GIBRALTAR PACKAGING GROUP INC
Form 10-Q
November 14, 2001

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

FORM 10-Q

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

For the quarterly period ended: September 30, 2001

Commission File Number: 00-19800

GIBRALTAR PACKAGING GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware (State of incorporation)	47-0496290 (I.R.S. Employer Identification Numbe
2000 Summit Avenue Hastings, Nebraska (Address of principal executive offices)	68901 (Zip Code)
(402) 463-1366 (Registrant's telephone number, including area code)	www.gibraltarpackaginggroup.com (Registrant's website)

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. [X] Yes [_] No

As of September 30, 2001, there were 5,041,544 shares of the Company's common stock, par value $0.01 per share, issued and outstanding.

GIBRALTAR PACKAGING GROUP, INC. AND SUBSIDIARIES

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GIBRALTAR PACKAGING GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands except share data)

	September 30, 2001	June 30, 2001
ASSETS	(Unaudited)	
CURRENT ASSETS:		
Cash	$ 91	$ 144
Accounts receivable (Net of allowance for doubtful accounts of $352 and $508, respectively)	5,782	6,285
Inventories	6,936	6,693
Deferred income taxes	725	725
Prepaid and other current assets	314	766
Total current assets	13,848	14,613
PROPERTY, PLANT AND EQUIPMENT - NET	16,345	16,590
GOODWILL (Net of accumulated amortization of $2,124 and $2,090, respectively)	4,213	4,247
DEFERRED INCOME TAXES	--	105
OTHER ASSETS (Net of accumulated amortization of $501 and $487, respectively)	859	819
TOTAL	$ 35,265	$ 36,374

LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Checks not yet presented	$ 489	$ 1,115
Current portion of long-term debt	2,768	2,769
Accounts payable	5,563	4,925
Accrued expenses	3,539	3,401
Total current liabilities	12,359	12,210
LONG-TERM DEBT - Net of current portion	16,850	18,578
DEFERRED INCOME TAXES	111	--
OTHER LONG-TERM LIABILITIES	431	431
Total liabilities	29,751	31,219
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value; 1,000,000 shares authorized; none issued	--	--
Common stock, $.01 par value; 10,000,000 shares authorized; 5,041,544 issued and outstanding	50	50
Additional paid-in capital	28,162	28,162
Accumulated deficit	(22,698)	(23,057)
Total stockholders' equity	5,514	5,155
TOTAL	$ 35,265	$ 36,374

See notes to unaudited consolidated financial statements.

GIBRALTAR PACKAGING GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands except share data)

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000
NET SALES	$ 15,356	$ 16,396
COST OF GOODS SOLD	12,357	12,860
GROSS PROFIT	2,999	3,536
OPERATING EXPENSES:		
Selling, general and administrative	1,896	2,014
Amortization of goodwill	34	35
Total operating expenses	1,930	2,049
INCOME FROM OPERATIONS	1,069	1,487
OTHER EXPENSE:		
Interest expense	432	695

Other expense - net	16	14
Total other expense - net	448	709
INCOME BEFORE INCOME TAXES	621	778
INCOME TAX PROVISION	262	216
NET INCOME	$ 359	$ 562
BASIC AND DILUTED PER COMMON SHARE AMOUNTS:		
Net Income	$ 0.07	$ 0.11
WEIGHTED AVERAGE SHARES OUTSTANDING (basic and diluted)	5,041,544	5,041,544

See notes to unaudited consolidated financial statements.

GIBRALTAR PACKAGING GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Three Months Ended September 30,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 359	$ 562
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	559	553
Provision for losses on accounts receivable	38	10
Loss on sale of property, plant and equipment	3	--
Deferred income taxes	216	195
Changes in operating assets and liabilities:		
Accounts receivable - net	465	(39)
Inventories	(243)	(616)
Prepaid expenses and other assets	373	14
Accounts payable	12	1,152
Accrued expenses and other liabilities	138	(443)
Net Cash Flows from Operating Activities	1,920	1,388
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property, plant and equipment	6	--
Purchases of property, plant and equipment	(250)	(168)
Net Cash Flows from Investing Activities	(244)	(168)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net payments under revolving facility	(1,037)	(567)
Net principal repayments of long-term debt	(687)	(667)

Net repayments under capital leases	(5)	(8)
Net Cash Flows from Financing Activities	(1,729)	(1,242)
NET DECREASE IN CASH	(53)	(22)
CASH AT BEGINNING OF PERIOD	144	160
CASH AT END OF PERIOD	$ 91	$ 138

See notes to unaudited consolidated financial statements.

