

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

(Mark one)

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

For the quarterly period ended June 30, 1997

OR

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

For the transition period from _____ to _____

Commission file number 0-22462

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

Delaware 16-1445150
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

3556 Lake Shore Road, P.O. Box 2028, Buffalo, New York 14219-0228
(Address of principal executive offices)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

As of June 30, 1997, the number of common shares outstanding was: 12,329,899.

1 of 12

GIBRALTAR STEEL CORPORATION
INDEX

| | PAGE NUMBER |
|--|-------------|
| PART I. FINANCIAL INFORMATION | |
| Item 1. Financial Statements | |
| Condensed Consolidated Balance Sheets June 30, 1997 (unaudited) and December 31, 1996 (audited) | 3 |
| Condensed Consolidated Statements of Income Three months and six months ended June 30, 1997 and 1996 (unaudited) | 4 |
| Condensed Consolidated Statements of Cash Flows Six months ended June 30, 1997 and 1996 (unaudited) | 5 |
| Notes to Condensed Consolidated Financial Statements (unaudited) | 6 - 8 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 9 - 10 |

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

GIBRALTAR STEEL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(in thousands)

| | June 30, 1997 (unaudited) | December 31, 1996 (audited) |
|--------------------------------------|---------------------------------|-----------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,638 | \$ 5,545 |
| Accounts receivable | 57,088 | 40,106 |
| Inventories | 79,779 | 62,351 |
| Other current assets | 2,876 | 1,524 |
| | ----- | ----- |
| Total current assets | 144,381 | 109,526 |
| Property, plant and equipment, net | 110,566 | 88,670 |
| Other assets | 34,968 | 24,311 |
| | ----- | ----- |
| | \$ 289,915 | \$ 222,507 |
| | ===== | ===== |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 38,466 | \$ 35,397 |
| Accrued expenses | 5,418 | 4,238 |
| Current maturities of long-term debt | 1,222 | 1,218 |
| | ----- | ----- |
| Total current liabilities | 45,106 | 40,853 |
| Long-term debt | 98,011 | 48,623 |
| Deferred income taxes | 14,328 | 10,364 |
| Other non-current liabilities | 1,136 | 923 |
| Shareholders' equity | | |
| Preferred shares | - | - |
| Common shares | 123 | 123 |
| Additional paid-in capital | 64,754 | 64,307 |
| Retained earnings | 66,457 | 57,314 |
| | ----- | ----- |
| Total shareholders' equity | 131,334 | 121,744 |
| | ----- | ----- |
| | \$ 289,915 | \$ 222,507 |
| | ===== | ===== |

See accompanying notes to financial statements

GIBRALTAR STEEL CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(in thousands, except share and per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 1997 | 1996 | 1997 | 1996 |
| | (unaudited) | | (unaudited) | |
| Net sales | \$ 119,213 | \$ 86,476 | \$ 227,490 | \$ 168,510 |
| Cost of sales | 99,296 | 70,609 | 188,875 | 138,614 |
| | ----- | ----- | ----- | ----- |
| Gross profit | 19,917 | 15,867 | 38,615 | 29,896 |
| Selling, general and administrative expense | 10,576 | 7,614 | 20,652 | 14,968 |
| | ----- | ----- | ----- | ----- |
| Income from operations | 9,341 | 8,253 | 17,963 | 14,928 |
| Interest expense | 1,448 | 1,270 | 2,597 | 2,343 |
| | ----- | ----- | ----- | ----- |
| Income before taxes | 7,893 | 6,983 | 15,366 | 12,585 |
| Provision for income taxes | 3,196 | 2,828 | 6,223 | 5,096 |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 4,697 | \$ 4,155 | \$ 9,143 | \$ 7,489 |
| | ===== | ===== | ===== | ===== |
| Net income per share | \$.38 | \$.40 | \$.74 | \$.73 |
| | ===== | ===== | ===== | ===== |
| Weighted average number of shares outstanding | 12,325,909 | 10,286,537 | 12,325,255 | 10,230,219 |
| | ===== | ===== | ===== | ===== |

