GIBRALTAR INDUSTRIES, INC.
Form 10-Q
November 03, 2017

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

FORM 10-Q

(Mark one)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 0-22462

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

Delaware	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)	(Zip Code)

Registrant’s telephone number, including area code: (716) 826-6500
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting

company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

As of November 1, 2017, the number of common shares outstanding was: 31,688,154.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net Sales	$274,574	$272,734	$728,806	$776,143
Cost of sales	205,839	204,847	548,991	585,263
Gross profit	68,735	67,887	179,815	190,880
Selling, general, and administrative expense	33,042	41,365	109,513	118,021
Income from operations	35,693	26,522	70,302	72,859
Interest expense	3,486	3,625	10,612	10,982
Other expense	404	159	811	8,319
Income before taxes	31,803	22,738	58,879	53,558
Provision for income taxes	11,184	8,952	21,090	12,131
Income from continuing operations	20,619	13,786	37,789	41,427
Discontinued operations:				
Loss before taxes	—	—	(644)	—
Benefit of income taxes	—	—	(239)	—
Loss from discontinued operations	—	—	(405)	—
Net income	$20,619	$13,786	$37,384	$41,427
Net earnings per share – Basic:				
Income from continuing operations	$0.65	$0.44	$1.19	$1.32
Loss from discontinued operations	—	—	(0.01)	—
Net income	$0.65	$0.44	$1.18	$1.32
Weighted average shares outstanding – Basic	31,703	31,579	31,700	31,493
Net earnings per share – Diluted:				
Income from continuing operations	$0.64	$0.43	$1.17	$1.29
Loss from discontinued operations	—	—	(0.01)	—
Net income	$0.64	$0.43	$1.16	$1.29
Weighted average shares outstanding – Diluted	32,210	32,176	32,216	32,005

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

	September 30, 2017 (unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 208,032	$ 170,177
Accounts receivable, net	166,718	124,072
Inventories	85,156	89,612
Other current assets	8,195	7,336
Total current assets	468,101	391,197
Property, plant, and equipment, net	94,488	108,304
Goodwill	321,093	304,032
Acquired intangibles	107,943	110,790
Other assets	4,672	3,922
	$ 996,297	$ 918,245
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 96,181	$ 69,944
Accrued expenses	83,264	70,392
Billings in excess of cost	18,234	11,352
Current maturities of long-term debt	400	400
Total current liabilities	198,079	152,088
Long-term debt	209,425	209,237
Deferred income taxes	38,162	38,002
Other non-current liabilities	45,200	58,038
Shareholders' equity:		
Preferred stock, $0.01 par value; authorized 10,000 shares; none outstanding	—	—
Common stock, $0.01 par value; authorized 50,000 shares; 32,275 shares and 32,085 shares issued and outstanding in 2017 and 2016	322	320
Additional paid-in capital	269,880	264,418
Retained earnings	249,386	211,748
Accumulated other comprehensive loss	(4,290)	(7,721)
Cost of 588 and 530 common shares held in treasury in 2017 and 2016	(9,867)	(7,885)
Total shareholders' equity	505,431	460,880
	$ 996,297	$ 918,245

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2017	2016
Cash Flows from Operating Activities		
Net income	$ 37,384	$ 41,427
Loss from discontinued operations	(405)	—
Income from continuing operations	37,789	41,427
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,427	17,551
Stock compensation expense	5,069	4,666
Net gain on sale of assets	(139)	(225)
Loss on sale of business	—	8,763
Exit activity (recoveries) costs, non-cash	(1,931)	3,876
(Benefit of) provision for deferred income taxes	(136)	355
Other, net	1,411	735
Changes in operating assets and liabilities, excluding the effects of acquisitions:		
Accounts receivable	(42,310)	3,796
Inventories	2,016	9,738
Other current assets and other assets	(2,002)	(1,901)
Accounts payable	25,134	2,367
Accrued expenses and other non-current liabilities	7,503	11,038
Net cash provided by operating activities	48,831	102,186

Cash Flows from Investing Activities		
Cash paid for acquisitions, net of cash acquired	(18,494)	(2,314)
Net proceeds from sale of property and equipment	12,935	249
Purchases of property, plant, and equipment	(5,152)	(7,600)
Net proceeds from sale of business	—	8,250
Other, net	—	1,118
Net cash used in investing activities	(10,711)	(297)
Cash Flows from Financing Activities		
Long-term debt payments	(400)	(400)
Payment of debt issuance costs	—	(54)
Purchase of treasury stock at market prices	(1,982)	(1,178)
Net proceeds from issuance of common stock	649	2,892
Net cash (used in) provided by financing activities	(1,733)	1,260
Effect of exchange rate changes on cash	1,468	1,055
Net increase in cash and cash equivalents	37,855	104,204
Cash and cash equivalents at beginning of year	170,177	68,858
Cash and cash equivalents at end of period	$ 208,032	$ 173,062

See accompanying notes to consolidated financial statements.

