

GERBER SCIENTIFIC INC
Form 10-Q
September 01, 2010

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 July 31, 2010

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 001-05865

Gerber Scientific, Inc.

(Exact name of registrant as specified in its charter)

Connecticut

(State or other jurisdiction of incorporation or organization)

06-0640743

(I.R.S. Employer Identification No.)

83 Gerber Road West, South Windsor, Connecticut

06074

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (860) 644-1551

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

Indicate by check mark whether the registrant has submitted electronically 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 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

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

25,127,426 shares of common stock of the registrant were outstanding as of July 31, 2010, exclusive of treasury shares.

GERBER SCIENTIFIC, INC.
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 Fiscal Quarter Ended July 31, 2010

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Gerber Scientific, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

In thousands, except per share data	For the Fiscal Quarters Ended July 31,	
	2010	2009
Revenue:		
Product sales	\$ 102,533	\$ 92,605
Service sales	15,791	16,749
	118,324	109,354
Costs of Sales:		
Cost of products sold	71,991	67,797
Cost of services sold	10,347	9,699
	82,338	77,496
Gross profit	35,986	31,858
Selling, general and administrative expenses	28,338	23,795
Research and development	4,324	4,428
Restructuring and other expenses	520	---
Operating income	2,804	3,635
Other income (expense), net	370	(1,045)
Interest expense	(782)	(942)
Income from continuing operations before income taxes	2,392	1,648
Income tax expense	793	359
Income from continuing operations	1,599	1,289
Loss from discontinued operations, net of tax of \$(21) and \$80	(75)	(775)
Net income	\$ 1,524	\$ 514
Basic earnings (loss) per common share:		
Continuing operations	\$ 0.06	\$ 0.05
Discontinued operations	---	(0.03)
Basic earnings per common share	\$ 0.06	\$ 0.02
Diluted earnings (loss) per common share:		
Continuing operations	\$ 0.06	\$ 0.05
Discontinued operations	---	(0.03)
Diluted earnings per common share	\$ 0.06	\$ 0.02
Weighted Average Common Shares Outstanding:		
Basic	25,126	24,611
Diluted	25,186	24,612

See accompanying notes to condensed consolidated financial statements.

Gerber Scientific, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

In thousands	July 31, 2010	April 30, 2010
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 10,004	\$ 11,305
Accounts receivable, net	74,852	80,925
Inventories	59,718	59,823
Deferred tax assets, net	10,344	10,029
Prepaid expenses and other current assets	5,739	4,732
Total Current Assets	160,657	166,814
Property, plant and equipment, net	31,954	32,223
Goodwill	83,581	83,654
Deferred tax assets, net	48,258	48,362
Other assets	19,828	20,824
Total Assets	\$ 344,278	\$ 351,877
Liabilities and Shareholders' Equity:		
Current Liabilities:		
Accounts payable	\$ 37,260	\$ 39,185
Accrued compensation and benefits	14,647	15,997
Other accrued liabilities	24,325	22,080
Deferred revenue	12,981	13,003
Total Current Liabilities	89,213	90,265
Long-term debt	38,000	45,000
Accrued pension benefit liability	36,860	36,932
Deferred tax liabilities, net	12,686	12,600
Other long-term liabilities	8,839	8,874
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock	---	---
Common stock	256	257
Paid-in capital	82,602	81,981
Retained earnings	97,728	96,204
Treasury stock	(10,666)	(10,855)
Accumulated other comprehensive loss	(11,240)	(9,381)
Total Shareholders' Equity	158,680	158,206
Total Liabilities and Shareholders' Equity	\$ 344,278	\$ 351,877

See accompanying notes to condensed consolidated financial statements.

Gerber Scientific, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

In thousands	For the Fiscal Quarters Ended July 31,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 1,524	\$ 514
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	2,011	2,636
Deferred income taxes, net	86	(920)
Stock-based compensation	780	752
Other noncash items	502	401
Changes in operating accounts, excluding effects of acquisitions:		
Accounts receivable	5,463	10,643
Inventories	(270)	2,170
Prepaid expenses and other assets	(878)	(1,278)
Accounts payable and other accrued liabilities	281	2,750
Accrued compensation and benefits	(1,154)	(3,195)
Net cash provided by operating activities	8,345	14,473
Cash flows from investing activities:		
Capital expenditures	(1,101)	(1,160)
Proceeds from sale of assets	16	14
Proceeds from sale of available for sale investments	275	3
Purchases of available for sale investments	(159)	(23)
Business acquisitions	---	(581)
Investments in intangible assets	(49)	(357)
Net cash used in investing activities	(1,018)	(2,104)
Cash flows from financing activities:		
Debt repayments	(31,613)	(38,787)
Debt proceeds	24,500	26,378
Common stock activity	(22)	(3)
Payments on vendor financed debt	(631)	---
Net cash used in financing activities	(7,766)	(12,412)
Effect of exchange rate changes on cash and cash equivalents	(862)	1,353
(Decrease) Increase in cash and cash equivalents	(1,301)	1,310
Cash and cash equivalents at beginning of period	11,305	10,313
Cash and cash equivalents at end of period	\$ 10,004	\$ 11,623

See accompanying notes to condensed consolidated financial statements.

