ILLINOIS TOOL WORKS INC
Form 10-Q
May 03, 2013

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 March 31, 2013

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: 1-4797

ILLINOIS TOOL WORKS INC.
(Exact name of registrant as specified in its charter)

Delaware	36-1258310
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
3600 West Lake Avenue, Glenview, IL	60026-1215
(Address of principal executive offices)	(Zip Code)

(Registrant's telephone number, including area code) 847-724-7500

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 check mark 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 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer X	Accelerated filer ___
Non-accelerated filer ___ (Do not check if a smaller reporting company)	Smaller reporting company ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

The number of shares of registrant’s common stock, $0.01 par value, outstanding at March 31, 2013: 450,432,545.

Part I – Financial Information
Item 1 – Financial Statements
ILLINOIS TOOL WORKS INC. and SUBSIDIARIES
STATEMENT OF INCOME (UNAUDITED)

(In millions except per share amounts)	Three Months Ended March 31, 2013	2012
Operating Revenues	$4,009	$4,358
Cost of revenues	2,502	2,763
Selling, administrative, and research and development expenses	779	832
Amortization of intangible assets	68	69
Operating Income	660	694
Interest expense	(60)	(50)
Other income (expense)	46	8
Income from Continuing Operations Before Income Taxes	646	652
Income Taxes	187	188
Income from Continuing Operations	459	464
Income (Loss) from Discontinued Operations	(105)	22
Net Income	$354	$486
Income Per Share from Continuing Operations:		
Basic	$1.02	$0.96
Diluted	$1.01	$0.95
Income (Loss) Per Share from Discontinued Operations:		
Basic	$(0.23)	$0.05
Diluted	$(0.23)	$0.05
Net Income Per Share:		
Basic	$0.78	$1.01
Diluted	$0.78	$1.00
Cash Dividends Per Share:		
Paid	$—	$0.36
Declared	$0.38	$0.36
Shares of Common Stock Outstanding During the Period:		
Average	451.7	482.0
Average assuming dilution	454.8	485.6

The Notes to Financial Statements are an integral part of these statements.

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES
STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(In millions)	Three Months Ended March 31, 2013	2012
Net income	$354	$486
Other comprehensive income:		
Foreign currency translation adjustments	(150)	176
Pension and other postretirement benefit adjustments, net of tax	12	10
Comprehensive income	$216	$672

The Notes to Financial Statements are an integral part of these statements.

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES
STATEMENT OF FINANCIAL POSITION (UNAUDITED)

(In millions)	March 31, 2013	December 31, 2012
ASSETS		
Current Assets:		
Cash and equivalents	$2,662	$2,779
Trade receivables	2,789	2,742
Inventories	1,514	1,585
Deferred income taxes	343	332
Prepaid expenses and other current assets	486	522
Assets held for sale	316	—
Total current assets	8,110	7,960
Net Plant and Equipment	1,960	1,994
Goodwill	5,392	5,530
Intangible Assets	2,182	2,258
Deferred Income Taxes	390	391
Other Assets	1,172	1,176
	$19,206	$19,309
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$456	$459
Accounts payable	749	676
Accrued expenses	1,235	1,392
Cash dividends payable	171	—
Income taxes payable	99	116
Deferred income taxes	8	8
Liabilities held for sale	84	—
Total current liabilities	2,802	2,651
Noncurrent Liabilities:		
Long-term debt	4,556	4,589
Deferred income taxes	309	244
Other liabilities	1,260	1,255
Total noncurrent liabilities	6,125	6,088
Stockholders' Equity:		
Common stock	6	5
Additional paid-in-capital	1,012	1,012
Income reinvested in the business	14,156	13,973
Common stock held in treasury	(5,055)	(4,722)
Accumulated other comprehensive income	155	293
Noncontrolling interest	5	9
Total stockholders' equity	10,279	10,570
	$19,206	$19,309

The Notes to Financial Statements are an integral part of these statements.

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES
STATEMENT OF CASH FLOWS (UNAUDITED)

