(5,861)	(3,585)
Cost of 424 and 395 common shares held in treasury in 2014 and 2013	(5,320)	(4,815)
Total shareholders’ equity	485,840	471,749
	$929,508	$894,162

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Nine Months Ended September 30, 2014	2013
Cash Flows from Operating Activities		
Net income (loss)	$13,885	$(9,642)
Loss from discontinued operations	(31)	(4)
Income (loss) from continuing operations	13,916	(9,638)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Intangible asset impairment	—	23,160
Depreciation and amortization	19,452	20,396
Stock compensation expense	2,379	2,138
Other non-cash adjustments	(1,579)	4,002
Non-cash charges to interest expense	772	736
Provision for deferred income tax	77	33
Loss on early note redemption	—	7,166
Increase (decrease) in cash resulting from changes in the following (excluding the effects of acquisitions):		
Accounts receivable	(33,031)	(25,352)
Inventories	(5,526)	(211)
Other current assets and other assets	(1,202)	(602)
Accounts payable	22,260	11,919
Accrued expenses and other non-current liabilities	667	4,169
Net cash provided by operating activities of continuing operations	18,185	37,916
Net cash used in operating activities of discontinued operations	(40)	(9)
Net cash provided by operating activities	18,145	37,907
Cash Flows from Investing Activities		
Purchases of property, plant, and equipment	(19,180)	(8,816)
Net proceeds from sale of property and equipment	5,958	12,447
Cash paid for acquisitions, net of cash acquired	—	(5,344)
Other investing activities	121	—
Net cash used in investing activities	(13,101)	(1,713)
Cash Flows from Financing Activities		
Proceeds from long-term debt	—	210,000
Long-term debt payments	(407)	(205,084)
Payment of deferred financing costs	—	(3,858)
Payment of note redemption fees	—	(3,702)
Purchase of treasury stock at market prices	(505)	(642)
Net proceeds from issuance of common stock	508	342
Excess tax benefit from stock compensation	99	62
Net cash used in financing activities	(305)	(2,882)
Effect of exchange rate changes on cash	(765)	(492)
Net increase in cash and cash equivalents	3,974	32,820
Cash and cash equivalents at beginning of year	97,039	48,028
Cash and cash equivalents at end of period	$101,013	$80,848

See accompanying notes to consolidated financial statements.

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(in thousands)
(unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance at December 31, 2013	31,131	$311	$243,389	$236,449	$ (3,585)	395	$(4,815)	$471,749
Net income	—	—	—	13,885	—	—	—	13,885
Stock compensation expense	—	—	2,379	—	—	—	—	2,379
Excess tax benefit from stock compensation	—	—	99	—	—	—	—	99
Stock options exercised	44	1	508	—	—	—	—	509
Issuance of restricted stock	22	—	—	—	—	—	—	—
Net settlement of restricted stock units	121	1	(1)	—	—	29	(505)	(505)
Total other comprehensive loss	—	—	—	—	(2,276)	—	—	(2,276)
Balance at September 30, 2014	31,318	$313	$246,374	$250,334	$ (5,861)	424	$(5,320)	$485,840

See accompanying notes to consolidated financial statements.

Table of Contents

GIBRALTAR INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
1. CONSOLIDATED FINANCIAL STATEMENTS
The accompanying consolidated financial statements have been prepared by Gibraltar Industries, Inc. (the Company) without audit. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) necessary to present fairly the results of operations and other comprehensive income for the three and nine months ended September 30, 2014 and 2013, the financial position at September 30, 2014 and December 31, 2013, the statements of cash flow for the nine months ended September 30, 2014 and 2013, and the statement of shareholders' equity for the nine months ended September 30, 2014 have been included therein in accordance with U.S. Securities and Exchange Commission (SEC) rules and regulations and prepared using the same accounting principles as are used for our annual audited financial statements.
Certain information and footnote disclosures, including significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted in accordance with the prescribed SEC rules. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and footnotes included in the Company's Annual Report for the year ended December 31, 2013 as filed on Form 10-K.
The consolidated balance sheet at December 31, 2013 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.
The results of operations for the three and nine month periods ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year. The Company is subject to seasonal fluctuations in its businesses primarily due to reduced activity in the first and fourth quarters for the industries which we serve due to inclement weather.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2013-11, "Income Taxes" (Topic 740). The amendments in this Update affect the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The Company adopted the amendments in this Update on the effective date of December 15, 2013. The adoption of Update 2013-11 does not have a material impact on the Company's consolidated financial results.

In April 2014, the FASB issued Accounting Standards Update 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)". The amendments in this update affect the presentation on the financial statements of assets which are disposed of or classified as held for sale. The amendments in Topic 205 and 360 are effective prospectively beginning on December 15, 2014. Early adoption is permitted, but only for disposals, or classifications of assets held for sale, that have not been reported in financial statements previously issued or available for issuance. The Company does not expect the adoption of Update 2014-08 to have a material impact on the Company's consolidated financial results.

In May 2014, the FASB issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers" (Topic 606). The update clarifies the principles for recognizing revenue and develops a common standard for U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards. More specifically, the core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in Topic 606 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the impact of adopting the new standard on revenue recognition and its consolidated financial statements.

In June 2014, the FASB issued Accounting Standards Update 2014-12, "Compensation - Stock Compensation" (Topic 718). The amendments in this update require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The amendments in Topic 718 are effective either prospectively to all awards granted or modified after the effective date, or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and all new or modified awards thereafter. The effective date of this pronouncement is December 15, 2015 and early adoption is permitted. The Company does not expect the adoption of Topic 718 to have a material impact on the Company's consolidated financial results.

Table of Contents

3. INVENTORIES
Inventories consist of the following (in thousands):

	September 30, 2014	December 31, 2013
Raw material	$58,788	$52,751
Work-in-process	11,237	11,100
Finished goods	56,060	57,301
Total inventories	$126,085	$121,152

4. ACQUISITIONS
In September 2013, the Company purchased the assets of a domestic designer and distributor of solar-powered roof and attic ventilation products. The results of this acquisition have been included in the Company's consolidated financial results since the date of acquisition (included in the Company's Residential Products segment). The fair value of the aggregate purchase consideration for the assets acquired was $7,454,000. As part of the purchase agreement, the Company is required to pay additional consideration, or an earn-out provision, based on the acquired business's EBITDA (Earnings Before Interest, Taxes Depreciation and Amortization) through the last day of the twenty-fourth month following the closing date of the acquisition. The Company expects to make payments of additional consideration through the end of 2015. The purchase agreement does not provide for a limit of the amount of additional consideration. The Company recorded a payable of $2,322,000 to reflect the fair value of the Company's obligation at the date of the acquisition. Adjustments to this payable are and will be reflected in the Company's Statement of Operations. The fair value of the Company's obligation was $410,000 as of September 30, 2014, which resulted in a $781,000 and a $1,523,000 gain recorded in SG&A during the three and nine months ended September 30, 2014, respectively. The Company also recorded $16,000 and $69,000 to interest expense for this obligation during the three and nine months ended September 30, 2014.
The purchase price for the acquisition was allocated to the assets acquired and liabilities assumed based upon their respective fair values. The excess consideration was recorded as goodwill and totaled $2,466,000, all of which is deductible for tax purposes. Goodwill represents future economic benefits arising from other assets acquired that could not be individually identified including growth opportunities and increased presence in the building products markets.

