GIBRALTAR INDUSTRIES, INC.
Form 10-Q
August 09, 2006

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

(Mark one)

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from __________ to __________

Commission file number 0-22462

Gibraltar Industries, Inc.

(Exact name of Registrant as specified in its charter)

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

3556 Lake Shore Road, P.O. Box 2028, Buffalo, New York 14219-0228
(Address of principal executive offices)
(716) 826-6500
(Registrant s telephone number, including area code)

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o. No þ.

As of August 4, 2006, the number of common shares outstanding was: 29,832,142.

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements
GIBRALTAR INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	June 30, 2006 (unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 41,145	$ 28,529
Accounts receivable, net	210,837	162,300
Inventories	232,833	189,988
Other current assets	16,869	19,666
Current assets of discontinued operations	180	23,521
Total current assets	501,864	424,004
Property, plant and equipment, net	230,337	229,644
Goodwill	372,600	360,663
Investments in partnerships	5,387	6,151
Other assets	55,374	55,099
Assets of discontinued operations	171	129,451
	$ 1,165,733	$ 1,205,012
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 110,407	$ 83,266
Accrued expenses	84,532	59,289
Current maturities of long-term debt	3,080	2,331
Current maturities of related party debt		5,833
Current liabilities of discontinued operations	4,971	6,529
Total current liabilities	202,990	157,248
Long-term debt	358,440	453,349
Deferred income taxes	65,389	90,942
Other non-current liabilities	7,069	6,038
Liabilities of discontinued operations		3,410
Shareholders equity:		
Preferred stock, $.01 par value; authorized: 10,000,000 shares; none outstanding		
Common stock, $.01 par value; authorized 50,000,000 shares; issued 29,828,317 and 29,701,186 shares in 2006 and 2005, respectively	298	298
Additional paid-in capital	214,111	216,897
Retained earnings	314,852	280,116

Unearned compensation		(5,153)
Accumulated other comprehensive loss	2,584	1,867
	531,845	494,025
Less: cost of 42,600 and 40,500 common shares held in treasury in 2006 and 2005		
Total shareholders equity	531,845	494,025
	$ 1,165,733	$ 1,205,012

See accompanying notes to condensed consolidated financial statements

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GIBRALTAR INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(in thousands, except per share date)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net sales	$ 352,421	$ 252,850	$ 675,058	$ 489,392
Cost of sales	275,156	203,719	534,562	397,551
Gross profit	77,265	49,131	140,496	91,841
Selling, general and administrative expense	38,950	24,646	76,790	51,254
Income from operations	38,315	24,485	63,706	40,587
Other (income) expense:				
Equity in partnerships loss (income) and other income	138	93	(548)	(351)
Interest expense	7,101	3,021	13,880	6,166
Total other expense	7,239	3,114	13,332	5,815
Income before taxes	31,076	21,371	50,374	34,772
Provision for income taxes	11,315	7,895	18,880	13,121
Income from continuing operations	19,761	13,476	31,494	21,651
Discontinued operations:				
Income from discontinued operations before taxes	5,710	3,270	10,013	7,485
Income tax expense	2,158	1,275	3,797	2,919
Income from discontinued operations	3,552	1,995	6,216	4,566
Net income	$ 23,313	$ 15,471	$ 37,710	$ 26,217
Net income per share Basic:				
Income from continuing operations	$ .67	$ .46	$ 1.06	$ .73
Income from discontinued operations	.12	.07	.21	.16
Net income	$ .79	$ .53	$ 1.27	$ .89
Weighted average shares outstanding Basic	29,689	29,606	29,659	29,588

Net income per share Diluted:				
Income from continuing operations	.66	.45	1.05	.73
Income from discontinued operations	.12	.07	.21	.15
Net income	$ .78	$ .52	$ 1.26	$ .88
Weighted average shares outstanding Diluted	30,012	29,762	29,966	29,769

See accompanying notes to condensed consolidated financial statements

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

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Cash flows from operating activities		
Net income	$ 37,710	$ 26,217
Net income from discontinued operations	6,216	4,566
Net income from continuing operations	31,494	21,651
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	14,175	9,297
Provision for deferred income taxes		(786)
Equity in partnerships loss (income) and other income	174	(294)
Distributions from partnerships	589	748
Stock compensation expense	1,631	327
Other noncash adjustments	610	64
Increase (decrease) in cash resulting from changes in (net of acquisitions and dispositions):		
Accounts receivable	(49,345)	(32,710)
Inventories	(37,793)	78
Other current assets and other assets	1,353	208
Accounts payable	23,698	(1,630)
Accrued expenses and other non-current liabilities	342	(1,556)
Net cash used in continuing operations	(13,072)	(4,603)
Net cash provided by discontinued operations	7,220	8,523
Net cash (used in) provided by operating activities	(5,852)	3,920
Cash flows from investing activities		
Acquisitions, net of cash acquired	(13,206)	
Purchases of property, plant and equipment	(11,452)	(8,073)
Net proceeds from sale of property and equipment	115	249
Net proceeds from sale of business	151,511	42,594
Net cash provided by investing activities from continuing operations	126,968	34,770
Net cash used in investing activities for discontinued operations	(3,189)	(1,915)
Net cash provided by investing activities	123,779	32,855

Cash flows from financing activities		
Long-term debt reduction	(112,960)	(47,430)
Proceeds from long-term debt	10,000	10,000
Payment of deferred financing costs	(256)	(920)
Payment of dividends	(2,974)	(2,970)
Net proceeds from issuance of common stock	764	520
Tax benefit from stock options	115	158
Net cash used in financing activities	(105,311)	(40,642)
Net increase (decrease) in cash and cash equivalents	12,616	(3,867)
Cash and cash equivalents at beginning of year	28,529	10,892
Cash and cash equivalents at end of period	$ 41,145	$ 7,025

See accompanying notes to condensed consolidated financial statements

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

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements as of June 30, 2006 and 2005 have been prepared by Gibraltar Industries, Inc. (the Company) without audit. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) necessary to present fairly the financial position, results of operations and cash flows at June 30, 2006 and 2005 have been included.

Certain information and footnote disclosures including significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements included in the Company s Annual Report to Shareholders for the year ended December 31, 2005, as filed on Form 10-K.

The consolidated balance sheet at December 31, 2005 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

Certain 2005 amounts have been reclassified to conform with 2006 presentation as discussed in Note 7.

The results of operations for the three and six month periods ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year.

2. EQUITY-BASED COMPENSATION

During the first quarter of 2006, the Company adopted SFAS 123(R) Share-Based Payment, applying the modified prospective method. This statement requires all equity-based payments to employees, including grants of stock options, to be recognized in the statement of income based on the grant date fair value of the award. Under the modified prospective method, the Company is required to record equity-based compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards outstanding as of the date of adoption. The Company uses the straight-line method of attributing the value of stock-based compensation expense based on vesting.

Stock compensation expense recognized during the period is based on the value of the portion of equity-based awards that is ultimately expected to vest during the period. Vesting requirements vary for directors and executives and key employees.

On May 19, 2005, the Gibraltar Industries, Inc. 2005 Equity Incentive Plan (the 2005 Equity Incentive Plan) was approved by the Company s stockholders. The 2005 Equity Incentive Plan is an incentive compensation plan that allows the Company to grant equity-based incentive compensation awards to eligible participants to provide them an additional incentive to promote the business of the Company, to increase their proprietary interest in the success of the Company and to encourage them to remain in the Company s employ. Awards under the plan may be in the form of options, restricted shares, restricted units, performance shares, performance units and rights. The 2005 Equity Incentive Plan provides for the issuance of up to 2,250,000 shares of common stock. Of the total number of shares of common stock issuable under the plan, the aggregate number of shares that may be issued in connection with grants of restricted stock or restricted units cannot exceed 1,350,000 shares, and the aggregate number of shares which may be issued in connection with grants of incentive stock options and rights cannot exceed 900,000 shares. Vesting terms and award life are governed by the award document.

