

GIBRALTAR INDUSTRIES, INC.

Form 10-Q

November 01, 2018

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

Commission File Number 0-22462

GIBRALTAR INDUSTRIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or incorporation )

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  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

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

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 “ No

As of October 31, 2018, the number of common shares outstanding was: 32,064,809.

---

Table of ContentsGIBRALTAR INDUSTRIES, INC.  
INDEX

	PAGE NUMBER
<b>PART I. <u>FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2018 and 2017 (unaudited)</u>	3
<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2018 and 2017 (unaudited)</u>	4
<u>Consolidated Balance Sheets as of September 30, 2018 (unaudited) and December 31, 2017</u>	5
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017 (unaudited)</u>	6
<u>Consolidated Statement of Shareholders' Equity for the Nine Months Ended September 30, 2018 and 2017 (unaudited)</u>	7
<u>Notes to Consolidated Financial Statements (unaudited)</u>	9
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	40
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	49
Item 4. <u>Controls and Procedures</u>	49
<b>PART II. <u>OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	49
Item 1A. <u>Risk Factors</u>	50
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	50
Item 3. <u>Defaults Upon Senior Securities</u>	50
Item 4. <u>Mine Safety Disclosures</u>	50
Item 5. <u>Other Information</u>	50
Item 6. <u>Exhibits</u>	51
<u>SIGNATURES</u>	52

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## GIBALTAR INDUSTRIES, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net Sales	\$280,086	\$274,574	\$761,459	\$728,806
Cost of sales	209,807	205,839	572,359	548,991
Gross profit	70,279	68,735	189,100	179,815
Selling, general, and administrative expense	40,875	33,042	113,579	109,513
Income from operations	29,404	35,693	75,521	70,302
Interest expense	2,906	3,486	9,305	10,612
Other expense (income)	522	404	(50	) 811
Income before taxes	25,976	31,803	66,266	58,879
Provision for income taxes	6,473	11,184	15,574	21,090
Income from continuing operations	19,503	20,619	50,692	37,789
Discontinued operations:				
Loss before taxes	—	—	—	(644 )
Benefit of income taxes	—	—	—	(239 )
Loss from discontinued operations	—	—	—	(405 )
Net income	\$19,503	\$20,619	\$50,692	\$37,384
Net earnings per share – Basic:				
Income from continuing operations	\$0.61	\$0.65	\$1.59	\$1.19
Loss from discontinued operations	—	—	—	(0.01 )
Net income	\$0.61	\$0.65	\$1.59	\$1.18
Weighted average shares outstanding -- Basic	32,115	31,703	31,922	31,700
Net earnings per share – Diluted:				
Income from continuing operations	\$0.60	\$0.64	\$1.56	\$1.17
Loss from discontinued operations	—	—	—	(0.01 )
Net income	\$0.60	\$0.64	\$1.56	\$1.16
Weighted average shares outstanding -- Diluted	32,571	32,210	32,524	32,216

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$19,503	\$20,619	\$50,692	\$37,384
Other comprehensive income (loss):				
Foreign currency translation adjustment	139	1,581	(1,538 )	3,351
Cumulative effect of accounting change (see <a href="#">Note 2</a> )	—	—	(350 )	—
Adjustment to retirement benefit liability, net of tax	(5 )	(2 )	(15 )	(8 )
Adjustment to post employment health care benefit liability, net of tax	32	29	95	88
Other comprehensive income (loss)	166	1,608	(1,808 )	3,431
Total comprehensive income	\$19,669	\$22,227	\$48,884	\$40,815
See accompanying notes to consolidated financial statements.				

Table of Contents

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

	September 30, 2018 (unaudited)	December 31, 2017 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 245,413	\$ 222,280
Accounts receivable, net	180,875	145,385
Inventories	97,486	86,372
Other current assets	8,949	8,727
Total current assets	532,723	462,764
Property, plant, and equipment, net	93,718	97,098
Goodwill	323,321	321,074
Acquired intangibles	99,545	105,768
Other assets	4,480	4,681
	\$ 1,053,787	\$ 991,385
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 92,997	\$ 82,387
Accrued expenses	76,268	75,467
Billings in excess of cost	21,900	12,779
Current maturities of long-term debt	400	400
Total current liabilities	191,565	171,033
Long-term debt	209,809	209,621
Deferred income taxes	32,110	31,237
Other non-current liabilities	37,428	47,775
Shareholders' equity:		
Preferred stock, \$0.01 par value; authorized 10,000 shares; none outstanding	—	—
Common stock, \$0.01 par value; authorized 50,000 shares; 32,842 shares and 32,332 shares issued and outstanding in 2018 and 2017	328	323
Additional paid-in capital	280,149	271,957
Retained earnings	325,878	274,562
Accumulated other comprehensive loss	(6,174	) (4,366
Cost of 778 and 615 common shares held in treasury in 2018 and 2017	(17,306	) (10,757
Total shareholders' equity	582,875	531,719
	\$ 1,053,787	\$ 991,385

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Nine Months Ended September 30, 2018	2017
Cash Flows from Operating Activities		
Net income	\$ 50,692	\$ 37,384
Loss from discontinued operations	—	(405 )
Income from continuing operations	50,692	37,789
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,449	16,427
Stock compensation expense	6,854	5,069
Net gain on sale of assets	(203 )	(139 )
Exit activity costs (recoveries), non-cash	1,088	(1,931 )
Benefit of deferred income taxes	—	(136 )
Other, net	1,317	1,411
Changes in operating assets and liabilities, excluding the effects of acquisitions:		
Accounts receivable	(30,534 )	(42,310 )
Inventories	(16,263 )	2,016
Other current assets and other assets	1,052	(2,002 )
Accounts payable	9,237	25,134
Accrued expenses and other non-current liabilities	(479 )	7,503
Net cash provided by operating activities	38,210	48,831
Cash Flows from Investing Activities		
Cash paid for acquisitions, net of cash acquired	(5,241 )	(18,494 )

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

Net proceeds from sale of property and equipment	3,147		12,935	
Purchases of property, plant, and equipment	(6,767)	)	(5,152)	)
Net cash used in investing activities	(8,861)	)	(10,711)	)
Cash Flows from Financing Activities				
Long-term debt payments	(400)	)	(400)	)
Purchase of treasury stock at market prices	(6,549)	)	(1,982)	)
Net proceeds from issuance of common stock	1,343		649	
Net cash used in financing activities	(5,606)	)	(1,733)	)
Effect of exchange rate changes on cash	(610)	)	1,468	
Net increase in cash and cash equivalents	23,133		37,855	
Cash and cash equivalents at beginning of year	222,280		170,177	
Cash and cash equivalents at end of period	\$ 245,413		\$ 208,032	

See accompanying notes to consolidated financial statements.



Table of Contents

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance at December 31, 2017	32,332	\$ 323	\$271,957	\$274,562	\$ (4,366 )	615	\$(10,757)	\$ 531,719
Net income	—	—	—	8,352	—	—	—	8,352
Foreign currency translation adjustment	—	—	—	—	110	—	—	110
Adjustment to retirement benefit liability, net of taxes of \$(2)	—	—	—	—	(5 )	—	—	(5 )
Adjustment to post employment health care benefit liability, net of taxes of \$12	—	—	—	—	32	—	—	32
Stock compensation expense	—	—	2,097	—	—	—	—	2,097
Cumulative effect of accounting change (see <u>Note 2</u> )	—	—	—	624	(350 )	—	—	274
Stock options exercised	13	—	226	—	—	—	—	226
Net settlement of restricted stock units	53	1	(1 )	—	—	24	(850 )	(850 )
Balance at March 31, 2018	32,398	\$ 324	\$274,279	\$283,538	\$ (4,579 )	639	\$(11,607)	\$ 541,955
Net income	—	—	—	22,837	—	—	—	22,837
Foreign currency translation adjustment	—	—	—	—	(1,787 )	—	—	(1,787 )
Adjustment to retirement benefit liability, net of taxes of \$(2)	—	—	—	—	(5 )	—	—	(5 )
Adjustment to post employment health care benefit liability, net of taxes of \$13	—	—	—	—	31	—	—	31
Stock compensation expense	—	—	2,731	—	—	—	—	2,731
Stock options exercised	21	—	300	—	—	—	—	300
Issuance of restricted stock	2	—	—	—	—	—	—	—
Net settlement of restricted stock units	334	3	(3 )	—	—	128	(5,166 )	(5,166 )
Balance at June 30, 2018	32,755	\$ 327	\$277,307	\$306,375	\$ (6,340 )	767	\$(16,773)	\$ 560,896
Net income	—	—	—	19,503	—	—	—	19,503
Foreign currency translation adjustment	—	—	—	—	139	—	—	139
Adjustment to retirement benefit liability, net of taxes of \$(2)	—	—	—	—	(5 )	—	—	(5 )
Adjustment to post employment health care benefit liability, net of taxes of \$12	—	—	—	—	32	—	—	32
Stock compensation expense	—	—	2,026	—	—	—	—	2,026
Stock options exercised	50	1	816	—	—	—	—	817

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

Net settlement of restricted stock units	37	—	—	—	—	11	(533	)	(533	)
Balance at September 30, 2018	32,842	\$ 328	\$280,149	\$325,878	\$ (6,174	)	778	\$(17,306)	\$ 582,875	

See accompanying notes to consolidated financial statements.