The allocation of purchase consideration to the assets acquired and liabilities assumed during 2013 are as follows (in thousands):

Working capital	$2,665
Property, plant, and equipment	153
Acquired intangible assets	2,170
Goodwill	2,466
Fair value of purchase consideration	$7,454

The intangible assets acquired in this acquisition consisted of the following (in thousands):

	Fair Value	Estimated Useful Life
Trademarks	$640	Indefinite
Technology	260	15 years
Customer relationships	1,130	15 years
Non-compete agreements	140	5 years
Total	$2,170	

Table of Contents

The 2013 acquisition was financed through cash on hand. The Company incurred certain acquisition-related costs composed of legal and consulting fees, and these costs were recognized as a component of selling, general and administrative expenses in the consolidated statement of operations. The Company also recognized costs related to the sale of inventory at fair value as a result of allocating the purchase price of this acquisition. All acquisition related costs (including the gain recognized as a result of the calculation of the earn-out obligation at fair value) consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Selling, general and administrative costs	$(781)	$76	$(1,521)	$196
Cost of sales	—	69	206	272
Total acquisition related costs	$(781)	$145	$(1,315)	$468

5. GOODWILL AND RELATED INTANGIBLE ASSETS

Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 30, 2014 are as follows (in thousands):

	Residential Products	Industrial and Infrastructure Products	Total
Balance at December 31, 2013	$195,520	$145,654	$341,174
Foreign currency translation	—	(292)	(292)
Balance at September 30, 2014	$195,520	$145,362	$340,882

The goodwill balances as of September 30, 2014 and December 31, 2013 are net of accumulated impairment losses of $150,965,000.

Acquired Intangible Assets

Acquired intangible assets consist of the following (in thousands):

	September 30, 2014		December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Estimated Life
Indefinite-lived intangible assets:					
Trademarks	$45,576	$—	$45,724	$—	Indefinite
Finite-lived intangible assets:					
Trademarks	3,937	1,732	3,989	1,420	2 to 15 Years
Unpatented technology	24,690	8,321	24,690	6,980	5 to 20 Years
Customer relationships	53,763	31,069	54,171	28,926	5 to 16 Years
Non-compete agreements	1,937	1,522	1,937	1,408	4 to 10 Years
Backlog	1,330	1,330	1,330	1,330	1 to 2 Years
	85,657	43,974	86,117	40,064	
Total acquired intangible assets	$131,233	$43,974	$131,841	$40,064	

The following table summarizes the acquired intangible asset amortization expense for the three and nine months ended September 30 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Amortization expense	$1,425	$1,622	$4,299	$5,018

10

Table of Contents

Amortization expense related to acquired intangible assets for the remainder of fiscal 2014 and the next five years thereafter is estimated as follows (in thousands):

2014	$1,422
2015	$5,581
2016	$4,246
2017	$4,883
2018	$4,321
2019	$3,650

6. RELATED PARTY TRANSACTIONS

A member of the Company's Board of Directors, Gerald S. Lippes, is a partner in a law firm that provides legal services to the Company. At September 30, 2014 and December 31, 2013, the Company had $338,000 and $296,000, respectively, recorded in accounts payable for amounts due to this law firm. For the three and nine months ended September 30, 2014 and 2013, the Company incurred the following costs for legal services from this firm, including services provided in 2013 in connection with the note refinancing and classified as deferred financing costs (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Selling, general, and administrative expense	$339	$579	$974	$1,014
Capitalized as deferred financing costs	—	—	—	223
Total related-party legal costs	$339	$579	$974	$1,237

Effective September 30, 2013, Henning N. Kornbrekke, the former President and Chief Operating Officer, retired and entered into a consulting agreement with the Company. Through this agreement, he will serve as a consultant to the Company through December 2014 for a monetary fee of $10,000 per month.

7. LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	September 30, 2014	December 31, 2013
Senior Subordinated 6.25% Notes	$210,000	$210,000
Other debt	3,600	4,007
Total debt	213,600	214,007
Less current maturities	400	409
Total long-term debt	$213,200	$213,598

On January 31, 2013, the Company issued $210 million of 6.25% Senior Subordinated Notes (6.25% Notes) due February 1, 2021. In connection with the issuance of the 6.25% Notes, the Company initiated a tender offer for the purchase of the outstanding $204 million of 8% Senior Subordinated Notes (8% Notes). Simultaneously with the closing of the sale of the 6.25% Notes, the Company purchased tendered notes or called for redemption of all of the remaining 8% Notes that were not purchased. In connection with the redemption and tender offer, the Company satisfied and discharged its obligations under the 8% Notes during the first quarter of 2013. The Company recorded a charge of approximately $7,166,000 in the first quarter of 2013, including $3,702,000 for the prepayment premium paid to holders of the 8% Notes, $2,199,000 to write-off deferred financing fees and $1,265,000 for the unamortized original issue discount related to the 8% Notes. In connection with the issuance of the 6.25% Notes, the Company paid $3,755,000 in placement and other fees which are recorded as deferred financing costs, which are included in other assets and are being amortized over the term of the 6.25% Notes.

Table of Contents

Separately, we have a Senior Credit Agreement entered into during 2011 that provides both a revolving credit facility and letters of credit which in an aggregate amount, are not permitted to exceed the lesser of (i) $200 million and (ii) a borrowing base determined by reference to the trade receivables, inventories, and property, plant, and equipment of the Company’s significant domestic subsidiaries. Borrowings under the Senior Credit Agreement are secured by the trade receivables, inventory, personal property, equipment, and certain real property of the Company’s significant domestic subsidiaries. The Senior Credit Agreement is also guaranteed by each of the Company’s significant domestic subsidiaries. The Company can request additional financing from the lenders under the Senior Credit Facility to increase the revolving credit facility to $250 million under the terms of the Senior Credit Agreement. We have had no borrowing against the Senior Credit Agreement since October 2012.

The Senior Credit Agreement is currently committed through October 10, 2016. Interest rates on the revolving credit facility are based on the London Interbank Offering Rate (LIBOR) plus an additional margin of 2.0% to 2.5%. In addition, the revolving credit facility is subject to an annual commitment fee calculated as 0.375% of the daily average undrawn balance.