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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	—	—	—	37,384	—	—	—	37,384
Foreign currency translation adjustment	—	—	—	—	3,351	—	—	3,351
Adjustment to retirement benefit liability, net of taxes of ($5)	—	—	—	—	(8)	—	—	(8)
Adjustment to post employment health care benefit liability, net of taxes of $54	—	—	—	—	88	—	—	88
Stock compensation expense	—	—	5,069	—	—	—	—	5,069
Cumulative effect of accounting change (see Note 2)	—	—	(254)	254	—	—	—	—
Stock options exercised	40	—	649	—	—	—	—	649
Issuance of restricted stock	2	—	—	—	—	—	—	—
Net settlement of restricted stock units	148	2	(2)	—	—	58	(1,982)	(1,982)
Balance at September 30, 2017	32,275	$ 322	$ 269,880	$ 249,386	$ (4,290)	588	$ (9,867)	$ 505,431

See accompanying notes to consolidated financial statements.

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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 results of operations for the three and nine month periods ended September 30, 2017 are not necessarily indicative of the results expected for the full year. The Company is subject to reduced activity in the first and fourth quarters as colder, inclement weather reduces order rates from end markets it serves. The accompanying unaudited consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our annual Form 10-K for the year ended December 31, 2016.

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

2. RECENT ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncements Adopted

Standard	Description	Financial Statement Effect or Other Significant Matters
ASU No. 2016-09 Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting	The standard simplifies the accounting for share-based payment award transactions including: income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The provisions of this standard are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted.	The Company has adopted all amendments included in this standard under each required transition method. The Company concluded there were no material changes to prior periods, except for the following: the Company (a) reclassified its prior interim period excess tax benefit for stock compensation of $941,000 on its consolidated statement of cash flows from a financing activity to an operating activity; and (b) recognized a cumulative-effect adjustment of $254,000 as an increase to retained earnings and decrease to additional paid-in capital on the Company's consolidated statement of shareholders' equity as of January 1, 2017 to reflect the change in value for a restricted stock unit liability award as of December 31, 2016, as if the award had been classified as an equity award since its respective grant date. Date of adoption: Q1 2017

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Standard	Description	Financial Statement Effect or Other Significant Matters
ASU No. 2017-04 Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	The standard eliminates the "Step 2" analysis to determine the amount of impairment realized when a reporting unit's carrying amount exceeds its fair value in its "Step 1" analysis of accounting for impairment of goodwill. The impairment charge would be the amount determined in "Step 1." The provisions of this standard are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017.	The Company has adopted this standard and it did not have any impact on the Company's consolidated financial statements. Date of Adoption: Q1 2017
ASU No. 2017-07 Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	The standard requires an employer to recognize the service cost component of net periodic pension costs and net periodic postretirement benefit costs in the same line item(s) as other compensation costs from services rendered by pertinent employees during the period. Other components of net benefit cost are required to be presented separately from the service cost component and outside a subtotal of income from operations. The provisions of this standard are effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance.	The Company has adopted this standard and has applied it retrospectively for the presentation of the service cost component, as well as, other components of net periodic pension cost and net periodic postretirement benefit cost in our statement of operations. The adoption decreased selling, general, and administrative expense by $159,000 for the three months ended September 30, 2016 and $479,000 for the nine months ended September 30, 2016, and comparably increased other expense by the same amounts, respectively. This guidance did not have any impact on our balance sheet or our statement of cash flows. Date of Adoption: Q1 2017