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The Management Stock Purchase Plan (MSPP) was approved by the shareholders in conjunction with the adoption of the 2005 Equity Incentive Plan. The MSPP provides participants the ability to defer up to 50% of their annual bonus under the Management Incentive Compensation Plan. The deferral is converted to restricted stock units and credited to an account along with a match equal to the deferral amount. The account is converted to cash at the current value of the Company s stock and payable to the participants upon their termination from employment with the Company. The matching portion is payable only if the participant has reached their sixtieth birthday. If a participant terminates prior to age 60, the match is forfeited. Upon termination, the account is converted to a cash account that accrues interest at 2% over the then current 10 year U. S. Treasury note. The account is then paid out in five equal annual cash installments.

During the six months ended June 30, 2006, the Company issued 6,000 restricted shares, 167,125 restricted stock units, and granted 18,625 non-qualified stock options. At June 30, 2006, 1,695,204 shares were available for issuance under this plan. Of this amount, 899,839 are available for restricted units and 900,000 are available for incentive stock options. The Company recognized compensation expense in connection with the vesting of stock options and the lapse of restrictions on restricted shares and restricted units issued under the 2005 Equity Incentive Plan the amount of $1,545,000 and $226,000 in the six months ended June 30 , 2006 and 2005, respectively.

In 1993, the Company adopted an incentive stock option plan, whereby the Company may grant incentive stock options to officers and other key employees. Under this plan, 2,437,500 shares of common stock were reserved for the granting of stock options at an exercise price not less than the fair market value of the shares at the date of grant. Options granted under this plan vest ratably over a four-year period from the grant date and expire ten years after the date of grant. In September 2003, this plan expired. The expiration of this plan did not modify, amend or otherwise affect the terms of any outstanding options on the date of the plan s expiration.

In 2003, the Company s Board of Directors approved the adoption of an incentive stock option plan, whereby the Company may grant incentive stock options to officers and other key employees. This plan was approved by the shareholders in 2004. Under this plan, 2,250,000 shares of common stock were reserved for the granting of stock options. These options are granted at an exercise price not less than the fair market value of the shares at the date of grant. Options granted under this plan vest ratably over a four-year period from the grant date and expire ten years after the date of grant. On May 22, 2006 the Company terminated this plan. The termination of this plan did not modify, amend or otherwise affect the terms of any outstanding awards on the date of the plan s termination.

The Company has a non-qualified stock option plan, whereby the Company may grant non-qualified stock options to officers, employees, non-employee directors and advisers. Under the non-qualified stock option plan, 600,000 shares of common stock were reserved for the granting of options. Options are granted under this plan at an exercise price not less than the fair market value of the shares at the date of grant. These options vest ratably over a four-year period from the grant date and expire ten years after the date of grant. On May 22, 2006 the Company terminated this plan. The termination of this plan did not modify, amend or otherwise affect the terms of any outstanding awards on the date of the plan s termination.

The Company has a restricted stock plan and has reserved for issuance 375,000 common shares for the grant of restricted stock awards to employees and non-employee directors at a purchase price of $.01 per share. Shares of restricted stock issued under this plan vest on a straight-line basis over a period of 5 to 10 years. No shares were issued under this Plan in 2006 or 2005. On May 22, 2006 the Company terminated this plan. The termination of this plan did not modify, amend or otherwise affect the terms of any outstanding awards on the date of the plan s termination. The Company recognized compensation expense of $98,000 and $101,000, respectively in connection with the lapse of restrictions on restricted stock in the six months ended, June 30, 2006 and 2005, respectively.

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The fair value of stock options granted was estimated on the date of grant using the Black-Scholes option pricing model. The weighed average fair value of the options was $10.43 for options granted during the six months ended June 30, 2006. The weighted average fair value of the options issued during the six months ended June 30, 2005 was $8.34. The following table provides the assumptions used to value stock options during the six months ended June 30, 2006 and 2005:

	Fair value	Expected life	Stock Volatility	Risk-free interest rate	Dividend yield
2006 Grant	$10.43	6.25 Years	41.1%	4.3%	0.8%
2005 Grant	$ 8.34	5.0 Years	42.5%	3.9%	1.0%

The fair value of restricted stock units granted was based on the grant date market price. During the six months ended June 30, 2006, 97,027 restricted stock units were granted with a weighted average grant date fair value of $24.29 per share. These awards vest ratably over three to four years.

The fair value of restricted stock units held in the MSPP equals the market value of our common stock on the last day of the period. During the six months ended June 30, 2006, 70,098 restricted stock units were credited to participant accounts. At June 30, 2006, the market value of our common stock was $29.00 per share.

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The table below reflects income from continuing operations and income per share from continuing operations for the three and six months ended June 30, 2006 compared with the pro forma information for the three and six months ended June 30, 2005 as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Income from continuing operations, as reported for the prior period (1)	$ N/A	$ 13,476	$ N/A	$ 21,651
Equity-based compensation expense, net of tax included in income as reported in prior period (2)	N/A	(176)	N/A	(214)
Equity-based compensation expense, net of tax (3)	$ 596	$ 176	$ 1,027	$ 214
Income including the effect of equity-based compensation expense (4)	$ 19,761	$ 13,476	$ 31,494	$ 21,651
Income from continuing operations per share:				
Basic as reported for the prior period (1)	$ N/A	$ .46	$ N/A	$ .73
Basic including the effect of equity-based compensation expense (4)	$ .67	$ .46	$ 1.06	$ .73
Diluted as reported for the prior period (1)	$ N/A	$ .45	$ N/A	$ .73
Diluted including the effect of equity- based compensation expense (4)	$ .66	$ .45	$ 1.05	$ .73

(1) Income from continuing operations and income from continuing operations per share prior to 2006 did not include equity-based compensation expense for stock options.

(2) Income from continuing operations and income from continuing

operations per share prior to 2006 included equity-based compensation expense for restricted shares and restricted share units.

(3) Equity-based compensation expense prior to 2006 is calculated based upon the pro forma application of SFAS No. 123.

(4) Income from continuing operations and income from continuing operations per share prior to 2006 represents pro forma information based on SFAS No.123.

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The following table summarizes the ranges of outstanding and exercisable options at June 30, 2006:

Range of Exercise prices	Options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable	Weighted average exercise price
$ 9.38 - $10.42	119,446	3.3	$ 9.83	119,446	$ 9.83
$14.50 - $15.00	126,125	1.5	$ 14.80	126,125	$ 14.80
$20.52 - $23.78	78,185	9.3	$ 21.31	324	$ 21.33

The following table summarizes information about stock option transactions:

	Options	Weighted average exercise price	Weighted average remaining life	Aggregate intrinsic value
Balance at January 1, 2006	383,426	$ 13.70		
Granted	18,625	23.78		
Exercised	(67,331)	11.37		
Forfeited	(10,964)	20.52		
Balance at June 30, 2006	323,756	$ 14.54	4.0	$4,682,000

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the $29.00 per share market price of the Company s common stock as of June 30, 2006, which would have been received by the option holders had all option holders exercised their options as of that date. The aggregate intrinsic value of exercisable options as of June 30, 2006 was $4,083,000.

