GIBRALTAR INDUSTRIES, INC.
Form 10-Q
November 03, 2017
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 X 1934
For the quarterly period ended September 30, 2017
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
(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 filerx Accelerated filer"Non-accelerated filer "Smaller reporting company "
Emerging growth company "
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.). Yes ${ }^{\text {. }}$ No x
As of November 1, 2017, the number of common shares outstanding was: 31,688,154.

## Table of Contents

## GIBRALTAR INDUSTRIES, INC. <br> INDEX

PAGE NUMBER

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
Consolidated Statements of Operations for the Three and Nine Months Ended September 3 30, 2017 and 2016 (unaudited)
Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2017 and 2016 (unaudited) 4
Consolidated Balance Sheets as of September 30, 2017 (unaudited) and December 31. $\underline{2016}$ ..... 5
Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2017 and 2016 (unaudited) ..... 6
Consolidated Statement of Shareholders' Equity for the Nine Months Ended September ..... 7
Notes to Consolidated Financial Statements (unaudited) ..... 8-32
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ..... 33-42
Item 3. Quantitative and Qualitative Disclosures About Market Risk ..... 42
Item 4. Controls and Procedures ..... $\underline{43}$
PART II. OTHER INFORMATION
Item 1. Legal Proceedings ..... 43
Item 1A. Risk Factors ..... 43
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds ..... 43
Item 3. Defaults Upon Senior Securities ..... 43
Item 4. Mine Safety Disclosures ..... $\underline{43}$
Item 5. Other Information ..... 43
Item 6. Exhibits ..... 44

## 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)

| Net Sales | $\$ 274,574$ | $\$ 272,734$ | $\$ 728,806$ | $\$ 776,143$ |
| :--- | :--- | :--- | :--- | :--- |
| Cost of sales | 205,839 | 204,847 | 548,991 | 585,263 |
| Gross profit | 68,735 | 67,887 | 179,815 | 190,880 |
| Selling, general, and administrative expense | 33,042 | 41,365 | 109,513 | 118,021 |
| Income from operations | 35,693 | 26,522 | 70,302 | 72,859 |
| Interest expense | 3,486 | 3,625 | 10,612 | 10,982 |
| Other expense | 404 | 159 | 811 | 8,319 |
| Income before taxes | 31,803 | 22,738 | 58,879 | 53,558 |
| Provision for income taxes | 11,184 | 8,952 | 21,090 | 12,131 |
| Income from continuing operations | 20,619 | 13,786 | 37,789 | 41,427 |
| Discontinued operations: | - | - | $(644$ | $)$ |
| Loss before taxes | - | - | $(239$ | - |
| Benefit of income taxes | - | - | $(405$ | - |
| Loss from discontinued operations | $\$ 20,619$ | $\$ 13,786$ | $\$ 37,384$ | $\$ 41,427$ |
| Net income | $\$ 0.65$ | $\$ 0.44$ | $\$ 1.19$ | $\$ 1.32$ |
| Net earnings per share - Basic: | - | - | $(0.01$ | $)$ |
| Income from continuing operations | $\$ 0.65$ | $\$ 0.44$ | $\$ 1.18$ | $\$ 1.32$ |
| Loss from discontinued operations | 31,703 | 31,579 | 31,700 | 31,493 |
| Net income | $\$ 0.64$ | $\$ 0.43$ | $\$ 1.17$ | $\$ 1.29$ |
| Weighted average shares outstanding - Basic |  | - | $(0.01$ | $)$ |
| Net earnings per share - Diluted: | - | $\$ 0.64$ | $\$ 0.43$ | $\$ 1.16$ |

See accompanying notes to consolidated financial statements.

3

## Table of Contents

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

|  | Three Months <br> Ended <br> September 30, |  | Nine Months <br> Ended <br> September 30, |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2017 | 2016 | 2017 | 2016 |
| Net income | \$20,619 | \$13,786 | \$37,384 | \$41,427 |
| Other comprehensive income (loss): |  |  |  |  |
| Foreign currency translation adjustment | 1,581 | (193 | 3,351 | 10,638 |
| Adjustment to retirement benefit liability, net of tax | (2 | ) 61 | (8 | ) 59 |
| Adjustment to post employment health care benefit liability, net of tax | 29 | 38 | 88 | 114 |
| Other comprehensive income (loss) | 1,608 | (94 | 3,431 | 10,811 |
| Total comprehensive income | \$22,227 | \$13,692 | \$40,815 | \$52,238 |
| See accompanying notes to consolidated financial statements. |  |  |  |  |

4

## Table of Contents

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

Assets
Current assets:

| Cash and cash equivalents | $\$ 208,032$ | $\$ 170,177$ |
| :--- | :--- | :--- |
| Accounts receivable, net | 166,718 | 124,072 |
| Inventories | 85,156 | 89,612 |
| Other current assets | 8,195 | 7,336 |
| Total current assets | 468,101 | 391,197 |
| Property, plant, and equipment, net | 94,488 | 108,304 |
| Goodwill | 321,093 | 304,032 |
| Acquired intangibles | 107,943 | 110,790 |
| Other assets | 4,672 | 3,922 |
|  | $\$ 996,297$ | $\$ 918,245$ |

Liabilities and Shareholders' Equity
Current liabilities:
Accounts payable $\quad \$ 96,181 \quad \$ 69,944$
Accrued expenses 83,264 70,392
$\begin{array}{ll}\text { Billings in excess of cost } & 18,234\end{array}$
Current maturities of long-term debt 400400
$\begin{array}{lll}\text { Total current liabilities } & 198,079 & 152,088\end{array}$
Long-term debt 209,425 209,237
Deferred income taxes 38,162 38,002
$\begin{array}{ll}\text { Other non-current liabilities } & \text { 58,038 }\end{array}$
Shareholders' equity:
Preferred stock, \$0.01 par value; authorized 10,000 shares; none outstanding _ -
Common stock, $\$ 0.01$ par value; authorized 50,000 shares; 32,275 shares and 32,085
shares issued and outstanding in 2017 and 2016
Additional paid-in capital
322320

Retained earnings 249,386 211,748
Accumulated other comprehensive loss
Cost of 588 and 530 common shares held in treasury in 2017 and 2016
Total shareholders' equity
(4,290 ) (7,721 )
(9,867 ) (7,885 )
505,431 460,880
\$ 996,297 \$ 918,245
See accompanying notes to consolidated financial statements.

## 5

## Table of Contents

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

Nine Months Ended
September 30,
20172016
Cash Flows from
Operating Activities

| Net income | $\$$ | 37,384 | $\$$ | 41,427 |
| :--- | :--- | :--- | :--- | :--- |
| Loss from <br> discontinued | $(405$ |  |  |  |

discontinued
(405
operations
Income from
continuing operations
Adjustments to
reconcile net income to net cash provided by operating activities:
Depreciation and amortization $\quad 16,427$ 17,551

| Stock compensation <br> expense | 5,069 | 4,666 |
| :--- | :--- | :--- |

expense
37,789
41,427

Net gain on sale of assets
Loss on sale of business
) (225

Exit activity
(recoveries) costs, (1,931 ) 3,876
non-cash
(Benefit of) provision
for deferred income (136 ) 355
taxes
Other, net $\quad 1,411$
735
Changes in operating assets and liabilities, excluding the effects of acquisitions:
Accounts receivable (42,310 3,796
Inventories 2,016 9,738
Other current assets (2,002 ) (1,901
$\begin{array}{ll}\text { Accounts payable } \quad 25,134 & 2,367\end{array}$
Accrued expenses and
other non-current 7,503 11,038
liabilities
Net cash provided by 48,831
102,186

## Cash Flows from

Investing Activities
Cash paid for acquisitions, net of (18,494 ) cash acquired
Net proceeds from sale of property and $\quad 12,935$ 249 equipment
Purchases of property, plant, and equipment (5,152
) (2,314

Net proceeds from sale $\qquad$ (7,600 of business
Other, net $\qquad$
Net cash used in investing activities (10,71
Cash Flows from
Financing Activities
Long-term debt payments
(400
)
(400
Payment of debt
$\qquad$
issuance costs
Purchase of treasury
stock at market prices
(1,982 )
Net proceeds from
issuance of common 649
2,892
stock
Net cash (used in)
provided by financing (1,733 ) 1,260
activities
Effect of exchange rate ${ }_{1,468} \quad 1,055$
changes on cash
Net increase in cash
and cash equivalents
37,855
104,204
Cash and cash
equivalents at 170,177
beginning of year
Cash and cash
equivalents at end of \$ 208,032 \$ 173,062
period
See accompanying notes to consolidated financial statements.

## Table of Contents

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

|  | Common Stock |  | Additional <br> Paid-In <br> Capital | Retained Earnings | Accumulated Other Comprehensiv Loss |  | Trea | asury Stock | k Total <br> Shareholders Equity |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance at December 31, 2016 | 32,085 | \$ 320 | \$264,418 | \$211,748 | \$ (7,721 | ) | 530 | \$ $(7,885)$ | \$ 460,880 |
| Net income | - | - | - | 37,384 | - |  | - | - | 37,384 |
| Foreign currency translation adjustment | - | - | - | - | 3,351 |  | - | - | 3,351 |
| Adjustment to retirement benefit liability, net of taxes of (\$5) | - | - | - | - | (8) |  | - | - | (8 |
| Adjustment to post employment health care benefit liability, net of taxes of \$54 | - | - | - | - | 88 |  | - | - | 88 |
| Stock compensation expense | - | - | 5,069 | - | - |  | - | - | 5,069 |
| Cumulative effect of accounting change (see Note 2) | - | - | (254 | 254 | - |  | - | - | - |
| Stock options exercised | 40 | - | 649 | - | - |  | - | - | 649 |
| Issuance of restricted stock | 2 | - | - | - | - |  | - | - | - |
| Net settlement of restricted stock units | 148 | 2 | (2 | ) - | - |  | 58 | (1,982 | (1,982 |
| Balance at September 30, 2017 | 32,275 | \$ 322 | \$269,880 | \$249,386 | \$ (4,290 |  | 588 | \$ $(9,867)$ | \$ 505,431 |
| See accompanying notes to consol | dated fin | ancial | tements. |  |  |  |  |  |  |

7

## Table of Contents

GIBRALTAR INDUSTRIES, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

## 1. CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements have been prepared by management in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form $10-\mathrm{Q}$ and Article 10 of Regulation S-X. In the opinion of management, all adjustments consisting of normal recurring adjustments considered necessary for the fair presentation of results for the interim period have been included. The results of operations for the three and nine month periods ended September 30, 2017 are not necessarily indicative of the results expected for the full year. The Company is subject to reduced activity in the first and fourth quarters as colder, inclement weather reduces order rates from end markets it serves. The accompanying unaudited consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our annual Form 10-K for the year ended December 31, 2016.

Certain prior year amounts have been reclassified to conform to current year's presentation. Refer to Note 2 for a summary of ASUs we adopted during 2017 and the related financial statement impact.

## 2. RECENT ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncements Adopted Standard

Description

The standard simplifies the accounting for share-based payment award transactions including: income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The provisions of this standard are effective for fiscal years beginning after December 15 , 2016, including interim periods within those fiscal years. Early adoption is permitted.

Financial Statement Effect or Other Significant Matters The Company has adopted all amendments included in this standard under each required transition method. The Company concluded there were no material changes to prior periods, except for the following: the Company (a) reclassified its prior interim period excess tax benefit for stock compensation of $\$ 941,000$ on its consolidated statement of cash flows from a financing activity to an operating activity; and (b) recognized a cumulative-effect adjustment of $\$ 254,000$ as an increase to retained earnings and decrease to additional paid-in capital on the Company's consolidated statement of shareholders' equity as of January 1, 2017 to reflect the change in value for a restricted stock unit liability award as of December 31, 2016, as if the award had been classified as an equity award since its respective grant date.