Recent Accounting Pronouncements Not Yet Adopted

Standard	Description	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	The Company currently believes the most significant impact of this standard upon adoption relates to the revenue recognition for custom fabricated products within the Company's Industrial and Infrastructure Products segment. Under this standard, the Company expects to recognize revenue on an over time basis on custom fabricated products in the Industrial and Infrastructure Products segment which is a change from our current revenue recognition policy of point-in-time basis. The Company expects revenue recognition related to the remaining Industrial and Infrastructure Products segment, Residential Products segment and Renewable Energy and Conservation segment to remain substantially unchanged upon adoption of this standard. The Company has identified and is in the process of implementing appropriate changes to the

beginning after December 15, 2017 and interim periods within those fiscal years. The standard can be adopted using either a full retrospective or modified retrospective approach.	Company's business processes, systems and internal controls to support recognition and disclosure under this standard. The Company currently anticipates adopting the modified retrospective transition method approach. The Company has not yet completed the process of quantifying the effects of any changes that will result from adoption. Planned date of adoption: Q1 2018

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Standard	Description	Financial Statement Effect or Other Significant Matters
ASU No. 2016-02 Leases (Topic 842)	The standard requires lessees to recognize most leases as assets and liabilities on the balance sheet, but record expenses on the statement of operations in a manner similar to current accounting. For lessors, the guidance modifies the classification criteria and accounting for sales-type and direct financing leases. The standard also requires additional disclosures about leasing arrangements and requires a modified retrospective transition approach for existing leases, whereby the standard will be applied to the earliest year presented. The provisions of the standard are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted.	The Company is currently evaluating the impact of this standard on the Company's consolidated financial statements and related disclosures, including the impact on the Company's current lease portfolio from both a lessor and lessee perspective. The adoption of this standard will primarily result in an increase in the assets and liabilities on the Company's consolidated balance sheet and related disclosures. Planned date of adoption: Q1 2019
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.	The Company is currently evaluating the requirements of this standard and has not yet determined its impact on the Company's consolidated financial statements. Planned date of adoption: Q1 2018
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.	The Company is currently evaluating the requirements of this standard and has not yet determined its impact on the Company's consolidated financial statements. Planned date of adoption: Q1 2018

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable consists of the following (in thousands):

	September 30, 2017	December 31, 2016
Trade accounts receivable	$ 104,031	$ 81,193
Contract receivables:		
Amounts billed	49,866	41,569

Costs in excess of billings	18,374	6,582
Total contract receivables	68,240	48,151
Total accounts receivable	172,271	129,344
Less allowance for doubtful accounts	(5,553)	(5,272)
Accounts receivable	$ 166,718	$ 124,072

Contract receivables are primarily associated with developers, contractors and customers in connection with the Renewable Energy and Conservation segment. Costs in excess of billings principally represent revenues recognized on contracts that were not billable as of the balance sheet date. These amounts will be billed in accordance with contract terms, generally as certain milestones are reached or upon shipment. All of the costs in excess of billings are expected to be collected within one year. In situations where billings exceed revenues recognized, the excess is included in billings in excess of cost in the Consolidated Balance Sheet.

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4. INVENTORIES

Inventories consist of the following (in thousands):

	September 30, 2017	December 31, 2016
Raw material	$ 41,569	$ 41,758
Work-in-process	12,123	12,268
Finished goods	31,464	35,586
Total inventories	$ 85,156	$ 89,612

5. ACQUISITIONS

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

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

The purchase price for the acquisition was allocated to the assets acquired and liabilities assumed based upon their respective fair values. The excess consideration was recorded as goodwill and approximated $16,863,000, which is not deductible for tax purposes. Goodwill represents future economic benefits arising from other assets acquired that could not be individually identified including workforce additions, growth opportunities, and increased presence in the building products markets.

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

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

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

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

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

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

The purchase price for the acquisition was allocated to the assets acquired and liabilities assumed based upon their respective fair values. The excess consideration was recorded as goodwill and approximated $11,451,000, of which all is deductible for tax purposes.

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

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

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

	Fair Value	Estimated Useful Life
Trademarks	$ 3,200	Indefinite
Technology	1,300	15 years
Customer relationships	800	11 years
Backlog	900	0.25 years
Total	$ 6,200	

The acquisitions of Package Concierge and Nexus were funded from available cash on hand. The Company incurred certain acquisition-related costs composed of legal and consulting fees, and these costs were recognized as a component of selling, general and administrative expenses in the consolidated statements of operations.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Acquisition-related costs	$ 31	$ —	$ 146	$ 31

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6. GOODWILL AND RELATED INTANGIBLE ASSETS

Goodwill

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

	Residential Products	Industrial and Infrastructure Products	Renewable Energy & Conservation	Total
Balance at December 31, 2016	$ 181,285	$ 53,884	$ 68,863	$ 304,032
Acquired goodwill	16,863	—	—	16,863
Adjustments to prior year acquisitions	—	—	(832)	(832)
Foreign currency translation	—	432	598	1,030
Balance at September 30, 2017	$ 198,148	$ 54,316	$ 68,629	$ 321,093

Goodwill is recognized net of accumulated impairment losses of $235,419,000 as of September 30, 2017 and December 31, 2016.