The following table summarizes information about restricted stock:

	Restricted Stock
Balance at January 1, 2006	$ 77,000
Granted	6,000
Vested	(10,500)
Forfeited	(1,500)
Balance at June 30, 2006	$ 71,000

The following table summarizes information about restricted stock units:

	Restricted Stock Units
Balance at January 1, 2006	$ 283,036
Granted	167,125
Vested	
Forfeited	

Balance at June 30, 2006	$	450,161

As of June 30, 2006, there was $7,493,000 of total unrecognized compensation cost related to non-vested options, restricted shares, and restricted share units. That cost is expected to be recognized over a weighted average period of 2 years.

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3. SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

The changes in shareholders equity and comprehensive income consist of (in thousands):

	Comprehensive Income	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income	Treasury Stock Shares	Treasury Stock Amount	Total Shareholders Equity
Balance at January 1, 2006		29,694	$ 298	$ 216,897	$ 280,116	$ (5,153)	$ 1,867	41	$	$ 494,025
Cumulative effect of adoption of SFAS 123(r)				(5,153)		5,153				
Comprehensive income:										
Net income	$ 37,710				37,710					37,710
Other comprehensive income (loss):										
Foreign currency translation adjustment	(806)									
Unrealized gain on interest rate swaps, net of tax of $617	1,523									
Other comprehensive income	717						717			717
Total comprehensive income	$ 38,427									
Issuance of restricted shares		26								
Equity based compensation expense				1,488						1,488
Stock options exercised		66		764						764
Tax benefit from exercise of stock options				115						115

Cash dividends $.10 per share				(2,974)					(2,975)
Forfeiture of restricted stock							2		
Balance at June 30, 2006	29,786	$ 298	$ 214,111	$ 314,852	$	$ 2,584	43	$	$ 531,845

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

	Foreign currency translation adjustment	Minimum pension liability adjustment	Unrealized gain/(loss) on interest rate swaps	Accumulated other comprehensive loss
Balance at January 1, 2006	$ 2,435	$ (30)	$ (538)	$ 1,867
Current period change	(806)		1,523	717
Balance at June 30, 2006	$ 1,629	$ (30)	$ 985	$ 2,584

Total comprehensive income for the three and six months ended June 30, 2006, was $23,221,000 and $38,427,000, respectively and for the three and six months ended June 30, 2005 was $14,880,000 and $26,128,000, respectively.

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4. INVENTORIES

Inventories consist of the following (in thousands):

	June 30, 2006	December 31, 2005
Raw material	$ 99,223	$ 87,888
Work-in process	45,634	32,251
Finished goods	87,976	69,849
Total inventories	$ 232,833	$ 189,988

5. NET INCOME PER SHARE

Basic income per share is based on the weighted average number of common shares outstanding. Diluted income per share is based on the weighted average number of common shares outstanding, as well as dilutive potential common shares which, in the Company s case, comprise shares issuable under the stock option and restricted stock plans. The treasury stock method is used to calculate dilutive shares, which reduces the gross number of dilutive shares by the number of shares purchasable from the proceeds of the options assumed to be exercised.

The following table sets forth the computation of basic and diluted earnings per share as of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Numerator:				
Income available to common stockholders from continuing operations	$ 19,761,000	$ 13,476,000	$ 31,494,000	$ 21,651,000
Weighted average shares outstanding	29,689,402	29,605,510	29,658,841	29,588,337
Denominator for diluted income per share:				
Weighted average shares outstanding	29,689,402	29,605,510	29,658,841	29,588,337
Common stock options and restricted stock	329,069	156,464	307,472	180,299
Weighted average shares and conversions	30,012,471	29,761,974	29,966,312	29,768,636

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6. ACQUISITIONS

On April 1, 2003, the Company acquired all of the outstanding stock of Construction Metals, Inc. (Construction Metals). As part of the purchase agreement between the Company and the former owners of Construction Metals, the Company was required to pay additional consideration if certain net sales levels as defined in the purchase agreement were achieved during the period from acquisition up to March 31, 2006. During the second quarter of 2006 and 2005 payments of $1,754,000 and $1,332,000, respectively, were made pursuant to the additional consideration.

On September 15, 2005, the Company acquired all of the outstanding stock of Curie International (Suzhou) Co., Ltd. (SCM Asia). SCM Asia is located in Suzhou, China and manufactures, markets and distributes non-ferrous metal powder products to customers in a number of different industries, including the powder metallurgy and thermal processing markets. The acquisition of SCM Asia provided the Company with an on-the-ground presence in the rapidly growing Chinese industrial market, which strengthens our ability to grow our business in this market. The results of SCM Asia (included in the Company s Processed Metal Products segment) are included in the Company s consolidated financial results from the date of acquisition on a one month lag. The acquisition of SCM Asia is not considered significant to the Company s consolidated results of operations.

The aggregate purchase consideration for the acquisition of SCM Asia was approximately $7,613,000 in cash, a seller note, and acquisition costs. The seller note of $1,465,000 is due on September 15, 2006, and bears no interest. The purchase price was allocated to the assets acquired and liabilities assumed based upon a preliminary valuation of respective fair market values. The identifiable intangible assets identified during the preliminary allocation of purchase price consisted of a non-compete agreement with a value of $645,000 (7 year estimated useful life) and unpatented technology of $264,000 (5 year estimated useful life). A final valuation is expected to be completed in the third quarter of 2006. The excess consideration over fair value was recorded as goodwill and aggregated approximately $3,355,000, none of which is deductible for tax purposes. The allocation of purchase consideration to the assets acquired and liabilities assumed is as follow (in thousands):

Working capital	$ 681
Property, plant and equipment	2,160
Other assets	508
Intangible assets	909
Goodwill	3,355
	$ 7,613

On October 3, 2005, the Company acquired all the outstanding shares of Alabama Metal Industries Corporation (AMICO). AMICO is headquartered in Birmingham, Alabama, and manufactures, markets and distributes a diverse line of products used in the commercial and industrial sectors of the building products market. The acquisition of AMICO increased the Company s participation in the industrial and commercial sectors of the building products markets and increased our product offerings in the residential sector of the building products market. The results of operations of AMICO (included in the Company s Building Products segment) have been included in the Company s consolidated results of operations from the date of acquisition.

The aggregate purchase consideration for the acquisition of AMICO was approximately $240,974,000 in cash and acquisition costs. The purchase price was allocated to the assets acquired and liabilities assumed based upon a preliminary valuation of respective fair market values. The identifiable intangible assets identified during the preliminary allocation of purchase price consisted of trade name with a value of $21,000,000 (indefinite useful life), trademarks with a value of $1,000,000 (10 year estimated useful life), customer relationships with a value of $7,000,000 (10 year estimated useful life), and unpatented technology with a value of $2,000,000 (9 year estimated useful life). A final valuation is expected to be completed in the third quarter of 2006. The excess consideration over fair value was recorded as goodwill and aggregated approximately $115,941,000, none of which is deductible for tax purposes.

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

Working capital	$ 66,263
Property, plant and equipment	53,893
Other long term liabilities, net	(26,123)
Intangible assets	31,000
Goodwill	115,941
	$ 240,974

On June 8, 2006 the Company acquired all of the outstanding stock of Home Impressions, Inc. (Home Impressions). Home Impressions is based in Hickory, North Carolina and markets and distributes mail boxes and postal accessories. The acquisition of Home Impressions served to strengthen the Company s position in the mail box and storage systems markets, and is expected to provide marketing, manufacturing and distribution synergies with our existing operations. The results of Home Impressions (included in the Company s Building Products segment) are included in the Company s consolidated financial results from the date of acquisition. The acquisition of Home Impressions is not considered significant to the Company s consolidated results of operations.