7

---

Table of Contents

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance at December 31, 2016	32,085	\$ 320	\$264,418	\$211,748	\$ (7,721 )	530	\$(7,885 )	\$ 460,880
Net income	—	—	—	3,996	—	—	—	3,996
Foreign currency translation adjustment	—	—	—	—	679	—	—	679
Adjustment to retirement benefit liability, net of taxes of \$(2)	—	—	—	—	(3 )	—	—	(3 )
Adjustment to post employment health care benefit liability, net of taxes of \$19	—	—	—	—	29	—	—	29
Stock compensation expense	—	—	1,635	—	—	—	—	1,635
Cumulative effect of accounting change (see <u>Note1</u> )	—	—	(254 )	254	—	—	—	—
Stock options exercised	1	—	11	—	—	—	—	11
Issuance of restricted stock	—	—	—	—	—	—	—	—
Net settlement of restricted stock units	47	1	(1 )	—	—	22	(922 )	(922 )
Balance at March 31, 2017	32,133	\$ 321	\$265,809	\$215,998	\$ (7,016 )	552	\$(8,807 )	\$ 466,305
Net income	—	—	—	12,769	—	—	—	12,769
Foreign currency translation adjustment	—	—	—	—	1,091	—	—	1,091
Adjustment to retirement benefit liability, net of taxes of \$(1)	—	—	—	—	(3 )	—	—	(3 )
Adjustment to post employment health care benefit liability, net of taxes of \$17	—	—	—	—	30	—	—	30
Stock compensation expense	—	—	1,556	—	—	—	—	1,556
Stock options exercised	15	—	236	—	—	—	—	236
Issuance of restricted stock	2	—	—	—	—	—	—	—
Net settlement of restricted stock units	5	—	—	—	—	2	(81 )	(81 )
Balance at June 30, 2017	32,155	\$ 321	\$267,601	\$228,767	\$ (5,898 )	554	\$(8,888 )	\$ 481,903
Net income	—	—	—	20,619	—	—	—	20,619
Foreign currency translation adjustment	—	—	—	—	1,581	—	—	1,581
Adjustment to retirement benefit liability, net of taxes of \$(2)	—	—	—	—	(2 )	—	—	(2 )
Adjustment to post employment health care benefit liability, net of taxes of \$18	—	—	—	—	29	—	—	29
Stock compensation expense	—	—	1,878	—	—	—	—	1,878

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

Stock options exercised	24	—	402	—	—	—	—	402
Issuance of restricted stock	—	—	—	—	—	—	—	—
Net settlement of restricted stock units	96	1	(1 )	—	—	34	(979 )	(979 )
Balance at September 30, 2017	32,275	\$ 322	\$269,880	\$249,386	\$ (4,290 )	588	\$(9,867 )	\$ 505,431

See accompanying notes to consolidated financial statements.

8

---

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-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 Company's operations are seasonal; for this and other reasons, financial results for any interim period are not necessarily indicative of the results expected for the full year. 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, 2017.

The balance sheet at December 31, 2017 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

Refer to Note 1 of the Company's annual report on Form 10-K for the year ended December 31, 2017 for the cumulative effect of an accounting change adjustment recognized during the quarter ended March 31, 2017 and presented in the Company's Consolidated Statement of Shareholders' Equity for the nine months ended September 30, 2017 in this Form 10-Q.

Table of Contents

## (2) RECENT ACCOUNTING PRONOUNCEMENTS

## Recent Accounting Pronouncements Adopted

Standard	Description	Financial Statement Effect or Other Significant Matters
ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606) And All Related ASUs	The standard requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also requires additional disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant 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 beginning after December 15, 2017 and interim periods within those fiscal years. The standard can be adopted using either a full retrospective or modified retrospective approach.	The Company has adopted this standard using the modified retrospective method. The Company recognized the cumulative-effect adjustment of initially applying this standard of \$274,000 to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standard in effect for that period. Refer to Note 4 for further disclosure of the financial statement effect and other significant matters as a result of the adoption of this standard.
ASU No. 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments	The standard provides guidance on eight specific cash flow issues to reduce diversity in reporting. The provisions of this standard are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted.	Date of adoption: Q1 2018 The Company has adopted this standard and it did not have any impact on the Company's consolidated financial statements.
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.	Date of adoption: Q1 2018 The Company has adopted this standard and it did not have any impact on the Company's consolidated financial statements.
ASU No. 2018-02 Income Statement-Reporting Comprehensive Income	The standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting	Date of adoption: Q1 2018 The Company has early adopted this standard. As a result of adopting this standard, the Company recorded an

(Topic 220):  
Reclassification of Certain  
Tax Effects from  
Accumulated Other  
Comprehensive Income

from the Tax Cuts and Jobs Act. The provisions of this standard are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the standard is permitted, including adoption in any interim period.

adjustment of \$350,000 from accumulated other comprehensive income to retained earnings in the consolidated statement of shareholders' equity as of the beginning of the January 1, 2018, and will record any subsequent period adjustments, if changes to provisional amounts result in additional amounts stranded in accumulated other comprehensive income.

Date of adoption: Q1 2018

Table of Contents

## Recent Accounting Pronouncements Not Yet Adopted

Standard	Description	Financial Statement Effect or Other Significant Matters
ASU No. 2016-02 Leases (Topic 842)	<p>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.</p> <p>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.</p>	<p>The Company continues to evaluate the impact of the standard on the Company's consolidated financial statements and related disclosures. The new standard requires lessees to recognize a lease liability and right of use asset on the balance sheet. While the adoption will result in an increase to assets and liabilities on the Company's balance sheet, we do not expect that the impact will be material. In addition, the Company does not expect that the adoption will result in a material impact to our consolidated statement of operations. The Company intends to adopt this guidance by applying the transition provisions on a modified retrospective basis as of the effective date January 1, 2019.</p> <p>Planned date of adoption: Q1 2019</p>

## (3) ACCOUNTS RECEIVABLE, NET

Accounts receivable consists of the following (in thousands):

	September 30, 2018	December 31, 2017
Trade accounts receivable	\$ 166,208	\$ 140,209
Costs in excess of billings	21,522	11,610
Total accounts receivables	187,730	151,819
Less allowance for doubtful accounts	(6,855 )	(6,434 )
Accounts receivable	\$ 180,875	\$ 145,385

Refer to Note 4 of the Company's consolidated financial statements included in this quarterly report on Form 10-Q for additional information concerning the Company's costs in excess of billings.

## (4) REVENUE

Sales includes revenue from contracts with customers from roof and foundation ventilation products; centralized mail systems and electronic package solutions; rain dispersion products and roofing accessories; expanded and perforated metal; perimeter security solutions; expansion joints and structural bearings; designing, engineering, manufacturing and installation of solar racking systems and greenhouse structures.

## Revenue recognition

Revenue is recognized when, or as, the Company transfers control of promised products or service to a customer in an amount that reflects the consideration the Company expects to be entitled in exchange for transferring those products or service. Refer to Note 16 of this quarterly report on Form 10Q for additional information related to revenue recognized by timing of transfer of control by reportable segment.



Payment terms and conditions vary by contract, although terms generally include a requirement of payment within a range from 30 to 60 days, or in certain cases, up front deposits. In circumstances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined that the Company's contracts generally

## Table of Contents

do not include a significant financing component. Taxes collected from customers, which are subsequently remitted to governmental authorities, are excluded from sales.

### Performance obligations satisfied at a point in time and significant judgments

The majority of the Company's revenue from contracts with customers is recognized when the Company transfers control of the promised product at a point in time, which is determined when the customer has legal title and the significant risks and rewards of ownership of the asset, and the Company has a present right to payment for the product. These contracts with customers include promised products, which are generally capable of being distinct and accounted for as separate performance obligations. Accordingly, the Company allocates the transaction price, which is generally the quoted price per terms of the contract and the consideration the Company expects to receive, to each performance obligation in an amount based on an observable price of the products as the Company frequently sells these products separately in similar circumstances and to similar customers. These products are generally sold with rights of return and these contracts may provide other credits or incentives, which are accounted for as variable consideration. Variable consideration is estimated at the most likely amount to predict the consideration to which the Company will be entitled, and only to the extent it is probable that a subsequent change in estimate will not result in a significant revenue reversal when estimating the amount of revenue to recognize. Sales returns, allowances, and customer incentives, including rebates, are treated as reductions to the sales transaction price and based largely on an assessment of all information (i.e., historical, current and forecasted) that is reasonably available to the Company, and estimated at contract inception and updated at the end of each reporting period as additional information becomes available.

### Performance obligations satisfied over time and significant judgments

For contracts with customers which the Company satisfies a promise to the customer to construct a certain asset that the customer controls as it is being created or enhanced, or a promise to provide a product that has no alternative use to the Company and the Company has enforceable rights to payment, the Company satisfies the performance obligation and recognizes revenue over time. For the contracts to construct a certain asset, the Company determines that the customer controls the asset while it is being constructed. For the contracts for products that have no alternative use and for which the Company has an enforceable right to payment, the Company identifies these products as products that are not a standard inventory item or the Company cannot readily direct the product to another customer or use without incurring a significant economic loss, or significant costs to rework the product.

When the promised products and services are to construct a certain asset that the customer controls, the entire contract is accounted for as one performance obligation. The Company determines the transaction price for each contract based on the consideration the Company expects to receive for the promised products and services under the entire contract, which is generally the stated contract price based on an expected cost plus a margin approach.

When the promised products do not have an alternative use to the Company, and the Company has enforceable rights to payment, the transaction price is determined for each contract based on the consideration the Company expects to receive for the promised products under the contract and is generally the stated contract price based on an expected cost plus a margin approach for each performance obligation. These promised products are generally capable of being distinct and accounted for as separate performance obligations.

For the above contracts with customers with respect to which the Company satisfies a performance obligation over time, the Company recognizes revenue based on the extent of progress towards completion of the performance obligation. The cost-to-cost measure of progress best depicts the transfer of control to the customer which occurs as the Company incurs costs on the contract as the incurred costs are proportionate to the Company's progress in

satisfying the performance obligation. Under the cost-to-cost measure of progress, the extent of progress toward completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recognized proportionally as costs are incurred. Costs to fulfill a contract include all direct costs related to contract performance. Selling and administrative expenses are charged to operations as incurred. Provision for loss on an uncompleted performance obligation is recognized in the period in which such loss is determined.

The Company regularly reviews the progress and performance of the performance obligation recognized over time under the cost-to-cost method. Any adjustments to net sales, cost of sales, and the related impact to operating income are recognized as necessary in the period they become known. Changes in estimates of net sales, cost of sales, and the related impact to operating income are recognized on a cumulative catch-up basis, which recognizes in the current

## Table of Contents

period the cumulative effect of the changes on current or prior periods based on a performance obligation's cost-to-cost measure of progress.

The Company also recognizes revenues from services contracts over time. For these contracts, the transaction price is determined for each contract based on the consideration the Company expects to receive for the promised service under the contract, which generally is the stated contract price. In order to estimate the standalone selling price of the performance obligation, the Company evaluates the market in which the promised service is sold and estimates the price that customers in the market would be willing to pay. Further, the Company recognizes revenue over time during the term of the agreement as the customer is simultaneously receiving and consuming the benefits provided throughout the Company's performance. Therefore due to control transferring over time, the Company recognizes revenue on a straight-line basis throughout the contract period.

### Remaining performance obligations

As of September 30, 2018, the Company's remaining performance obligations are part of contracts that have an original expected duration of one year or less. Therefore, any remaining performance obligations are not required to be disclosed.

### Contract assets

Contract assets consist of costs in excess of billings. Costs in excess of billings includes unbilled amounts resulting from revenues under contracts with customers that are satisfied over time and when the cost-to-cost measurement method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer, and right to payment is not just subject to the passage of time. Amounts may not exceed their net realizable value. Costs in excess of billings are classified as current assets and are reported net of contract billings on a contract-by-contract basis at the end of each reporting period.