Acquired Intangible Assets

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

	September 30, 2017		December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Estimated Life
Indefinite-lived intangible assets:					
Trademarks	$45,153	$ —	$44,720	$ —	Indefinite
Finite-lived intangible assets:					
Trademarks	5,882	2,921	5,808	2,427	5 to 15 Years
Unpatented technology	28,020	11,523	26,720	10,041	5 to 20 Years
Customer relationships	80,719	38,182	78,569	33,585	5 to 17 Years
Non-compete agreements	1,649	854	1,649	623	4 to 10 Years
Backlog	—	—	900	900	0.25 Years
	116,270	53,480	113,646	47,576	
Total acquired intangible assets	$161,423	$ 53,480	$158,366	$ 47,576	

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Amortization expense	$2,208	$2,159	$6,600	$6,541

Amortization expense related to acquired intangible assets for the remainder of fiscal 2017 and the next five years thereafter is estimated as follows (in thousands):

2017	$2,157
2018	$8,288
2019	$7,617
2020	$7,105
2021	$6,503
2022	$6,092

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7. LONG-TERM DEBT

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

	September 30, 2017	December 31, 2016
Senior Subordinated 6.25% Notes	$ 210,000	$210,000
Other debt	2,400	2,800
Less unamortized debt issuance costs	(2,575)	(3,163)
Total debt	209,825	209,637
Less current maturities	400	400
Total long-term debt	$ 209,425	$209,237

The Company's Fifth Amended and Restated Credit Agreement dated December 9, 2015 (the "Senior Credit Agreement") was amended to convert our secured asset based credit facility into a secured cash flow revolver, and terminates on December 9, 2020.

The Senior Credit Agreement provides for a revolving credit facility and letters of credit in an aggregate amount of $300 million. The Company has the option to request additional financing from the banks to either increase the revolving credit facility to $500 million or to provide a term loan of up to $200 million. The Senior Credit Agreement contains financial covenants. As of September 30, 2017, the Company is in compliance with all covenants.

Borrowings under the Senior Credit Agreement are secured by the trade receivables, inventory, personal property, equipment, and certain real property of the Company’s significant domestic subsidiaries. Interest rates on the revolving credit facility are based on the LIBOR plus an additional margin that ranges from 1.25% to 2.25% for LIBOR loans based on the Total Leverage Ratio.

In addition, the revolving credit facility is subject to an undrawn commitment fee ranging between 0.20% and 0.30% based on the Total Leverage Ratio and the daily average undrawn balance.

Standby letters of credit of $11,216,000 have been issued under the Senior Credit Agreement on behalf of the Company as of September 30, 2017. These letters of credit reduce the amount otherwise available under the revolving credit facility. As of September 30, 2017, the Company had $288,784,000 of availability under the revolving credit facility. No borrowings were outstanding under the revolving credit facility at September 30, 2017 and December 31, 2016.

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

8. RELATED PARTY TRANSACTIONS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of sales	$262	$227	$787	$679

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9. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

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

	Foreign Currency Translation Adjustment	Minimum Pension Liability Adjustment	Unamortized Post Retirement Health Care Costs	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	—	(13)	142	129	49	80
Foreign currency translation adjustment	3,351	—	—	3,351	—	3,351
Balance at September 30, 2017	$ (2,497)	$ 184	$ (3,008)	$ (5,321)	$ (1,031)	$ (4,290)

The realized adjustments relating to the Company’s minimum pension liability and post retirement health care costs were reclassified from accumulated other comprehensive loss and included in other expense in the consolidated statements of operations.