The aggregate initial consideration was approximately $9,607,000 including direct acquisition costs, with the final purchase price subject to adjustment for operating results through May 2009. The initial purchase price has been allocated to the assets acquired and liabilities assumed based upon a preliminary valuation of respective fair market values. A final valuation is expected to be completed during the second half of 2006. The excess consideration over fair value was recorded as goodwill and aggregated approximately $9,606,000, none of which is deductible for tax purposes. The allocation of purchase consideration to the assets and liabilities assumed is as follows (in thousands):

Working capital	$ (1,241)
Property, plant and equipment	1,243
Goodwill	9,606
	$ 9,607

On June 30, 2006 the Company acquired certain assets of Steel City Hardware, LLC (Steel City). The assets the Company acquired from Steel City are used to manufacture mail boxes and postal accessories. The acquisition of the assets of Steel City served to vertically integrate Home Impression s major domestic supplier and expanded our manufacturing competency in the storage market. The results of Steel City (included in the Company s Building Products segment) are included in the Company s consolidated financial results from the date of acquisition. The acquisition of Steel City is not considered significant to the Company s consolidated results of operations.

The aggregate initial consideration was approximately $5,000,000, subject to adjustment for working capital and direct acquisition costs. The initial purchase price has been allocated to the assets acquired based upon a preliminary valuation of respective fair market values. A final valuation is expected to be completed during the second half of 2006. The excess consideration over fair value was recorded as goodwill and aggregated approximately $1,959,000, none of which is deductible for tax purposes. The allocation of purchase consideration to the assets and liabilities assumed is as follows (in thousands):

Working capital	$ 2,584
Property, plant and equipment	457
Goodwill	1,959
	$ 5,000

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The following unaudited pro forma financial information (in thousands, except for per share data) presents the combined results of operations as if the AMICO acquisition had occurred on January 1, 2005. The pro forma information includes certain adjustments, including depreciation expense, interest expense and certain other adjustments, together with related income tax effects. The pro forma amounts may not be indicative of the results that actually would have been achieved had the acquisition occurred as of January 1, 2005 and are not necessarily indicative of future results of the combined companies:

		Three Months Ended June 30, 2005 (unaudited)	Six Months Ended June 30, 2005 (unaudited)
Net sales		$ 332,788	$ 649,269
Income from continuing operations		$ 16,275	$ 29,654
Income from continuing operations per share	Basic	$ .55	$ 1.00
Income from continuing operations per share	Diluted	$ .54	$ .99

7. DISCONTINUED OPERATIONS

As part of its continuing evaluation of its businesses, the Company determined that its thermal processing and strapping businesses no longer provided a strategic fit with its long term growth and operational objectives. On June 16, 2006 and June 30, 2006, in separate transactions, the Company sold certain assets and liabilities of both its strapping and thermal processing businesses, respectively. The proceeds from the sale of the strapping assets were $15,193,000, subject to an adjustment for working capital, and resulted in a pre-tax gain of $5,351,000. The proceeds from the sale of the thermal assets were $136,318,000, subject to an adjustment for working capital, and resulted in a pre-tax loss of $2,613,000.

In January 2005, the Company determined that Milcor was not positioned to obtain a leadership position in its marketplace. We were approached by a market leader from Milcor s marketplace and on January 27, 2005, the Company sold the net assets of its Milcor subsidiary, which included Portals Plus, for approximately $42,594,000.

In accordance with the Provisions of Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the results of operations for the thermal processing business, the strapping business and Milcor for the current and prior period have been classified as discontinued operations in the condensed consolidated statements of income. Components of the net income from discontinued operations are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net sales	$ 37,913	$ 35,538	$ 75,631	$ 76,027
Expenses	32,203	32,268	65,618	68,569
Income from discontinued operations before taxes	$ 5,710	$ 3,270	$ 10,013	$ 7,485

In connection with the disposal of Milcor, we retained a liability related to a multi-employer pension plan to fund the terminated pensions of the union employees of Milcor. We accrued $59,000 for the termination based on the information that was available at the time of disposal. During the second quarter of 2006, we received notification from the administrator of the plan that we had no further liability to the plan. Accordingly, we reversed the accrual.

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8. GOODWILL AND RELATED INTANGIBLE ASSETS

Goodwill

The changes in the approximate carrying amount of goodwill by reportable segment for the six months ended June 30, 2006 is as follows (in thousands):

	Building Products Segment	Processed Metal Products Segment	Total
Balance as of January 1, 2006	332,029	28,634	360,663
Purchase price adjustments	1,800	(1,640)	160
Goodwill acquired	11,565		11,565
Goodwill disposed (Note 7)			
Foreign currency translation	179	33	212
Balance as of June 30, 2006	345,573	27,027	372,600

Intangible Assets

At June 30, 2006, intangible assets related to the Company s acquisitions are included as part of the total other assets on the Company s condensed consolidated balance sheet and are included in the total assets of the Company s Building Products segment. Intangible assets at June 30, 2006 are as follows (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Estimated Life
Trademark / Trade Name	$ 23,100	$ 225	2 to 5 years
Unpatented Technology	3,704	436	15 years
Customer Relationships	13,040	1,393	5 years
Non-Competition Agreements	3,010	1,121	5 to 10 years
Balance as of June 30, 2006	$ 42,854	$ 3,175	

Intangible assets with indefinite useful lives not subject to amortization consist of trademarks and trade names valued at $21,440,000.

Intangible asset amortization expense for the three and six month periods ended June 30, 2006 and 2005 aggregated approximately $609,000 and $1,113,000, and $218,000 and $438,000, respectively.

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Amortization expense related to intangible assets for the remainder of fiscal 2006 and the next five years thereafter is as follows (in thousands)

Year Ended December 31,	
2006	$ 1,067
2007	$ 2,145
2008	$ 2,017
2009	$ 1,938
2010	$ 1,899
2011	$ 1,799

9. SEGMENT INFORMATION

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

(i) Building Products, which primarily includes the processing of sheet steel, aluminum and other materials to produce a wide variety of building and construction products.

(ii) Processed Metal Products, which primarily includes the intermediate processing of wide, open tolerance flat-rolled sheet steel and other metals through the application of several different processes to produce high-quality, value-added coiled steel and other metal products to be further processed by customers.

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The following table illustrates certain measurements used by management to assess the performance of the segments described above (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net sales				
Building products	$ 239,056	$ 142,654	$ 453,800	$ 261,826
Processed metal products	113,365	110,196	221,258	227,566
	$ 352,421	$ 252,850	$ 675,058	$ 489,392
Income (loss) from operations				
Building products	$ 40,519	$ 22,197	$ 71,792	$ 32,701
Processed metal products	7,945	7,851	13,763	20,485
Corporate	(10,419)	(5,563)	(21,849)	(12,599)
	$ 38,315	$ 24,485	$ 63,706	$ 40,587
Depreciation and amortization				
Building products	$ 4,292	$ 2,577	$ 8,504	$ 5,002
Processed metal products	2,302	1,920	4,127	3,473
Corporate	765	490	1,544	822
	$ 7,359	$ 4,987	$ 14,175	$ 9,297
Capital expenditures (excluding acquisitions)				
Building products	$ 4,998	$ 1,983	$ 8,454	$ 4,496
Processed metal products	723	1,049	1,654	2,518
Corporate	428	472	1,344	1,059
	$ 6,149	$ 3,504	$ 11,452	$ 8,073

	June 30, 2006 (unaudited)	December 31, 2005
Total identifiable assets		
Building products	$ 794,615	$ 730,846
Processed metal products	296,433	232,294
Sub-total	1,091,048	963,140
Corporate *	74,685	241,872
	$ 1,165,733	$ 1,205,012

* includes assets associated with the discontinued operations

10. RELATED PARTY TRANSACTIONS

In connection with the acquisition of Construction Metals, the Company entered into two unsecured subordinated notes each in the amount of $8,750,000 (aggregate total of $17,500,000). These notes were payable to the two former owners of Construction Metals and were considered related party in nature due to the former owners continuing employment relationship with the Company. These notes were payable in annual principal installments of $2,917,000 per note on April 1, and were satisfied on April 1, 2006. These notes required quarterly interest payments at an interest rate of 5.0% per annum. At June 30, 2005 the current portion of these notes aggregated approximately $5,833,000. Interest expense related to these notes was approximately $72,000 and $217,000 for the six months ended June 30, 2006 and 2005, respectively.