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GIBRALTAR PACKAGING GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

A. GENERAL

The accompanying unaudited consolidated financial statements of Gibraltar Packaging Group, Inc. ("Gibraltar" or the "Company") have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission and do not include all information and footnotes required by accounting principals generally accepted in the United States of America for complete financial statements. However, in the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company as of September 30, 2001, and the results of its operations and cash flows for the periods presented herein. Results of operations for the three months ended September 30, 2001 are not necessarily indicative of the results to be expected for the full fiscal year. The financial statements should be read in conjunction with the audited financial statements for the year ended June 30, 2001 and the notes thereto contained in the Company's Annual Report on Form 10-K.

B. INVENTORIES

Inventories consisted of the following (In thousands):

	September 30, 2001	June 30, 2001
Finished goods	$ 5,033	$ 4,846
Work in process	667	797
Raw materials	945	764
Manufacturing supplies	291	286
	$ 6,936	$ 6,693

C. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") approved the issuance of SFAS No. 141, "Business Combinations," and

SFAS No. 142, "Goodwill and Other Intangible Assets." These standards establish accounting and reporting for business combinations, goodwill and other intangibles. SFAS No. 141 requires all business combinations entered into subsequent to June 30, 2001 to be accounted for using the purchase method of accounting. SFAS No. 142 provides that goodwill and other intangible assets with indefinite lives will not be amortized, but will be tested for impairment on an annual basis. SFAS No. 142 is effective for the Company beginning July 1, 2002. The Company has not quantified the impact resulting from the adoption of these standards including the impact, if any, of completion of the annual impairment test. However, the historical impact of not amortizing goodwill would have been to increase net income for the three months ended September 30, 2001 and September 30, 2000 by $34,000 and $35,000, respectively.

In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". This standard addresses financial accounting and reporting for obligations related to the retirement of

tangible long-lived assets and the related asset retirement costs. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company does not expect its adoption of this standard in fiscal 2003 to have a significant impact on the financial statements.

In addition, in August 2001, the FASB issued SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets". The standard addresses financial accounting and reporting for the impairment or disposal of long-lived assets and is effective for fiscal years beginning after December 15, 2001. The Company does not expect its adoption of this standard in fiscal 2003 to have a significant impact on the financial statements.

D. RECLASSIFICATION

Certain amounts in the fiscal 2001 financial statements have been reclassified to conform with the fiscal 2002 presentation.

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

Results of Operations

Three Months Ended September 30, 2001 Compared to
Three Months Ended September 30, 2000

In the first quarter of fiscal 2002, the Company had net sales of $15.4 million compared with $16.4 million in the corresponding period of fiscal 2001, a decrease of $1.0 million or 6.3%. Sales continue to be negatively impacted by the overall slow-down in the economy.

Gross profit for the first quarter of fiscal 2002 decreased to 19.5% of net sales from 21.6% in the corresponding period of fiscal 2001. This decrease was due primarily to spreading fixed manufacturing costs over a smaller revenue base, partially offset by continuing cost control efforts. Cost of goods sold decreased $0.5 million or 4.0% to $12.4 million in the first quarter of fiscal 2002 compared to $12.9 million in the first quarter of fiscal 2001, primarily as a result of the reduction in net sales.

Income from operations for the first quarter of fiscal 2002 was $1.1 million compared with $1.5 million in the corresponding period of fiscal 2001, a decrease of $0.4 million or 28.1%. This decrease was primarily a result of the reduction in net sales, partially offset by continuing cost control efforts. Selling, general and administrative expenses decreased $0.1 million or 5.9% to $1.9 million in the first quarter of fiscal 2002, compared to $2.0 million in the corresponding period of fiscal 2001. This decrease was primarily the result of reduced personnel costs and continuing cost control efforts.

Total interest expense decreased $0.3 million or 37.8% to $0.4 million in the first quarter of fiscal 2002 from $0.7 million in the corresponding period of fiscal 2001. The decrease is primarily the result of $3.9 million in lower average borrowings and lower average interest rates.