Date of adoption: Q1 2017

Standard

ASU No. 2017-04
Intangibles -
Goodwill and Other
(Topic 350):
Simplifying the Test
for Goodwill
Impairment

## Description

The standard eliminates the "Step 2" analysis to

Financial Statement Effect or Other Significant Matters
The Company has adopted this standard and determine the amount of impairment realized when it did not have any impact on the Company's a reporting unit's carrying amount exceeds its fair consolidated financial statements.
value in its "Step 1" analysis of accounting for impairment of goodwill. The impairment charge would be the amount determined in "Step 1." The provisions of this standard are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017.

The standard requires an employer to recognize the service cost component of net periodic pension costs and net periodic postretirement benefit costs
ASU No. 2017-07
Compensation -
Retirement Benefits
(Topic 715):
Improving the Presentation of Net and Net Periodic Postretirement Benefit Cost

Periodic Pension Costprovisions of this standard are effective for annual in the same line item(s) as other compensation costs from services rendered by pertinent employees during the period. Other components of net benefit cost are required to be presented separately from the service cost component and outside a subtotal of income from operations. The reporting periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance.

## Date of Adoption: Q1 2017

The Company has adopted this standard and has applied it retrospectively for the presentation of the service cost component, as well as, other components of net periodic pension cost and net periodic postretirement benefit cost in our statement of operations. The adoption decreased selling, general, and administrative expense by $\$ 159,000$ for the three months ended September 30, 2016 and $\$ 479,000$ for the nine months ended September 30, 2016, and comparably increased other expense by the same amounts, respectively. This guidance did not have any impact on our balance sheet or our statement of cash flows.

## Date of Adoption: Q1 2017

## Recent Accounting Pronouncements Not Yet Adopted

Standard Description
ASU No. The standard requires an entity to recognize
2014-09
Revenue
from
Contracts entity expects to be entitled in exchange for
with
Customers
(Topic 606) nature, amount, timing, and uncertainty of
And All revenue and cash flows arising from
Related customer contracts, including significant
ASUs judgments and assets recognized from costs incurred to obtain or fulfill a contract. The provisions of the standard, as well as all subsequently issued clarifications to the standard, are effective for fiscal years

Financial Statement Effect or Other Significant Matters The Company currently believes the most significant impact of this standard upon adoption relates to the revenue recognition for custom fabricated products within the Company's Industrial and Infrastructure Products segment. Under this standard, the Company expects to recognize revenue on an over time basis on custom fabricated products in the Industrial and Infrastructure Products segment which is a change from our current revenue recognition policy of point-in-time basis. The Company expects revenue recognition related to the remaining Industrial and Infrastructure Products segment, Residential Products segment and Renewable Energy and Conservation segment to remain substantially unchanged upon adoption of this standard. The Company has identified and is in the process of implementing appropriate changes to the
beginning after December 15, 2017 and Company's business processes, systems and internal interim periods within those fiscal years. The controls to support recognition and disclosure under this standard can be adopted using either a full standard. The Company currently anticipates adopting the retrospective or modified retrospective approach. modified retrospective transition method approach. The Company has not yet completed the process of quantifying the effects of any changes that will result from adoption.

Planned date of adoption: Q1 2018

Standard Description

ASU No. 2016-02
Leases (Topic 842)

The standard requires lessees to recognize most leases as assets and liabilities on the balance sheet, but record expenses on the statement of operations in a manner similar to current accounting. For lessors, the guidance modifies the classification criteria and accounting for sales-type and direct financing leases. The standard also requires additional disclosures about leasing arrangements and requires a modified retrospective transition approach for existing leases, whereby the standard will be applied to the earliest year presented. The provisions of the standard are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted.

Financial Statement Effect or Other Significant Matters The Company is currently evaluating the impact of this standard on the Company's consolidated financial statements and related disclosures, including the impact on the Company's current lease portfolio from both a lessor and lessee perspective. The adoption of this standard will primarily result in an increase in the assets and liabilities on the Company's consolidated balance sheet and related disclosures.

ASU No. 2016-15
Planned date of adoption: Q1 2019
The Company is currently evaluating Statement of Cash The standard provides guidance on eight specific cash flow the requirements of this standard and Flows (Topic 230): issues to reduce diversity in reporting. The provisions of has not yet determined its impact on Classification of this standard are effective for fiscal years beginning after the Company's consolidated financial Certain Cash December 15, 2017, including interim periods within those statements. Receipts and Cash fiscal years. Early adoption is permitted.

Payments

ASU No. 2016-16
Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory

The standard allows an entity to recognize income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The provisions of this standard are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance.

Planned date of adoption: Q1 2018 The Company is currently evaluating the requirements of this standard and has not yet determined its impact on the Company's consolidated financial statements.

Planned date of adoption: Q1 2018

## 3. ACCOUNTS RECEIVABLE, NET

Accounts receivable consists of the following (in thousands):

Trade accounts receivable
20172016

Contract receivables:
Amounts billed
\$ 104,031 \$ 81,193
49,866
41,569

Costs in excess of billings
Total contract receivables
Total accounts receivable - 172,271 129,344

Less allowance for doubtful accounts (5,553 ) (5,272 )
Accounts receivable \$ 166,718 \$ 124,072
Contract receivables are primarily associated with developers, contractors and customers in connection with the Renewable Energy and Conservation segment. Costs in excess of billings principally represent revenues recognized on contracts that were not billable as of the balance sheet date. These amounts will be billed in accordance with contract terms, generally as certain milestones are reached or upon shipment. All of the costs in excess of billings are expected to be collected within one year. In situations where billings exceed revenues recognized, the excess is included in billings in excess of cost in the Consolidated Balance Sheet.

## Table of Contents

## 4. INVENTORIES

Inventories consist of the following (in thousands):
September 30, December
2017 31, 2016

Raw material $\quad \$ 41,569 \quad \$ 41,758$
Work-in-process $12,123 \quad 12,268$
Finished goods 31,464 35,586
Total inventories \$ 85,156 \$89,612

## 5. ACQUISITIONS

On February 22, 2017, the Company acquired all of the outstanding stock of Package Concierge. Package Concierge is a leading provider of multifamily electronic package delivery locker systems in the United States.

The acquisition of Package Concierge is expected to enable the Company to expand its position in the fast-growing package delivery solutions market. The results of Package Concierge have been included in the Company's consolidated financial results since the date of acquisition (within the Company's Residential Products segment). The final aggregate purchase consideration for the acquisition of Package Concierge was $\$ 18,917,000$, which includes a working capital adjustment and certain other adjustments provided for in the stock purchase agreement.

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 approximated $\$ 16,863,000$, which is not deductible for tax purposes. Goodwill represents future economic benefits arising from other assets acquired that could not be individually identified including workforce additions, growth opportunities, and increased presence in the building products markets.

The allocation of the purchase consideration to the fair value of the assets acquired and liabilities assumed is as follows as of the date of the acquisition (in thousands):

| Cash | $\$ 590$ |
| :--- | :--- |
| Working capital | $(2,071$ |
| Property, plant and equipment | 55 |
| Acquired intangible assets | 3,600 |
| Other assets | 8 |
| Deferred income taxes | $(128$ |
| Goodwill | 16,863 |
| Fair value of purchase consideration | $\$ 18,917$ |

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

|  | Fair Value | Estimated <br> Useful Life |
| :--- | :---: | :--- |
| Trademarks | $\$ 600$ | Indefinite |
| Technology | 1,300 | 10 years |
| Customer relationships | 1,700 | 7 years |
| Total | $\$ 3,600$ |  |

On October 11, 2016, the Company acquired all of the outstanding stock of Nexus Corporation ("Nexus"). Nexus is a leading provider of commercial-scale greenhouses to customers in the United States.

Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q

## Table of Contents

The acquisition of Nexus is expected to enable the Company to strengthen its position in the commercial greenhouse market in the United States. The results of Nexus have been included in the Company's consolidated financial results since the date of acquisition (within the Company's Renewable Energy and Conservation segment). The final aggregate purchase consideration for the acquisition of Nexus was $\$ 23,762,000$, which includes a working capital adjustment and certain other adjustments provided for in the stock purchase agreement. At December 31, 2016, $\$ 1,000,000$ of the estimated purchase price was accrued. Upon settlement of the final purchase adjustments, $\$ 167,000$ was paid in cash by the Company during the first quarter of 2017.

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 approximated $\$ 11,451,000$, of which all is deductible for tax purposes.

The allocation of the purchase consideration to the fair value of the assets acquired and liabilities assumed is as follows as of the date of the acquisition (in thousands):

| Cash | $\$ 2,495$ |
| :--- | :--- |
| Working capital | $(1,109 \quad$ ) |
| Property, plant and equipment | 4,702 |
| Acquired intangible assets | 6,200 |
| Other assets | 23 |
| Goodwill | 11,451 |
| Fair value of purchase consideration | $\$ 23,762$ |

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

|  | Fair Value | Estimated <br> Useful Life |
| :--- | :--- | :--- |
| Trademarks | $\$ 3,200$ | Indefinite |
| Technology | 1,300 | 15 years |
| Customer relationships 800 | 11 years |  |
| Backlog | 900 | 0.25 years |
| Total | $\$ 6,200$ |  |

The acquisitions of Package Concierge and Nexus were funded from available 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 statements of operations.

The following table summarizes acquisition-related costs for the three and nine months ended September 30 (in thousands):

| Three | Nine |  |
| :--- | :--- | :--- |
| Months | Months |  |
| Ended | Ended |  |
| September | September |  |
| 30, | 30, |  |
| 2017 | 2016 | 2017 |
| 2016 |  |  |
| sts 31 | $\$$ | $\$ 146$ |

## Table of Contents

## 6. GOODWILL AND RELATED INTANGIBLE ASSETS

Goodwill
The changes in the carrying amount of goodwill for the nine months ended September 30, 2017 are as follows (in thousands):

Balance at December 31, 2016
Acquired goodwill

| Residential <br> Products | Industrial and Renewable <br> Infrastructure <br>  | Total |
| :--- | :--- | :--- | :--- |
| Products | Conservation |  |

$\begin{array}{lllll}\text { Foreign currency translation } & - & 432 & 598 & 1,030 \\ \text { Balance at September 30, 2017 } & \$ 198,148 & \$ 54,316 & \$ 68,629 & \$ 321,093\end{array}$
Goodwill is recognized net of accumulated impairment losses of $\$ 235,419,000$ as of September 30, 2017 and December 31, 2016.
Acquired Intangible Assets
Acquired intangible assets consist of the following (in thousands):
September 30, 2017 December 31, 2016

| Gross | Accumulated | Gross <br> Carrying |
| :--- | :--- | :--- |
| Amortization | Carrying |  | | Accumulated |
| :---: |
| Amortization | Estimated Life

Indefinite-lived intangible assets:
Trademarks $\$ 45,153 \quad \$-\quad \$ 44,720 \quad \$-\quad$ Indefinite
Finite-lived intangible assets:

| Trademarks | 5,882 | 2,921 | 5,808 | 2,427 | 5 to 15 Years |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Unpatented technology | 28,020 | 11,523 | 26,720 | 10,041 | 5 to 20 Years |
| Customer relationships | 80,719 | 38,182 | 78,569 | 33,585 | 5 to 17 Years |
| Non-compete agreements | 1,649 | 854 | 1,649 | 623 | 4 to 10 Years |
| Backlog | - | - | 900 | 900 | 0.25 Years |
|  | 116,270 | 53,480 | 113,646 | 47,576 |  |