The Company has certain operating lease agreements related to operating locations and facilities with the former owners of Construction Metals or companies controlled by these parties. These operating leases are considered to be related party in nature. Rental expense associated with these related party operating leases aggregated approximately $676,000 and $741,000 for the six months ended June 30, 2006 and 2005, respectively.

Two members of our Board of Directors are partners in law firms that provide legal services to the Company. For the six months ended June 30, 2006 and 2005, the Company incurred $1,070,000 and $651,000, respectively, for legal services from these firms. Of the amount incurred, $882,000 and $651,000, was expensed during the six months ended June 30, 2006 and 2005, respectively. $188,000 was capitalized as acquisition costs and deferred debt issuance costs during the six months ended June 30, 2006.

11. BORROWINGS UNDER REVOLVING CREDIT FACILITY

The aggregate borrowing limit under the Company s revolving credit facility is $300,000,000. At June 30, 2006, the Company had $248,952,000 of availability under the revolving credit facility.

12. NET PERIODIC BENEFIT COSTS

The following tables present the components of net periodic pension and other postretirement benefit costs charged to expense (in thousands):

	Pension Benefit			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Service cost	$ 40	$ 44	$ 80	$ 88
Interest cost	30	31	61	62
Net periodic benefit costs	$ 70	$ 75	$ 141	$ 150

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	Other Post Retirement Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Service cost	$ 26	$ 23	$ 52	$ 46
Interest cost	56	53	112	100
Amortization of unrecognized prior service cost	(6)	(5)	(12)	(10)
Loss amortization	28	27	56	54
Net periodic benefit costs	$ 104	$ 98	$ 208	$ 106

13. SUPPLEMENTAL FINANCIAL INFORMATION

The following information sets forth the consolidating summary financial statements of the issuer (Gibraltar Industries, Inc.) and guarantors, which guarantee the 8% senior subordinated notes due December 1, 2015, and the non-guarantors. The guarantors are wholly owned subsidiaries of the issuer and the guarantees are full, unconditional, joint and several.

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

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Gibraltar Industries, Inc.
Condensed Consolidating Balance Sheets
June 30, 2006
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	$	$ 37,753	$ 3,392	$	$ 41,145
Accounts receivable, net		199,294	11,543		210,837
Intercompany balances	379,902	(375,506)	(4,396)		
Inventories		226,573	6,260		232,833
Other current assets		16,444	422		16,869
Current assets of discontinued operations		180			180
Total current assets	379,902	104,741	17,221		501,864
Property, plant and equipment, net		221,791	8,546		230,337
Goodwill		364,755	7,845		372,600
Investments in partnerships		5,387			5,387
Other assets	6,436	47,594	1,344		55,374
Investment in subsidiaries	349,181	26,620		(375,801)	
Assets of discontinued operations		171			171
	735,519	771,059	34,956	(375,801)	1,165,733
Liabilities and Shareholders Equity					
Current liabilities:					
Accounts payable		104,649	5,884		110,407
Accrued expenses	2,968	79,979	1,459		84,532
Current maturities of long-term debt		3,080			3,080
Current liabilities of discontinued operations		4,971			4,971
Total current liabilities	2,968	192,679	7,343		202,990
Long-term debt	200,706	157,734			358,440
Deferred income taxes		64,396	933		65,389
Other non-current liabilities		7,069			7,069

Shareholders equity	531,845	349,181	26,620	(375,801)	531,845
	$ 735,519	$ 771,059	$ 34,956	$ (375,801)	$ 1,165,733

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Gibraltar Industries, Inc.
Condensed Consolidating Balance Sheets
December 31, 2005
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	$	$ 24,759	$ 3,770	$	$ 28,529
Accounts receivable, net		154,864	7,436		162,300
Intercompany balances	384,669	(381,419)	(3,250)		
Inventories		184,404	5,584		189,988
Other current assets	155	19,361	150		19,666
Current assets of discontinued operations		23,521			23,521
Total current assets	384,824	25,490	13,690		424,004
Property, plant and equipment, net		220,993	8,651		229,644
Goodwill		351,389	9,274		360,633
Investments in partnerships		6,151			6,151
Other assets	6,531	48,271	297		55,099
Investment in subsidiaries	305,808	24,158		(329,966)	
Assets of discontinued operations		129,451			129,451
	$ 697,163	$ 805,903	$ 31,912	$ (329,966)	$ 1,205,012
Liabilities and Shareholders Equity					
Current liabilities:					
Accounts payable	$	$ 77,995	$ 5,271	$	$ 83,266
Accrued expenses	2,538	55,344	1,407		58,289
Current maturities of long-term debt		2,331			2,331
Current maturities of related party debt		5,833			5,833
Current liabilities of discontinued operations		6,366	163		6,529
Total current liabilities	2,538	147,869	6,841		157,248
Long-term debt	200,600	252,749			453,349
Long-term related party debt					
Deferred income taxes		90,029	913		90,942

Other non-current liabilities		6,038			6,038
Liabilities of discontinued operations			3,410		3,410
Shareholders equity	494,025	305,808	24,158	(329,966)	494,025
	$ 697,163	$ 805,903	$ 31,912	$ (329,966)	$ 1,205,012

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Gibraltar Industries, Inc.
Condensed Consolidating Statements of Income
Six Months Ended June 30, 2006
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$	$ 649,252	$ 26,703	$ (897)	$ 675,058
Cost of sales		513,698	21,761	(897)	534,562
Gross profit		135,554	4,942		140,496
Selling, general and administrative expense	332	74,456	2,002		79,790
Income from operations	(332)	61,098	2,940		63,706
Other (income) expense					
Interest expense (income)	8,938	5,426	56		13,880
Equity in partnerships (income) loss and other (income)		(548)			(548)
Total other expense	8,938	4,878	56		13,332
Income before taxes	(8,730)	56,220	2,884		50,374
Provision for income taxes	(3,405)	21,141	1,144		18,880
Income from continuing operations	(5,325)	35,079	1,740		31,494
Discontinued operations					
(Loss) income discontinued operations before taxes		9,954	59		10,013
Income tax (benefit) expense		3,774	23		3,797
(Loss) income from discontinued operations		6,180	36		6,216
Equity in earnings from subsidiaries	43,035	1,776		(44,811)	

Net income	$	37,710	$	43,035	$	1,776	$	(44,811)	$	37,710

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Gibraltar Industries, Inc.
Condensed Consolidating Statements of Income
Six Months Ended June 30, 2005
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$	$ 483,385	$ 6,828	$ (821)	$ 489,392
Cost of sales		393,382	4,990	(821)	397,551
Gross profit		90,003	1,838		91,841
Selling, general and administrative expense		50,492	762		51,254
Income from operations		39,511	1,076		40,587
Other (income) expense					
Interest expense		6,058	108		6,166
Equity in partnerships (income) loss and other (income)		(351)			(351)
Total other expense		5,707	108		5,815
Income before taxes		33,804	968		34,772
Provision for income taxes		12,743	378		13,121
Income from continuing operations		21,061	590		21,651
Discontinued operations (Loss) income discontinued operations before taxes		8,009	(524)		7,485
Income tax (benefit) expense		3,123	(204)		2,919
(Loss) income from discontinued operations		4,886	(320)		4,566
Equity in earnings from subsidiaries	26,217	270		(26,487)	
Net income	$ 26,217	$ 26,217	$ 270	$ (26,487)	$ 26,217