The income tax provision as a percentage of pre-tax income for the first quarter of fiscal 2002 was 42.2%, compared with an income tax provision of 27.8% for the corresponding period in fiscal 2001. The effective tax rate typically differs from the statutory rate primarily as a result of non-deductible amortization of goodwill. However, as a result of earnings improvements, the Company reduced its deferred income tax asset valuation allowance by $0.1 million in the first quarter of fiscal 2001 to reflect a change in estimate related to the realizability of its deferred income tax assets.

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GIBRALTAR PACKAGING GROUP, INC. AND SUBSIDIARIES

Net income for the first quarter of fiscal 2002 was $0.4 million or $0.07 per share, compared to $0.6 million or $0.11 per share in the first quarter of fiscal 2001. Net income for the first quarter of fiscal 2001 includes the effect of reducing the deferred income tax asset valuation allowance by $0.1 million, as a result of earnings improvements. Excluding the impact of the change in the deferred income tax asset valuation allowance, net income for the first quarter of fiscal 2001 would have been $0.5 million or $0.09 per share. The following table illustrates the effect of the income tax asset valuation allowance on the first quarter of fiscal 2001 (in thousands, except per share data):

	As Reported	Excluding Impact of Change in Tax Valuation Allowance
Income Before Income Taxes	$ 778	$ 778
Provision for Income Taxes	216	325

Net Income	$ 562	$ 453
Net Income Per Share	$0.11	$0.09

Financial Condition

The Company's credit facility with First Source Financial LLP ("First Source"), as amended, provides for a five-year $25 million term loan and a five-year $12 million working capital revolving line of credit ("Revolver"). The loan requires monthly principal payments of $229,167 through April 2003, with the balance of $9,692,435 due on July 31, 2003. The credit facility is secured by a first priority perfected security interest in and lien on all assets (real and personal, tangible and intangible) of the Company excluding its Burlington, North Carolina property.

The Revolver provides for a revolving line of credit under a borrowing base commitment subject to certain loan availability requirements. Loan availability under the Revolver may not exceed the lesser of (1) $12 million or (2) the sum of (a) up to 85% of the Company's eligible accounts receivable plus (b) up to 60% of the Company's eligible inventory. At no time may the sum of aggregated loan advances outstanding under the Revolver plus the aggregate amount of extended letter of credit guarantees exceed loan availability. The Company had available to it unused borrowing capacity of $3.0 million as of September 30, 2001.

The Revolver currently bears interest at First Source's prime rate plus 1.25% or the London Interbank Offered Rate ("LIBOR") plus 3.25%. The term loan currently bears interest at First Source's prime rate plus 1.75% or LIBOR plus 3.75%. The Company also pays a commitment fee of 0.5% on the unused portion of the Revolver. The interest rates at September 30, 2001 were a combination of prime and LIBOR. First Source's prime and LIBOR rates were 6.00% and 3.58%, respectively, at September 30, 2001.

As of September 30, 2001, all outstanding letters of credit were guaranteed by First Source. The Company pays a letter of credit fee of 2.75% to guarantee availability under the Revolver. Outstanding letters of credit at September 30, 2001 amounted to $160,000 and relate to workman's compensation insurance policies.

The First Source credit facility contains certain restrictive covenants including financial covenants related to net worth, minimum interest coverage ratio, capital expenditures, debt ratio and fixed charge coverage. As of September 30, 2001, the Company was in compliance with all financial covenants. In addition, the Company's credit facility restricts the ability of the Company to pay dividends.

At September 30, 2001, the Company had working capital of $1.5 million, as compared to $2.4 million at June 30, 2001. Historically, the Company's liquidity requirements have been met by a combination of funds provided by operations and its revolving credit agreements. Funds provided by operations during the three months ended September 30, 2001 were $1.9 million compared with funds provided of $1.4 million in the corresponding period in fiscal 2001.

During the three months ended September 30, 2001, capital expenditures totaled $0.3 million compared with $0.2 million in the corresponding period in fiscal 2001, and consisted primarily of additions to machinery and equipment. The Company makes capital improvements to improve efficiency and product quality, and periodically upgrades its equipment by purchasing or leasing new or previously used equipment.