Total acquired intangible assets $\$ 161,423 \$ 53,480 \quad \$ 158,366 \$ 47,576$
The following table summarizes the acquired intangible asset amortization expense for the three and nine months ended September 30 (in thousands):

| Three Months | Nine Months |
| :--- | :--- |
| Ended | Ended |

September 30, September 30,
2017201620172016
Amortization expense \$2,208 \$2,159 \$6,600 \$6,541
Amortization expense related to acquired intangible assets for the remainder of fiscal 2017 and the next five years thereafter is estimated as follows (in thousands):
2017 \$2,157
2018\$8,288
2019\$7,617
2020\$7,105
2021 \$6,503
2022\$6,092

## Table of Contents

## 7. LONG-TERM DEBT

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

|  | September |  |
| :--- | :--- | :--- |
|  | 2017 | December |
|  | 2017 | 31,2016 |
| Senior Subordinated $6.25 \%$ Notes | $\$ 210,000$ | $\$ 210,000$ |
| Other debt | 2,400 | 2,800 |
| Less unamortized debt issuance costs | $(2,575$ | $(3,163$ |
| Total debt | 209,825 | 209,637 |
| Less current maturities | 400 | 400 |
| Total long-term debt | $\$ 209,425$ | $\$ 209,237$ |

The Company's Fifth Amended and Restated Credit Agreement dated December 9, 2015 (the "Senior Credit Agreement") was amended to convert our secured asset based credit facility into a secured cash flow revolver, and terminates on December 9, 2020.
The Senior Credit Agreement provides for a revolving credit facility and letters of credit in an aggregate amount of $\$ 300$ million. The Company has the option to request additional financing from the banks to either increase the revolving credit facility to $\$ 500$ million or to provide a term loan of up to $\$ 200$ million. The Senior Credit Agreement contains financial covenants. As of September 30, 2017, the Company is in compliance with all covenants. 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. Interest rates on the revolving credit facility are based on the LIBOR plus an additional margin that ranges from $1.25 \%$ to $2.25 \%$ for LIBOR loans based on the Total Leverage Ratio.
In addition, the revolving credit facility is subject to an undrawn commitment fee ranging between $0.20 \%$ and $0.30 \%$ based on the Total Leverage Ratio and the daily average undrawn balance.
Standby letters of credit of $\$ 11,216,000$ have been issued under the Senior Credit Agreement on behalf of the Company as of September 30, 2017. These letters of credit reduce the amount otherwise available under the revolving credit facility. As of September 30, 2017, the Company had $\$ 288,784,000$ of availability under the revolving credit facility. No borrowings were outstanding under the revolving credit facility at September 30, 2017 and December 31, 2016.

On January 31, 2013, the Company issued $\$ 210$ million of $6.25 \%$ Senior Subordinated Notes ( $6.25 \%$ Notes) due February 1, 2021.The provisions of the $6.25 \%$ Notes include, without limitation, restrictions on indebtedness, liens, and distributions from restricted subsidiaries, asset sales, affiliate transactions, dividends, and other restricted payments. Dividend payments are subject to annual limits and interest is paid semiannually on February 1 and August 1 of each year.

## 8. RELATED PARTY TRANSACTIONS

An officer of one of the Company's operating segments is the owner of certain real estate properties leased for manufacturing and distribution purposes by that operating segment. The leases are in effect until June 2018 and June 2020. For the three and nine months ended September 30, 2017 and 2016, the Company incurred the following lease expense for these properties (in thousands):

| Three | Nine |  |
| :--- | :--- | :--- |
| Months | Months |  |
| Ended | Ended |  |
| September | September |  |
| 30, | 30, |  |
| 2017 | 2016 | 2017 |
| $\$ 262$ | $\$ 227$ | $\$ 787$ |

Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q

## Table of Contents

## 9. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

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

|  | Foreign Minimum PenCurrency LiabilityTranslationAdjustment Adjustment |  |  | Unamortiz <br> Retirement <br> Health <br> Care Costs | d P | Post Total <br> Pre-Tax <br> Amount | Tax (Benefit) Expense | Accumulated Other Comprehensive (Loss) Income |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance at December 31, 2016 | \$ (5,848 | \$ 197 |  | \$ (3,150 | ) | \$ 8,801 ) | \$ 1,080 ) | \$ (7,721 | ) |
| Minimum pension and post retirement health care plan adjustments | - | (13 | ) | 142 |  | 129 | 49 | 80 |  |
| Foreign currency translation adjustment | 3,351 | - |  | - |  | 3,351 | - | 3,351 |  |
| Balance at September 30, 2017 | \$ (2,497 | \$ 184 |  | \$ (3,008 | ) | \$ $(5,321)$ | \$(1,031) | \$ (4,290 |  |

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 other expense in the consolidated statements of operations.

## 10. EQUITY-BASED COMPENSATION

On May 6, 2016, the shareholders of the Company authorized the Gibraltar Industries, Inc. 2016 Stock Plan for Non-Employee Directors ("Non-Employee Directors Plan"). The Non-Employee Directors Plan is a compensation plan that allows the Company to grant awards of shares of the Company's common stock to non-employee Directors of the Company. In connection with the Non-Employee Directors Plan, the Company adopted a new stock deferral plan, the Gibraltar Industries, Inc. Non-Employee Director Stock Deferral Plan ("Deferral Plan"). The Deferral Plan permits non-employee Directors of the Company to defer receipt of shares of common stock which the non-employee Director is entitled to receive pursuant to the terms of the Non-Employee Directors Plan.
On May 7, 2015, the shareholders of the Company authorized the Gibraltar Industries, Inc. 2015 Equity Incentive Plan (the "Plan") and simultaneously amended the 2005 Equity Incentive Plan (the "Prior Plan") to terminate issuance of further awards from the Prior Plan. The Plan is an incentive compensation plan that allows the Company to grant equity-based incentive compensation awards to eligible participants. Awards under the Plan may be in the form of options, restricted shares, restricted units, performance shares, performance stock units, and rights.
Equity Based Awards - Settled in Stock
The following table provides the number of stock unit awards granted during the nine months ended September 30, which will convert to shares upon vesting, along with the weighted average grant date fair values:

2017

2016
Weighted Weighted
Awards Number of verage Number ofverage Awards Grant Date Awards Grant Date Fair Value Fair Value
Performance stock units 108,748 \$ 42.72 - \$ -
Restricted stock units 120,048 \$ $37.14 \quad 139,982$ \$ 25.15
Options
Deferred stock units $\quad 10,170 \quad \$ 34.42 \quad 11,945 \quad \$ 29.30$
Restricted shares $\quad 2,034 \quad \$ 34.42 \quad 3,185 \quad \$ 29.30$
Included in the performance stock units disclosed above are 78,482 units awarded in February 2017 and 5,266 units award in April 2017 for which the final number of units that will convert to shares will be determined based on the Company's actual return on invested capital (ROIC) relative to the ROIC targeted for the performance period ended December 31, 2017. Additionally, included in the performance stock units disclosed above, there were 20,000 units awarded in February 2017 and 5,000 units award in April 2017. For these awards, the final number of shares to be
issued to the recipient will be determined based upon the ranking of the Company's total shareholder return over a three (3) year performance period ended February 1, 2020 compared to the total shareholder return of companies in the S\&P Small Cap Industrial Sector over such period.

15

## Table of Contents

## Performance Stock Units - Settled in Cash

The Company awarded performance stock units ("PSUs") that will convert to cash after three years based upon a one year performance period in 2016 and 2015. The cost of these awards is recognized over the requisite vesting period. The PSUs earned over the performance period are determined based on the Company's actual return on invested capital (ROIC) relative to the ROIC targeted for the performance period.
During the 2016 performance period, the participants earned an aggregate of 256,000 PSUs, representing $200 \%$ of the targeted
2016 award of 128,000. This award will convert to cash payable in January 2019.
During the 2015 performance period, the participants earned an aggregate of 438,000 PSUs, representing $200 \%$ of the targeted 2015 award of 219,000. This award will convert to cash payable in January 2018.
The following table summarizes the compensation expense recognized for the PSUs, which will convert to cash, for the three and nine months ended September 30, (in thousands):

| Three Months | Nine Months |
| :--- | :--- |
| Ended | Ended |
| September 30, | September 30, |
| 20172016 | $2017 \quad 2016$ |

PSUs compensation (recovery) expense \$(405) \$4,148 \$1,673 \$7,889
Management Stock Purchase Plan
The Management Stock Purchase Plan ("MSPP") provides participants the ability to defer a portion of their compensation, which deferral is converted to restricted stock units, and credited to an account. Under the MSPP, the Company provides a matching award in restricted stock units equal to a percentage of the employees' compensation. Matching awards are not provided to directors. The account represents a share-based liability converted to and settled in cash which is payable to participants upon retirement or a termination of their service to the Company.
The following table provides the number of restricted stock units credited to active participant accounts and the payments made with respect to restricted stock units issued under the MSPP during the nine months ended September 30 ,

$$
2017 \quad 2016
$$

Restricted stock units credited 90,754 192,380
Share-based liabilities paid (in \$1000s) \$2,392 \$2,753

## 11. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, various techniques and assumptions can be used to estimate fair value. 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 - Quoted prices in active markets for identical assets or liabilities.
Level 2 - Observable inputs other than quoted prices in active markets for similar assets and liabilities.
Level 3 - Inputs that are unobservable inputs for the asset or liability.
The Company had no financial assets or liabilities measured at fair value on a recurring basis at September 30, 2017 and December 31, 2016. The Company's only financial instrument for which the carrying value differs from its fair value is long-term debt. At September 30, 2017 and December 31, 2016, the fair value of outstanding debt net of unamortized debt issuance costs was $\$ 218,700,000$ and $\$ 219,898,000$, respectively, compared to its carrying value of $\$ 209,825,000$ and $\$ 209,637,000$, respectively. The fair value of the Company's $6.25 \%$ Notes is classified as Level 2 within the fair value hierarchy and was estimated based on quoted market prices adjusted for unamortized debt issuance costs.

## 12. DISCONTINUED OPERATIONS

For certain divestiture transactions completed in prior years, 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. The Company is a party to certain claims made under these indemnification provisions. As of September 30, 2017, the Company has a contingent liability recorded for such provisions related to discontinued operations. 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

## Table of Contents

The Company is in the third year of its five year planned transformation strategy formulated to transform its operations and improve its financial results over this five year period. This strategy includes an 80/20 simplification initiative which, in part, focuses the Company's internal resources on further increasing the value provided to our customers. A result of this initiative was the identification of low-volume, low margin, internally-produced products which have been or will be outsourced or discontinued. Portfolio management, another key part of the strategy and a natural adjunct to the $80 / 20$ initiative, is another initiative in which management conducts strategic reviews of our current portfolio for future profitable growth and greater shareholder returns. This initiative has resulted in the sale and exiting of less profitable businesses or products lines in order to enable the Company to re-allocate leadership, time, capital and resources to the highest potential platforms and businesses. Exit activity costs and asset impairment charges were incurred as a result of these initiatives.
Exit activity costs were incurred during the nine months ended September 30, 2017 which related to contract termination costs, severance costs, and other moving and closing costs. These costs were the result of the closing and consolidation of facilities, relocation of inventory and equipment at those facilities and the reduction of workforce associated with the discontinued products and closed facilities. During the nine months ended September 30, 2017, asset impairment charges incurred were more than offset by a gain on sale of assets previously impaired in 2016 as a result of businesses and product lines discontinued. Specifically, the exit of both the Company's small European residential solar racking business and the exit of the Company's U.S. bar grating product line, which commenced during the fourth quarter of 2016, transacted sales of assets during the nine months ended September 30, 2017 which resulted in a net gain. These exits were completed in the first half of 2017. During the nine months ended September 30, 2017, asset impairment charges were incurred related to the write-down of inventory, impairment of machinery and equipment and intangible assets associated with either discontinued product lines or the reduction of manufactured goods offered within a product line. These assets were written down to their sale or scrap value, and were subsequently sold or disposed of. During the nine months ended September 30, 2017, the Company closed three facilities as a result of this strategy.
During the nine months ended September 30, 2016, the Company incurred asset impairment charges and exit activity costs resulting from the above strategy as well. As a result of these initiatives, the Company sold its European industrial manufacturing business to a third party in April 2016, as well as closed four other facilities during the first nine months of 2016.
The following tables set forth the asset impairment charges and exit activity costs incurred by segment during the three and nine months ended September 30, related to the restructuring activities described above (in thousands):


Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q

|  | Inventor write-do \&/or asset impairm recoveri net | y <br> wns <br> Exit activity nerasts es, | Total | Invent write-d \&/or asset impair charge | ry Exit activity costs ment | Total |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Residential Products | \$295 | \$958 | \$ 1,253 | \$ 1,179 | \$ 677 | \$1,856 |
| Industrial \& Infrastructure Products | (2,492 | 2,959 | 467 | 2,697 | 2,019 | 4,716 |
| Renewable Energy \& Conservation | 266 | 2,610 | 2,876 | - | - | - |
| Corporate | - | 179 | 179 | - | - | - |
| Total exit activity costs \& asset impairments | \$(1,931) | ) \$ 6,706 | \$4,775 | \$3,876 | \$ 2,696 | \$6,572 |

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 Nine Months <br> Ended  Ended  |  |  |  |
| :--- | :--- | :--- | :--- |
| September 30, |  | September 30, |  |
| 2017 | 2016 | 2017 | 2016 |
| $\$ 860$ | $\$ 3,433$ | $\$ 382$ | $\$ 5,111$ |
| 707 | 332 | 4,393 | 1,461 |

Net asset impairment and exit activity charges $\$ 1,567$ \$3,765 $\$ 4,775$ \$6,572
The following table reconciles the beginning and ending liability for exit activity costs relating to the Company's facility consolidation efforts (in thousands):

20172016
Balance at January $1 \quad \$ 3,744 \quad \$ 603$
Exit activity costs recognized 6,706 2,696
Cash payments $\quad(9,207)(2,182)$
Balance at September $30 \quad \$ 1,243 \quad \$ 1,117$
As noted above, the Company sold its European industrial manufacturing business to a third party on April 15, 2016 from its Industrial and Infrastructure Products segment. This divestiture did not meet the criteria to be reported as a discontinued operation as it does not represent a strategic shift that has or will have a major effect on the Company's operations. Similarly, neither the exiting of the Company's small European residential solar racking business nor its U.S. bar grating product line met the criteria to be reported as a discontinued operation for the year ended December 31, 2016. Therefore, prior period results of continuing operations have not been restated to exclude the impact of the divested and existed businesses' financial results. The pretax loss on sale of the European industrial manufacturing business is presented within other expense (income) in the consolidated statement of operations. The costs related to the exit of the Company's small European residential solar racking business and its U.S. bar grating product line are reflected in the above tables.

## 14. INCOME TAXES

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

Three Months
Ended
Nine Months Ended
September 30,
2017201620172016
Provision for income taxes \$11,184 \$8,952 \$21,090 \$12,131
Effective tax rate 35.2 \% 39.4 \% 35.8 \% 22.7 \%
The effective tax rate for the three months and nine months ended September 30, 2017 was greater than the U.S. federal statutory rate of $35 \%$ due to state taxes and $\$ 2.2$ million of pretax losses generated by the European residential solar racking business for which no tax benefit has been recorded, as such benefit is not expected to be realizable, partially offset by net deductible permanent differences and favorable discrete items. The effective tax rate for the third quarter of 2016 exceeded the U.S. federal statutory rate of $35 \%$ due to state taxes and unfavorable discrete items. The effective tax rate for the nine months ended September 30, 2016 was less than the U.S. federal statutory rate of $35 \%$ due to deductible permanent differences and favorable discrete items partially offset by state taxes.
The Company recorded a discrete tax benefit of $\$ 11.4$ million during the nine months ended September 30, 2016 due to the effect of a worthless stock deduction and an associated bad debt deduction of inter-company debt resulting from
the sale of its European industrial manufacturing business to a third party. The amount of this benefit was subsequently adjusted and reduced by $\$ 4.8$ million in the fourth quarter of 2016.

## Table of Contents

## 15. EARNINGS PER SHARE

Basic earnings and diluted weighted-average shares outstanding are as follows for the three and nine months ended September 30, (in thousands):

Numerator:
Income from continuing operations
Loss from discontinued operations

| Three Months |  | Nine Months |  |
| :---: | :---: | :---: | :---: |
| Ended |  | Ended |  |
| Septemb | ber 30, | Septemb | er 30, |
| 2017 | 2016 | 2017 | 2016 |
| \$20,619 | \$13,786 | \$37,789 | \$41,427 |
| - | - | (405 | - |

Net income available to common shareholders $\$ 20,619$ \$13,786 \$37,384 \$41,427
Denominator for basic earnings per share:
Weighted average shares outstanding
Denominator for diluted earnings per share:
$\begin{array}{lllll}\text { Weighted average shares outstanding } & 31,703 & 31,579 & 31,700 & 31,493\end{array}$
$\begin{array}{llllll}\text { Common stock options and restricted stock } & 507 & 597 & 516 & 512\end{array}$
$\begin{array}{lllll}\text { Weighted average shares and conversions } & 32,210 & 32,176 & 32,216 & 32,005\end{array}$
The weighted average number of diluted shares does not include potential anti-dilutive common shares aggregating 489,000 and 621,000 for the three months ended September 30, 2017 and 2016, respectively, and 523,000 and 690,000 for the nine months ended September 30, 2017 and 2016, respectively .

## 16. 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:
${ }_{\text {(i) }}$ Residential Products, which primarily includes roof and foundation ventilation products, mail and parcel storage
${ }^{(1)}$ products, rain dispersion products and roofing accessories;
(ii) Industrial and Infrastructure Products, which primarily includes expanded and perforated metal, expansion joints
${ }^{(i 1)}$ and structural bearings; and
(iii) Renewable Energy and Conservation, which primarily includes designing, engineering, manufacturing and installation of solar racking systems and greenhouse structures.
When determining the reportable segments, the Company aggregated operating segments based on their similar economic and operating characteristics.

## Table of Contents

The following table illustrates certain measurements used by management to assess performance of the segments described above for the three and nine months ended September 30, (in thousands):

| Three Months Ended September 30, |  | Nine Months Ended |  |
| :---: | :---: | :---: | :---: |
|  |  | Septembe | ber 30, |
| 2017 | 2016 | 2017 | 2016 |
| \$ 129,501 | \$ 117,957 | \$361,304 | \$338,069 |
| 88,135 | 82,008 | 202,690 | 204,648 |
| 57,162 | 73,193 | 165,806 | 234,590 |
| (224 ) | ) (424 | ) (994 | ) (1,164 |
| 56,938 | 72,769 | 164,812 | 233,426 |
| \$274,574 | \$272,734 | \$728,806 | \$776,143 |

Income from operations:
Residential Products $\quad \$ 23,764 \quad \$ 19,407 \quad \$ 61,984 \quad \$ 52,363$
Renewable Energy and Conservation
$11,549 \quad 16,366 \quad 18,381 \quad 34,969$

Industrial and Infrastructure Products
Unallocated Corporate Expenses

| 2,554 | 1,913 | 5,914 | 11,429 |
| :--- | :--- | :--- | :--- |

Total income from operations
$(2,174)(11,164)(15,977)(25,902)$
\$35,693 \$26,522 \$70,302 \$72,859

## 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 $6.25 \%$ Notes due February 1, 2021, and the non-guarantors. The guarantors are $100 \%$ owned domestic 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.

Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q

## Table of Contents

GIBRALTAR INDUSTRIES, INC. CONSOLIDATING STATEMENTS OF OPERATIONS THREE MONTHS ENDED SEPTEMBER 30, 2017
(in thousands)

| Net sales | $\$-$ | $\$ 264,448$ | $\$ 15,514$ | $\$(5,388$ | $) \$ 274,574$ |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Cost of sales | - | 198,103 | 12,844 | $(5,108$ | $)$ | 205,839 |
| Gross profit | - | 66,345 | 2,670 | $(280$ | $) 68,735$ |  |
| Selling, general, and administrative expense | 34 | 31,003 | 2,005 | - | 33,042 |  |
| (Loss) income from operations | $(34$ | $)$ | 35,342 | 665 | $(280$ | $) 35,693$ |
| Interest expense (income) | 3,402 | 105 | $(21$ | - | 3,486 |  |
| Other expense | - | 100 | 304 | - | 404 |  |
| (Loss) income before taxes | $(3,436$ | $)$ | 35,137 | 382 | $(280$ | 31,803 |
| (Benefit of) provision for income taxes | $(1,124$ | $) 12,219$ | 89 | - | 11,184 |  |
| Equity in earnings from subsidiaries | 23,211 | 293 | - | $(23,504$ | - |  |
| Net income | $\$ 20,899$ | $\$ 23,211$ | $\$ 293$ | $\$(23,784) \$ 20,619$ |  |  |

Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATING STATEMENTS OF OPERATIONS
THREE MONTHS ENDED SEPTEMBER 30, 2016
(in thousands)

|  | Gibraltar |  | Guarantor |  | Non-Guarantor |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | Eliminations Total

Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q
$\qquad$

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATING STATEMENTS OF OPERATIONS
NINE MONTHS ENDED SEPTEMBER 30, 2017
(in thousands)

| Net sales | \$ - |  | \$ 700,848 | \$ 37,383 |  | \$ (9,425 |  | \$728,806 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Cost of sales | - |  | 527,389 | 30,565 |  | (8,963 |  | 548,991 |
| Gross profit | - |  | 173,459 | 6,818 |  | (462 |  | 179,815 |
| Selling, general, and administrative expense | 111 |  | 101,190 | 8,212 |  | - |  | 109,513 |
| (Loss) income from operations | (111 | ) | 72,269 | (1,394 | ) | (462 | ) | 70,302 |
| Interest expense (income) | 10,207 |  | 459 | (54 | ) | - |  | 10,612 |
| Other expense | - |  | 345 | 466 |  | - |  | 811 |
| (Loss) income before taxes | (10,318 | ) | 71,465 | (1,806 | ) | (462 | ) | 58,879 |
| (Benefit of) provision for income taxes | (3,808 | ) | 24,957 | (59 | ) | - |  | 21,090 |
| (Loss) income from continuing operations | (6,510 | ) | 46,508 | (1,747 | ) | (462 |  | 37,789 |
| Discontinued operations: |  |  |  |  |  |  |  |  |
| Loss from discontinued operations before taxes | - |  | (644 | ) - |  | - |  | (644 |
| Benefit of income taxes | - |  | (239 | ) - |  | - |  | (239 |
| Loss from discontinued operations | - |  | (405 | ) - |  | - |  | (405 |
| Equity in earnings (loss) from subsidiaries | 44,356 |  | (1,747 | ) - |  | (42,609 |  | - |
| Net income (loss) | \$ 37,846 |  | \$ 44,356 | \$ (1,747 | ) | \$ (43,071 |  | \$37,384 |

Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATING STATEMENTS OF OPERATIONS
NINE MONTHS ENDED SEPTEMBER 30, 2016
(in thousands)

| Net sales | $\$-$ | $\$ 728,782$ | $\$ 63,014$ | $\$(15,653$ | $) \$ 776,143$ |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Cost of sales | - | 551,195 | 49,436 | $(15,368$ | $)$ | 585,263 |
| Gross profit | - | 177,587 | 13,578 | $(285$ | $)$ | 190,880 |
| Selling, general, and administrative expense | 14,268 | 99,622 | 4,131 | - | 118,021 |  |
| (Loss) income from operations | $(14,268$ | $)$ | 77,965 | 9,447 | $(285$ | $) 72,859$ |
| Interest expense (income) | 10,207 | 836 | $(61$ | - | 10,982 |  |
| Other expense (income) | 8,717 | 465 | $(863$ | $)$ | - | 8,319 |
| (Loss) income before taxes | $(33,192$ | $)$ | 76,664 | 10,371 | $(285$ | $) 53,558$ |
| (Benefit of) provision for income taxes | $(10,898$ | $)$ | 22,189 | 840 | - | 12,131 |
| Equity in earnings from subsidiaries | 64,006 | 9,531 | - | $(73,537$ | - |  |
| Net income | $\$ 41,712$ | $\$ 64,006$ | $\$ 9,531$ | $\$(73,822) \$ 41,427$ |  |  |

Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q

## Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2017
(in thousands)

|  | Gibraltar <br> Industries | Guaranto cSubsidia | $\begin{aligned} & \text { Non-G } \\ & \text { ies Subsid } \end{aligned}$ | Eliminatio |  | Total |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Net income | \$ 20,899 | \$ 23,211 | \$ 293 | \$ (23,784 |  | \$20,619 |
| Other comprehensive income (loss): |  |  |  |  |  |  |
| Foreign currency translation adjustment | - | - | 1,581 | - |  | 1,581 |
| Adjustment to retirement benefit liability, net of tax | - | (2 | ) - | - |  | (2 |
| Adjustment to post employment health care benefit liability, net of tax | - | 29 | - | - |  | 29 |
| Other comprehensive income | - | 27 | 1,581 | - |  | 1,608 |
| Total comprehensive income | \$ 20,899 | \$ 23,238 | \$ 1,874 | \$ (23,784 |  | \$22,227 |

Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q

## Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2016
(in thousands)

|  | Gibraltar Guarantor Non-Guaranto Industries, IncSubsidiariesSubsidiaries |  |  |  | Eliminations Total |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Net income | \$ 13,435 | \$ 15,746 | \$ 1,862 |  | \$ (17,257 |  | \$ 13,786 |
| Other comprehensive income (loss): |  |  |  |  |  |  |  |
| Foreign currency translation adjustment | - | - | (193 | ) | - |  | (193 |
| Adjustment to retirement benefit liability, net of tax | - | 61 | - |  | - |  | 61 |
| Adjustment to post employment health care benefit liability, net of tax | - | 38 | - |  | - |  | 38 |
| Other comprehensive income (loss) | - | 99 | (193 | ) | - |  |  |
| Total comprehensive income | \$ 13,435 | \$ 15,845 | \$ 1,669 |  | \$ (17,257 |  | \$ 13,692 |

Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q

## Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME NINE MONTHS ENDED SEPTEMBER 30, 2017
(in thousands)

|  | Industries, IncSubsidiaries S |  | Non-Guarantor <br> Subsidiaries <br> Eliminations Total |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Net income (loss) | \$ 37,846 | \$ 44,356 | \$ (1,747 | ) | \$ (43,071 | \$37,384 |
| Other comprehensive income (loss): |  |  |  |  |  |  |
| Foreign currency translation adjustment | - | - | 3,351 |  | - | 3,351 |
| Adjustment to retirement benefit liability, net of tax | - | (8 | ) - |  | - | (8 |
| Adjustment to post employment health care benefit liability, net of tax | - | 88 | - |  | - | 88 |
| Other comprehensive income | - | 80 | 3,351 |  | - | 3,431 |
| Total comprehensive income | \$ 37,846 | \$ 44,436 | \$ 1,604 |  | \$ (43,071 | \$40,815 |

Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q

## Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME NINE MONTHS ENDED SEPTEMBER 30, 2016
(in thousands)

## Net income

Other comprehensive income:


Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATING BALANCE SHEETS
SEPTEMBER 30, 2017
(in thousands)

| Gibraltar | Guarantor | Non-Guarantor |
| :--- | :--- | :--- |
| Industries, Inc. | Subsidiaries | Subsidiaries |

Assets
Current assets:

| Cash and cash equivalents | $\$-$ | $\$ 182,827$ | $\$ 25,205$ | $\$-$ | $\$ 208,032$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Accounts receivable, net | - | 158,877 | 7,841 | - | 166,718 |
| Intercompany balances | $(18,097$ | $)$ | 21,351 | $(3,254$ | $)$ |
| Inventories | - | 80,771 | 4,385 | - | - |
| Other current assets | 4,036 | $(32$ | $) 4,191$ | - | 85,156 |
| Total current assets | $(14,061$ | $) 443,794$ | 38,368 | - | 468,101 |
| Property, plant, and equipment, net | - | 90,933 | 3,555 | - | 94,488 |
| Goodwill | - | 298,331 | 22,762 | - | 321,093 |
| Acquired intangibles | - | 99,060 | 8,883 | - | 107,943 |
| Other assets | - | 4,672 | - | - | 4,672 |
| Investment in subsidiaries | 730,080 | 60,844 | - | $(790,924$ | - |
|  | $\$ 716,019$ | $\$ 997,634$ | $\$ 73,568$ | $\$(790,924)$ | $\$ 996,297$ |

Liabilities and Shareholders' Equity
Current liabilities:

| Accounts payable | $\$-$ | $\$ 91,499$ | $\$ 4,682$ | $\$-$ | $\$ 96,181$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Accrued expenses | 2,188 | 79,332 | 1,744 | - | 83,264 |
| Billings in excess of cost | - | 14,578 | 3,656 |  | 18,234 |
| Current maturities of long-term debt | - | 400 | - | - | 400 |
| Total current liabilities | 2,188 | 185,809 | 10,082 | - | 198,079 |
| Long-term debt | 208,400 | 1,025 | - | - | 209,425 |
| Deferred income taxes | - | 35,520 | 2,642 | - | 38,162 |
| Other non-current liabilities | - | 45,200 | - | - | 45,200 |
| Shareholders' equity | 505,431 | 730,080 | 60,844 | $(790,924$ | 505,431 |
|  | $\$ 716,019$ | $\$ 997,634$ | $\$ 73,568$ | $\$(790,924)$ | $\$ 996,297$ |

Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2016
(in thousands)

| Gibraltar | Guarantor | Non-Guarantor |
| :--- | :--- | :--- |
| Industries, Inc. | Subsidiaries | Subsidiaries |

Assets
Current assets:

| Cash and cash equivalents | $\$-$ | $\$ 143,826$ | $\$ 26,351$ | $\$-$ | $\$ 170,177$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Accounts receivable, net | - | 117,526 | 6,546 | - | 124,072 |
| Intercompany balances | $(615$ | $)$ | 6,152 | $(5,537$ | $)$ |
| Inventories | - | 85,483 | 4,129 | - | - |
| Other current assets | 13,783 | $(10,070$ | $) 3,623$ | - | 7,612 |
| Total current assets | 13,168 | 342,917 | 35,112 | - | 391,197 |
| Property, plant, and equipment, net | - | 104,642 | 3,662 | - | 108,304 |
| Goodwill | - | 282,300 | 21,732 | - | 304,032 |
| Acquired intangibles | - | 101,520 | 9,270 | - | 110,790 |
| Other assets | - | 3,922 | - | - | 3,922 |
| Investment in subsidiaries | 663,118 | 58,477 | - | $(721,595$ | - |
|  | $\$ 676,286$ | $\$ 893,778$ | $\$ 69,776$ | $\$(721,595)$ | $\$ 918,245$ |

Liabilities and Shareholders' Equity
Current liabilities:

| Accounts payable | $\$-$ | $\$ 66,363$ | $\$ 3,581$ | $\$-$ | $\$ 69,944$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Accrued expenses | 7,369 | 60,004 | 3,019 | - | 70,392 |
| Billings in excess of cost | - | 9,301 | 2,051 | - | 11,352 |
| Current maturities of long-term debt | - | 400 | - | - | 400 |
| Total current liabilities | 7,369 | 136,068 | 8,651 | - | 152,088 |
| Long-term debt | 208,037 | 1,200 | - | - | 209,237 |
| Deferred income taxes | - | 35,354 | 2,648 | - | 38,002 |
| Other non-current liabilities | - | 58,038 | - | - | 58,038 |
| Shareholders' equity | 460,880 | 663,118 | 58,477 | $(721,595$ | 460,880 |
|  | $\$ 676,286$ | $\$ 893,778$ | $\$ 69,776$ | $\$(721,595)$ | $\$ 918,245$ |

Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q

## Table of Contents

GIBRALTAR INDUSTRIES, INC. CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2017
(in thousands)


Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q

Table of Contents

GIBRALTAR INDUSTRIES, INC.
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2016
(in thousands)

|  | Gibraltar <br> Industries, <br> Inc. Subsidiaries | Guarantor <br> Non-Guarantor <br> Subsidiaries | EliminationsTotal |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Cash Flows from Operating Activities |  |  |  |

# Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q 

## 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," "intenc "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 industries 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 Industries, Inc. (the "Company") is a leading manufacturer and distributor of building products for the industrial, transportation infrastructure, residential housing, renewable energy and resource conservation markets. Our business strategy is designed to significantly elevate and accelerate the growth and financial returns of the Company. We believe this can be achieved, in part, from a transformational change in the Company's portfolio, as well as, the implementation of the strategy described below. Our business strategy has four key elements, or "pillars," which are: operational excellence, product innovation, portfolio management, and acquisitions as a strategic accelerator. We strive to deliver best-in-class, sustainable value creation for our shareholders for the long-term.

Operational excellence is our first pillar in this strategy. 80/20 simplification ("80/20") is a core part of the operational excellence pillar and is based on the analysis that $25 \%$ of the customers typically generate $89 \%$ of the revenue in a business, and $150 \%$ of the profitability. Through analysis of data generated by our $80 / 20$ practices, we are focusing on our largest and best opportunities (the " 80 ") and eliminating complexity associated with less profitable opportunities (the " 20 ") in order to generate more earnings year over year, at a higher rate of return with a more efficient use of capital.

We are in the third year of our multi-year simplification initiative. Since initiation of $80 / 20$ in 2015, we have exceeded our initial five-year target ending 2019 of $\$ 25$ million of pre-tax savings. We are currently in the middle of this 80/20 initiative, which means that there is both more work and more opportunity ahead. We are targeting greater structural changes affecting our balance sheet. We are starting the follow-on management tools of in-lining our manufacturing processes linked with market-rate-of-demand replenishment tools. These follow-on tools are focused on manufacturing the highest-volume products for our largest customers, and on a much higher level of capacity utilization. We expect these methods will yield additional benefits including lower manufacturing costs, lower inventories and fixed assets, and an even higher level of service to customers.

The second pillar of our strategy is portfolio management, which is a natural adjunct to the $80 / 20$ initiative. Using the 80/20 process, we conduct strategic reviews of our customers and end markets, and allocate leadership time, capital and resources to the platforms and businesses with the highest revenue and margin potential. Following the sale of our European industrial manufacturing business to a third party in April 2016, we decided in December 2016 to exit our small European residential solar racking business and U.S. bar grating product line, both of which proceeded as planned. These portfolio changes have helped contribute to the Company's realization of a higher rate of return on invested capital in 2016. We have now acted on all near-term portfolio assessments and expect no additional changes in 2017 while we continue to position our resources on more attractive projects and markets.