### Contract liabilities

Contract liabilities consist of billings in excess of cost. Billings in excess of cost includes billings in excess of revenue recognized and deferred revenue, which includes advanced payments, up-front payments, and progress billing payments. Billings in excess of cost are reported net of contract cost on a contract-by-contract basis at the end of each reporting period and are classified as current liabilities. To determine the revenue recognized in the period from the beginning balance of billings in excess of cost, the contract liability as of the beginning of the period is recognized as revenue on a contract by contract basis when the Company incurs costs to satisfy the performance obligation related to the individual contract. Once the beginning contract liability balance for an individual contract has been fully recognized as revenue, any additional payments received in the period are recognized as revenue once the related costs have been incurred.

### Costs to obtain a contract with a customer

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if the Company expects the benefit of those costs to be longer than one year. As of September 30, 2018, the Company does not have any open contracts with an original expected duration of greater than one year, and therefore, we expense such costs as incurred. These incremental costs include, but are not limited to, sales commissions incurred to obtain a contract with a customer.



Table of Contents

## Contract assets and contract liabilities

The Company's contract assets and contract liabilities consist of costs in excess of billings and billings in excess of cost, respectively. The following table presents the beginning and ending balances and significant changes in the costs in excess of billings and billings in excess of cost balance during the three months ended September 30, 2018:

	Costs in Excess of Billings	Billings in Excess of Cost
Beginning balance, January 1, 2018 (1)	\$16,532	\$(12,779)
Reclassification of the beginning balances of:		
Costs in excess of billings to receivables	(15,450 )	—
Billings in excess of cost to revenue	—	9,294
Costs in excess of billings recognized, net of reclassification to receivables	20,440	—
Net billings in advance and cash payments not recognized as revenue	—	(18,415 )
Ending balance, September 30, 2018	\$21,522	\$(21,900)

(1) Due to the adoption of ASC 606 effective January 1, 2018, the Company recorded a transition adjustment to the opening balance of "Costs in excess of billings" at January 1, 2018. There were no transition adjustments to the opening balance of "Billings in Excess of Cost" at January 1, 2018. Refer to "Transition disclosures"

below for further explanation of cumulative effect of the changes made to the Company's consolidated January 1, 2018 balance sheet for the adoption of ASC 606.

#### Transition disclosures

On January 1, 2018, the Company adopted the accounting standard ASC 606, Revenue from Contracts with Customers, only for contracts that were not completed at the date of initial application using the modified retrospective method. The Company recognized the cumulative effect of initially applying ASC 606 as an adjustment to the opening balance of retained earnings. The comparative period information has not been restated and continues to be reported under the accounting standards in effect for that period. The Company does not expect the adoption of this standard to have a material impact to the Company's net income on an ongoing basis.

A majority of the Company's revenues continue to be recognized when products are shipped or service is provided and the customer takes ownership and assumes the risk of loss. For certain custom fabricated products for which there is no alternative use and the Company has enforceable rights to payment for performance to date where revenue was previously recognized upon transfer of title and risk of loss, the Company now recognizes revenue as the Company satisfies its performance over time in accordance with ASC 606.

Table of Contents

The cumulative effect of the changes made to the Company's consolidated January 1, 2018 balance sheet for the adoption of ASC 606 is as follows (in thousands):

	Balance at December 31, 2017	Adjustments	Balance at January 1, 2018
<b>Assets</b>			
Accounts receivable, net	\$ 145,385	\$ 4,922	\$ 150,307
Costs in excess of billings (1)	\$ 11,610	\$ 4,922	\$ 16,532
Inventories	\$ 86,372	\$ (4,735 )	\$ 81,637
Total current assets	\$ 462,764	\$ 187	\$ 462,951
Total assets	\$ 991,385	\$ 187	\$ 991,572
<b>Liabilities</b>			
Accrued expenses	\$ 75,467	\$ (87 )	\$ 75,380
Total current liabilities	\$ 171,033	\$ (87 )	\$ 170,946
<b>Shareholders' equity</b>			
Retained earnings	\$ 274,562	\$ 274	\$ 274,836
Total shareholders' equity	\$ 531,719	\$ 274	\$ 531,993
Total liabilities and shareholders' equity	\$ 991,385	\$ 187	\$ 991,572

(1) The balance presented at December 31, 2017 for "Costs in excess of billings" represents the balance reported in Note 2 of the Company's annual report on Form 10-K for the year ended December 31, 2017. This balance was included within the total balance of "Accounts receivable, net" presented on



the  
Company's  
Consolidated  
Balance  
Sheet on  
Form 10-K as  
of December  
31, 2017.  
Due to the  
adoption of  
ASC 606  
effective  
January 1,  
2018, the  
Company  
recorded a  
transition  
adjustment to  
the opening  
balance of  
"Costs in  
excess of  
billings" at  
January 1,  
2018 that is  
included in  
the  
"Accounts  
receivable,  
net" line item  
presented on  
the  
Company's  
Consolidated  
Balance  
Sheet and  
disclosed in  
Note 3 of this  
Form 10-Q  
for the nine  
months ended  
September  
30, 2018.

Table of Contents

In accordance with ASC 606, the disclosure of the impact of adoption on the Company's consolidated statement of income and balance sheet for the periods ended September 30, 2018 is as follows (in thousands):

## Consolidated Statement of Income

	Three Months Ended September 30, 2018		
	As Reported	Without Adoption of ASC 606	Effect of Change Higher (Lower)
Net sales	\$280,086	\$281,156	\$(1,070)
Cost of sales	209,807	210,878	(1,071 )
Gross profit	70,279	70,278	1
Provision for income taxes	6,473	6,473	—
Net income	\$19,503	\$19,502	\$1

## Consolidated Statement of Income

	Nine Months Ended September 30, 2018		
	As Reported	Without Adoption of ASC 606	Effect of Change Higher (Lower)
Net sales	\$761,459	\$760,277	\$1,182
Cost of sales	572,359	572,039	320
Gross profit	189,100	188,238	862
Provision for income taxes	15,574	15,332	242
Net income	\$50,692	\$50,072	\$620

## Consolidated Balance Sheet

	September 30, 2018		
	As Reported	Without Adoption of ASC 606	Effect of Change Higher (Lower)
<b>Assets</b>			
Accounts receivable, net	\$180,875	\$174,426	\$6,449
Inventories	97,486	102,662	(5,176 )
Total current assets	532,723	531,450	1,273
Total assets	1,053,787	1,052,514	1,273
<b>Liabilities</b>			
Accrued expenses	76,268	75,889	379
Total current liabilities	191,565	191,186	379
<b>Shareholders' equity</b>			
Retained earnings	325,878	324,984	894

Total shareholders' equity	582,875	581,981	894
Total liabilities and shareholders' equity	\$1,053,787	\$1,052,514	\$1,273

Table of Contents

## (5) INVENTORIES

Inventories consist of the following (in thousands):

	September 30, 2018	December 31, 2017
Raw material	\$ 51,860	\$ 42,661
Work-in-process	7,861	10,598
Finished goods	37,765	33,113
Total inventories	\$ 97,486	\$ 86,372

## (6) ACQUISITIONS

On August 21, 2018, the Company acquired all of the outstanding stock of SolarBOS. SolarBOS is a provider of electrical balance of systems products, which consists of electrical components such as wiring, switches, and combiner boxes that support photovoltaic systems, for the U.S. solar renewable energy market. The Company expects the acquisition of SolarBOS to enable the Company to provide complementary product offerings to its existing customers and strengthen its position in the solar renewable energy market. The results of SolarBOS 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 preliminary aggregate purchase consideration for the acquisition of SolarBOS was \$6.5 million, which includes a working capital adjustment and certain other adjustments provided for in the stock purchase agreement. The acquisition was financed through cash on hand.

The preliminary 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 \$2.8 million, all of which is deductible for tax purposes. Goodwill represents future economic benefits arising from other assets acquired that could not be individually identified including workforce additions, growth opportunities, and increased presence in the solar renewable energy markets.

The allocation of the preliminary 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	\$915
Working capital	828
Property, plant and equipment	547
Acquired intangible assets	1,450
Other assets	13
Other liabilities	(51 )
Goodwill	2,838
Fair value of purchase consideration	\$6,540

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

	Fair Value	Estimated Useful Life
Trademarks	\$ 300	3 years
Technology	450	9 years
Customer relationships	700	9 years
Total	\$ 1,450	

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 income.

Acquisition-related costs were \$0.5 million, for both the three and nine months ended September 30, 2018.

Table of Contents

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 \$18.9 million.

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 \$16.8 million, 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	(1,998 )
Property, plant and equipment	55
Acquired intangible assets	3,600
Other assets	8
Deferred income taxes	(128 )
Goodwill	16,790
Fair value of purchase consideration	\$18,917

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

	Fair Value	Estimated Useful Life
Trademarks	\$ 600	Indefinite
Technology	1,300	10 years
Customer relationships	1,700	7 years
Total	\$ 3,600	

The acquisition of Package Concierge was 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 income. Acquisition-related costs were \$31 thousand and \$146 thousand for the three and nine months ended September 30, 2017, respectively.

Table of Contents

## (7)GOODWILL AND RELATED INTANGIBLE ASSETS

## Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 30, 2018 are as follows (in thousands):

	Residential Products	Industrial and Infrastructure Products	Renewable Energy & Conservation	Total
Balance at December 31, 2017	\$ 198,075	\$ 54,280	\$ 68,719	\$ 321,074
Acquired goodwill	—	—	2,838	2,838
Adjustments to prior year acquisitions	—	(38	) —	(38
Foreign currency translation	—	(165	) (388	) (553
Balance at September 30, 2018	\$ 198,075	\$ 54,077	\$ 71,169	\$ 323,321

## Acquired Intangible Assets

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

	September 30, 2018		December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Estimated Life
Indefinite-lived intangible assets:					
Trademarks	\$45,096	\$ —	\$45,107	\$ —	Indefinite
Finite-lived intangible assets:					
Trademarks	6,148	3,397	5,876	3,062	3 to 15 Years
Unpatented technology	28,644	13,406	28,107	12,033	5 to 20 Years
Customer relationships	70,593	34,626	80,707	39,652	5 to 17 Years
Non-compete agreements	1,649	1,156	1,649	931	4 to 10 Years
	107,034	52,585	116,339	55,678	
Total acquired intangible assets	\$ 152,130	\$ 52,585	\$ 161,446	\$ 55,678	

The Company recognized impairment charges related to a finite-lived intangible asset for the three and nine months ended September 30, 2018 of \$1.3 million. The charge relates to the discontinuation of lower margin sales in the Residential Products segment.