Standby letters of credit issued under the Senior Credit Agreement to third parties on behalf of the Company, which, as of September 30, 2014 amounted to $20,863,000 . These letters of credit reduce the amount otherwise available under the revolving credit facility. As of September 30, 2014, based upon the Company’s current borrowing base calculation, the Company had $109,321,000 of availability under the revolving credit facility.

On a trailing four-quarter basis, the Senior Credit Agreement includes a single financial covenant that requires the Company to maintain a minimum fixed charge coverage ratio of 1.25 to 1.00 at the end of each quarter. As of September 30, 2014, the Company was in compliance with this financial covenant. The Senior Credit Agreement contains other provisions and events of default that are customary for similar agreements and may limit the Company’s ability to take various actions.

8. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Foreign Currency Translation Adjustment	Cash Flow Hedges	Minimum Pension Liability Adjustment	Unamortized Post Retirement Health Care Costs	Total Pre-Tax Amount	Tax (Benefit) Expense	Accumulated Other Comprehensive Loss
Balance at December 31, 2013	$ (2,201)	$—	$ 76	$ (2,256)	$ (4,381)	$ (796)	$ (3,585)
Unrealized loss on cash flow hedge	—	(555)	—	—	(555)	(203)	(352)
Realized gain on cash flow hedge	—	173	—	—	173	63	110
Minimum pension and post retirement health care plan adjustments	—	—	11	91	102	40	62
Foreign currency translation loss	(2,096)	—	—	—	(2,096)	—	(2,096)
Balance at September 30, 2014	$ (4,297)	$ (382)	$ 87	$ (2,165)	$ (6,757)	$ (896)	$ (5,861)

The realized losses relating to the Company’s foreign currency cash flow hedges were reclassified from Accumulated Other Comprehensive Loss and included in net sales in the Consolidated Statement of Operations.

The realized adjustments relating to the Company’s minimum pension liability and post retirement health care costs were reclassified from Accumulated Other Comprehensive Loss and included in Selling, General and Administrative

Expenses in the Consolidated Statement of Operations.

The estimated net amount of the existing unrealized loss on cash flow hedges that is expected to be reclassified into earnings within the next twelve months is $382,000.

Table of Contents

9. EQUITY-BASED COMPENSATION

Equity-based payments to employees and directors, including grants of stock options, restricted stock units, and restricted stock, are recognized in the statements of operations based on the grant-date fair value of the award. The Company uses the straight-line method of attributing the value of stock-based compensation expense over the vesting periods. Stock compensation expense recognized during the period is based on the value of the portion of equity-based awards that is ultimately expected to vest during the period. Vesting requirements vary for directors, executives, and key employees with a vesting period that typically equals four years with graded vesting.

The Gibraltar Industries, Inc. 2005 Equity Incentive Plan (the Plan) is an incentive compensation plan that allows the Company to grant equity-based incentive compensation awards to eligible participants to provide them an additional incentive to promote the business of the Company, to increase their proprietary interest in the success of the Company, and to encourage them to remain in the Company's employ. Awards under the plan may be in the form of options, restricted shares, restricted units, performance shares, performance stock units, and rights. The Plan provides for the issuance of up to 3,000,000 shares of common stock. Of the total number of shares of common stock issuable under the Plan, the aggregate number of shares which may be issued in connection with grants of incentive stock options and rights cannot exceed 900,000 shares. Vesting terms and award life are governed by the award document.

Restricted Stock Units and Restricted Shares

The following table provides the number of restricted stock units (that will convert to shares upon vesting) and restricted shares that were issued during the nine months ended September 30, along with the weighted average grant date fair value of each award:

	2014		2013	
Awards	Number of Awards	Weighted Average Grant Date Fair Value	Number of Awards	Weighted Average Grant Date Fair Value
Restricted stock units	168,857	$17.17	78,405	$12.86
Restricted shares	21,721	$16.76	13,188	$16.83

Performance Stock Units

In January 2012, the Company awarded 295,000 performance stock units with a grant date fair value of $4,152,000. As of September 30, 2014, 280,000 of the originally awarded performance stock units remained outstanding after forfeitures. The final number of performance stock units earned was based on the Company's total stockholder returns relative to the S&P Small Cap 600 Index for the calendar year of 2012. During the performance period, the participants earned an aggregate of 163,200 performance stock units, representing 58.3% of the targeted award of 280,000 units.

In January 2013, the Company awarded 304,000 performance stock units with a grant date fair value of $4,123,000. As of September 30, 2014, 237,000 of the originally awarded performance stock units remained outstanding after forfeitures. The final number of performance stock units earned was determined based on the Company's actual return on invested capital (ROIC) for 2013 relative to the improved ROIC targeted for the performance period ending December 31, 2013. During the performance period, the participants earned an aggregate of 114,000 performance stock units, representing 50% of the targeted award of 237,000 units.

In January 2014 and June 2014, the Company awarded 212,000 and 19,000, respectively, of performance stock units with a grant date fair value of $3,914,000 and $319,000, respectively. As of September 30, 2014, 224,000 of the originally awarded performance stock units remain outstanding after forfeitures. The final number of performance stock units earned will be determined based on the Company's actual return on invested capital (ROIC) for 2014.

The cost of the 2012, 2013, and 2014 performance stock units will be recognized over the requisite vesting period, which ranges between one year and three years, depending on the date a participant turns 60 and completes 5 years of service. After the vesting period, any performance stock units earned will convert to cash based on the trailing 90-day closing price of the Company’s common stock as of December 31, 2014, 2015, and 2016 and be payable to participants in January 2015, 2016, and 2017, respectively.

Table of Contents

The following table summarizes the compensation expense recognized for the performance stock units for the three and nine months ended September 30, (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Performance stock unit compensation (recovery) expense	$(261)	$(1,414)	$45	$683

Management Stock Purchase Plan

The Management Stock Purchase Plan (MSPP) is an integral component of the Plan and provides participants the ability to defer a portion of their salary, their annual bonus under the Management Incentive Compensation Plan, and Directors' fees. The deferral is converted to restricted stock units and credited to an account together with a company-match in restricted stock units equal to a percentage of the deferral amount. The account is converted to cash at the trailing 200-day average closing price of the Company's stock and payable to the participants upon a termination of their service to the Company. The matching portion vests only if the participant has reached their sixtieth (60th) birthday. If a participant terminates their service to the Company prior to age sixty (60), the match is forfeited. Upon termination, the account is converted to a cash account that accrues interest at 2% over the then current ten-year U.S. Treasury note rate. The account is then paid out in either one lump sum, or in five or ten equal annual cash installments at the participant's election.