## Table of Contents

Product innovation is our third strategic pillar. Innovation is centered on the allocation of new and existing resources to opportunities that we believe will produce sustainable returns. Our focus is on driving top line growth with new and innovative products. We are focused on those products and technologies that have relevance to the end-user and can be differentiated from our competition. Our initiatives will be tailored toward reallocating sales and marketing talent to target specific end user groups in order to better understand their needs and the various market opportunities that may be available. This effort is expected to produce ideas and opportunities that generate profitable growth. Our focus on innovation is centered on four markets: postal, parcel and storage solutions; residential air management; infrastructure; and renewable energy. These respective markets are expected to grow based on demand for: centralized mail and parcel delivery systems; zero carbon footprint homes; the need for repairs to elevated bridges that are structurally deficient or functionally obsolete; and energy sources not dependent on fossil fuels.

The fourth pillar of our strategy is acquisitions. We have targeted four key markets in which to make strategic acquisitions which are served by existing platforms within the Company. The existing platforms include the same areas in which we are targeting the development of innovative products: postal, parcel and storage solutions; infrastructure; residential air management; and renewable energy. These platforms are all in large markets in which the underlying trends for customer convenience and safety, energy-savings and resource conservation are of increasing importance to consumers and are expected to drive long-term demand. We believe these markets also offer the opportunity for higher returns on our investments than those we have generated in the past. The acquisitions of Rough Brothers Manufacturing, Inc., RBI Solar, Inc., and affiliates, collectively known as "RBI" in June 2015 and more recently, Nexus Corporation ("Nexus") in October 2016 and Package Concierge in February 2017, were the direct result of this strategy. We also consider businesses outside of these four markets, as we continually search out opportunities to grow our business in large markets with expected growth in demand for the foreseeable future, where we can add value through our manufacturing experience, $80 / 20$ process and purchasing synergies.

On February 22, 2017, the Company acquired all of the outstanding stock of Package Concierge for approximately $\$ 19$ million subject to a working capital adjustment and certain other adjustments provided for in the stock purchase agreement. The acquisition was financed through cash on hand. Package Concierge is a leading provider of multifamily electronic package delivery locker systems in the United States. The results of operations of Package Concierge have been included within the Residential Products segment of the Company's consolidated financial statements from the date of acquisition.
On February 6, 2017, the Company completed the sale of substantially all of its U.S. bar grating product line assets to a third party. The Company had previously announced, on December 2, 2016, its intentions to exit its U.S. bar grating product line and its European residential solar racking business as part of its portfolio management initiative. These businesses contributed a combined $\$ 75$ million in revenue and pre-tax operating losses of $\$ 6$ million in 2016. This action resulted in the sale and closing of 3 facilities in early 2017. These assets were a part of our Industrial and Infrastructure Products segment.

On October 11, 2016, the Company acquired all of the outstanding stock of Nexus for approximately $\$ 24$ million. The acquisition was financed through cash on hand. Nexus is a leading provider of commercial-scale greenhouses to customers in the United States. The results of operations of Nexus have been included within the Renewable Energy and Conservation segment of the Company's consolidated financial statements from the date of acquisition.

On April 15, 2016, the Company sold its European industrial manufacturing business to a third party for net of cash proceeds of $\$ 8.3$ million. This business, which supplied expanded metal products for filtration and other applications, contributed $\$ 36$ million in revenue to the Company's Industrial and Infrastructure Products segment in 2015 and had nearly break-even operating results. The Company's divestiture of this business was the result of the Company's portfolio management assessments.

## Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q

The Company serves customers primarily throughout North America and, to a lesser extent, Asia. Our customers include major home improvement retailers, wholesalers, industrial distributors, contractors, solar developers and institutional and commercial growers of plants. As of September 30, 2017, we operated 42 facilities in 17 states, Canada, China, and Japan, giving us a base of operations to provide customer support, delivery, service and quality 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 Asian markets.

The Company operates and reports its results in the following three reporting segments, entitled:
Residential Products;
Renewable Energy and Conservation; and
Industrial and Infrastructure Products.

## Table of Contents

Our Residential Products segment services residential repair and remodeling activity and new residential housing construction with products including roof and foundation ventilation products, mail and parcel storage products, rain dispersion products and roof ventilation accessories. This segment's products are sold through major retail home centers, building material wholesalers, distributor groups, residential contractors and directly to the multi-family property management companies.

Our Renewable Energy and Conservation segment focuses on the design, engineering, manufacturing and installation of solar racking systems and commercial, institutional, and retail greenhouse structures. This segment's services and products are provided directly to developers, select distribution channels, and end users/owners.

Our Industrial and Infrastructure Products segment focuses on a variety of markets including industrial and commercial construction, highway and bridge construction, automotive, airports and energy and power generation markets with products including perimeter security, expanded and perforated metal, plank grating, as well as, expansion joints and structural bearings for roadways and bridges. This segment sells its products through steel fabricators and distributors, commercial and transportation contractors, and original equipment manufacturers. The end markets our businesses serve include residential housing, industrial manufacturing, transportation infrastructure, and renewable energy and conservation. These end markets are subject to economic conditions that are influenced by various factors. These factors include but are not limited to changes in general economic conditions, interest rates, exchange rates, commodity costs, demand for residential construction, governmental policies and funding, tax policies and the volume of non-residential construction and infrastructure projects. We believe the key elements of our strategy will allow us to respond timely to changes in these factors. We have and expect to continue to restructure our operations, including consolidation of facilities, reducing overhead costs, curtailing investments in inventory, and managing our business to generate incremental cash. Additionally, we believe our strategy has enabled us to better react to fluctuations in commodity costs and customer demand, and has helped in improving margins. We have used the improved cash flows generated by these initiatives to improve our liquidity position, and invest in growth initiatives. Overall, we are striving to achieve stronger financial results, make more efficient use of capital, and deliver higher shareholder returns.
Results of Operations
Three Months Ended September 30, 2017 Compared to the Three Months Ended September 30, 2016
The following table sets forth selected data from our consolidated statements of operations and the related percentage of net sales for the three months ended September 30, (in thousands):
20172016

Net sales $\quad \$ 274,574 \quad 100.0 \% ~ \$ 272,734100.0 \%$
Cost of sales
Gross profit
Selling, general, and administrative expense
Income from operations
Interest expense
Other expense
Income before taxes
Provision for income taxes
Net income
205,839 75.0 \% 204,847 75.1 \%
$68,735 \quad 25.0 \% 67,887 \quad 24.9 \%$
$33,042 \quad 12.0 \% 41,365 \quad 15.2 \%$

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

|  | 2017 | 2016 | Total Change | Change due to |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  | Divestitu | resAcquisi | Operations |
| Net sales: |  |  |  |  |  |  |
| Residential Products | \$ 129,501 | \$ 117,957 | \$ 11,544 | \$- | \$ 1,811 | \$ 9,733 |
| Renewable Energy and Conservation | 88,135 | 82,008 | 6,127 | (2,266 | ) 6,423 | 1,970 |
| Industrial and Infrastructure Products | 57,162 | 73,193 | (16,031 ) | (14,799 | ) - | (1,232 ) |
| Less: Intersegment sales | (224 | ) $(424$ | ) 200 | - | - | 200 |
| Net Industrial and Infrastructure Products | 56,938 | 72,769 | (15,831) | (14,799 | ) - | (1,032 ) |
| Consolidated | \$274,574 | \$272,734 | \$ 1,840 | \$(17,065 | ) \$ 8,234 | \$ 10,671 |

Consolidated net sales increased by $\$ 1.8$ million, or $0.7 \%$, to $\$ 274.6$ million for the three months ended September 30, 2017 compared to the three months ended September 30, 2016. The increase in sales was the result of increased volumes in ongoing revenue streams along with contributions from our recent acquisitions in our Renewable Energy and Conservation and Residential Products Segments, Nexus in October 2016 and Package Concierge in February 2017, respectively. Also contributing to the increase was a modest $1.0 \%$ increase in pricing to customers. Partially offsetting these increases were the results of divestitures related to the Company's portfolio management activities during 2016. This included the exit of both the Company's small European residential solar racking business and the Company's U.S. bar grating product line, both of which commenced during the fourth quarter of 2016. These divestitures resulted in a decrease in revenues of $\$ 17.1$ million from the prior year quarter.
Net sales in our Residential Products segment increased $9.7 \%$, or $\$ 11.5$ million to $\$ 129.5$ million for the three months ended September 30, 2017 compared to $\$ 118.0$ million for the three months ended September 30, 2016. The increase was largely the result of a net increase in volume along with sales generated from the acquisition of Package Concierge and an increase in pricing to customers. The volume increase resulted from demand for our commercial package solutions as well as our roofing-related ventilation and rain dispersion products.
Net sales in our Renewable Energy and Conservation segment increased $7.4 \%$, or $\$ 6.1$ million to $\$ 88.1$ million for the three months ended September 30, 2017 compared to $\$ 82.0$ million for the three months ended September 30, 2016. The increase was the result of sales generated from the acquisition of Nexus and an increase in volume in our domestic markets. Partially offsetting this increase were the effects of the exit of the Company's small European residential solar racking business and continued softness in our international markets.
Net sales in our Industrial and Infrastructure Products segment decreased 21.7\%, or $\$ 15.8$ million to $\$ 56.9$ million for the three months ended September 30, 2017 compared to $\$ 72.8$ million for the three months ended September 30, 2016. The decrease in net sales was primarily the result of the Company's exit from its U.S. bar grating product line. Also a decrease in demand for our infrastructure products as compared to the third quarter in the prior year, which include components for bridges and elevated highways, contributed to the decline in volume due to continued delay in infrastructure projects. We expect this decline to be temporary as backlog and bookings for this business have increased compared to the prior year quarter and the market shows signs of recovery.
Our consolidated gross margin slightly increased to $25.0 \%$ for the three months ended September 30, 2017 compared to $24.9 \%$ for the three months ended September 30, 2016. This increase was largely the result of portfolio management actions during 2016 in which less profitable businesses or product lines were sold or exited in order to enable the Company to re-allocate leadership, time, capital and resources to the highest potential platforms and businesses. This increase was largely offset by a less favorable alignment of material costs to customer selling prices. Selling, general, and administrative (SG\&A) expenses decreased by $\$ 8.3$ million, or $20.1 \%$, to $\$ 33.0$ million for the three months ended September 30, 2017 from $\$ 41.4$ million for the three months ended September 30, 2016. The $\$ 8.3$ million decrease was primarily due to $\$ 7.6$ million of lower performance-based compensation expenses, along with a $\$ 2.2$ million decrease in senior leadership transition costs. These were partially offset by $\$ 2.3$ million of additional expense from the acquisitions of Nexus and Package Concierge. SG\&A expenses as a percentage of net sales decreased to $12.0 \%$ for the three months ended September 30, 2017 compared to $15.2 \%$ for the three months ended September 30, 2016.

The following table sets forth the Company's income from operations and income from operations as a percentage of net sales by reportable segment for the three months ended September 30, (in thousands):

$$
\begin{array}{lll}
2017 & 2016 & \text { Total } \\
\text { Change }
\end{array}
$$

Income (loss) from operations:
Residential Products $\quad \$ 23,764 \quad 18.4 \%$ \$19,407 $\quad 16.5 \% \quad \$ 4,357$
Renewable Energy and Conservation $11,549 \quad 13.1$ \% 16,366 20.0 \% (4,817)
Industrial and Infrastructure Products $2,554 \quad 4.5$ \% $1,913 \quad 2.6 \quad \% \quad 641$
Unallocated Corporate Expenses (2,174 ) (0.8)\% (11,164) (4.1)\% 8,990
Consolidated income from operations $\$ 35,693 \quad 13.0 \% ~ \$ 26,522 \quad 9.7 \quad \% \quad \$ 9,171$
Our Residential Products segment generated an operating margin of $18.4 \%$ during the three months ended September 30, 2017 compared to $16.5 \%$ during the three months ended September 30, 2016. The increase of $\$ 4.4$ million of operating profit is due to the benefits of improved operational efficiencies and contributions from the 80/20 initiative.