10. EQUITY-BASED COMPENSATION

On May 6, 2016, the shareholders of the Company authorized the Gibraltar Industries, Inc. 2016 Stock Plan for Non-Employee Directors ("Non-Employee Directors Plan"). The Non-Employee Directors Plan is a compensation plan that allows the Company to grant awards of shares of the Company's common stock to non-employee Directors of the Company. In connection with the Non-Employee Directors Plan, the Company adopted a new stock deferral plan, the Gibraltar Industries, Inc. Non-Employee Director Stock Deferral Plan ("Deferral Plan"). The Deferral Plan permits non-employee Directors of the Company to defer receipt of shares of common stock which the non-employee Director is entitled to receive pursuant to the terms of the Non-Employee Directors Plan.

On May 7, 2015, the shareholders of the Company authorized the Gibraltar Industries, Inc. 2015 Equity Incentive Plan (the "Plan") and simultaneously amended the 2005 Equity Incentive Plan (the "Prior Plan") to terminate issuance of further awards from the Prior Plan. The Plan is an incentive compensation plan that allows the Company to grant equity-based incentive compensation awards to eligible participants. Awards under the Plan may be in the form of options, restricted shares, restricted units, performance shares, performance stock units, and rights.

Equity Based Awards - Settled in Stock

The following table provides the number of stock unit awards granted during the nine months ended September 30, which will convert to shares upon vesting, along with the weighted average grant date fair values:

	2017		2016	
Awards	Number of Awards	Weighted Average Grant Date Fair Value	Number of Awards	Weighted Average Grant Date Fair Value
Performance stock units	108,748	$ 42.72	—	$ —
Restricted stock units	120,048	$ 37.14	139,982	$ 25.15
Options	25,000	$ 42.35	—	$ —
Deferred stock units	10,170	$ 34.42	11,945	$ 29.30
Restricted shares	2,034	$ 34.42	3,185	$ 29.30

Included in the performance stock units disclosed above are 78,482 units awarded in February 2017 and 5,266 units award in April 2017 for which the final number of units that will convert to shares will be determined based on the Company’s actual return on invested capital (ROIC) relative to the ROIC targeted for the performance period ended December 31, 2017. Additionally, included in the performance stock units disclosed above, there were 20,000 units awarded in February 2017 and 5,000 units award in April 2017. For these awards, the final number of shares to be issued to the recipient will be determined based upon the ranking of the Company’s total shareholder return over a three (3) year performance period ended February 1, 2020 compared to the total shareholder return of companies in the S&P Small Cap Industrial Sector over such period.

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Performance Stock Units - Settled in Cash

The Company awarded performance stock units ("PSUs") that will convert to cash after three years based upon a one year performance period in 2016 and 2015. The cost of these awards is recognized over the requisite vesting period. The PSUs earned over the performance period are determined based on the Company's actual return on invested capital (ROIC) relative to the ROIC targeted for the performance period.

During the 2016 performance period, the participants earned an aggregate of 256,000 PSUs, representing 200% of the targeted
2016 award of 128,000. This award will convert to cash payable in January 2019.

During the 2015 performance period, the participants earned an aggregate of 438,000 PSUs, representing 200% of the targeted 2015 award of 219,000. This award will convert to cash payable in January 2018.

The following table summarizes the compensation expense recognized for the PSUs, which will convert to cash, for the three and nine months ended September 30, (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
PSUs compensation (recovery) expense	$(405)	$4,148	$1,673	$7,889

Management Stock Purchase Plan

The Management Stock Purchase Plan ("MSPP") provides participants the ability to defer a portion of their compensation, which deferral is converted to restricted stock units, and credited to an account. Under the MSPP, the Company provides a matching award in restricted stock units equal to a percentage of the employees' compensation. Matching awards are not provided to directors. The account represents a share-based liability converted to and settled in cash which is payable to participants upon retirement or a termination of their service to the Company.

The following table provides the number of restricted stock units credited to active participant accounts and the payments made with respect to restricted stock units issued under the MSPP during the nine months ended September 30,

	2017	2016
Restricted stock units credited	90,754	192,380
Share-based liabilities paid (in $1000s)	$2,392	$2,753

11. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, various techniques and assumptions can be used to estimate fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs other than quoted prices in active markets for similar assets and liabilities.
- Level 3 - Inputs that are unobservable inputs for the asset or liability.

The Company had no financial assets or liabilities measured at fair value on a recurring basis at September 30, 2017 and December 31, 2016. The Company's only financial instrument for which the carrying value differs from its fair value is long-term debt. At September 30, 2017 and December 31, 2016, the fair value of outstanding debt net of unamortized debt issuance costs was $218,700,000 and $219,898,000, respectively, compared to its carrying value of $209,825,000 and $209,637,000, respectively. The fair value of the Company's 6.25% Notes is classified as Level 2 within the fair value hierarchy and was estimated based on quoted market prices adjusted for unamortized debt issuance costs.