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Amortization expense	\$2,121	\$2,208	\$6,408	\$6,600

Amortization expense related to acquired intangible assets for the remainder of fiscal 2018 and the next five years thereafter is estimated as follows (in thousands):

	2018	2019	2020	2021	2022	2023
Amortization expense	\$ 1,960	\$ 7,841	\$ 7,329	\$ 6,726	\$ 6,315	\$ 5,776





Table of Contents

## (8) LONG-TERM DEBT

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

	September 30, December	
	2018	31, 2017
Senior Subordinated 6.25% Notes	\$ 210,000	\$210,000
Other debt	2,000	2,400
Less unamortized debt issuance costs	(1,791 )	(2,379 )
Total debt	210,209	210,021
Less current maturities	400	400
Total long-term debt	\$ 209,809	\$209,621

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 three financial covenants. As of September 30, 2018, the Company is in compliance with all three 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 \$9.5 million have been issued under the Senior Credit Agreement on behalf of the Company as of September 30, 2018. These letters of credit reduce the amount otherwise available under the revolving credit facility. As of September 30, 2018, the Company had \$290.5 million of availability under the revolving credit facility. No borrowings were outstanding under the revolving credit facility at September 30, 2018 and December 31, 2017.

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.

Table of Contents

## (9) ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following tables summarize the cumulative balance of each component of accumulated other comprehensive loss, net of tax, for the nine months ended September 30, (in thousands):

	Foreign Currency Translation Adjustment	Minimum Pension Liability Adjustment	Unamortized Retirement Health Care Costs	Post Total Pre-Tax Amount	Tax (Benefit) Expense	Accumulated Other Comprehensive (Loss) Income
Balance at December 31, 2017	\$ (2,698 )	\$ 171	\$ (2,809 )	\$ (5,336)	\$ (970 )	\$ (4,366 )
Cumulative effect of accounting change (see Note 2)	—	15	(365 )	(350 )	—	(350 )
Minimum pension and post retirement health care plan adjustments	—	(7 )	44	37	10	27
Foreign currency translation adjustment	110	—	—	110	—	110
Balance at March 31, 2018	\$ (2,588 )	\$ 179	\$ (3,130 )	\$ (5,539)	\$ (960 )	\$ (4,579 )
Minimum pension and post retirement health care plan adjustments	—	(7 )	44	37	11	\$ 26
Foreign currency translation adjustment	(1,787 )	—	—	(1,787 )	—	\$ (1,787 )
Balance at June 30, 2018	\$ (4,375 )	\$ 172	\$ (3,086 )	\$ (7,289)	\$ (949 )	\$ (6,340 )
Minimum pension and post retirement health care plan adjustments	—	(7 )	44	37	10	27
Foreign currency translation adjustment	139	—	—	139	—	139
Balance at September 30, 2018	\$ (4,236 )	\$ 165	\$ (3,042 )	\$ (7,113)	\$ (939 )	\$ (6,174 )

	Foreign Currency Translation Adjustment	Minimum Pension Liability Adjustment	Unamortized Retirement Health Care Costs	Post Total Pre-Tax 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	—	(5 )	48	43	17	26
Foreign currency translation adjustment	\$ 679	\$ —	\$ —	\$ 679	\$ —	\$ 679
Balance at March 31, 2017	(5,169 )	192	(3,102 )	(8,079 )	(1,063 )	\$ (7,016 )
Minimum pension and post retirement health care plan adjustments	\$ —	\$ (4 )	\$ 47	\$ 43	\$ 16	\$ 27
Foreign currency translation adjustment	1,091	—	—	1,091	—	1,091
Balance at June 30, 2017	(4,078 )	188	(3,055 )	(6,945 )	(1,047 )	(5,898 )
Minimum pension and post retirement health care plan adjustments	\$ —	\$ (4 )	\$ 47	\$ 43	\$ 16	\$ 27
Foreign currency translation adjustment	\$ 1,581	\$ —	\$ —	\$ 1,581	\$ —	\$ 1,581
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 income.

(10) EQUITY-BASED COMPENSATION

21

---

Table of Contents

On May 4, 2018, the shareholders of the Company approved the adoption of the Gibraltar Industries, Inc. 2018 Equity Incentive Plan (the "2018 Plan"). The 2018 Plan provides for the issuance of up to 1,000,000 shares of common stock and supplements the remaining shares available for issuance under the existing Gibraltar Industries, Inc. 2015 Equity Incentive Plan (the "2015 Plan"). Both the 2018 Plan and the 2015 Plan allow the Company to grant equity-based incentive compensation awards, in the form of non-qualified options, restricted shares, restricted stock units, performance shares, performance stock units, and stock rights, to eligible participants.

In 2016, the shareholders of the Company approved the adoption of the Gibraltar Industries, Inc. 2016 Stock Plan for Non-Employee Directors ("Non-Employee Directors Plan") which allows the Company to grant awards of shares of the Company's common stock to non-employee Directors of the Company and permits the Directors to defer receipt of such shares pursuant to the terms of the Non-Employee Directors Plan.

**Equity Based Awards - Settled in Stock**

The following table sets forth the number of equity-based 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:

Awards	2018		2017	
	Number of Awards (1)	Weighted Average Grant Date Fair Value	Number of Awards (2)	Weighted Average Grant Date Fair Value
Performance stock units	135,540	\$ 33.60	108,748	\$ 42.72
Restricted stock units	95,674	\$ 36.81	120,048	\$ 37.14
Options	—	\$ —	25,000	\$ 42.35
Deferred stock units	10,255	\$ 35.96	10,170	\$ 34.42
Common shares	2,113	\$ 35.50	2,034	\$ 34.42

(1) Performance stock units granted will convert to shares based on the Company's actual return on invested capital ("ROIC") relative to the ROIC targeted for the performance period ended December 31, 2018.

(2) Performance stock units granted include 78,482 units awarded in February 2017 which will convert to 23,546 shares to be issued in February 2020, representing 30% of the targeted 2017 award, based on the Company's actual ROIC compared to ROIC target for the performance period ended December 31, 2017. The remaining performance stock units granted include 20,000 units awarded in February 2017 and 10,266 units awarded in April 2017. The number of these shares to be issued to the recipients will be determined based upon the ranking of the Company's total shareholder return ("TSR") over a three (3) year performance period ended February 1, 2020 compared to the TSR of companies in the S&P Small Cap Industrial Sector over the same three year period.

**Equity Based Awards - Settled in Cash**

The Company's equity-based liabilities include performance based stock units settled in cash and a management stock purchase plan. As of September 30, 2018, the Company's total share-based liabilities recorded on the consolidated balance sheet were \$38.5 million, of which \$23.0 million was included in non-current liabilities.

**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. 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 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% the targeted 2016 award of 128,000. This award will convert to cash payable in the first quarter of 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 converted to cash and was paid in the first quarter of 2018.



Table of Contents

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 Ended September 30, 2018		Nine Months Ended September 30, 2017	
PSUs compensation expense	\$1,518	\$(405)	\$3,126	\$1,673

**Management Stock Purchase Plan**

The Management Stock Purchase Plan ("MSPP") provides participants the ability to defer a portion of their compensation or Directors' fees, which deferral is converted to restricted stock units, and credited to an account. Employees eligible to defer a portion of their compensation also receive a company-matching award in restricted stock units equal to a percentage of their deferral. Directors do not receive any company-matching on amounts deferred. The account represents a share-based liability that is converted to and settled in cash 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,

	2018	2017
Restricted stock units credited	74,180	90,754
Share-based liabilities paid (in thousands)	\$4,986	\$2,392

**(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, 2018 and December 31, 2017. The Company's only financial instrument for which the carrying value differs from its fair value is long-term debt. At September 30, 2018 and December 31, 2017, the fair value of outstanding debt net of unamortized debt issuance costs was \$211.8 million and \$213.8 million, respectively, compared to its carrying value of \$210.2 million and \$210.0 million, 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, 2018, the Company has a contingent liability recorded for such provisions related to discontinued operations. Management does not believe that

the outcome of these claims, or other claims, would significantly affect the Company's financial condition or results of operation.

(13)EXIT ACTIVITY COSTS AND ASSET IMPAIRMENTS

23

---

Table of Contents

The Company has incurred exit activity costs and asset impairment charges as a result of its 80/20 simplification and portfolio management initiatives. These initiatives have resulted in the identification of low-volume, low margin, internally-produced products which have been or will be outsourced or discontinued, and in the sale and exiting of less profitable businesses or products lines.

Exit activity costs were incurred during the nine months ended September 30, 2018 which related to contract terminations, severance, and other moving and closing costs. During this time, the Company also incurred asset impairment charges related to the write-down of inventory, impairment of machinery and equipment and intangible assets associated with either discontinued product lines or reduced sales of lower margin products. In conjunction with these initiatives, the Company also sold and leased back a facility which resulted in a gain, as well as closed two other facilities during the first nine months of 2018.

During the nine months ended September 30, 2017, the Company incurred asset impairment charges and exit activity costs resulting from the above initiatives. Also, as a result of these initiatives, the Company closed three facilities during the first nine months of 2017.



Table of Contents

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):

	Three months ended September 30, 2018			2017		
	Inventory write-downs &/or asset impairment charges	Exit activity costs (recoveries), net	Total	Inventory write-downs &/or asset impairment charges	Exit activity costs (recoveries), net	Total
Residential Products	\$1,392	\$ 485	\$1,877	\$442	\$ 566	\$1,008
Industrial & Infrastructure Products	358	1,417	1,775	98	(12 )	86
Renewable Energy & Conservation	—	(156 )	(156 )	266	191	457
Corporate	—	164	164	—	16	16
Total exit activity costs & asset impairments	\$1,750	\$ 1,910	\$3,660	\$806	\$ 761	\$1,567

	Nine months ended September 30, 2018			2017		
	Inventory write-downs &/or asset impairment charges net (recoveries), net	Exit activity costs (recoveries), net	Total	Inventory write-downs &/or asset impairment charges net (recoveries), net	Exit activity costs (recoveries), net	Total
Residential Products	\$1,349	\$ 333	\$1,682	\$295	\$ 958	\$1,253
Industrial & Infrastructure Products	(345 )	1,607	1,262	(2,492 )	2,959	467
Renewable Energy & Conservation	84	(107 )	(23 )	266	2,610	2,876
Corporate	—	431	431	—	179	179
Total exit activity costs & asset impairments	\$1,088	\$ 2,264	\$3,352	\$(1,931)	\$ 6,706	\$4,775

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
Cost of sales	\$1,621	\$860	\$1,465	\$382
Selling, general, and administrative expense	2,039	707	1,887	4,393
Net asset impairment and exit activity charges	\$3,660	\$1,567	\$3,352	\$4,775

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

	2018	2017
Balance at January 1	\$961	\$3,744
Exit activity costs recognized	2,264	6,706
Cash payments	(1,608 )	(9,207 )

Balance at September 30      \$1,617   \$1,243

25

---

Table of Contents

## (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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Provision for income taxes	\$6,473	\$11,184	\$15,574	\$21,090
Effective tax rate	24.9 %	35.2 %	23.5 %	35.8 %

The change in the effective tax rate year over year is primarily due to the reduction in the U.S. federal statutory tax rate from 35% to 21%. The effective tax rate for the three and nine months ended September 30, 2018 was greater than the U.S. federal statutory rate of 21% due to state taxes and nondeductible permanent differences partially offset by favorable discrete items, including a \$2.6 million tax benefit related to performance share unit vesting. The effective tax rate for the three 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 had been recorded as such benefit is not expected to be realizable, partially offset by net deductible permanent differences and favorable discrete items.