(In millions)	Three Months Ended March 31, 2013	2012
Cash Provided by (Used for) Operating Activities:		
Net income	$354	$486
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	76	81
Amortization and impairment of goodwill and other intangible assets	112	72
Change in deferred income taxes	4	20
Provision for uncollectible accounts	4	3
Income (loss) from investments	(5)	(3)
(Gain) loss on sale of plant and equipment	(2)	—
(Gain) loss from discontinued operations	65	—
(Gain) loss on sale of operations and affiliates	4	(1)
Stock compensation expense	9	12
Gain on acquisition of controlling interest in an equity investment	(30)	—
Other non-cash items, net	3	14
Change in assets and liabilities:		
(Increase) decrease in--		
Trade receivables	(175)	(243)
Inventories	(38)	(43)
Prepaid expenses and other assets	(31)	(44)
Increase (decrease) in--		
Accounts payable	94	75
Accrued expenses and other liabilities	(132)	(95)
Income taxes	50	8
Other, net	4	(19)
Net cash provided by operating activities	366	323
Cash Provided by (Used for) Investing Activities:		
Acquisition of businesses (excluding cash and equivalents) and additional interest in affiliates	(56)	(481)
Additions to plant and equipment	(89)	(84)
Proceeds from investments	13	123
Proceeds from sale of plant and equipment	4	5
Net proceeds from sale of discontinued operations	(3)	—
Proceeds from sales of operations and affiliates	—	3
Other, net	(3)	(3)
Net cash provided by (used for) investing activities	(134)	(437)
Cash Provided by (Used for) Financing Activities:		
Cash dividends paid	—	(174)
Issuance of common stock	36	71
Repurchases of common stock	(344)	(443)
Net proceeds (repayments) of debt with original maturities of three months or less	(4)	994
Repayments of debt with original maturities of more than three months	—	(259)
Excess tax benefits from share-based compensation	7	1
Net cash provided by (used for) financing activities	(305)	190
Effect of Exchange Rate Changes on Cash and Equivalents	(44)	50

Cash and Equivalents:		
Increase (decrease) during the period	(117)	126
Beginning of period	2,779	1,178
End of period	$2,662	$1,304
Supplementary Cash and Non-Cash Information:		
Cash Paid During the Period for Interest	$49	$37
Cash Paid During the Period for Income Taxes, Net of Refunds	$107	$152
Liabilities Assumed from Acquisitions	$51	$126

The Notes to Financial Statements are an integral part of these statements.

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ILLINOIS TOOL WORKS INC. and SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

(1) FINANCIAL STATEMENTS

The unaudited financial statements included herein have been prepared by Illinois Tool Works Inc. and Subsidiaries (the “Company”). In the opinion of management, the interim financial statements reflect all adjustments of a normal recurring nature necessary for a fair statement of the results for interim periods. It is suggested that these financial statements be read in conjunction with the financial statements and notes to financial statements included in the Company’s 2012 Annual Report on Form 10-K. Certain reclassifications of prior year data have been made to conform with current year reporting.

On January 1, 2013, the Company adopted new accounting guidance which allows an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test of an indefinite-lived intangible asset. The entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless, based on the qualitative assessment, it is more-likely-than-not that the indefinite-lived intangible asset is impaired. The Company performs its annual indefinite-lived intangible asset impairment test in the third quarter and does not expect the adoption of this new accounting guidance to have a significant impact on its financial statements.

(2) DIVESTITURE OF MAJORITY INTEREST IN DECORATIVE SURFACES SEGMENT

On August 15, 2012, the Company entered into a definitive agreement (the “Investment Agreement”) to divest a 51% majority interest in its Decorative Surfaces segment to certain funds managed by Clayton, Dubilier & Rice, LLC (“CD&R”). The transaction closed on October 31, 2012, resulting in a pre-tax gain of $933 million ($632 million after-tax) in the fourth quarter of 2012.

Under the terms of the Investment Agreement, the Company contributed the assets and stock of the Decorative Surfaces segment to a newly formed entity, Wilsonart International Holdings LLC (“Wilsonart”). Through a combination of CD&R's equity investment in Wilsonart and new third party borrowings by a subsidiary of Wilsonart, the Company and its subsidiaries received payments of approximately $1.05 billion from Wilsonart and its subsidiaries as well as common units (the “Common Units”) initially representing approximately 49% (on an as-converted basis) of the total outstanding equity of Wilsonart immediately following the closing of the transaction. CD&R contributed $395 million to Wilsonart in exchange for newly issued cumulative convertible participating preferred units (the “Preferred Units”) of Wilsonart initially representing approximately 51% (on an as-converted basis) of the total outstanding equity immediately following the closing of the transaction. The Preferred Units rank senior to the Common Units as to dividends and liquidation preference, and accrue dividends at a rate of 10.00% per annum.

As of October 31, 2012, the Company ceased consolidating the results of the Decorative Surfaces segment and now reports its ownership interest in Wilsonart using the equity method of accounting. As the Company's investment in Wilsonart is structured as a partnership for U.S. tax purposes, U.S. taxes are recorded separately from the equity investment. For the first quarter ended March 31, 2013, the Company recorded a loss of $2 million in Other income (expense) related to its interest in Wilsonart, which was primarily due to the impact of purchase accounting.

Due to the Company's continuing involvement through its 49% interest in Wilsonart, the historical operating results of Decorative Surfaces are presented in continuing operations. Additionally, as of November 1, 2012, the operating results of Decorative Surfaces were no longer reviewed by senior management of the Company and therefore, effective the fourth quarter of 2012, Decorative Surfaces was no longer a reportable segment of the Company.