12. DISCONTINUED OPERATIONS

For certain divestiture transactions completed in prior years, the Company has agreed to indemnify the buyer for various liabilities that may arise after the disposal date, subject to limits of time and amount. The Company is a party to certain claims made under these indemnification provisions. As of September 30, 2017, the Company has a contingent liability recorded for such provisions related to discontinued operations. Management does not believe that the outcome of this claim, or other claims, would significantly affect the Company's financial condition or results of operation.

13. EXIT ACTIVITY COSTS AND ASSET IMPAIRMENTS

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The Company is in the third year of its five year planned transformation strategy formulated to transform its operations and improve its financial results over this five year period. This strategy includes an 80/20 simplification initiative which, in part, focuses the Company’s internal resources on further increasing the value provided to our customers. A result of this initiative was the identification of low-volume, low margin, internally-produced products which have been or will be outsourced or discontinued. Portfolio management, another key part of the strategy and a natural adjunct to the 80/20 initiative, is another initiative in which management conducts strategic reviews of our current portfolio for future profitable growth and greater shareholder returns. This initiative has resulted in the sale and exiting of less profitable businesses or products lines in order to enable the Company to re-allocate leadership, time, capital and resources to the highest potential platforms and businesses. Exit activity costs and asset impairment charges were incurred as a result of these initiatives.

Exit activity costs were incurred during the nine months ended September 30, 2017 which related to contract termination costs, severance costs, and other moving and closing costs. These costs were the result of the closing and consolidation of facilities, relocation of inventory and equipment at those facilities and the reduction of workforce associated with the discontinued products and closed facilities. During the nine months ended September 30, 2017, asset impairment charges incurred were more than offset by a gain on sale of assets previously impaired in 2016 as a result of businesses and product lines discontinued. Specifically, the exit of both the Company's small European residential solar racking business and the exit of the Company's U.S. bar grating product line, which commenced during the fourth quarter of 2016, transacted sales of assets during the nine months ended September 30, 2017 which resulted in a net gain. These exits were completed in the first half of 2017. During the nine months ended September 30, 2017, asset impairment charges were incurred related to the write-down of inventory, impairment of machinery and equipment and intangible assets associated with either discontinued product lines or the reduction of manufactured goods offered within a product line. These assets were written down to their sale or scrap value, and were subsequently sold or disposed of. During the nine months ended September 30, 2017, the Company closed three facilities as a result of this strategy.

During the nine months ended September 30, 2016, the Company incurred asset impairment charges and exit activity costs resulting from the above strategy as well. As a result of these initiatives, the Company sold its European industrial manufacturing business to a third party in April 2016, as well as closed four other facilities during the first nine months of 2016.

The following tables set forth the asset impairment charges and exit activity costs incurred by segment during the three and nine months ended September 30, related to the restructuring activities described above (in thousands):

	Three Months Ended September 30,					
	2017			2016		
	Inventory write-downs &/or asset impairment recoveries, net	Exit activity costs	Total	Inventory write-downs &/or asset impairment charges	Exit activity costs	Total
Residential Products	$442	$ 566	$1,008	$373	$ 207	$580
Industrial & Infrastructure Products	98	(12)	86	2,429	756	3,185
Renewable Energy & Conservation	266	191	457	—	—	—
Corporate	—	16	16	—	—	—
Total exit activity costs & asset impairments	$806	$ 761	$1,567	$2,802	$ 963	$3,765

Nine Months Ended
September 30,
2017 2016

	Inventory write-downs &/or asset impairment recoveries, net	Exit activity costs	Total	Inventory write-downs &/or asset impairment charges	Exit activity costs	Total
Residential Products	$295	$958	$1,253	$1,179	$677	$1,856
Industrial & Infrastructure Products	(2,492)	2,959	467	2,697	2,019	4,716
Renewable Energy & Conservation	266	2,610	2,876	—	—	—
Corporate	—	179	179	—	—	—
Total exit activity costs & asset impairments	$(1,931)	$6,706	$4,775	$3,876	$2,696	$6,572

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of sales	$860	$3,433	$382	$5,111
Selling, general, and administrative expense	707			