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Reform Act") was signed into law. On this day, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Act. The Company recognized the provisional tax impacts related to the one-time transition tax, withholding tax and the revaluation of deferred tax assets and liabilities and included these amounts in its consolidated financial statements for the year ended December 31, 2017. Our preliminary estimate of the one-time transition tax and the re-measurement of our deferred tax assets and liabilities is subject to the finalization of management's analysis related to certain matters, such as developing interpretations of the provisions of the Tax Reform Act, changes to certain estimates and amounts related to the earnings and profits of certain subsidiaries and the filing of our tax returns, U.S. Treasury regulations, administrative interpretations or court decisions interpreting the Tax Reform Act may require further adjustments and changes in our estimates.

During the nine month period ended September 30, 2018, the Company recognized an adjustment to the provisional amounts recorded at December 31, 2017. The following table sets forth the components of the adjustment which were recorded in income tax expense from continuing operations during nine month period ended September 30, 2018, (in thousands):

Remeasurement of certain deferred tax balances (1)	174
One-time transition tax (1)	(363)
Non-deductible performance based compensation (2)	366
Net adjustment recorded to provisional income tax expense	177

(1) Provisional amounts primarily related to return to provision adjustments.

(2) Provisional amounts primarily related to further guidance of Notice 2018-68 (guidance on performance-based compensation issued in the third quarter).

The Company has elected to account for global intangible low-taxed income ("GILTI") tax in the period in which it is incurred, and therefore has not provided any deferred tax impacts of GILTI in its consolidated financial statements for the year ended December 31, 2017, or during the three and nine months ended September 30, 2018. As a result of proposed regulations issued in the third quarter of 2018, the impact of GILTI on our current annual effective tax decreased the impact on the effective rate from 0.6% to 0.3%. If future guidance differs from our interpretations, this amount may change.

Table of Contents

The final determination of the one-time transition tax and the re-measurement of our deferred assets and liabilities will be completed as additional information becomes available, but no later than one year from the enactment of the Tax Reform Act.

In January 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated other Comprehensive Income, which gives entities the option to reclassify retained earning tax effects resulting from Tax Reform related to items in AOCI that the FASB refers to as having been stranded in AOCI. The Company must adopt this guidance for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted for periods for which financial statements have not yet been issued or made available for issuance, including the period Tax Reform was enacted. We elected to early adopt ASU 2018-02. As a result of adopting this standard, we reclassified \$350,000 from AOCI to retained earnings.

**(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):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Numerator:				
Income from continuing operations	\$19,503	\$20,619	\$50,692	\$37,789
Loss from discontinued operations	—	—	—	(405 )
Net income available to common shareholders	\$19,503	\$20,619	\$50,692	\$37,384
Denominator for basic earnings per share:				
Weighted average shares outstanding	32,115	31,703	31,922	31,700
Denominator for diluted earnings per share:				
Weighted average shares outstanding	32,115	31,703	31,922	31,700
Common stock options and restricted stock	456	507	602	516
Weighted average shares and conversions	32,571	32,210	32,524	32,216

The weighted average number of diluted shares does not include potential anti-dilutive common shares issuable pursuant to equity based incentive compensation awards, aggregating to 247,000 and 489,000 for the three months ended September 30, 2018 and 2017, respectively, and 328,000 and 523,000 for the nine months ended September 30, 2018 and 2017, 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:

- (i) Residential Products, which primarily includes roof and foundation ventilation products, centralized mail systems and electronic package solutions, rain dispersion products and roofing accessories;
- (ii) Industrial and Infrastructure Products, which primarily includes expanded and perforated metal, expansion joints, structural bearings and perimeter security; 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 September 30,	
	2018	2017	2018	2017
Net sales:				
Residential Products	\$125,839	\$129,501	\$360,915	\$361,304
Industrial and Infrastructure Products	56,033	57,162	172,218	165,806
Less: Intersegment sales	(272 )	(224 )	(861 )	(994 )
Net Industrial and Infrastructure Products	55,761	56,938	171,357	164,812
Renewable Energy and Conservation	98,486	88,135	229,187	202,690
Total consolidated net sales	\$280,086	\$274,574	\$761,459	\$728,806
Income from operations:				
Residential Products	\$20,138	\$23,764	\$57,572	\$61,984
Industrial and Infrastructure Products	2,892	2,554	12,098	5,914
Renewable Energy and Conservation	15,072	11,549	28,690	18,381
Unallocated Corporate Expenses	(8,698 )	(2,174 )	(22,839 )	(15,977 )
Total income from operations	\$29,404	\$35,693	\$75,521	\$70,302

The following tables illustrate revenue disaggregated by timing of transfer of control to the customer for the three and nine months ended September 30 (in thousands):

	Three Months Ended September 30, 2018			
	Residential Products	Industrial and Infrastructure Products	Renewable Energy and Conservation	Total
Net sales:				
Point in Time	\$125,118	\$ 47,686	\$ 10,784	\$183,588
Over Time	721	8,075	87,702	96,498
Total	\$125,839	\$ 55,761	\$ 98,486	\$280,086
	Three Months Ended September 30, 2017			
	Residential Products	Industrial and Infrastructure Products	Renewable Energy and Conservation	Total
Net sales:				
Point in Time	\$129,501	\$ 56,938	\$ 7,659	\$194,098
Over Time	—	—	80,476	80,476
Total	\$129,501	\$ 56,938	\$ 88,135	\$274,574

Table of Contents

## Nine Months Ended September 30, 2018

	Residential Products	Industrial and Infrastructure Products	Renewable Energy and Conservation	Total
Net sales:				
Point in Time	\$358,960	\$ 145,657	\$ 25,128	\$529,745
Over Time	1,955	25,700	204,059	231,714
Total	\$360,915	\$ 171,357	\$ 229,187	\$761,459

## Nine Months Ended September 30, 2017

	Residential Products	Industrial and Infrastructure Products	Renewable Energy and Conservation	Total
Net sales:				
Point in Time	\$361,304	\$ 164,812	\$ 18,835	\$544,951
Over Time	—	—	183,855	183,855
Total	\$361,304	\$ 164,812	\$ 202,690	\$728,806

## (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.



Table of Contents

GIBRALTAR INDUSTRIES, INC.  
CONSOLIDATING STATEMENTS OF INCOME  
THREE MONTHS ENDED SEPTEMBER 30, 2018  
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	\$ —	\$ 268,302	\$ 19,211	\$ (7,427 )	\$ 280,086
Cost of sales	—	200,725	16,338	(7,256 )	209,807
Gross profit	—	67,577	2,873	(171 )	70,279
Selling, general, and administrative expense	35	39,466	1,374	—	40,875
(Loss) income from operations	(35 )	28,111	1,499	(171 )	29,404
Interest expense (income)	3,403	(427 )	(70 )	—	2,906
Other expense	—	95	427	—	522
(Loss) income before taxes	(3,438 )	28,443	1,142	(171 )	25,976
(Benefit of) provision for income taxes	(963 )	7,182	254	—	6,473
Equity in earnings from subsidiaries	22,149	888	—	(23,037 )	—
Net income	\$ 19,674	\$ 22,149	\$ 888	\$ (23,208 )	\$ 19,503



Table of Contents

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

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
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

Table of Contents

GIBRALTAR INDUSTRIES, INC.  
CONSOLIDATING STATEMENTS OF INCOME  
NINE MONTHS ENDED SEPTEMBER 30, 2018  
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	\$ —	\$ 729,256	\$ 45,735	\$ (13,532 )	\$ 761,459
Cost of sales	—	548,391	36,987	(13,019 )	572,359
Gross profit	—	180,865	8,748	(513 )	189,100
Selling, general, and administrative expense	115	108,639	4,825	—	113,579
(Loss) income from operations	(115 )	72,226	3,923	(513 )	75,521
Interest expense (income)	10,207	(724 )	(178 )	—	9,305
Other expense (income)	—	234	(284 )	—	(50 )
(Loss) income before taxes	(10,322 )	72,716	4,385	(513 )	66,266
(Benefit of) provision for income taxes	(2,890 )	17,391	1,073	—	15,574
Equity in earnings from subsidiaries	58,637	3,312	—	(61,949 )	—
Net income	\$ 51,205	\$ 58,637	\$ 3,312	\$ (62,462 )	\$ 50,692



Table of Contents

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

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
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

Table of Contents

GIBRALTAR INDUSTRIES, INC.  
CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME  
THREE MONTHS ENDED SEPTEMBER 30, 2018  
(in thousands)

	Gibraltar Industries, Inc	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net income	\$ 19,674	\$ 22,149	\$ 888	\$ (23,208 )	\$ 19,503
Other comprehensive income (loss):					
Foreign currency translation adjustment	—	—	139	—	139
Adjustment to retirement benefit liability, net of tax	—	(5 )	—	—	(5 )
Adjustment to post employment health care benefit liability, net of tax	—	32	—	—	32
Other comprehensive income	—	27	139	—	166
Total comprehensive income	\$ 19,674	\$ 22,176	\$ 1,027	\$ (23,208 )	\$ 19,669

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

	Gibraltar Industries, Inc	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	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

Table of Contents

GIBRALTAR INDUSTRIES, INC.  
CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME  
NINE MONTHS ENDED SEPTEMBER 30, 2018  
(in thousands)