The Renewable Energy and Conservation segment generated an operating margin of $13.1 \%$ in the current year quarter compared to $20.0 \%$ in the prior year quarter. The decline in operating margin reflects an unfavorable alignment of material costs to customer selling prices as compared to the prior year quarter.

Our Industrial and Infrastructure Products segment generated an operating margin of 4.5\% during the three months ended September 30, 2017 compared to $2.6 \%$ during the three months ended September 30, 2016. The improvement was largely the result of costs incurred in the prior-year quarter related to our $80 / 20$ simplification initiatives. Partially offsetting this improvement were the effects of lower volumes from our infrastructure products and an unfavorable alignment of material costs to customer selling prices.

Unallocated corporate expenses decreased $\$ 9.0$ million from $\$ 11.2$ million during the three months ended September 30, 2016 to $\$ 2.2$ million during the three months ended September 30, 2017. This decrease from the prior year quarter was largely due to a $\$ 7.4$ million decrease in performance-based compensation expenses, along with a $\$ 2.2$ million decrease in senior leadership transition costs.
The Company recorded other expense of $\$ 0.4$ million for the three months ended September 30, 2017 and other expense of $\$ 0.2$ million for the three months ended September 30, 2016. The increase from the prior year quarter was primarily due to foreign currency fluctuations.
Interest expense modestly decreased by $\$ 0.1$ million to $\$ 3.5$ million for the three months ended September 30, 2017 compared to $\$ 3.6$ million for the three months ended September 30, 2016. During the three months ended September 30, 2017 and 2016, no amounts were outstanding under our revolving credit facility. We recognized a provision for income taxes of $\$ 11.2$ million and $\$ 9.0$ million, with effective tax rates of $35.2 \%$ and $39.4 \%$ for the three months ended September 30, 2017, and 2016, respectively. The effective tax rate for the third quarter of 2017 exceeded the U.S. federal statutory rate of $35 \%$ due to state taxes and $\$ 2.2$ million of pretax losses generated by the European residential solar racking business for which no tax benefit has been recorded as such benefit is not expected to be realizable, partially offset by net deductible permanent differences and favorable discrete items. The effective tax rate for the third quarter of 2016 was greater than the U.S. federal statutory rate of $35 \%$ primarily due state taxes and unfavorable discrete items.

Nine Months Ended September 30, 2017 Compared to the Nine Months Ended September 30, 2016 The following table sets forth selected data from our consolidated statements of operations and the related percentage of net sales for the nine months ended September 30, (in thousands):

|  | 2017 |  | 2016 |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Net sales | $\$ 728,806$ | 100.0 | $\%$ | $\$ 776,143$ | $100.0 \%$ |  |
| Cost of sales | 548,991 | 75.3 | $\%$ | 585,263 | 75.4 | $\%$ |
| Gross profit | 179,815 | 24.7 | $\%$ | 190,880 | 24.6 | $\%$ |
| Selling, general, and administrative expense | 109,513 | 15.0 | $\%$ | 118,021 | 15.2 | $\%$ |
| Income from operations | 70,302 | 9.7 | $\%$ | 72,859 | 9.4 | $\%$ |
| Interest expense | 10,612 | 1.5 | $\%$ | 10,982 | 1.4 | $\%$ |
| Other expense | 811 | 0.1 | $\%$ | 8,319 | 1.1 | $\%$ |
| Income before taxes | 58,879 | 8.1 | $\%$ | 53,558 | 6.9 | $\%$ |
| Provision for income taxes | 21,090 | 2.9 | $\%$ | 12,131 | 1.6 | $\%$ |
| Income from continuing operations | 37,789 | 5.2 | $\%$ | 41,427 | 5.3 | $\%$ |
| Loss from discontinued operations | $(405$ | $)(0.1$ | $\%$ | - | 0.0 | $\%$ |
| Net income | $\$ 37,384$ | 5.1 | $\%$ | $\$ 41,427$ | 5.3 | $\%$ |

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

|  |  |  |  |  |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
|  | 2017 | 2016 |  | Total <br> Change due to |  |  |  |  |
| Net sales: |  |  |  |  |  |  |  |  |
| DivestituresAcquisitions |  |  |  |  |  |  |  |  |

Consolidated net sales decreased by $\$ 47.3$ million, or $6.1 \%$, to $\$ 728.8$ million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The decrease in sales was primarily the result of divestitures related to the Company's portfolio management activities during 2016. The Company sold its European industrial manufacturing business in April 2016 to a third party and exited both the Company's small European residential solar racking business and the Company's U.S. bar grating product line, both of these divestitures commenced during the fourth quarter of 2016. These divestitures resulted in a decrease in revenues of $\$ 66.2$ million from the prior year. Partially offsetting these divestitures were net sales contributions from our recent acquisitions in our Renewable Energy and Conservation and Residential Products Segments, Nexus in October 2016 and Package Concierge in February 2017, respectively. A net decrease in volume of $2.0 \%$ in comparable revenue streams nearly offset by a modest $2.0 \%$ increase in pricing to customers also contributed to the overall decrease in sales year over year.
Net sales in our Residential Products segment increased $6.9 \%$, or $\$ 23.2$ million to $\$ 361.3$ million for the nine months ended September 30, 2017 compared to $\$ 338.1$ million for the nine months ended September 30, 2016. The increase was largely the result of a net increase in volume along with sales generated from the acquisition of Package Concierge and an increase in pricing to customers. The net sales volume increase was due to an increase in demand for our ventilation and roofing products along with increased demand for our multifamily postal and parcel storage products.
Net sales in our Renewable Energy and Conservation segment decreased $1.0 \%$, or $\$ 2.0$ million to $\$ 202.7$ million for the nine months ended September 30, 2017 compared to $\$ 204.6$ million for the nine months ended September 30, 2016. The decrease was the result of the exit of the Company's small European residential solar racking business and continued softness in our international markets, partially offset by sales generated from the acquisition of Nexus and increased volume in our domestic markets. As expected, total volume declined in the first nine months of 2017 as we entered 2017 with lower levels of backlog,

Edgar Filing: GIBRALTAR INDUSTRIES, INC. - Form 10-Q
which resulted in lower sales in the first half of 2017 compared to the first half of 2016. Backlog has improved for this segment and now exceeds its prior year levels.
Net sales in our Industrial and Infrastructure Products segment decreased 29.4\%, or $\$ 68.6$ million to $\$ 164.8$ million for the nine months ended September 30, 2017 compared to $\$ 233.4$ million for the nine months ended September 30, 2016. The decrease in net sales was the combined result of the Company's exit from its U.S. bar grating product line and the divestiture of our European industrial manufacturing business, along with a $5.0 \%$ decrease in volume as compared to the same period in the prior year. A decrease in demand for our infrastructure products, which include components for bridges and elevated highways, contributed to the decline in volume due to continued delay in infrastructure projects. We expect this decline to be temporary due to federal and state funding availability and as evidenced by an increase in segment backlog during the current year.
Our consolidated gross margin remained relatively unchanged at $24.7 \%$ for the nine months ended September 30, 2017 compared to $24.6 \%$ for the nine months ended September 30, 2016. The Company benefited from portfolio management actions during 2016 in which less profitable businesses or products lines were sold or exited in order to enable the Company to re-allocate leadership, time, capital and resources to the platforms and businesses with the highest potential revenue and margins. In addition, other portfolio management actions taken resulting from our 80/20 initiatives contributed to maintaining the margin as well. These benefits were largely offset by less favorable alignment of material costs to customer selling prices.
Selling, general, and administrative (SG\&A) expenses decreased by $\$ 8.5$ million, or $7.2 \%$, to $\$ 109.5$ million for the nine months ended September 30, 2017 from $\$ 118.0$ million for the nine months ended September 30, 2016. The $\$ 8.5$ million decrease was primarily due to a $\$ 11.5$ million decrease in performance-based compensation expenses, along with a $\$ 1.5$ million decrease in senior leadership transition costs. These decreases were partially offset by $\$ 5.9$ million of additional expense from the acquisitions of Nexus and Package Concierge, along with a $\$ 2.9$ million increase in portfolio management charges related to our 80/20 initiatives. SG\&A expenses as a percentage of net sales decreased to $15.0 \%$ for the nine months ended September 30, 2017 compared to $15.2 \%$ for the nine months ended September 30, 2016.

The following table sets forth the Company's income from operations and income from operations as a percentage of net sales by reportable segment for the nine months ended September 30, (in thousands):

$$
2017
$$

$$
2016
$$

Total
Change
Income (loss) from operations:
Residential Products $\quad \$ 61,984 \quad 17.2 \% \quad \$ 52,363 \quad 15.5 \% \quad \$ 9,621$
Renewable Energy and Conservation 18,381 9.1 \% 34,969 17.1 \% (16,588)
Industrial and Infrastructure Products 5,914 3.6 \% 11,429 4.9 \% (5,515 )
Unallocated Corporate Expenses (15,977)(2.2)\% (25,902) (3.3)\% 9,925
Consolidated income from operations \$70,302 $9.6 \% \$ 72,859 \quad 9.4 \% \$(2,557)$
Our Residential Products segment generated an operating margin of $17.2 \%$ during the nine months ended September 30, 2017 compared to $15.5 \%$ during the nine months ended September 30, 2016. The increase of $\$ 9.6$ million of operating profit is primarily due to the benefits of improved operational efficiencies and contributions from the $80 / 20$ initiative.

The Renewable Energy and Conservation segment generated an operating margin of $9.1 \%$ in the current year compared to $17.1 \%$ in the prior year. The decrease was primarily due to lower volume, an unfavorable alignment of material costs to customer selling prices, along with $\$ 2.4$ million of reduction of workforce and facility cleanup costs incurred to exit the European solar racking business.

Our Industrial and Infrastructure Products segment generated an operating margin of 3.6\% during the nine months ended September 30, 2017 compared to $4.9 \%$ during the nine months ended September 30, 2016. The decrease was largely an unfavorable alignment of material costs to customer selling prices, partially offset by a net reduction in costs incurred to exit the Company's U.S. bar grating product line .

Unallocated corporate expenses decreased $\$ 9.9$ million from $\$ 25.9$ million during the nine months ended September 30, 2016 to $\$ 16.0$ million during the nine months ended September 30, 2017. The lower expenses in the current year was primarily due to the decrease in performance-based compensation expenses.

The Company recorded other expense of $\$ 0.8$ million for the nine months ended September 30, 2017. Other expense of $\$ 8.3$ million for the nine months ended September 30, 2016 was primarily comprised of the $\$ 8.8$ million pre-tax loss on the sale of our European industrial manufacturing business, partially offset by net gains on foreign currency transactions.
Interest expense decreased by $\$ 0.4$ million to $\$ 10.6$ million for the nine months ended September 30, 2017 compared to $\$ 11.0$ million for the nine months ended September 30, 2016. During the nine months ended September 30, 2017 and 2016, no amounts were outstanding under our revolving credit facility.
We recognized a provision for income taxes of $\$ 21.1$ million and $\$ 12.1$ million, with effective tax rates of $35.8 \%$ and $22.7 \%$ for the nine months ended September 30, 2017 and 2016, respectively. The effective tax rate for the nine months ended September 30, 2017 exceeded the U.S. federal statutory rate of $35 \%$ due to state taxes and $\$ 2.2$ million of pretax losses generated by the European residential solar racking business for which no tax benefit has been recorded as such benefit is not expected to be realizable, partially offset by net deductible permanent differences and favorable discrete items. The effective tax rate for the nine months ended September 30, 2016 was less than the U.S. federal statutory rate of $35 \%$ primarily due to a discrete tax benefit of $\$ 11.4$ million resulting from the sale of our European industrial manufacturing business along with net deductible permanent differences, partially offset by state taxes.
Outlook
For the remainder of 2017, we continue to expect generally favorable market conditions for each of our segments and increased bidding activity and continued growth of backlogs in both our Infrastructure business and Renewable Energy \& Conservation segment. While we see reason for some caution in certain of our end markets, we are optimistic about the final quarter of the year. We are adjusting our full year guidance of revenues in the $\$ 960$ million to $\$ 965$ million range. We are narrowing our full-year earnings guidance within our previous guidance range and expect earnings per share ("EPS") to be between $\$ 1.40$ and $\$ 1.47$ per diluted share, comparing favorably to $\$ 1.05$ in 2016.