The Company's current strategy is to continue to focus its efforts on its core business of folding cartons, as well as the supporting product lines of flexible, litho-laminated, and corrugated products. The Company intends to expand these product lines by utilizing the maximum capacity at each facility, while continually identifying, researching, and when applicable, implementing new technologies and equipment that will enable the Company to continue to improve performance, productivity, and profitability.

Under the current strategy, management believes that future funds generated by operations and borrowings available under its credit facility with First Source will be sufficient to meet working capital and capital expenditure requirements in the near term.

Recently Issued Accounting Pronouncements

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Forward-Looking Statements

Statements that are not historical facts, including statements about our confidence in the Company's prospects and strategies and our expectations about the Company's sales expansion, are forward-looking statements that involve risks and uncertainties. These risks and uncertainties include, but are not limited to: (1) softened demand for the Company's products due to overall economic conditions; (2) the Company's ability to execute its business plan; (3) market acceptance risks, including whether or not the Company will be able to successfully gain market share against competitors, many of which have greater financial and other resources than the Company, and the continuing trend of customers to increase their buying power by consolidating the number of vendors they maintain; (4) manufacturing capacity constraints, including whether or not, as the Company increases its sales, it will be able to successfully integrate its new customers into its existing manufacturing and distribution system; (5) the introduction of competing products by other firms; (6) pressure on pricing from competition or purchasers of the Company's products; (7) whether the Company will be able to pass on to its customers price increases for paper and paperboard products; (8) continued stability in other raw material prices, including oil-based resin and plastic film; (9) the impact of government regulation on the Company's manufacturing, including whether or not additional capital expenditures will be needed to comply with applicable environmental laws and regulations as the Company's production increases; (10) the Company's ability to continue to comply with the restrictive covenants in its credit facility or to obtain waivers if it is not in compliance in the future; and (11) the outcome of the Anthem Health Plans litigation. Investors and potential investors are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's analysis only as of the date of this report. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date of this report. These risks and others that are detailed in this Form 10-Q and other documents that the Company files from time to time with the Securities and Exchange Commission, including its annual report on Form 10-K and any current reports on Form 8-K, must be considered by any investor or potential investor in the Company.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's primary market risk is fluctuation in interest rates. All of the Company's debt at September 30, 2001 was at variable interest rates. A hypothetical 10% change in interest rates would have had an immaterial impact on interest expense for the three months ended September 30, 2001.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company is a party to certain lawsuits and administrative proceedings that arise in the conduct of its business. While the outcome of these lawsuits and proceedings cannot be predicted with certainty, management believes that, if adversely determined, the lawsuits and proceedings, either singularly or in the aggregate, would not have a material adverse effect on the financial condition, results of operations or net cash flows of the Company.

On April 28, 1999, the Company filed a lawsuit captioned Gibraltar Packaging Group, Inc. v. Anthem Health Plans, d.b.a. Anthem Blue Cross and Blue Shield of Connecticut ("Anthem"), in the United States District Court for the District of Connecticut. The Company is seeking damages for Anthem's alleged breach of a contract for health insurance for employees of the Company. In October 2000, Anthem filed a counterclaim for unpaid premiums. The amount of the counterclaim is unknown. Discovery has revealed that a third party may be liable to indemnify the Company for all or part of the counterclaim, and the Company has brought a third party claim against this party in the litigation. There can be no assurances that the outcome of the litigation would not have an adverse impact on the Company. The parties participated in a settlement mediation in December 1999. The parties determined to gather additional information through depositions, ___ which are ongoing. The Company anticipates another settlement mediation will be scheduled before the end of 2001.

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

No matters were submitted to a vote of Gibraltar's stockholders in the quarter ended September 30, 2001.

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

(a) Exhibits:

None

(b) Reports on Form 8-K:

None

GIBRALTAR PACKAGING GROUP, INC. AND SUBSIDIARIES

SIGNATURE

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 PACKAGING GROUP, INC.

By: /s/ Lyle O. Halstead	/s/ Brett E. Moller
Lyle O. Halstead	Brett E. Moller
V. P. Finance - Operations	V. P. Finance - Corporate
(Principal Accounting Officer)	(Principal Financial Officer)
Date: November 9, 2001	November 9, 2001