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Gibraltar Industries, Inc.
Condensed Consolidating Statements of Cash Flows
Six Months Ended June 30, 2006
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Net cash used in continuing operations	$ (2,828)	$ (9,039)	$ (1,205)	$	$ (13,072)
Net cash provided by discontinued operations		7,220			7,220
Net cash used in operating activities	(2,828)	(1,819)	(1,205)		(5,852)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisitions, net of cash acquired			(13,206)		(13,206)
Purchases of property, plant and equipment		(11,357)	(95)		(11,452)
Net proceeds from sale of property and equipment		115			115
Net proceeds from sale of businesses		151,511			151,511
Net cash provided by (used in) investing activities from continuing operations		127,063	(95)		126,968
Net cash used in investing activities for discontinued operations		(3,189)			(3,189)
Net cash provided by (used in) investing activities		123,874	(95)		123,779
CASH FLOWS FROM FINANCING ACTIVITIES					
Long-term debt reduction		(112,960)			(112,960)
Proceeds from long-term debt			10,000		10,000
Intercompany financing	5,160	6,082	922		

Payment of deferred financing costs	(237)	(19)			(256)
Net proceeds from issuance of common stock	764				764
Payment of dividends	(2,974)				(2,974)
Tax benefit from stock options	115				115
Net cash (used in) provided by financing activities	(2,828)	(109,061)	922		(105,311)
Net increase (decrease) in cash and cash equivalents		12,994	(378)		12,616
Cash and cash equivalents at beginning of year		24,759	3,770		28,529
Cash and cash equivalents at end of year	$	$ 37,753	$ 3,392	$	$ 41,145

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Gibraltar Industries, Inc.
Condensed Consolidating Statements of Cash Flows
Six Months Ended June 30, 2005
(in thousands)

	Gibraltar Industries, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Net cash provided by (used in) continuing operations	$ 327	$ (4,373)	$ (557)	$	$ (4,603)
Net cash provided by (used in) discontinued operations		9,009	(486)		8,523
Net cash provided by (used in) operating activities	327	(4,636)	(1,043)		3,920
CASH FLOWS FROM INVESTING ACTIVITIES					
Net proceeds from sale of business		42,594			42,594
Purchases of property, plant and equipment		(8,056)	(17)		(8,073)
Net proceeds from sale of property and equipment		6	243		249
Net cash provided by investing activities from continuing operations		34,544	226		34,770
Net cash (used in) provided by investing activities for discontinued operations		(2,312)	397		(1,915)
Net cash provided by investing activities		32,232	623		32,855
CASH FLOWS FROM FINANCING ACTIVITIES					
Long-term debt reduction		(47,430)			(47,430)
Proceeds from long-term debt		10,000			10,000
Intercompany financing	1,965	1,660	(3,625)		
Payment of deferred financing costs		920			(920)
	520				520

Net proceeds from issuance of common stock					
Payment of dividends	(2,970)				(2,970)
Tax benefit from stock options	158				158
Net cash used in financing activities	(327)	(36,690)	(3,625)		(40,642)
Net increase (decrease) in cash and cash equivalents		178	(4,045)		(3,867)
Cash and cash equivalents at beginning of year		6,353	4,539		10,892
Cash and cash equivalents at end of year	$	$ 6,531	$ 494	$	$ 7,025

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

The following Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company s condensed consolidated financial statements and notes thereto included in Item 1 of this Form 10-Q.

Executive Summary

The condensed consolidated financial statements present the financial condition of the Company as of June 30, 2006 and December 31, 2005, and the condensed consolidated results of operations for the three and six months ended June 30, 2006 and 2005 and cash flows of the Company for the six months ended June 30, 2006 and 2005.

The Company is organized into two reportable segments Building Products and Processed Metal Products. The Company also held equity positions in two joint ventures as of June 30, 2006.

The Building Products segment processes primarily sheet steel, aluminum and other materials to produce a wide variety of building and construction products. This segment s products are sold to major retail home centers, such as The Home Depot, Lowe s, Menards and Wal-Mart, wholesale distributors, and metal service centers.

The Processed Metal Products segment produces a wide variety of cold-rolled strip steel products, coated sheet steel products and powdered metal products. This segment primarily serves the automotive industry s leaders, such as General Motors, Ford, DaimlerChrysler and Honda. This segment also serves the automotive supply and commercial and residential metal building industries, as well as the power and hand tool and hardware industries.

As part of its continuing evaluation of its businesses, the Company determined that its thermal processing and strapping businesses no longer provided a strategic fit with its long-term growth and operational objectives. During the second quarter of 2006 the Company sold certain net assets of its thermal processing business, which had previously been reported as a separate segment, and certain net assets of its strapping business, which had previously been reported in the processed metals segment. As discussed in note 7 to the condensed consolidated financial statements, the historical results of these businesses have been reclassified as discontinued operations.

The following table sets forth the Company s net sales by reportable segment for the three and six months ending June 30, (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net sales				
Building products	$ 239,056	$ 142,654	$ 453,800	$ 261,826
Processed metal products	113,365	110,196	221,258	227,566
Total consolidated net sales	$ 352,421	$ 252,850	$ 675,058	$ 489,392

Results of Operations

Consolidated

Net sales increased by approximately $99.6 million, or 39.4% to $352.4 million for the quarter ended June 30, 2006, from net sales of $252.9 million for the quarter ended June 30, 2005. Net sales increased by approximately $185.7 million, or 37.9% to $675.1 million for the six months ended June 30, 2006, from net sales of $489.4 million for the six months ended June 30, 2005. The increase in net sales for the quarter was primarily due to the addition of net sales of AMICO (acquired October 3, 2005) which contributed approximately $93.6 million in additional net sales and SCM Asia (acquired September 15, 2005) which contributed $1.3 million in additional net sales. The remaining increase results primarily from increased product shipping volumes combined with higher selling prices. The increase in the net sales for the six months ended June 30, 2006 was primarily due to the addition of net sales of AMICO which contributed approximately $182.8 million in additional net sales and SCM Asia which contributed $2.2 million in additional net sales. The remaining increase results primarily from increased product shipping volumes combined with higher selling prices in the building products segment, which offset a decline in net sales in the processed metal products segment, a function of competitive pressures in the strip steel market.

Gross profit as a percentage of net sales increased to 21.9 % for the quarter ended June 30, 2006, from 19.4% for the quarter ended June 30, 2005. Gross profit margins increased to 20.8% for the six months ended June 30, 2006, from 18.8% for the same period in 2005. These increases were the result of reductions in material costs, the recovery of material cost increases the Company experienced in 2005 through increased selling prices and the acquisition of AMICO, which provided slightly higher margins. The increase in gross margins for both the three and six month periods ended June 30, 2006 were partially offset by increases in transportation expenses and utility costs as a percentage of net sales, as compared to the same periods in the prior year.

Selling, general and administrative expenses increased to $39.0 million during the second quarter of 2006 from $24.6 million in the same quarter of 2005, an increase of approximately $14.3 million, or 58.0%. Selling, general and administrative expenses for the six months ended June 30, 2006 increased to $76.8 million from $51.3 million for the same period in 2005, an increase of $25.5 million or approximately 49.8%. The primary reason for the increase in the three month period is the acquisition of AMICO, which resulted in an additional $7.2 million of costs. The remainder of the increase was the result of several items including increased expenses related to compensation of approximately $2.0 million, $0.7 million in professional services, $0.6 million in advertising, $0.6 million in bad debts and $0.4 million in information system cost increases. The primary reason for the increase in the six month period is the acquisition of AMICO, which resulted in an additional $13.8 million of costs. The remainder of the increase was the result of several items including increased expenses related to compensation of approximately $3.4 million, $2.3 million in bad debts, $1.0 million in professional services and $0.6 million in information system cost increases. As a result, selling, general and administrative expenses as a percentage of net sales increased to 11.1% from 9.7% and to 11.4% from 10.5% for the three and six month periods, respectively.