The fair value of restricted stock units held in the MSPP equals the trailing 200-day average closing price of the Company's common stock as of the last day of the period. During the nine months ended September 30, 2014 and 2013, 116,708 and 121,488 restricted stock units, respectively, including the company-match, were credited to participant accounts. At September 30, 2014 and December 31, 2013, the value of the restricted stock units in the MSPP was $16.73 and $15.97 per unit, respectively. At September 30, 2014 and December 31, 2013, 731,597 and 614,888 restricted stock units, including the company-match, were credited to participant accounts including 62,349 and 47,268, respectively, of unvested restricted stock units. The Company made disbursements of $2,120,000 out of the MSPP during the nine months ended September 30, 2014, respectively, and $531,000 out of the MSPP during the nine months ended September 30, 2013.

10. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to certain risks arising from both its business operations and economic conditions. The primary risks that the Company manages through its derivative instruments are foreign currency exchange rate risk and commodity pricing risk. Accordingly, we have instituted hedging programs that are accounted for in accordance with Topic 815, "Derivatives and Hedging."

- Our foreign currency hedging program is a cash flow hedge program designed to limit the exposure to variability in expected future cash flows. The Company uses foreign currency forward agreements and currency options, all of which mature within two years, to manage its exposure to fluctuations in the foreign currency exchange rates. These contracts are designated as hedging instruments in accordance with Topic 815.

- Our commodity price hedging program is designed to mitigate the risks associated with market fluctuations in the price of commodities. The Company uses commodity options, which are classified as economic hedges, to manage this risk. All economic hedges are recorded at fair value through earnings, as the Company does not qualify to use the hedge accounting designation as prescribed by Topic 815.

Although certain of our derivative financial instruments do not qualify or are not accounted for under hedge accounting, we do not hold or issue derivative financial instruments for trading or other speculative purposes. We monitor our derivative positions using techniques including market valuations and sensitivity analyses. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability. These changes in fair value are attributable to the earnings effect of the hedged forecasted transactions in a cash flow hedge.

We consider the classification of the underlying hedged item's cash flows in determining the classification for the designated derivative instrument's cash flows. In the event that hedge accounting is discontinued, cash flows subsequent to the date of discontinuance are classified within investing activities. We classify derivative instrument cash flows from hedges of changes in foreign currency as operating activities due to the nature of the hedged item. Cash flows from derivative instruments not designated under hedge accounting, such as our aluminum price options, are classified as investing activities.

Table of Contents

Derivatives Designated as Hedging Instruments
To minimize foreign currency exposure, the Company had a foreign currency forward with a notional amount of $5,600,000 at September 30, 2014. This derivative instrument matures in December 2014.

This foreign currency forward is recorded in the consolidated balance sheet at fair value and the related gains or losses are deferred in shareholders' equity as a component of other comprehensive income. These deferred gains and losses are reclassified into earnings and reported in net sales in the period that the hedged forecasted transaction affects earnings. However, to the extent that the forward is not effective in offsetting the change in the value of the revenue being hedged, the ineffective portions of these contracts are recognized in earnings immediately. During the three and nine months ended September 30, 2014, the ineffective portions of any hedges were immaterial.

Derivatives not designated as hedging instruments
To minimize commodity price exposure, the Company had commodity options with notional amounts of $12,600,000 at September 30, 2014. These derivative instruments mature at various times through January 2016.

To minimize foreign currency exposure, the Company had foreign currency forwards with notional amounts of $11,200,000 and foreign currency options with notional amounts of $94,000,000 at September 30, 2014. These derivative instruments mature at various times through February 2016.

These commodity options, foreign exchange forward and forward exchange options are recorded in the consolidated balance sheet at fair value and the resulting gains or losses are recorded to other income in the consolidated statement of operations. The (gains) losses recognized for the three and nine months ended September 30, are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives not designated as hedging instruments	2014	2013	2014	2013
Commodity options	$(153)	$—	$119	$—
Foreign exchange forwards	(237)	—	(237)	—
Foreign exchange options (1)	(303)	—	(303)	—
Total non-designated derivative realized (gain) loss, net	$(693)	$—	$(421)	$—

(1) Includes a loss of $321,000 for the discontinuation of cash flow hedges for which the forecasted transactions are not expected to occur within the originally forecasted time frame.

Summary of Derivatives
Derivatives consist of the following (in thousands):

		September 30, 2014	December 31, 2013
Derivatives designated as hedging instruments	Classification	Fair Value	Fair Value
Foreign exchange forward	Other current assets	$82	$—
	Total assets	$82	$—
Derivatives not designated as hedging instruments			
Commodity options	Other current assets	$941	$—
Commodity options	Other assets	582	—
Foreign exchange forwards	Other current assets	165	—
Foreign exchange options	Other current assets	786	—
Foreign exchange options	Other assets	684	—

Total assets	$3,158	$—

Table of Contents

11. FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, “Fair Value Measurements and Disclosures,” defines fair value, sets out a framework for measuring fair value, and requires certain disclosures about fair value measurements. A fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability. Fair value is defined based upon an exit price model. ASC 820 establishes a valuation hierarchy for disclosure of the inputs used to measure fair value into three broad levels. A financial asset or liability’s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement as follows:

- Level 1 - Unadjusted quoted prices in active markets that are accessible to the reporting entity at the measurement date for identical assets and liabilities.
- Level 2 - Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.
- Level 3 - Unobservable inputs for the assets or liability supported by little or no market activity. Level 3 inputs are based on the Company’s assumptions used to measure assets and liabilities at fair value.

As described in Note 4 of the consolidated financial statements, the Company acquired the assets of one business during the year ended December 31, 2013. The estimated fair values allocated to the assets acquired and liabilities assumed relied upon fair value measurements based in part on Level 3 inputs. The valuation techniques used to assign fair values to inventory, property, plant and equipment, and intangible assets included the cost approach, market approach, relief-from-royalty approach, and other income approaches. The valuation techniques relied on a number of inputs that included the cost and condition of the property, plant and equipment, forecasted net sales and incomes, and royalty rates. In addition, the Company has a contingent consideration liability related to the earn-out provision for the 2013 acquisition discussed in Note 4 that is recorded at fair value on a recurring basis each reporting period. A discounted cash flow analysis, which takes into account a discount rate, forecasted EBITDA of the acquired business and the Company’s estimate of the probability of the acquired business achieving the forecasted EBITDA is used to determine the fair value of this liability at each reporting period until the liability will be settled in 2015. The fair value of this liability is determined using Level 3 inputs. The fair value of this liability is sensitive primarily to changes in the forecasted EBITDA of the acquired business.

As described in Note 10 of the consolidated financial statements, the Company holds derivative foreign currency exchange forwards, foreign currency exchange options and commodity options. The fair values of foreign currency exchange contracts are determined through the use of cash flow models that utilize observable market data inputs to estimate fair value. These observable market data inputs include foreign exchange rate and credit spread curves. In addition, the Company received fair value estimates from the foreign currency contract counterparties to verify the reasonableness of the Company’s estimates.