Our priorities for the remainder of 2017 will be to accelerate new product development initiatives, seek value-added acquisitions in attractive end markets, and continue to advance our 80/20 projects.
For the fourth quarter of 2017, we expect revenues in the range of $\$ 231$ million to $\$ 236$ million, and EPS to be between $\$ 0.23$ and $\$ 0.30$ per diluted share, compared to a loss of $\$ 0.24$ per share in the fourth quarter of 2016.

## Liquidity and Capital Resources

General
Our principal capital requirements are to fund our operations' working capital and capital improvements and to fund acquisitions. We will continue to invest in growth opportunities as appropriate while focusing on working capital efficiency and profit improvement opportunities to minimize the cash invested to operate our business. We have successfully generated positive cash flows from operating activities which have funded our capital requirements and recent acquisitions as noted below in "Cash Flows."

On December 9, 2015, we entered into the Company's Fifth Amended and Restated Credit Agreement (the "Senior Credit Agreement") which includes a 5 -year, $\$ 300$ million revolving credit facility and provides the Company with access to capital and improved financial flexibility. As of September 30, 2017, our liquidity of $\$ 496.8$ million consisted of $\$ 208.0$ million of cash plus $\$ 288.8$ million of availability under our revolving credit facility. We believe this liquidity, together with the cash expected to be generated from operations, should be sufficient to fund working capital needs and simplification initiatives that likely will need cash to fund transitions and future growth. We continue to search for strategic acquisitions and larger acquisitions may require additional borrowings and/or the issuance of our common stock.
Our Senior Credit Agreement provides the Company with liquidity and capital resources for use by our U.S. operations. Historically, our foreign operations have generated cash flow from operations sufficient to invest in working capital and fund their capital improvements. As of September 30, 2017, our foreign subsidiaries held $\$ 25.2$ million of cash in U.S. dollars. We believe cash held by our foreign subsidiaries provides our foreign operations with
the necessary liquidity to meet future obligations and allows the foreign business units to reinvest in their operations. These cash resources could eventually be used to grow our business internationally. Repatriation of this cash for domestic purposes could result in significant tax consequences.
Over the long-term, we expect that future obligations, including strategic business opportunities such as acquisitions, may be financed through a number of sources, including internally available cash, availability under our revolving credit facility, new

40

## Table of Contents

debt financing, the issuance of equity securities, or any combination of the above. Any potential acquisitions are evaluated based on our acquisition strategy, which includes the enhancement of our existing products, operations, or capabilities, expanding our access to new products, markets, and customers, and the improvement of shareholder value. The recent acquisitions of Nexus Corporation and Package Concierge on October 11, 2016 and February 22, 2017, respectively, were financed through cash on hand.
These expectations are forward-looking statements based upon currently available information and may change if conditions in the credit and equity markets deteriorate or other circumstances change. To the extent that operating cash flows are lower than current levels, or sources of financing are not available or not available at acceptable terms, our future liquidity may be adversely affected.
Cash Flows
The following table sets forth selected cash flow data for the nine months ended September 30, (in thousands): 20172016
Cash provided by:
Operating activities of continuing operations \$48,831 \$102,186
Investing activities of continuing operations (10,711) (297 )
Financing activities of continuing operations (1,733 ) 1,260
Effect of exchange rate changes $\quad 1,468 \quad 1,055$
Net increase in cash and cash equivalents $\quad \$ 37,855$ \$104,204
During the nine months ended September 30, 2017, we generated net cash from operating activities totaling $\$ 48.8$ million, composed of net income of $\$ 37.8$ million plus $\$ 20.5$ million from non-cash charges including depreciation, amortization, stock compensation, and exit activities, partially offset by an investment in working capital and other net assets of $\$ 9.5$ million. Net cash provided by operating activities for the nine months ended September 30, 2016 totaled $\$ 102.2$ million, primarily composed of net income from continuing operations of $\$ 41.4$ million plus non-cash charges including depreciation, amortization, stock compensation, loss on sale of a business and non-cash exit activity costs of $\$ 35.7$ million along with a decease in working capital of $\$ 25.1$ million.

During the nine months ended September 30, 2017, the cash invested in working capital and other net assets of $\$ 9.5$ million included a $\$ 42.3$ and $\$ 1.8$ million increase in accounts receivable and other current assets and other assets, respectively, partially offset by a $\$ 25.1$ and $\$ 7.5$ million increase in accounts payable and accrued expenses and other non-current liabilities, respectively, as well as a $\$ 2.0$ million decrease in inventory. The increase in accounts receivable is a result of continued increase in seasonal manufacturing activity. The increase in total other current assets is primarily due to the timing of prepaid expenses. Accounts payable increased due to the seasonal increase in manufacturing activity as well as the timing of quarter end vendor payments.The increase in accrued expenses and other non-current liabilities was largely due to costs related to the timing of customer contracts offset by a decrease in liabilities for equity based incentive plans as well as the timing of interest payments. The decrease in inventory is due to the Company's continued 80/20 simplification process efforts.
Net cash used in investing activities for the nine months ended September 30, 2017 of $\$ 10.7$ million primarily consisted of $\$ 18.3$ million of net cash paid for the acquisition of Package Concierge, capital expenditures of $\$ 5.1$ million and a payment of $\$ 0.2$ million related to the final purchase adjustment for the acquisition of Nexus. These payments were partially offset by net proceeds of $\$ 12.9$ million from the sale of property and equipment. Net cash used in investing activities for the nine months ended September 30, 2016 of $\$ 0.3$ million was the net result of capital expenditures of $\$ 7.6$ million and $\$ 2.3$ million related to the final purchase adjustment for the acquisition of RBI, largely offset by net proceeds of $\$ 8.3$ million from the sale of our European industrial manufacturing business. Net cash used in financing activities for the nine months ended September 30, 2017 of $\$ 1.7$ million consisted of the purchase of treasury stock of $\$ 2.0$ million and payment of long-term debt borrowings of $\$ 0.4$ million partially offset by the proceeds received from the issuance of common stock of $\$ 0.7$ million. Net cash provided by financing activities for the nine months ended September 30, 2016 of $\$ 1.3$ million consisted of the proceeds received from the issuance of common stock of $\$ 2.9$ million offset by the purchase of treasury stock of $\$ 1.2$ million and payment of
long-term debt borrowings of $\$ 0.4$ million.
Senior Credit Agreement and Senior Subordinated Notes
41

## Table of Contents

Our Senior Credit Agreement is committed through December 9, 2020. 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 provides for a revolving credit facility and letters of credit in an aggregate amount of $\$ 300$ million. The Company can request additional financing from the banks to increase the revolving credit facility to $\$ 500$ million or to provide a term loan of up to $\$ 200$ million subject to conditions set forth in the Senior Credit Agreement. The Senior Credit Agreement contains three financial covenants. As of September 30, 2017, the Company is in compliance with all three covenants.

Interest rates on the revolving credit facility are based on the LIBOR plus an additional margin that ranges from $1.25 \%$ to $2.25 \%$ for LIBOR loans based on the Total Leverage Ratio. In addition, the revolving credit facility is subject to an undrawn commitment fee ranging between $0.20 \%$ and $0.30 \%$ based on the Total Leverage Ratio and the daily average undrawn balance.
As of September 30, 2017, we had $\$ 288.8$ million of availability under the Senior Credit Agreement net of outstanding letters of credit of $\$ 11.2$ million. No amounts were outstanding under our revolving credit facility as of either September 30, 2017 or December 31, 2016.
In addition to our Senior Credit Agreement, the Company issued $\$ 210.0$ million of $6.25 \%$ Notes in January 2013 which are due February 1, 2021. Provisions of the $6.25 \%$ Notes include, without limitation, restrictions on indebtedness, liens, and distributions from restricted subsidiaries, asset sales, affiliate transactions, dividends, and other restricted payments. Dividend payments are subject to annual limits and interest is paid semiannually on February 1 and August 1 of each year.

Off Balance Sheet Financing Arrangements
We have no off-balance sheet arrangements, other than operating leases, that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

## Contractual Obligations

Our contractual obligations have not changed materially from the disclosures included in Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

## Critical Accounting Policies

In the current year, there have been no changes to our critical accounting policies and estimates from those disclosed in the consolidated financial statements and accompanying notes contained in Company's Annual Report on Form $10-\mathrm{K}$ for the year ended December 31, 2016.

## Recent Accounting Pronouncements

See Note 2 to the Company's consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information on recent accounting pronouncements.

Item 3. Qualitative and Quantitative Disclosures About Market Risk
In the ordinary course of business, the Company is exposed to various market risk factors, including changes in general economic conditions, competition, foreign exchange rates, and raw materials pricing and availability. In addition, the Company is exposed to other financial market risks, primarily related to its long-term debt and foreign operations. There have been no material changes to the Company's exposure to market risk since December 31, 2016.

## Table of Contents

Item 4. Controls and Procedures
(a) Evaluation of Disclosure Controls and Procedures

The Company maintains a system of disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). The Company's Chief Executive Officer and the Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls as of the end of the period covered in this report. Based upon that evaluation and the definition of disclosure controls and procedures contained in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, the Company's Chief Executive Officer and Chief Financial Officer have concluded that as of the end of such period the Company's disclosure controls and procedures were effective.
(b) Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as defined by Rule 13a-15(f) or $15 \mathrm{~d}-15(\mathrm{f})$ ) that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

Item 1. Legal Proceedings
Not applicable.
Item 1A. Risk Factors
In addition to the other information set forth in this report, you should carefully consider the risks discussed in "Part I, Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. These risks and uncertainties have the potential to materially affect our business, financial condition, results of operation, cash flows, and future prospects. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may materially adversely impact our business, financial condition, or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Not applicable.
Item 3. Defaults Upon Senior Securities
Not applicable.
Item 4. Mine Safety Disclosures
Not applicable.
Item 5. Other Information
Not applicable.

## Table of Contents

Item 6. Exhibits
(a) Exhibits
a. 31.1

Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
b. 31.2

Certification of Senior Vice President and Chief Financial Officer pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002.
c. 32.1 Certification of the President and Chief Executive Officer pursuant to Title 18, United States Code,

Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
d. 32.2 Certification of the Senior Vice President and Chief Financial Officer pursuant to Title 18, U
e. 101.INS XBRL Instance Document *
f. 101.SCH XBRL Taxonomy Extension Schema Document *
g. 101.CALXBRL Taxonomy Extension Calculation Linkbase Document *
h. 101.LAB XBRL Taxonomy Extension Label Linkbase Document *
i. 101.PRA XBRL Taxonomy Extension Presentation Linkbase Document *
j. 101.DEF XBRL Taxonomy Extension Definition Linkbase Document *
*Submitted electronically with this Quarterly Report on Form 10-Q.
44

## Table of Contents

## 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 INDUSTRIES, INC.
(Registrant)
/s/ Frank G. Heard
Frank G. Heard
President and Chief Executive Officer
/s/ Timothy F. Murphy
Timothy F. Murphy
Senior Vice President and
Chief Financial Officer
Date: November 3, 2017

45