As a result of the above, income from operations as a percentage of net sales for the quarter ended June 30, 2006 increased to 10.9% from 9.7% for the same period in 2005. Income from operations for the six months ended June 30, 2006 increased to 9.4% from 8.3% for the comparable period last year.

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Interest expense increased by approximately $4.1 million for the quarter ended June 30, 2006 to $7.1 million from $3.0 million for the quarter ended June 30, 2005. Interest expense increased by approximately $7.7 million for the six months ended June 30, 2006 to $13.9 million from $6.2 million for the six months ended June 30, 2005. This increase was due to primarily to the higher average borrowings in 2006 caused by the acquisition of AMICO in October 2005, and higher overall interest rates compared to the same periods in the prior year, primarily the result of higher market interest rates and the issuance of the 8% Senior Subordinated Notes in December 2005.

As a result of the above, income from continuing operations before taxes increased by $6.3 million to $19.8 million for the quarter ended June 30, 2006 and $9.8 million to $31.5 million for the six months ended June 30, 2006, compared to the same periods in 2005.

Income taxes for continuing operations for the quarter and six months ended June 30, 2006 approximated $11.3 million and $18.9 million, respectively and were based on an expected annual tax rate of 37.9% compared to 39.0% in 2005. The income tax rate during the second quarter of 2006 was impacted by a change in Texas law which resulted in a decrease in tax expense of $0.5 million. The income tax during the second quarter of 2005 was impacted due to a change in Ohio law which resulted in a decrease in tax expense of $0.4 million.

Income from discontinued operations for the quarter and six months ended June 30, 2006 reflects a net gain of $1.8 million from the disposal of the thermal processing and strapping businesses.

The following provides further information by segment:

Building Products

Net sales in the quarter ended June 30, 2006 increased to $239.1 million, or 67.8%, from net sales of $142.7 million in the second quarter of 2005. Net sales increased to $453.8 million for the six months ended June 30, 2006 from net sales of $261.8 million for the same period in 2005, an increase of $192.0 million or 73.3%. Excluding the impact of the acquisition of AMICO (acquired in October 2005), sales increased 1.9% and 3.5% for the three and six months ended June 30, 2006, respectively, when compared to the same period in 2005. The increase in net sales during both periods, excluding the effect of the acquisition of AMICO, was due to increased selling prices and volumes.

Income from operations as a percentage of net sales increased to 16.9% for the quarter ended June 30, 2006 from 15.6% a year ago. For the six months ended June 30, 2006, income from operations as a percentage of net sales increased to 15.8% from 12.5% for the same period in 2005. The increase in operating margins in the quarter were primarily due to a 3.6% decrease in material costs, partially offset by a 2.2% increase in labor costs, and a 0.4% increase in transportation costs as a percentage of sales. The increase in operating margin for the six months was primarily the result of a 3.7% reduction in material costs as a percentage of sales.

Processed Metal Products

Net sales increased by approximately $3.2 million, or 2.9%, to $113.4 million for the quarter ended June 30, 2006, from net sales of $110.2 million for the quarter ended June 30, 2005. Net sales decreased by approximately $6.3 million, or 2.8%, to $221.3 million for the six months ended June 30, 2006 from net sales of $227.6 million for the same period in 2005. The increases in net sales for the quarter was driven by increased net sales in our powdered metal products business, a result of increased selling prices due to the increase in the market price of copper, as well as increased volumes. The decrease in net sales for the six months was primarily a function of decreases in selling prices and volume reductions in our strip steel business, primarily due to competitive pressures. The decrease in net sales was partially offset by increased net sales in our powdered metal products business, a result of increased selling prices due to the increase in the market price of copper, as well as increased volumes.

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Income from operations as a percentage of net sales remained relatively consistent at 7.0% of net sales for the quarter ended June 30, 2006 compared to 7.1% in the second quarter a year ago. For the six months ended June 30, 2006, income from operations as a percentage of net sales decreased to 6.2% from 9.0% for the comparable 2005 period. The decrease in operating margin in the quarter was due primarily to small increases in transportation, utilities and labor cost, partially offset by a decrease in material costs as a percentage of sales. The decrease in operating margin for the six months was due primarily to a 1.3% increase in material costs along with small increases in transportation and labor costs as a percentage of sales.

Outlook

The outlook for the quarter ended September 30, 2006 is favorable in comparison to the quarter ended September 30, 2005. The third quarter is historically one of the seasonally strongest periods of the Company s fiscal cycle. The Company believes it is positioned to benefit from many of its internal growth initiatives and cost reduction programs, as well as the many operational improvements recently put in place.

In 2006, the Company will realize a full year s worth of sales and earnings from the 2005 acquisitions of AMICO, SCM Asia, Gutter Helmet and American Wilcon, along with sales and earnings from the 2006 acquisitions of Home Impressions and Steel City.

Liquidity and Capital Resources

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

The Company s shareholders equity increased by approximately $37.8 million or 7.7%, to $531.8 million, at June 30, 2006. This increase in shareholder s equity was primarily due to net income of $37.7 million, equity compensation of $1.5 million, an increase in the market value of our interest rate swaps of $1.5 million, the receipt of $0.8 million from the exercise of stock options, partially offset by the declaration of approximately $3.0 million in shareholder dividends, and a $0.8 million reduction in the foreign currency translation adjustment.

During the first six months of 2006, the Company s working capital (inclusive of the impact of working capital acquired with Home Impressions and Steel City) increased by approximately $32.1 million, or 12.0%, to approximately $298.9 million. This increase in working capital was primarily the result of increases in cash, accounts receivable and inventories of $12.6 million, $48.5 million and $42.4 million, respectively. These increases in current assets were offset by increases in accounts payable and accrued expenses which aggregated $52.4 million.

Net cash used by continuing operating activities for the six months ended June 30, 2006 was approximately $13.1 million and was primarily the result of income from continuing operations of $31.5 million combined with depreciation and amortization of $14.2 million, increases in accounts receivable, inventories, and accounts payable of $49.3 million, $37.8 million and $23.7, respectively. The working capital increases are necessary to prepare for the traditionally strong selling season of the Company.

During June 2006, the Company sold the assets of its thermal processing and strapping businesses for approximately $151.5 million. The cash generated from these dispositions was used to purchase the outstanding stock of Home Impressions, Inc. and acquire certain assets from Steel City Hardware, LLC for approximately $13.2 million, fund capital expenditures of $11.5 million, repay approximately $103.0 million of our long-term debt, and pay dividends of $3.0 million.

Senior credit facility and senior subordinated notes

The Company s credit agreement provides a revolving credit facility, which expires in December 2010, and a term loan, which is due in December 2012. The revolving credit facility of up to $300.0 million and the term loan of $230.0 million are secured with the Company s accounts receivable, inventories and personal property and equipment. At June 30, 2006, the Company had used approximately $35.0 million of the revolving credit facility and had letters of credit outstanding of $16.0 million, resulting in $250.0 million in availability. Borrowings under the revolving credit facility carry interest at LIBOR plus a fixed rate. The weighted average interest rate of these borrowings was 6.17% at June 30, 2006. At June 30, 2006, the term loan balance was $125.0 million. Borrowings under the term loan carry interest at LIBOR plus a fixed rate. The rate in effect on June 30, 2006 was 6.78%.