See accompanying notes to financial statements

GIBRALTAR STEEL CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

| | Six Months Ended June 30, | |
|--|------------------------------|----------|
| | 1997 | 1996 |
| | (unaudited) | |
| Cash flows from operating activities | | |
| Net income | \$ 9,143 | \$ 7,489 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,053 | 2,973 |
| Provision for deferred income taxes | 766 | 406 |
| Undistributed equity investment income | (220) | (307) |
| (Gain) loss on disposition of property and equipment | (11) | 8 |
| Increase (decrease) in cash resulting from changes in (net of acquisitions): | | |
| Accounts receivable | (8,113) | (7,128) |
| Inventories | (1,471) | (7,771) |
| Other current assets | (561) | (228) |
| Accounts payable and accrued expenses | (799) | 7,670 |
| Other assets | (257) | (51) |
| | ----- | ----- |
| Net cash provided by operating activities | 2,530 | 3,061 |
| | ----- | ----- |
| Cash flows from investing activities | | |
| Acquisitions, net of cash acquired | (26,475) | (23,715) |
| Purchases of property, plant and equipment | (11,776) | (8,544) |
| Proceeds from sale of property and equipment | 73 | 107 |
| | ----- | ----- |
| Net cash used in investing activities | (38,178) | (32,152) |
| | ----- | ----- |
| Cash flows from financing activities | | |
| Long-term debt reduction | (43,701) | (56,587) |
| Proceeds from long-term debt | 78,365 | 49,906 |
| Proceeds from issuance of common stock | 77 | 34,455 |
| | ----- | ----- |
| Net cash provided by financing activities | 34,741 | 27,774 |
| | ----- | ----- |
| Net decrease in cash and cash equivalents | (907) | (1,317) |
| Cash and cash equivalents at beginning of year | 5,545 | 4,123 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 4,638 | \$ 2,806 |
| | ===== | ===== |

See accompanying notes to financial statements

GIBRALTAR STEEL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements as of June 30, 1997 and 1996 have been prepared by the Company without audit. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations and cash flows at June 30, 1997 and 1996 have been included.

Certain information and footnote disclosures including significant accounting policies normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements included in the Company's Annual Report to Shareholders for the year ended December 31, 1996.

The results of operations for the six month period ended June 30, 1997 are not necessarily indicative of the results to be expected for the full year.

2. INVENTORIES

Inventories consist of the following:

| | (in thousands) | |
|------------------------------------|---------------------------------|-----------------------------------|
| | June 30, 1997 (unaudited) | December 31, 1996 (audited) |
| Raw material | \$ 57,427 | \$ 45,258 |
| Finished goods and work-in-process | 22,352 | 17,093 |
| | ----- | ----- |
| Total inventories | \$ 79,779 ===== | \$ 62,351 ===== |

3. STOCKHOLDERS' EQUITY

The changes in stockholders' equity consist of:

| | (in thousands, except share data) | | | |
|---|-----------------------------------|---------------|----------------------------|-------------------|
| | Common Shares | Shares Amount | Additional Paid-in Capital | Retained Earnings |
| December 31, 1996 | 12,322,400 | \$ 123 | \$ 64,307 | \$ 57,314 |
| Net income | - | - | - | 9,143 |
| Stock options exercised and related tax benefit | 7,499 | - | 447 | - |
| June 30, 1997 | 12,329,899 | \$ 123 | \$ 64,754 | \$ 66,457 |

Additional paid-in capital increased approximately \$77,000 through the exercise of stock options and approximately \$370,000 through a realized tax benefit from the disposition of certain stock options. This benefit also resulted in a corresponding decrease in current income taxes payable.

4. EARNINGS PER SHARE

Net income per share for the three and six months ended June 30, 1997 and 1996 was computed by dividing net income by the weighted average number of common shares outstanding.

5. ACQUISITIONS

On February 14, 1996, the Company purchased all of the outstanding capital stock of Carolina Commercial Heat Treating, Inc. (CCHT) for approximately \$25 million in cash. CCHT, headquartered in Charlotte, North Carolina, provides heat treating, brazing and related metal-processing services to a broad range of industries, including the automotive, hand tools, construction equipment and industrial machinery industries.

On January 31, 1997, the Company purchased all of the outstanding capital stock of Southeastern Metals Manufacturing Company, Inc. (SEMCO) for approximately \$25 million in cash. SEMCO manufactures a wide array of metal products for the residential and commercial construction markets.

These acquisitions have been accounted for under the purchase method. Results of operations of CCHT and SEMCO have been consolidated with the Company's results of operations from the respective acquisition dates. The excess of the aggregate purchase price over the fair market value of net assets of CCHT and SEMCO approximated \$12 million and \$10 million, respectively, and is being amortized over 35 years from the acquisition dates using the straight-line method.

The following information presents the pro forma consolidated condensed results of operations as if the acquisitions had occurred on January 1, 1996. The pro forma amounts may not be indicative of the results that actually would have been achieved had the acquisitions occurred as of January 1, 1996 and are not necessarily indicative of future results of the combined companies.