	Gibraltar Industries, Inc	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net income	\$ 51,205	\$ 58,637	\$ 3,312	\$ (62,462 )	\$ 50,692
Other comprehensive (loss) income:					
Foreign currency translation adjustment	—	—	(1,538 )	—	(1,538 )
Cumulative effect of change in accounting (see <a href="#">Note 2</a> )	—	(350 )	—	—	(350 )
Adjustment to retirement benefit liability, net of tax	—	(15 )	—	—	(15 )
Adjustment to post employment health care benefit liability, net of tax	—	95	—	—	95
Other comprehensive loss	—	(270 )	(1,538 )	—	(1,808 )
Total comprehensive income	\$ 51,205	\$ 58,367	\$ 1,774	\$ (62,462 )	\$ 48,884

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

	Gibraltar Industries, Inc	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	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





Table of Contents

GIBRALTAR INDUSTRIES, INC.  
CONSOLIDATING BALANCE SHEETS  
SEPTEMBER 30, 2018  
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ —	\$ 213,967	\$ 31,446	\$ —	\$ 245,413
Accounts receivable, net	—	172,952	7,923	—	180,875
Intercompany balances	(12,013 )	15,885	(3,872 )	—	—
Inventories	—	92,823	4,663	—	97,486
Other current assets	2,902	2,115	3,932	—	8,949
Total current assets	(9,111 )	497,742	44,092	—	532,723
Property, plant, and equipment, net	—	90,883	2,835	—	93,718
Goodwill	—	301,070	22,251	—	323,321
Acquired intangibles	—	91,752	7,793	—	99,545
Other assets	—	4,178	302	—	4,480
Investment in subsidiaries	803,058	63,166	—	(866,224 )	—
	\$ 793,947	\$ 1,048,791	\$ 77,273	\$ (866,224 )	\$ 1,053,787
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable	\$ —	\$ 87,351	\$ 5,646	\$ —	\$ 92,997
Accrued expenses	2,188	70,826	3,254	—	76,268
Billings in excess of cost	—	19,304	2,596	—	21,900
Current maturities of long-term debt	—	400	—	—	400
Total current liabilities	2,188	177,881	11,496	—	191,565
Long-term debt	208,884	925	—	—	209,809
Deferred income taxes	—	29,499	2,611	—	32,110
Other non-current liabilities	—	37,428	—	—	37,428
Shareholders' equity	582,875	803,058	63,166	(866,224 )	582,875
	\$ 793,947	\$ 1,048,791	\$ 77,273	\$ (866,224 )	\$ 1,053,787



Table of Contents

GIBRALTAR INDUSTRIES, INC.  
CONSOLIDATING BALANCE SHEETS  
DECEMBER 31, 2017  
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ —	\$ 192,604	\$ 29,676	\$ —	\$ 222,280
Accounts receivable, net	—	138,903	6,482	—	145,385
Intercompany balances	324	4,166	(4,490 )	—	—
Inventories	—	82,457	3,915	—	86,372
Other current assets	5,415	(368 )	3,680	—	8,727
Total current assets	5,739	417,762	39,263	—	462,764
Property, plant, and equipment, net	—	93,906	3,192	—	97,098
Goodwill	—	298,258	22,816	—	321,074
Acquired intangibles	—	97,171	8,597	—	105,768
Other assets	—	4,681	—	—	4,681
Investment in subsidiaries	739,970	61,746	—	(801,716 )	—
	\$ 745,709	\$ 973,524	\$ 73,868	\$ (801,716 )	\$ 991,385
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable	\$ —	\$ 77,786	\$ 4,601	\$ —	\$ 82,387
Accrued expenses	5,469	67,746	2,252	—	75,467
Billings in excess of cost	—	9,840	2,939	—	12,779
Current maturities of long-term debt	—	400	—	—	400
Total current liabilities	5,469	155,772	9,792	—	171,033
Long-term debt	208,521	1,100	—	—	209,621
Deferred income taxes	—	28,907	2,330	—	31,237
Other non-current liabilities	—	47,775	—	—	47,775
Shareholders' equity	531,719	739,970	61,746	(801,716 )	531,719
	\$ 745,709	\$ 973,524	\$ 73,868	\$ (801,716 )	\$ 991,385



Table of Contents

GIBRALTAR INDUSTRIES, INC.  
 CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS  
 NINE MONTHS ENDED SEPTEMBER 30, 2018  
 (in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>Cash Flows from Operating Activities</b>					
Net cash (used in) provided by operating activities	\$ (13,240 )	\$ 47,971	\$ 3,479	\$	—\$38,210
<b>Cash Flows from Investing Activities</b>					
Cash paid for acquisitions	—	(5,241 )	—	—	(5,241 )
Net proceeds from sale of property and equipment	—	3,044	103	—	3,147
Purchases of property, plant, and equipment	—	(6,537 )	(230 )	—	(6,767 )
Net cash used in investing activities	—	(8,734 )	(127 )	—	(8,861 )
<b>Cash Flows from Financing Activities</b>					
Long-term debt payments	—	(400 )	—	—	(400 )
Purchase of treasury stock at market prices	(6,549 )	—	—	—	(6,549 )
Net proceeds from issuance of common stock	1,343	—	—	—	1,343
Intercompany financing	18,446	(17,474 )	(972 )	—	—
Net cash provided by (used in) financing activities	13,240	(17,874 )	(972 )	—	(5,606 )
Effect of exchange rate changes on cash	—	—	(610 )	—	(610 )
Net increase in cash and cash equivalents	—	21,363	1,770	—	23,133
Cash and cash equivalents at beginning of year	—	192,604	29,676	—	222,280
Cash and cash equivalents at end of period	\$ —	\$ 213,967	\$ 31,446	\$	—\$245,413



Table of Contents

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

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>Cash Flows from Operating Activities</b>					
Net cash (used in) provided by operating activities	\$ (15,136 )	\$ 64,702	\$ (735 )	\$	—\$48,831
<b>Cash Flows from Investing Activities</b>					
Cash paid for acquisitions	—	(18,494 )	—	—	(18,494 )
Net proceeds from sale of property and equipment	—	12,935	—	—	12,935
Purchases of property, plant, and equipment	—	(4,929 )	(223 )	—	(5,152 )
Net cash used in investing activities	—	(10,488 )	(223 )	—	(10,711 )
<b>Cash Flows from Financing Activities</b>					
Long-term debt payments	—	(400 )	—	—	(400 )
Purchase of treasury stock at market prices	(1,982 )	—	—	—	(1,982 )
Net proceeds from issuance of common stock	649	—	—	—	649
Intercompany financing	16,469	(14,813 )	(1,656 )	—	—
Net cash provided by (used in) financing activities	15,136	(15,213 )	(1,656 )	—	(1,733 )
Effect of exchange rate changes on cash	—	—	1,468	—	1,468
Net increase (decrease) in cash and cash equivalents	—	39,001	(1,146 )	—	37,855
Cash and cash equivalents at beginning of year	—	143,826	26,351	—	170,177
Cash and cash equivalents at end of period	\$ —	\$ 182,827	\$ 25,205	\$	—\$208,032



## 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," "intends," "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 residential, industrial, infrastructure, and renewable energy and conservation markets.

The Company operates and reports its results in the following three reporting segments, entitled:

• Residential Products;

• Industrial and Infrastructure Products; and

• Renewable Energy and Conservation.

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

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, architectural facades, 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.

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, power companies, solar energy contractors, and institutional and commercial growers of plants.

As of September 30, 2018, we operated 42 facilities, comprised of 30 manufacturing facilities, six distribution centers, and six offices, which are located in 18 states, Canada, China, and Japan. These facilities give us a base of operations to provide customer support, delivery, service and quality to a number of regional and national customers and provide us with manufacturing and distribution primarily throughout North America and, to a lesser extent, Asia.

## Table of Contents

### Business Strategy

Our business strategy focuses on significantly elevating and accelerating the growth and financial returns of the Company. We strive to deliver best-in-class, sustainable value creation for our shareholders for the long-term, and to generate more earnings at a higher rate of return with a more efficient use of capital year over year.

Our business strategy has four key elements, or "pillars," which consist of operational excellence, product innovation, portfolio management and acquisitions as a strategic accelerator. We believe that the continuing implementation of these pillars will produce transformational change in the Company's portfolio and performance, resulting in sustainable value creation for our shareholders.

Operational excellence is our first pillar in this strategy. We focus on reducing complexity, adjusting costs and simplifying our product offering through 80/20 initiatives ("80/20"). 80/20 is the practice of focusing on our largest and best opportunities (the "80") and eliminating complexity associated with less profitable opportunities (the "20"). Implementation of 80/20 across our businesses, along with in-lining and market rate of demand replenishment initiatives, and outsourcing initiatives for our lower volume products provided to our customers to achieve our value proposition, will improve our profitability. Our next step in operational excellence is to concentrate on selling and marketing strategies, known as trade focus, to drive organic growth by developing new and innovative products which respond to our customers' needs to simplify their operations.

Product innovation is our second strategic pillar where we focus on products with patent protection, developed internally or through acquired product lines. 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 the development or acquisition of those products and technologies that we believe have relevance to the end-user and can be differentiated from our competition. We believe that development of these innovative products and technologies will support our objectives to produce sustainable returns for our shareholders.

The third pillar of our strategy is portfolio management, which involves the evaluation of our product lines, customers and end markets with the objective of allocating leadership time and financial resources to the highest-potential platforms and businesses. We view portfolio management as a continuous process that will remain an important part of our strategy as we look to improve the Company's long-term financial performance. We are currently supporting all of the businesses in our portfolio today.

The fourth pillar of our strategy is acquisitions, which we consider an important part of the Company's transformation. Our low leverage, high liquidity and strong cash flow enables us to consider larger acquisition targets. Our executive leadership team continues to invest time and energy in prospecting for and vetting of potential acquisition candidates. However, we remain committed to only making acquisitions which will contribute long-term value to the Company and its shareholders. We continue to seek acquisition prospects in attractive end markets, with unique value propositions and patented products or technologies. Our target markets include postal and parcel solutions, residential building products, perimeter security, infrastructure, renewable energy and conservation. Our recent acquisition of SolarBOS in August 2018 was the direct result of this strategy.

Overall, we believe our business strategy has enabled us to achieve stronger financial results, make more efficient use of capital, and deliver higher shareholder returns. We have and expect to continue to restructure our operations, including consolidation of facilities, reducing overhead costs, and controlling investments in inventory, which enables us to better react to fluctuations in commodity costs and customer demand and has contributed to both improved margins and cash flows.