The fair value of commodity options is determined through the use of cash flow models that utilize observable market data inputs to estimate fair value. These observable market data inputs include forward rates and implied volatility. In addition, the Company received fair value estimates from the commodity contract counterparty to verify the reasonableness of the Company’s estimates.

The Company’s other financial instruments primarily consist of cash and cash equivalents, accounts receivable, notes receivable, and accounts payable, and long-term debt. The carrying values for our financial instruments approximate fair value with the exception, at times, of long-term debt. At September 30, 2014 and December 31, 2013, the carrying value of outstanding debt was $213,600,000 and $214,007,000, respectively. The fair value of the Company’s Senior Subordinated 6.25% Notes was estimated based on quoted market prices.

Table of Contents

The following table sets forth by level, within the fair value hierarchy, our assets (liabilities) carried at fair value as of September 30, 2014 and December 31, 2013 (in thousands):

		September 30, 2014			
	Classification	Level 1	Level 2	Level 3	Total
Carried at fair value					
Contingent consideration liability	Accrued expenses	$—	$—	$410	$410
Foreign currency exchange forwards	Other current assets	—	247	—	247
Foreign currency exchange options	Other current assets	—	786	—	786
Foreign currency exchange options	Other assets	—	684	—	684
Commodity instruments	Other current assets	—	941	—	941
Commodity instruments	Other assets	—	582	—	582
Disclosed at fair value					
Senior Subordinated 6.25% Notes	Long-term debt	$217	$—	$—	$217

		December 31, 2013			
	Classification	Level 1	Level 2	Level 3	Total
Carried at fair value					
Contingent consideration liability	Accrued expenses	$—	$—	$1,864	$1,864
Disclosed at fair value					
Senior Subordinated 6.25% Notes	Long-term debt	$220,825	$—	$—	$220,825

12. DISCONTINUED OPERATIONS

For certain divestiture transactions, the Company has agreed to indemnify the buyer for various liabilities that may arise after the disposal date, subject to limits of time and amount. As of September 30, 2014, the Company has a contingent liability recorded for environmental remediation related to a discontinued operation. Management does not believe that the outcome of this claim, or other claims, would significantly affect the Company’s financial condition or results of operation.

13. EXIT ACTIVITY COSTS AND ASSET IMPAIRMENTS

The Company focuses on being the low-cost provider of its products by reducing operating costs and implementing lean manufacturing initiatives, which have in part led to the consolidation of facilities and product lines. During the nine months ended September 30, 2014, the Company consolidated two facilities. As a result, the Company incurred a net change in asset impairment charges of $554,000, the net result of a gain on the sale of one of the consolidated facilities previously impaired in 2013, partially offset by impairment charges for the other facility consolidated during 2014. During 2013, the Company consolidated two facilities in this effort, and also identified two other facilities to close or consolidate. During the nine months ended September 30, 2013, the Company incurred $1,628,000 of asset impairment charges along with exit activity costs, including contract termination costs, severance costs, and other moving and closing costs. If future opportunities for cost savings are identified, other facility consolidations and closings will be considered.

The following table provides a summary of asset impairments and exit activity costs incurred by segment during the three and nine months ended September 30, (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Residential Products	$487	$1,341	$632	$2,051
Industrial and Infrastructure Products	175	—	634	75
Total exit activity costs	$662	$1,341	$1,266	$2,126

17

Table of Contents

The following table provides a summary of where the asset impairments and exit activity costs were recorded in the statement of operations for the three and nine months ended September 30, (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Cost of sales	$378	$1,341	$580	$2,051
Selling, general, and administrative expense	284	—	686	75
Total exit activity costs	$662	$1,341	$1,266	$2,126

The following table reconciles the beginning and ending liability for exit activity costs relating to the Company's facility consolidation efforts (in thousands):

	2014	2013
Balance at January 1	$1,092	$1,323
Exit activity costs recognized	1,820	498
Cash payments	(2,275)	(947)
Balance at September 30	$637	$874

14. INCOME TAXES

The following table summarizes the provision for income taxes for continuing operations for the three and nine months ended September 30, and the applicable effective tax rates (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Provision of income taxes	$5,828	$3,813	$8,666	$6,428
Effective tax rate	37.8 %	(38.5)%	38.4 %	(200.2)%

The Company's provision for income taxes in interim periods is computed by applying forecasted annual effective tax rates to income or loss before income taxes for the interim period. In addition, non-recurring or discrete items, including interest on prior year tax liabilities, are recorded during the period in which they occur. To the extent that actual income or loss before taxes for the full year differs from the forecast estimates applied at the end of the most recent interim period, the actual tax rate recognized for the year ending December 31, 2014 could be materially different from the forecasted rate used for the nine months ended September 30, 2014.

The effective tax rates for the three and nine months ended September 30, 2014 exceeded the U.S. federal statutory rate of 35% due to state taxes and non-deductible permanent differences. For the three and nine months ended September 30, 2013, the difference between the Company's recorded charge and the benefit that would result from applying the U.S. statutory rate of 35% is primarily attributable to the tax impact of the non-deductible goodwill impairment recognized during the quarter and state taxes.

15. NET EARNINGS PER SHARE

Basic earnings per share is based on the weighted average number of common shares outstanding. Diluted earnings per share is based on the weighted average number of common shares outstanding, as well as dilutive potential common shares which, in the Company's case, comprise of shares issuable under its equity compensation plans described in Note 9 of the consolidated financial statements. The treasury stock method is used to calculate dilutive shares, which reduces the gross number of dilutive shares by the number of shares purchasable from the proceeds of the options assumed to be exercised and the unrecognized expense related to the restricted stock and restricted stock unit awards assumed to have vested.

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, (in thousands):

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Numerator:				
Income (loss) from continuing operations	$9,571	$(13,727)	$13,916	$(9,638)
Loss from discontinued operations	(31)	—	(31)	(4)
Net income (loss) available to common shareholders	$9,540	$(13,727)	$13,885	$(9,642)
Denominator for basic earnings per share:				
Weighted average shares outstanding	31,083	30,946	31,046	30,916
Denominator for diluted earnings per share:				
Weighted average shares outstanding	31,083	30,946	31,046	30,916
Common stock options and restricted stock	215	—	210	—
Weighted average shares and conversions	$31,298	$30,946	$31,256	$30,916

For the three and nine months ended September 30, 2013, all stock options, unvested restricted stock, and unvested restricted stock units were anti-dilutive and, therefore, not included in the dilutive loss per share calculation. The number of weighted average stock options, unvested restricted stock, and unvested restricted stock units that were not included in the dilutive loss per share calculation because the effect would have been anti-dilutive was 141,752 and 165,825 for the three and nine months ended September 30, 2013, respectively.