(in thousands, except per share data)
 Six Months Ended
 June 30,
 1997 1996
 (unaudited)

| | | |
|----------------------|------------|------------|
| Net sales | \$ 234,014 | \$ 213,602 |
| | ===== | ===== |
| Income before taxes | \$ 15,076 | \$ 12,886 |
| | ===== | ===== |
| Net income | \$ 8,961 | \$ 7,592 |
| | ===== | ===== |
| Net income per share | \$.73 | \$.74 |
| | ===== | ===== |

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

Results of Operations

Net sales of \$119.2 million for the second quarter ended June 30, 1997 increased 38% from sales of \$86.5 million for the prior year's second quarter. Net sales of \$227.5 million for the six months ended June 30, 1997 increased 35% from net sales of \$168.5 million in the first half of 1996. These increases primarily resulted from including net sales of SEMCO (acquired January 31, 1997) and sales growth at existing operations.

Cost of sales increased to 83.3% of net sales for the second quarter and to 83.0% for the first six months of 1997. Gross profit decreased to 16.7% and 17.0% for the second quarter and the six months ended June 30, 1997 from 18.3% and 17.7% for the comparable periods in 1996. This decrease is primarily due to higher raw material costs which were not fully passed through to customers, offset partially by the inclusion of SEMCO's results. SEMCO's sales historically have generated higher margins than the Company's other products and services.

Selling, general and administrative expenses as a percentage of net sales increased to 8.9% and 9.1% for the second quarter and six months ended June 30, 1997, respectively, from 8.8% and 8.9% for the same periods of 1996. These increases were primarily due to higher costs as a percentage of sales attributable to SEMCO and performance based compensation linked to the Company's sales and profitability.

Interest expense increased by \$.2 million for the quarter and \$.3 million for the six months ended June 30, 1997 primarily due to higher average borrowings as a result of the SEMCO acquisition.

As a result of the above, income before taxes increased by \$.9 million and \$2.8 million for the quarter and six months ended June 30, 1997.

Income taxes for the six months ended June 30, 1997 approximated \$3.2 million and were based on a 40.5% effective tax rate for both 1997 and 1996.

Liquidity and Capital Resources

During the first six months of 1997, the Company increased its working capital to \$99.3 million. Additionally, shareholders' equity increased to \$131.3 million at June 30, 1997.

The Company's principal capital requirements are to fund its operations, including working capital, the purchase and funding of improvements to its facilities, machinery and equipment and to fund acquisitions.

Net income of \$9.1 million and depreciation and amortization of \$4.1 million provided cash of \$13.2 million. This was offset by increases in accounts receivable and inventory (net of acquisitions) of \$8.1 million and \$1.5 million, respectively, to service increased sales levels and by a decrease in accounts payable and accrued expenses of \$.8 million. The resulting net cash provided by operations of \$2.5 million combined with an additional \$34.7 million in net cash provided by financing activities funded the \$26.5 million used for acquisitions and \$11.8 million for capital expenditures.

At June 30, 1997, the Company's aggregate credit facilities available totaled approximately \$131 million. The Company had total borrowings of approximately \$99 million under these credit facilities and an additional availability of approximately \$32 million.

The Company believes that availability under its credit facilities together with funds generated from operations will be sufficient to provide the Company with the liquidity and capital resources necessary to support its operations and anticipated capital expenditures for the next twelve months.

PART II. OTHER INFORMATION

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

1. Exhibits - Exhibit 27 Financial Data Schedule
2. Reports on Form 8-K. There were no reports on Form 8-K during the three months ended June 30, 1997.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GIBRALTAR STEEL CORPORATION
(Registrant)

By /x/ Brian J. Lipke
Brian J. Lipke
President, Chief Executive Officer
and Chairman of the Board

By /x/ Walter T. Erazmus
Walter T. Erazmus
Treasurer and Chief Financial Officer
(Principal Financial and Chief Accounting
Officer)

July 25, 1997

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS ON FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1000
US DOLLARS

| 6-MOS | |
|---------|-------------|
| | DEC-31-1997 |
| | JAN-01-1997 |
| | JUN-30-1997 |
| | 1 |
| | 4,638 |
| | 0 |
| | 58,359 |
| | 1,271 |
| | 79,779 |
| | 144,381 |
| | 143,378 |
| | 32,812 |
| | 289,915 |
| 45,106 | |
| | 98,011 |
| 0 | |
| | 0 |
| | 123 |
| | 131,211 |
| 289,915 | |
| | 227,490 |
| | 227,490 |
| | 188,875 |
| | 188,875 |
| | 20,652 |
| | 0 |
| | 2,597 |
| | 15,366 |
| | 6,223 |
| 9,143 | |
| | 0 |
| | 0 |
| | 0 |
| | 9,143 |
| | .74 |
| | .74 |