Historical operating results of Decorative Surfaces for the three months ended March 31, 2012 were as follows:

(In millions)	Three Months Ended March 31, 2012
Operating revenues	$275
Operating income	42

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(3) DISCONTINUED OPERATIONS

The Company periodically reviews its operations for businesses which may no longer be aligned with its enterprise initiatives and long-term objectives. The following summarizes the Company's discontinued operations.

In April 2011, the Company entered into a definitive agreement to sell its finishing group of businesses previously included in the Specialty Products segment (formerly the All Other segment) to Graco Inc. in a $650 million cash transaction. The sale of the finishing business to Graco was completed on April 2, 2012 and the Company recorded a pre-tax gain of $454 million in the second quarter of 2012.

In the third quarter of 2012, the Company divested two consumer packaging businesses in separate transactions that were previously included in the Specialty Products segment (formerly the All Other segment). The sale of the consumer packaging businesses resulted in pre-tax gains of $26 million and $17 million recorded in the third quarter of 2012.

In the fourth quarter of 2012, the Company divested a packaging distribution business previously included in the Industrial Packaging segment and a welding manufacturing business previously included in the Welding segment (formerly in the Power Systems & Electronics segment). The sale of these businesses resulted in a pre-tax loss of $19 million and a pre-tax gain of $16 million, respectively, in the fourth quarter of 2012.

In the first quarter of 2013, the Company committed to plans for the divestiture of two transportation related businesses and a machine components business previously included in the Specialty Products segment, two construction distribution businesses previously included in the Construction Products segment, and a chemical manufacturing business previously included in the Polymers & Fluids segment. The Company expects to dispose of these businesses within the next year. These businesses have been classified as held for sale in the first quarter of 2013. In connection with the anticipated sale of these businesses, the Company recorded goodwill impairment charges of $42 million and loss reserves on assets held for sale of $60 million in the first quarter of 2013 which were included in Income (loss) from discontinued operations.

The Company has restated the statement of income and the notes to financial statements to present the operating results of the held for sale and previously divested businesses discussed above as discontinued operations. Results of the discontinued operations for the three months ended March 31, 2013 and 2012 were as follows:

(In millions)	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Operating revenues	$149	$303
Income (loss) from discontinued operations before income taxes	$(101)	$33
Income taxes	(4)	(11)
Income (loss) from discontinued operations	$(105)	$22

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The assets and liabilities of the held for sale businesses discussed above were included in assets and liabilities held for sale in the statement of financial position as of March 31, 2013. There were no businesses classified as held for sale as of December 31, 2012. The following table summarizes the classes of assets and liabilities held for sale as of March 31, 2013:

(In millions)	March 31, 2013	
Trade receivables	$92	
Inventories	94	
Net plant and equipment	21	
Goodwill and intangible assets	150	
Other	19	
Loss reserves on assets held for sale	(60	)
Total assets held for sale	$316	
Accounts payable	$35	
Accrued expenses	26	
Other	23	
Total liabilities held for sale	$84	

(4) STRATEGIC REVIEW OF INDUSTRIAL PACKAGING SEGMENT

On February 19, 2013, the Company announced that it is initiating a review process to explore strategic alternatives for its Industrial Packaging segment, which may include a sale or spin-off of the business. The Company expects the review process will last through the remainder of 2013.

(5) GAIN ON ACQUISITION OF CONTROLLING INTEREST IN EQUITY INVESTMENT

On January 31, 2013, the Company acquired the controlling interest of an existing consumer packaging business in the Specialty Products segment previously accounted for under the equity method. The Company recorded a pre-tax gain of $30 million in Other income (expense) as a result of remeasuring the Company's existing equity interest to fair value by determining the implied equity value using a Level 3 valuation method.

(6) INCOME TAXES

The effective tax rates for the three months ended March 31, 2013 and 2012 were 29.0% and 28.9%, respectively.

The Company and its subsidiaries file tax returns in the U.S. and various state, local and foreign jurisdictions. These tax returns are routinely audited by the tax authorities in these jurisdictions including the Internal Revenue Service, Her Majesty's Revenue and Customs, German Fiscal Authority, French Fiscal Authority, and Australian Tax Office and a number of these audits are currently ongoing, which may increase the amount of the unrecognized tax benefits in future periods. Due to the ongoing audits, the Company believes it is reasonably possible that within the next twelve months the amount of the Company’s unrecognized tax benefits may be decreased by approximately $40 million related predominantly to various intercompany transactions. The Company has recorded its best estimate of the potential exposure for these issues.

(7) INVENTORIES

Inventories as of March 31, 2013 and December 31, 2012 were as follows:
(In millions)

	March 31, 2013	December 31, 2012
Raw material	$ 521	$ 539
Work-in-process	156	152
Finished goods	837	894
Total inventories	20 of 37	

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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.

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)

	Industries, Inc.	Gibraltar Subsidiaries	Guarantor Subsidiaries	Non-Guarantor 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

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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.

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.

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.

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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.

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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.

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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