16. SEGMENT INFORMATION

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

(i) Residential Products, which primarily includes roof and foundation ventilation products, mail and package storage products, rain dispersion products and roofing accessories; and

(ii) Industrial and Infrastructure Products, which primarily includes fabricated bar grating, expanded and perforated metal, expansion joints and structural bearings.

When determining the reportable segments, the Company aggregated several operating segments based on their similar economic and operating characteristics.

The following table sets forth the reconciliation of sales to earnings before income taxes by segment for the three and nine months ended September 30, (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net sales:				
Residential Products	$122,100	$108,424	$326,483	$308,536
Industrial and Infrastructure Products	112,329	109,645	334,613	331,689
Less: Intersegment sales	(328)	(657)	(1,003)	(1,493)
	112,001	108,988	333,610	330,196
Total consolidated net sales	$234,101	$217,412	$660,093	$638,732
Income (loss) from operations:				
Residential Products	$13,694	$10,068	$26,740	$29,925
Industrial and Infrastructure Products	6,574	(13,876)	15,727	724
Unallocated Corporate Expenses	(1,876)	(2,344)	(9,069)	(15,322)
Total income (loss) from operations	$18,392	$(6,152)	$33,398	$15,327

Table of Contents

17. SUPPLEMENTAL FINANCIAL INFORMATION

The following information sets forth the consolidating summary financial statements of the issuer (Gibraltar Industries, Inc.) and guarantors, which guarantee the Senior Subordinated 6.25% Notes due February 1, 2021, and the non-guarantors. The guarantors are 100% owned subsidiaries of the issuer and the guarantees are full, unconditional, joint and several.

Investments in subsidiaries are accounted for by the parent using the equity method of accounting. The guarantor subsidiaries and non-guarantor subsidiaries are presented on a combined basis. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions.

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATING STATEMENTS OF OPERATIONS
THREE MONTHS ENDED SEPTEMBER 30, 2014
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$—	$216,132	$ 22,151	$(4,182)	$234,101
Cost of sales	—	176,955	19,496	(3,928)	192,523
Gross profit	—	39,177	2,655	(254)	41,578
Selling, general, and administrative expense	29	21,592	1,565	—	23,186
(Loss) income from operations	(29)	17,585	1,090	(254)	18,392
Interest expense (income)	3,402	291	(36)	—	3,657
Other expense (income)	42	(733)	27	—	(664)
(Loss) income before taxes	(3,473)	18,027	1,099	(254)	15,399
(Benefit of) provision for income taxes	(1,208)	6,791	245	—	5,828
(Loss) income from continuing operations	(2,265)	11,236	854	(254)	9,571
Discontinued operations:					
Loss from discontinued operations before taxes	—	(51)	—	—	(51)
Benefit of income taxes	—	(20)	—	—	(20)
Loss from discontinued operations	—	(31)	—	—	(31)
Equity in earnings from subsidiaries	12,059	854	—	(12,913)	—
Net income	$9,794	$12,059	$ 854	$(13,167)	$9,540

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATING STATEMENTS OF OPERATIONS
THREE MONTHS ENDED SEPTEMBER 30, 2013
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$—	$200,349	$23,060	$(5,997)	$217,412
Cost of sales	—	160,676	20,715	(5,741)	175,650
Gross profit	—	39,673	2,345	(256)	41,762
Selling, general, and administrative expense	4	22,933	1,817	—	24,754
Intangible asset impairment	—	1,000	22,160	—	23,160
(Loss) income from operations	(4)	15,740	(21,632)	(256)	(6,152)
Interest expense (income)	3,486	372	(30)	—	3,828
Other income	—	(66)	—	—	(66)
(Loss) income before taxes	(3,490)	15,434	(21,602)	(256)	(9,914)
(Benefit of) provision for income taxes	(1,248)	4,781	280	—	3,813
(Loss) income from continuing operations	(2,242)	10,653	(21,882)	(256)	(13,727)
Equity in earnings from subsidiaries	(11,229)	(21,882)	—	33,111	—
Net (loss) income	$(13,471)	$(11,229)	$(21,882)	$32,855	$(13,727)

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATING STATEMENTS OF OPERATIONS
NINE MONTHS ENDED SEPTEMBER 30, 2014
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$—	$605,798	$ 68,041	$(13,746)	$660,093
Cost of sales	—	501,323	60,163	(12,958)	548,528
Gross profit	—	104,475	7,878	(788)	111,565
Selling, general, and administrative expense	96	72,986	5,085	—	78,167
(Loss) income from operations	(96)	31,489	2,793	(788)	33,398
Interest expense (income)	10,166	927	(105)	—	10,988
Other expense (income)	36	(304)	96	—	(172)
(Loss) income before taxes	(10,298)	30,866	2,802	(788)	22,582
(Benefit of) provision for income taxes	(3,572)	11,652	586	—	8,666
(Loss) income from continuing operations	(6,726)	19,214	2,216	(788)	13,916
Discontinued operations:					
Loss from discontinued operations before taxes	—	(51)	—	—	(51)
Benefit of income taxes	—	(20)	—	—	(20)
Loss from discontinued operations	—	(31)	—	—	(31)
Equity in earnings from subsidiaries	21,399	2,216	—	(23,615)	—
Net income	$14,673	$21,399	$ 2,216	$(24,403)	$13,885

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATING STATEMENTS OF OPERATIONS
NINE MONTHS ENDED SEPTEMBER 30, 2013
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$—	$585,726	$ 69,565	$(16,559)	$638,732
Cost of sales	—	469,628	62,028	(15,569)	516,087
Gross profit	—	116,098	7,537	(990)	122,645
Selling, general, and administrative expense	188	78,373	5,597	—	84,158
Intangible asset impairment	—	1,000	22,160	—	23,160
(Loss) income from operations	(188)	36,725	(20,220)	(990)	15,327
Interest expense (income)	17,768	1,004	(94)	—	18,678
Other income	—	(141)	—	—	(141)
(Loss) income before taxes	(17,956)	35,862	(20,126)	(990)	(3,210)
(Benefit of) provision for income taxes	(6,669)	12,392	705	—	6,428
(Loss) income from continuing operations	(11,287)	23,470	(20,831)	(990)	(9,638)
Discontinued operations:					
Loss from discontinued operations before taxes	—	(7)	—	—	(7)
Benefit of income taxes	—	(3)	—	—	(3)
Loss from discontinued operations	—	(4)	—	—	(4)
Equity in earnings from subsidiaries	2,635	(20,831)	—	18,196	—
Net (loss) income	$(8,652)	$2,635	$ (20,831)	$17,206	$(9,642)