### Acquisitions and Divestitures

On August 21, 2018, the Company acquired all of the outstanding stock of SolarBOS for approximately \$6 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. SolarBOS is a provider of electrical balance of systems products, which consists of electrical components such as wiring, switches, and combiner boxes that support photovoltaic systems, for the U.S. solar renewable energy market. The results of operations of SolarBOS have been included in the Renewable Energy and Conservation segment of the Company's consolidated financial statements from the date of

acquisition.

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

41

---

Table of Contents

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. This action also resulted in the sale and closing of 3 facilities in early 2017. These assets were a part of our Industrial and Infrastructure Products segment.

**Economic Conditions**

The end markets our businesses serve 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, demand for repair and remodeling, governmental policies and funding, tax policies and incentives, tariffs, trade policies, the level of non-residential construction and infrastructure projects, need for protection of high value assets, demand for renewable energy sources, and climate change. We believe the key elements of our strategy will allow us to respond timely to changes in these factors.

**Results of Operations**

Three Months Ended September 30, 2018 Compared to the Three Months Ended September 30, 2017

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

	2018		2017	
Net sales	\$280,086	100.0%	\$274,574	100.0%
Cost of sales	209,807	74.9 %	205,839	75.0 %
Gross profit	70,279	25.1 %	68,735	25.0 %
Selling, general, and administrative expense	40,875	14.6 %	33,042	12.0 %
Income from operations	29,404	10.5 %	35,693	13.0 %
Interest expense	2,906	1.0 %	3,486	1.3 %
Other expense	522	0.2 %	404	0.1 %
Income before taxes	25,976	9.3 %	31,803	11.6 %
Provision for income taxes	6,473	2.3 %	11,184	4.1 %
Net income	\$19,503	7.0 %	\$20,619	7.5 %

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

	2018	2017	Total Change
Net sales:			
Residential Products	\$125,839	\$129,501	\$(3,662)
Industrial and Infrastructure Products	56,033	57,162	(1,129)
Less: Intersegment sales	(272)	(224)	(48)
Net Industrial and Infrastructure Products	55,761	56,938	(1,177)
Renewable Energy and Conservation	98,486	88,135	10,351
Consolidated	\$280,086	\$274,574	\$5,512

Consolidated net sales increased by \$5.5 million, or 2.0%, to \$280.1 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017. The 2.0% increase, the net result of a 5.0% increase

in pricing to customers, partially offset by a 3.0% decrease in volume, was driven by strong growth in our Renewable Energy and Conservation segment, which included a \$1.6 million contribution from the recently acquired SolarBos. This growth was partially offset by lower revenues in both the Residential Products segment and the Industrial and Infrastructure Products segments.

Net sales in our Residential Products segment decreased 2.9%, or \$3.7 million, to \$125.8 million for the three months ended September 30, 2018 compared to \$129.5 million for the three months ended September 30, 2017. The decrease from the prior year quarter was primarily due to higher storm-related roofing activity in the third quarter of 2017, and a slight decline in the commercial/multi-family construction market, partially offset by steady customer demand for rain dispersion products.

Net sales in our Industrial and Infrastructure Products segment decreased 2.1%, or \$1.2 million, to \$55.8 million for the three months ended September 30, 2018 compared to \$56.9 million for the three months ended September 30, 2017. Strong performance from the Industrial business, and demand for innovative products, was more than offset by lower demand in the Infrastructure business. The Company expects continued demand for innovative products in its Industrial business and growing demand in its Infrastructure business.

Net sales in our Renewable Energy and Conservation segment increased 11.8%, or \$10.4 million, to \$98.5 million for the three months ended September 30, 2018 compared to \$88.1 million for the three months ended September 30, 2017. The increase was the result of strong domestic demand, continued growth in innovative products, and a \$1.6 million contribution from the recently acquired SolarBos.

Our consolidated gross margin slightly increased to 25.1% for the three months ended September 30, 2018 compared to 25.0% for the three months ended September 30, 2017. This increase was the result of contributions from our new innovative products, 80/20 profit improvement initiatives and a more favorable alignment of material costs to customer selling prices.

Selling, general, and administrative (SG&A) expenses increased by \$7.8 million, or 23.7%, to \$40.9 million for the three months ended September 30, 2018 from \$33.0 million for the three months ended September 30, 2017. The \$7.8 million increase was the combined result of \$5.0 million of higher performance-based compensation expenses, a \$1.3 million increase in restructuring charges relating to our 80/20 initiatives, along with a \$1.0 million increase in senior leadership transition costs as compared to the prior year quarter. The higher performance-based compensation costs are the result of improvements in return on invested capital year over year and an increasing average stock price in 2018. SG&A expenses as a percentage of net sales increased to 14.6% for the three months ended September 30, 2018 compared to 12.0% for the three months ended September 30, 2017.

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):

	2018		2017		Total Change
Income from operations:					
Residential Products	\$20,138	16.0 %	\$23,764	18.4 %	\$(3,626)
Industrial and Infrastructure Products	2,892	5.2 %	2,554	4.5 %	338
Renewable Energy and Conservation	15,072	15.3 %	11,549	13.1 %	3,523
Unallocated Corporate Expenses	(8,698 )	(3.1 )%	(2,174 )	(0.8 )%	(6,524 )
Consolidated income from operations	\$29,404	10.5 %	\$35,693	13.0 %	\$(6,289)

Our Residential Products segment generated an operating margin of 16.0% during the three months ended September 30, 2018 compared to 18.4% during the three months ended September 30, 2017. The decrease in operating margin resulted from unfavorable product mix, and to a lesser extent, volume leverage, along with higher charges for restructuring initiatives in the current year quarter.

Our Industrial and Infrastructure Products segment generated an operating margin of 5.2% during the three months ended September 30, 2018 compared to 4.5% during the three months ended September 30, 2017. The improvement was the result of demand for our higher-margin innovative products, operational efficiencies resulting from the



Company's 80/20 initiatives, and a more favorable alignment of material costs to customer selling prices, partially offset by higher charges for restructuring initiatives as compared to the prior year.

The Renewable Energy and Conservation segment generated an operating margin of 15.3% in the current year quarter compared to 13.1% in the prior year quarter. The improvement was primarily the result of the continued benefit of operational improvements from our 80/20 initiatives and leverage from the continued strong demand for our renewable energy and conservation products and services.

Unallocated corporate expenses increased \$6.5 million from \$2.2 million during the three months ended September 30, 2017 to \$8.7 million during the three months ended September 30, 2018. This increase from the prior year quarter was largely due to a \$3.7 million increase in performance-based compensation expenses, the result of improvements in return on invested capital year over year and increasing average stock price in 2018, along with a \$1.1 million increase in senior leadership transition costs as compared to the prior year quarter.

The Company recorded other expense of \$0.5 million for the three months ended September 30, 2018 and other expense of \$0.4 million for the three months ended September 30, 2017. The increase in other expense from the prior year quarter was primarily the result of foreign currency fluctuations.

Interest expense decreased by \$0.6 million to \$2.9 million for the three months ended September 30, 2018 compared to \$3.5 million for the three months ended September 30, 2017. The decrease in expense was due to the offsetting effect of income earned on our interest-bearing cash balances for the current year quarter compared to the prior year quarter. During the three months ended September 30, 2018 and 2017, no amounts were outstanding under our revolving credit facility.

We recognized a provision for income taxes of \$6.5 million and \$11.2 million, with effective tax rates of 24.9% and 35.2% for the three months ended September 30, 2018, and 2017, respectively. The change in the effective tax rate year over year is primarily due to the reduction in U.S. federal statutory tax rate from 35% to 21%. The effective tax rate for the third quarter of 2018 exceeded the U.S. federal statutory rate of 21% due to state taxes and nondeductible permanent differences largely offset by favorable discrete items. 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 had been recorded as such benefit is not expected to be realizable, partially offset by net deductible permanent differences and favorable discrete items.

#### Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017

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

	2018		2017	
Net sales	\$761,459	100.0 %	\$728,806	100.0 %
Cost of sales	572,359	75.2 %	548,991	75.3 %
Gross profit	189,100	24.8 %	179,815	24.7 %
Selling, general, and administrative expense	113,579	14.9 %	109,513	15.0 %
Income from operations	75,521	9.9 %	70,302	9.7 %
Interest expense	9,305	1.2 %	10,612	1.5 %
Other (income) expense	(50 )	0.0 %	811	0.1 %
Income before taxes	66,266	8.7 %	58,879	8.1 %
Provision for income taxes	15,574	2.0 %	21,090	2.9 %
Income from continuing operations	50,692	6.7 %	37,789	5.2 %
Loss from discontinued operations	—	0.0 %	(405 )	(0.1 )%
Net income	\$50,692	6.7 %	\$37,384	5.1 %

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





	2018	2017	Total Change
Net sales:			
Residential Products	\$360,915	\$361,304	\$(389 )
Industrial and Infrastructure Products	172,218	165,806	6,412
Less: Intersegment sales	(861 )	(994 )	133
Net Industrial and Infrastructure Products	171,357	164,812	6,545
Renewable Energy and Conservation	\$229,187	\$202,690	26,497
Consolidated	\$761,459	\$728,806	\$32,653

Consolidated net sales increased by \$32.7 million, or 4.5%, to \$761.5 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. The 4.5% increase, the combined result of a 3.8% increase in pricing to customers and a 0.7% increase in volume, was driven by strong growth in our Renewable Energy and Conservation segment, including a \$1.6 million contribution from the recently acquired SolarBos, along with higher revenues in our Industrial and Infrastructure Products segment.

Net sales in our Residential Products segment decreased 0.1%, or \$0.4 million, to \$360.9 million for the nine months ended September 30, 2018 compared to \$361.3 million in the nine months ended September 30, 2017. The decrease from the prior year was primarily due to higher storm-related roofing activity in 2017, and a slight decline in the commercial/multi-family construction market, partially offset by steady customer demand for rain dispersion products.

Net sales in our Industrial and Infrastructure Products segment increased 3.9%, or \$6.5 million, to \$171.4 million for the nine months ended September 30, 2018 compared to \$164.8 million for the nine months ended September 30, 2017. Pricing actions along with contributions from new innovative industrial products drove the increased revenues.

Net sales in our Renewable Energy and Conservation segment increased 13.1%, or \$26.5 million, to \$229.2 million for the nine months ended September 30, 2018 compared to \$202.7 million for the nine months ended September 30, 2017. The increase was the result of strong demand in both our domestic renewable energy and conservation markets and continued traction of innovative products.