The Company s $204.0 million of 8% senior subordinated notes were issued in December 2005 at a discount to yield 8.25%. Provisions of the 8% notes include, without limitation, restrictions on indebtedness liens, distributions from restricted subsidiaries, asset sales, affiliate transactions, dividends and other restricted payments. Prior to December 1, 2008, up to 35% of the 8% notes are redeemable at the option of the Company from the proceeds of an equity offering at a premium of 108% of the face value, plus accrued and unpaid interest. After December 1, 2010 the notes are redeemable at the option of the Company, in whole or in part, at the redemption price (as defined in the notes agreement), which declines annually from 104% to 100% on and after December 1, 2013. In the event of a Change of Control (as defined in the indenture for such notes), each holder of the 8% Notes may require the Company to repurchase all or a portion of such holder s 8% Notes at a purchase price equal to 101% of the principal amount thereof. The 8% Notes are guaranteed by certain existing and future domestic subsidiaries and are not subject to any sinking fund requirements.

The Company s various loan agreements, which do not require compensating balances, contain provisions that limit additional borrowings and require maintenance of minimum net worth and financial ratios. At June 30, 2006 the Company was in compliance with terms and provisions of all of its financing agreements.

For the third quarter and remainder of 2006, the Company continues to focus on maximizing positive cash flow, working capital management and debt reduction. As of June 30, 2006, the Company believes that availability of funds under its existing credit facility together with the cash generated from operations will be sufficient to provide the Company with the liquidity and capital resources necessary to support its principal capital requirements, including operating activities, capital expenditures, and dividends.

The Company regularly considers various strategic business opportunities including acquisitions. The Company evaluates such potential acquisitions on the basis of their ability to enhance the Company s existing products, operations, or capabilities, as well as provide access to new products, markets and customers. Although no assurances can be given that any acquisition will be consummated, the Company may finance such acquisitions through a number of sources including internally available cash resources, new debt financing, the issuance of equity securities or any combination of the above.

Critical Accounting Policies

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make decisions based upon estimates, assumptions, and factors it considers relevant to the circumstances. Such decisions include the selection of applicable principles and the use of judgment in their application, the results of which could differ from those anticipated.

A summary of the Company s significant accounting policies are described in Note 1 of the Company s consolidated financial statements included in the Company s Annual Report to Shareholders for the year ended December 31, 2005, as filed on Form 10-K.

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The Company tests its indefinite-lived intangible assets for impairment on an annual basis during the fourth quarter, or more frequently if an event occurs or circumstances change that indicate that the fair value of an indefinite-lived intangible asset could be below its carrying amount. The impairment test consists of comparing the fair value of the indefinite-lived intangible asset, determined using discounted cash flows, with its carrying amount. An impairment loss would be recognized for the carrying amount in excess of its implied fair value.

There have been no other changes in critical accounting policies in the current year from those described in our 2005 Form 10-K.

Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48) *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes*, in July 2006. FIN 48 creates a single model to address uncertainty in tax positions by proscribing a minimum recognition threshold that a tax position is required to meet, and scopes income taxes out of FASB Statement No. 5, *Accounting for Contingencies*. FIN 48 is effective for the Company in the first quarter of 2007. The Company has not determined what impact, if any, that this Interpretation will have on its consolidated financial position or results of operations.

Related Party Transactions

In connection with the acquisition of Construction Metals, the Company entered into two unsecured subordinated notes each in the amount of $8,750,000 (aggregate total of $17,500,000). These notes were payable to the two former owners of Construction Metals and were considered related party in nature due to the former owners employment relationship with the Company. These notes were payable in annual principal installments of $2,917,000 per note on April 1, and were satisfied on April 1, 2006. These notes required quarterly interest payments at an interest rate of 5.0% per annum. At June 30, 2005 the current portion of these notes aggregated approximately $5,833,000. Interest expense related to these notes was approximately $72,000 and $217,000 for the six months ended June 30, 2006 and 2005, respectively.

The Company has certain operating lease agreements related to operating locations and facilities with the former owners of Construction Metals or companies controlled by these parties. These operating leases are considered to be related party in nature. Rental expense associated with these related party operating leases aggregated approximately $676,000 and $741,000 for the six months ended June 30, 2006 and 2005, respectively.

Two members of our Board of Directors are partners in law firms that provide legal services to the Company. For the six months ended June 30, 2006 and 2005, the Company incurred $1,070,000 and $651,000, respectively, for legal services from these firms. Of the amount incurred, $882,000 and $651,000, was expensed during the six months ended June 30, 2006 and 2005, respectively. $188,000 was capitalized as acquisition costs and deferred debt issuance costs during the six months ended June 30, 2006.

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Forward-Looking Information   Safe Harbor Statement

Certain information set forth herein contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about the Company s business, and management s beliefs about future operating results and financial position. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions. Statements by the Company, other than historical information, constitute forward looking statements as defined within the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on forward-looking statements. Such statements are based on current expectations, are inherently uncertain, are subject to risks and should be viewed with caution. Actual results and experience may differ materially from the forward-looking statements. Factors that could affect these statements include, but are not limited to, the following: the impact of changing steel prices on the Company s results of operations; changes in raw material pricing and availability; changing demand for the Company s products and services; and changes in interest or tax rates. In addition, such forward-looking statements could also be affected by general industry and market conditions, as well as general economic and political conditions.

The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable law or regulation.

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 and raw materials pricing and availability. In addition, the Company is exposed to market risk and interest rate risk, primarily related to its long-term debt. To manage interest rate risk, the Company uses both fixed and variable interest rate debt. There have been no material changes to the Company s exposure to market risk or interest rate risk since December 31, 2005.

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) designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures contained in this report. The Company s Chief Executive Officer and Chairman of the Board, President, and Executive Vice President, Chief Financial Officer, and Treasurer evaluated the effectiveness of the Company s disclosure controls as of the end of the period covered in this report. Based upon that evaluation, the Company s Chief Executive Officer and Chairman of the Board, President, Executive Vice President, Chief Financial Officer, and Treasurer, have concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in Internal Controls

The Company converted its existing legacy manufacturing and accounting systems to an integrated ERP system at two of its subsidiaries during the quarter ended June 30, 2006. The completion of this system implementation at these subsidiaries should enhance our internal controls as follows:

a. The Syteline ERP system will reduce the number of platforms used to record, summarize and report results of operations and financial position; integrate various databases into consolidated files; and reduce the number of manual processes employed by the Company;

b. The Company has designed new processes and implemented new policies and procedures in connection with the conversion.

The Company imposed mitigating and redundant controls where changes to certain processes were underway and not completed.

There have been no other changes in the Company s internal control over financial reporting (as defined by Rule 13a-15(f)) that occurred during the period covered by the report that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable.

Item 1A. Risk Factors

There is no change to the risk factors disclosed in our 2005 annual report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

6(a) Exhibits

a. Exhibit 31.1 Certification of Chief Executive Officer and Chairman of the Board pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

b. Exhibit 31.2 Certification of President pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

c. Exhibit 31.3 Certification of Executive Vice President, Chief Financial Officer and Treasurer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

d. Exhibit 32.1 Certification of the Chief Executive Officer and Chairman of the Board pursuant to Title 18, United States Code, Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

e. Exhibit 32.2 Certification of the President pursuant to Title 18, United States Code, Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

f. Exhibit 32.3 Certification of the Executive Vice President, Chief Financial Officer, and Treasurer pursuant to Title 18, United States Code, Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

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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/ Brian J. Lipke

Brian J. Lipke
Chief Executive Officer and
Chairman of the Board

/s/ Henning Kornbrekke

Henning Kornbrekke
President

/s/ David W. Kay

David W. Kay
Executive Vice President, Chief Financial Officer,
and Treasurer

Date: August 9, 2006