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2014
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net income	$9,794	$12,059	$ 854	$(13,167)	$9,540
Other comprehensive income (loss):					
Foreign currency translation adjustment	—	—	(2,734)	—	(2,734)
Change in unrealized gain on cash flow hedges, net of tax	—	714	—	—	714
Adjustment to retirement benefit liability, net of tax	—	2	—	—	2
Adjustment to post-retirement health care liability, net of tax	—	19	—	—	19
Other comprehensive income (loss)	—	735	(2,734)	—	(1,999)
Total comprehensive income (loss)	$9,794	$12,794	$ (1,880)	$(13,167)	$7,541

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2013
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net loss	$(13,471)	$(11,229)	$ (21,882)	$32,855	$(13,727)
Other comprehensive income:					
Foreign currency translation adjustment	—	—	2,539	—	2,539
Adjustment to retirement benefit liability, net of tax	—	3	—	—	3
Adjustment to post-retirement health care liability, net of tax	—	18	—	—	18
Other comprehensive income	—	21	2,539	—	2,560
Total comprehensive loss	$(13,471)	$(11,208)	$ (19,343)	$32,855	$(11,167)

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2014
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net income	$14,673	$21,399	$ 2,216	$(24,403)	$13,885
Other comprehensive loss:					
Foreign currency translation adjustment	—	—	(2,096)	—	(2,096)
Change in unrealized loss on cash flow hedges, net of tax	—	(242)	—	—	(242)
Adjustment to retirement benefit liability, net of tax	—	6	—	—	6
Adjustment to post-retirement health care liability, net of tax	—	56	—	—	56
Other comprehensive loss	—	(180)	(2,096)	—	(2,276)
Total comprehensive income	$14,673	$21,219	$ 120	$(24,403)	$11,609

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2013
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net (loss) income	$(8,652)	$2,635	$(20,831)	$17,206	$(9,642)
Other comprehensive income (loss):					
Foreign currency translation adjustment	—	—	(1,362)	—	(1,362)
Adjustment to retirement benefit liability, net of tax	—	7	—	—	7
Adjustment to post-retirement health care liability, net of tax	—	56	—	—	56
Other comprehensive income (loss)	—	63	(1,362)	—	(1,299)
Total comprehensive (loss) income	$(8,652)	$2,698	$(22,193)	$17,206	$(10,941)

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATING BALANCE SHEETS
SEPTEMBER 30, 2014
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	$—	$80,085	$20,928	$—	$101,013
Accounts receivable, net	—	108,810	11,447	—	120,257
Intercompany balances	19,529	1,802	(21,331)	—	—
Inventories	—	116,874	9,211	—	126,085
Other current assets	3,582	11,171	1,239	—	15,992
Total current assets	23,111	318,742	21,494	—	363,347
Property, plant, and equipment, net	—	118,000	12,819	—	130,819
Goodwill	—	334,123	6,759	—	340,882
Acquired intangibles	—	81,995	5,264	—	87,259
Other assets	3,052	4,149	—	—	7,201
Investment in subsidiaries	670,999	33,388	—	(704,387)	—
	$697,162	$890,397	$46,336	$(704,387)	$929,508
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable	$—	$84,772	$7,391	$—	$92,163
Accrued expenses	1,322	47,958	2,751	—	52,031
Current maturities of long-term debt	—	400	—	—	400
Total current liabilities	1,322	133,130	10,142	—	144,594
Long-term debt	210,000	3,200	—	—	213,200
Deferred income taxes	—	52,862	2,282	—	55,144
Other non-current liabilities	—	30,206	524	—	30,730
Shareholders' equity	485,840	670,999	33,388	(704,387)	485,840
	$697,162	$890,397	$46,336	$(704,387)	$929,508

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2013
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	$—	$75,856	$ 21,183	$—	$97,039
Accounts receivable, net	—	79,356	10,726	—	90,082
Intercompany balances	23,618	(1,655)	(21,963)	—	—
Inventories	—	111,676	9,476	—	121,152
Other current assets	7,578	5,722	827	—	14,127
Total current assets	31,196	270,955	20,249	—	322,400
Property, plant, and equipment, net	—	119,587	12,165	—	131,752
Goodwill	—	334,123	7,051	—	341,174
Acquired intangibles	—	86,014	5,763	—	91,777
Other assets	3,415	3,643	1	—	7,059
Investment in subsidiaries	652,689	33,259	—	(685,948)	—
	$687,300	$847,581	$ 45,229	$(685,948)	$894,162
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable	$—	$62,464	$ 7,161	$—	$69,625
Accrued expenses	5,551	42,418	1,910	—	49,879
Current maturities of long-term debt	—	409	—	—	409
Total current liabilities	5,551	105,291	9,071	—	119,913
Long-term debt	210,000	3,598	—	—	213,598
Deferred income taxes	—	52,746	2,378	—	55,124
Other non-current liabilities	—	33,257	521	—	33,778
Shareholders' equity	471,749	652,689	33,259	(685,948)	471,749
	$687,300	$847,581	$ 45,229	$(685,948)	$894,162

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2014
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash Flows from Operating Activities					
Net cash (used in) provided by operating activities of continuing operations	$(13,297)	$27,470	$ 4,012	$—	$18,185
Net cash used in operating activities of discontinued operations	—	(40)	—	—	(40)
Net cash (used in) provided by operating activities	$(13,297)	$27,430	$ 4,012	$—	$18,145
Cash Flows from Investing Activities					
Purchases of property, plant, and equipment	—	(16,297)	(2,883)	—	(19,180)
Other investing activities	—	121	—	—	121
Net proceeds from sale of property and equipment	—	5,955	3	—	5,958
Net cash used in investing activities	—	(10,221)	(2,880)	—	(13,101)
Cash Flows from Financing Activities					
Long-term debt payments	—	(407)	—	—	(407)
Purchase of treasury stock at market prices	(505)	—	—	—	(505)
Net proceeds from issuance of common stock	508	—	—	—	508
Intercompany financing	13,195	(12,573)	(622)	—	—
Excess tax benefit from stock compensation	99	—	—	—	99
Net cash provided by (used in) financing activities	13,297	(12,980)	(622)	—	(305)
Effect of exchange rate changes on cash	—	—	(765)	—	(765)
Net increase (decrease) in cash and cash equivalents	—	4,229	(255)	—	3,974
Cash and cash equivalents at beginning of year	—	75,856	21,183	—	97,039
Cash and cash equivalents at end of period	$—	$80,085	$ 20,928	$—	$101,013