Our consolidated gross margin slightly increased to 24.8% for the nine months ended September 30, 2018 compared to 24.7% for the nine months ended September 30, 2017. This increase was the result of contributions from our new innovative products, 80/20 profit improvement initiatives and a more favorable alignment of material costs to customer selling prices.

Selling, general, and administrative (SG&A) expenses increased by \$4.1 million, or 3.7%, to \$113.6 million for the nine months ended September 30, 2018 from \$109.5 million for the nine months ended September 30, 2017. The increase was primarily due to a \$5.6 million increase in performance-based compensation expenses and an \$0.8 million increase in senior leadership transition costs as compared to the prior year, partially offset by a \$2.5 million decrease in restructuring charges related to our 80/20 initiatives. SG&A expenses as a percentage of net sales decreased to 14.9% in the nine months ended September 30, 2018 compared to 15.0% in the nine months ended September 30, 2017.

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):

	2018	2017	Total Change
Income from operations:			
Residential Products	\$57,572 16.0 %	\$61,984 17.2 %	\$(4,412)

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

Industrial and Infrastructure Products	12,098	7.1 %	5,914	3.6 %	6,184
Renewable Energy and Conservation	28,690	12.5 %	18,381	9.1 %	10,309
Unallocated Corporate Expenses	(22,839 )	(3.0 )%	(15,977 )	(2.2 )%	(6,862 )
Consolidated income from operations	\$75,521	9.9 %	\$70,302	9.6 %	\$5,219

Our Residential Products segment generated an operating margin of 16.0% during the nine months ended September 30, 2018 compared to 17.2% during the nine months ended September 30, 2017. The decrease in operating margin is primarily due to the effects of product mix.

Our Industrial and Infrastructure Products segment generated an operating margin of 7.1% during the nine months ended September 30, 2018 compared to 3.6% during the nine months ended September 30, 2017. The improvement was largely the result of operational efficiencies resulting from the Company's 80/20 initiatives along with higher demand for our innovative products and a more favorable alignment of material costs to customer selling prices.

The Renewable Energy and Conservation segment generated an operating margin of 12.5% during the first nine months of the current year compared to 9.1% in the same period of the prior year. The improvement was primarily the result of volume and operational improvements from our 80/20 initiatives along with lower charges for these initiatives as compared to the prior year.

Unallocated corporate expenses increased \$6.9 million from \$16.0 million during the nine months ended September 30, 2017 to \$22.8 million during the nine months ended September 30, 2018. The higher expense in the current year was the result of a \$5.8 million increase in performance-based compensation expenses along with \$1.2 million increase in senior leadership transition costs as compared to the prior year.

The Company recorded other income of \$0.1 million for the nine months ended September 30, 2018 and other expense of \$0.8 million for the nine months ended September 30, 2017. The increase in other income from the prior year was primarily the result of foreign currency fluctuations.

Interest expense decreased by \$1.3 million to \$9.3 million for the nine months ended September 30, 2018 compared to \$10.6 million for the nine months ended September 30, 2017. The decrease in expense was due to the offsetting effect of income earned on our interest-bearing cash balances for the current year compared to the prior year. During the nine months ended September 30, 2018 and 2017, no amounts were outstanding under our revolving credit facility.

We recognized a provision for income taxes of \$15.6 million and \$21.1 million, with effective tax rates of 23.5% and 35.8% for the nine months ended September 30, 2018, and 2017, respectively. The change in the effective tax rate year over year is primarily due to the reduction in U.S. federal statutory tax rate from 35% to 21%. The effective tax rate for the nine months ended September 30, 2018 exceeded the U.S. federal statutory rate of 21% due to state taxes and nondeductible permanent differences partially offset by favorable discrete items, including a \$2.6 million tax benefit related to performance share unit vesting. 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.

#### Outlook

For the remainder of 2018, we continue to be optimistic about innovative products driving organic growth across all of our segments, and we are confident in the end markets these products are targeting.

Our goals for the fourth quarter are to drive sustainable growth through the acceleration of new product development initiatives, to work with our customers to manage cost volatility, to implement 80/20 simplification projects, and to seek value-added acquisitions in attractive end markets.

For the full year, we expect to continue to deliver on our objective to make more money at a higher rate of return with a more efficient use of capital, and create long-term value creation for our shareholders.

We expect 2018 consolidated revenues to exceed \$1 billion, however, we are lowering our revenues expectations from 2-4% growth to 1-2% growth, considering activity levels across the Company's end markets. At the same time, we are narrowing our full-year 2018 earnings guidance to the high end of the previous range as a result of demand for higher-margin innovative products and 80/20 simplification initiatives. GAAP EPS for full-year is now expected to be

in the range of \$1.82 to \$1.87, compared with \$1.95 in 2017, which included the aforementioned one-time \$0.39 per share benefit from tax reform.

Table of Contents

For the fourth quarter of 2018, we expect revenue in the range of \$239 million to \$249 million as a result of growing demand from innovative products. GAAP EPS for the fourth quarter 2018 is expected to be between \$0.26 and \$0.31 per diluted share.

## 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. During the three months ended September 30, 2018, we invested cash in our working capital to meet the upcoming higher seasonal demands from our customers 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, 2018, our liquidity of \$535.9 million consisted of \$245.4 million of cash plus \$290.5 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, 2018, our foreign subsidiaries held \$31.4 million of cash in U.S. dollars. As a result of the Tax Cuts and Jobs Act ("Tax Reform Act") signed into law on December 22, 2017, the majority of cash held by foreign subsidiaries as of December 22, 2017, is expected to be repatriated to the U.S.

Over the long-term, we expect that future obligations and 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 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. Our 2018 acquisition of SolarBOS and our 2017 acquisition of Package Concierge were funded by cash on hand.

These expectations are forward-looking statements based upon currently available information and may change if conditions in the credit or 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):

	2018	2017
Cash (used in) provided by:		
Operating activities of continuing operations	\$38,210	\$48,831
Investing activities of continuing operations	(8,861 )	(10,711 )
Financing activities of continuing operations	(5,606 )	(1,733 )
Effect of exchange rate changes	(610 )	1,468
Net increase in cash and cash equivalents	\$23,133	\$37,855

During the nine months ended September 30, 2018, net cash generated from operating activities totaling \$38.2 million was primarily driven by net income of \$50.7 million and \$24.5 million from non-cash charges including depreciation,

47

---

## Table of Contents

amortization, stock compensation, intangible asset impairment charges and exit activities, partially offset by an investment in working capital and other net assets of \$37.0 million. Net cash provided by operating activities for the nine months ended September 30, 2017 totaled \$48.8 million, primarily composed of net income of \$37.8 million plus \$20.7 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 \$9.7 million.

During the nine months ended September 30, 2018, the cash invested in working capital and other net assets of \$37.0 million included a \$30.5 million and a \$16.3 million increase in accounts receivable and inventories, respectively, as well as a \$0.5 million decrease in accrued expenses and other non-current liabilities, partially offset by a \$9.2 million increase in accounts payable and a \$1.0 million decrease in other current assets and other assets. The increase in accounts receivable relate to seasonal increases in demand activity. Inventory increases are primarily due to seasonality as well as continued material cost increases. Accounts payable increased due to the seasonal increase in demand activity. The decrease in accrued expenses and other non-current liabilities was largely due to payments related to the Company's performance based incentive plans, largely offset by costs correlated to the timing of customer payments. Total other current assets and other assets primarily decreased due to the timing of prepaid expenses.

Net cash used in investing activities for the nine months ended September 30, 2018 of \$8.9 million consisted of capital expenditures of \$6.8 million and net cash paid for the acquisition of SolarBOS of \$5.2 million partially offset by net proceeds of \$3.2 million from the sale and lease-back of property and equipment. 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 financing activities for the nine months ended September 30, 2018 of \$5.6 million consisted of the purchase of treasury stock of \$6.5 million due to a large number of performance awards that vested in June 2018 and payment of long-term debt borrowings of \$0.4 million partially offset by the proceeds received from the issuance of common stock of \$1.3 million due to stock option exercises. 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 due to stock option exercises.

### Senior Credit Agreement and Senior Subordinated Notes

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, 2018, 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, 2018, we had \$290.5 million of availability under the Senior Credit Agreement net of outstanding letters of credit of \$9.5 million. No amounts were outstanding under our revolving credit facility as of either September 30, 2018 or December 31, 2017.

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.

## Table of Contents

### 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, 2017.

### Critical Accounting Estimates

In the current year, there have been no changes to our critical accounting estimates from those disclosed in the consolidated financial statements and accompanying notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, other updates to our revenue recognition policy due to the adoption of ASU 2014-09 Revenue from Contracts with Customers (Topic 606) in the first quarter of 2018, which are discussed in Note 4 to the Company's consolidated financial statements in Part I, Item I of this Form 10-Q.

### 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. Refer to Item 7A in the Company's Form 10-K for the year ended December 31, 2017 for more information about the Company's exposure to market risk.

### 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 15d-15(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.



Table of Contents

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, 2017. 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. We are providing the following information regarding changes that have occurred to the previously disclosed risk factors in our Form 10-K. Except for such additional information, we believe there have been no material changes from the risk factors previously disclosed in our Form 10-K.

Recently imposed tariffs and potential future tariffs may result in increased costs and could adversely affect our results of operations

On June 1, 2018, the United States imposed Section 232 tariffs on certain steel (25%) and aluminum (10%) products imported into the U.S. These tariffs have created volatility in the market and have increased the costs of these inputs. Increased costs for imported steel and aluminum products have lead domestic sellers to respond with market-based increases to prices for such inputs as well. The new tariffs, along with any additional tariffs or trade restrictions that may be implemented by the U.S. or other countries, could result in further increased costs, shifting in competitive positions and a decreased available supply of steel and aluminum as well as additional imported components and inputs. We may not be able to pass price increases on to our customers and may not be able to secure adequate alternative sources of steel and aluminum on a timely basis. While retaliatory tariffs imposed by other countries on U.S. goods have not yet had a significant impact, we cannot predict further developments. The tariffs could adversely affect the operating profits for certain of our businesses and customer demand for certain of our products which could have a material adverse effect on our consolidated results of operations, financial position and cash flows.

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

- 31.1 Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.
- 31.2 Certification of Senior Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.
- 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.
- 32.2 Certification of the Senior Vice President and Chief Financial Officer pursuant to Title 18, United States Code, Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.
- 101.INS XBRL Instance Document \*
- 101.SCH XBRL Taxonomy Extension Schema Document \*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document \*
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document \*
- 101.PRA XBRL Taxonomy Extension Presentation Linkbase Document \*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document \*
- \* Submitted electronically with this Quarterly Report on Form 10-Q.

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 1, 2018