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2013
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash Flows from Operating Activities					
Net cash (used in) provided by operating activities of continuing operations	$(9,040)	$44,203	$ 2,753	$—	$37,916
Net cash used in operating activities of discontinued operations	—	(9)	—	—	(9)
Net cash (used in) provided by operating activities	(9,040)	44,194	2,753	—	37,907
Cash Flows from Investing Activities					
Purchases of property, plant, and equipment	—	(6,196)	(2,620)	—	(8,816)
Cash paid for acquisitions, net of cash acquired	—	(5,344)	—	—	(5,344)
Net proceeds from sale of property and equipment	—	12,434	13	—	12,447
Net cash provided by (used in) investing activities	—	894	(2,607)	—	(1,713)
Cash Flows from Financing Activities					
Long-term debt payments	(204,000)	(1,084)	—	—	(205,084)
Proceeds from long-term debt	210,000	—	—	—	210,000
Payment of note redemption fees	(3,702)	—	—	—	(3,702)
Purchase of treasury stock at market prices	(642)	—	—	—	(642)
Payment of deferred financing costs	(3,858)	—	—	—	(3,858)
Net proceeds from issuance of common stock	342	—	—	—	342
Intercompany financing	10,838	(10,211)	(627)	—	—
Excess tax benefit from stock compensation	62	—	—	—	62
Net cash provided by (used in) financing activities	9,040	(11,295)	(627)	—	(2,882)
Effect of exchange rate changes on cash	—	—	(492)	—	(492)
Net increase (decrease) in cash and cash equivalents	—	33,793	(973)	—	32,820
Cash and cash equivalents at beginning of year	—	26,163	21,865	—	48,028
Cash and cash equivalents at end of period	$—	$59,956	$ 20,892	$—	$80,848

Table of Contents

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

Certain information set forth herein includes statements that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results and, therefore, are or may be deemed to be, “forward-looking statements.” These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms “believes,” “anticipates,” “expects,” “estimates,” “seeks,” “projects,” “intend “plans,” “may,” “will” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, competition, strategies and the industry in which we operate. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We believe that these risks and uncertainties include, but are not limited to, those described in the “Risk Factors” disclosed in our Annual Report on Form 10-K. Although we base these forward-looking statements on assumptions that we believe are reasonable when made, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity and the development of the industries in which we operate may differ materially from those made in or suggested by the forward-looking statements contained herein. In addition, even if our results of operations, financial condition and liquidity and the development of the industries in which we operate are consistent with the forward-looking statements contained in this quarterly report, those results or developments may not be indicative of results or developments in subsequent periods. Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. Any forward-looking statements that we make herein speak only as of the date of those statements, and we undertake no obligation to update those statements or to publicly announce the results of any revisions to any of those statements to reflect future events or developments. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

Overview

Gibraltar is a leading manufacturer and distributor of products that provide structural and architectural enhancements for residential homes, low-rise retail, other commercial and professional buildings, industrial plants, bridges and a wide-variety of other structures. These products include roof and foundation ventilation products, mail and package storage products, rain dispersion products and roofing accessories, fabricated bar grating, expanded and perforated metal, plus expansion joints and structural bearings for roadways and bridges.

We serve customers primarily throughout North America and Europe, and, to a lesser extent, in Asia, Africa, Australia, and Central and South America. Our customers include major home improvement retailers, wholesalers, and industrial distributors and contractors. As of September 30, 2014, we operated 41 facilities in 22 states, Canada, England, and Germany, giving us a base of operations to provide quality, customer support, delivery, and service to a number of regional and national customers and providing us with manufacturing and distribution efficiencies in North America, as well as a presence in the European market.

The Company operates and reports its results in the following two reporting segments, entitled “Residential Products” and “Industrial and Infrastructure Products”.

Our Residential Products segment focuses on new residential housing construction and residential repair and remodeling activity. Our businesses in this segment sell products through major retail home centers, building material wholesalers, buying groups, roofing distributors, and residential contractors.

Our Industrial and Infrastructure Products segment focuses on a variety of markets including discrete and process manufacturing, highway and bridge construction, and energy and power generation markets. This segment distributes its products through industrial, commercial and transportation contractors, industrial distributors and original equipment manufacturers.

Our strategy is to position Gibraltar as a low-cost provider and market share leader in product areas that offer opportunities for sales growth and margin enhancement over the long-term. We focus on operational excellence including lean initiatives throughout the Company to position Gibraltar as our customers' low-cost provider of the products we offer. We continuously seek to improve our on-time delivery, quality, and service to position Gibraltar as a preferred supplier to our customers. We also strive to develop new products, enter new markets, expand market share in the residential markets, and further penetrate domestic and international industrial and infrastructure markets to strengthen our product leadership positions.

Table of Contents

The end markets our businesses serve are subject to economic conditions that are influenced by various factors, including but not limited to, interest rates, commodity costs, demand for residential construction, governmental policies and funding, the level of non-residential construction and infrastructure projects and demand for related repair and remodeling. During 2014, many economic indicators, such as residential housing starts, non-residential construction starts, industrial shipments and home repair and remodeling activity, have shown uneven but modest improvements. As a result, the Company is still impacted by levels of activity in its core markets that are below historical long-term averages. In response to slow-growth market conditions, we have restructured our operations, including the closing and consolidation of facilities, resulting in reductions in employees and overhead costs, and managed the business to generate cash. Investments in enterprise resource planning systems have enabled us to react better to fluctuations in commodity costs and customer demand, and have helped in improving margins and curtailed our investments in inventory. We have used the improved cash flows generated by these initiatives to maintain lower levels of debt, improve our liquidity position, and invest in growth initiatives.

Results of Operations

Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013

The following table sets forth selected data from our statements of operations and the related percentage of net sales for the three months ended September 30, (in thousands):

	2014			2013		
Net sales	$234,101	100.0	%	$217,412	100.0	%
Cost of sales	192,523	82.2	%	175,650	80.8	%
Gross profit	41,578	17.8	%	41,762	19.2	%
Selling, general, and administrative expense	23,186	9.9	%	24,754	11.4	%
Intangible asset impairment	—	0.0	%	23,160	10.6	%
Income (loss) from operations	18,392	7.9	%	(6,152)	(2.8	)%
Interest expense	3,657	1.6	%	3,828	1.8	%
Other income	(664)	(0.3	)%	(66)	0.0	%
Income (loss) before taxes	15,399	6.6	%	(9,914)	(4.6	)%
Provision for income taxes	5,828	2.5	%	3,813	1.7	%
Income (loss) from continuing operations	9,571	4.1	%	(13,727)	(6.3	)%
Loss from discontinued operations	(31)	0.0	%	—	0.0	%
Net income (loss)	$9,540	4.1	%	$(13,727)	(6.3	)%

The following table sets forth the Company’s net sales by reportable segment for the three months ended September 30, (in thousands):

	2014	2013	Total Change
Net sales:			
Residential Products	$122,100	$108,424	$13,676
Industrial and Infrastructure Products	112,329	109,645	2,684
Less: Intersegment sales	(328)	(657)	329
	112,001	108,988	3,013
Consolidated	$234,101		