Gerber Scientific, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Gerber Scientific, Inc. and its subsidiaries (collectively, the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The Condensed Consolidated Balance Sheet as of April 30, 2010 has been derived from the audited consolidated financial statements; however, these condensed consolidated financial statements do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. All significant intercompany transactions have been eliminated in the condensed consolidated financial statements. The condensed consolidated financial statements have been prepared, in all material respects, in accordance with the accounting principles followed in the preparation of the Company's annual financial statements for the fiscal year ended April 30, 2010. The results of operations and cash flows for the fiscal quarter ended July 31, 2010 are not necessarily indicative of the operating results and cash flows for the full fiscal year or any other future period.

Management believes that all adjustments, which include only normal recurring adjustments necessary to fairly state the Company's consolidated financial position, results of operations, cash flows and footnote disclosures for the periods reported, have been included. The financial information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2010, filed with the Securities and Exchange Commission on June 30, 2010. Certain reclassifications have been made to conform to the presentation for the fiscal quarter ended July 31, 2010. During the fiscal quarter ended July 31, 2010, management realigned the Gerber Innovations ("GI") business under the Apparel and Industrial segment and reclassified all segment reporting of GI from the Gerber Scientific Products business unit of the Sign Making and Specialty Graphics segment to the Apparel and Industrial segment (see Note 5).

The results of operations and cash flows for Yunique Solutions, Inc. ("Yunique"), which was acquired in November 2009, were included in the accompanying Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows for the fiscal quarter ended July 31, 2010. The Company believes that its results of operations for the fiscal quarter ended July 31, 2009 would not have been materially different had this acquisition occurred on May 1, 2009.

Note 2. Inventories

Inventories were as follows:

In thousands	July 31, 2010	April 30, 2010
Raw materials and purchased parts	\$ 48,277	\$ 49,400
Work in process	2,435	1,774
Finished goods	9,006	8,649
Total inventories	\$ 59,718	\$ 59,823

Note 3. Goodwill and Intangible Assets

The table below presents the gross carrying amount and accumulated amortization of acquired intangible assets other than goodwill included in Other assets on the Company's Condensed Consolidated Balance Sheets:

In thousands	July 31, 2010		April 30, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Patents	\$ 7,799	\$ 3,806	\$ 7,732	\$ 3,641
Other	8,246	1,374	8,346	1,136
Total amortized intangible assets	\$ 16,045	\$ 5,180	\$ 16,078	\$ 4,777

Intangible asset amortization expense was \$0.4 million for the fiscal quarter ended July 31, 2010 and \$0.3 million for the fiscal quarter ended July 31, 2009. It is estimated that such expense will be \$1.8 million for the fiscal year ending April 30, 2011, \$1.5 million for the fiscal year ending April 30, 2012, \$1.3 million for the fiscal year ending April 30, 2013 and \$1.1 million annually for fiscal years ending April 30, 2014 through 2016, based on the amortizable intangible assets as of July 31, 2010.

Balances and changes in the carrying amount of goodwill for the fiscal quarter ended July 31, 2010 were:

In thousands	Sign Making & Specialty Graphics	Apparel & Industrial	Ophthalmic Lens Processing	Total
Balance as of April 30, 2010				
Gross goodwill	\$ 120,308	\$ 39,411	\$ 38,588	\$ 198,307
Accumulated impairment losses	(92,953)	---	(21,700)	(114,653)
Net balance as of April 30, 2010	\$ 27,355	\$ 39,411	\$ 16,888	\$ 83,654
Effects of currency translation	91	(164)	---	(73)
Effect of Gerber Innovations segment change	(1,112)	1,112	---	---
Net balance as of July 31, 2010	\$ 26,334	\$ 40,359	\$ 16,888	\$ 83,581
Net balance as of July 31, 2010 was comprised of:				
Gross goodwill	119,287	40,359	38,588	198,234
Accumulated impairment losses	(92,953)	---	(21,700)	(114,653)
Net balance as of July 31, 2010	\$ 26,334	\$ 40,359	\$ 16,888	\$ 83,581

Note 4. Comprehensive (Loss) Income

The Company's total comprehensive (loss) income was as follows:

In thousands	For the Fiscal Quarters Ended July 31,	
	2010	2009
Net income	\$ 1,524	\$ 514
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(1,490)	12,538
Defined benefit pension plans activity, net of tax	119	96
Unrealized investment (loss) gain, net of tax	(172)	257

Net (loss) gain on cash flow hedge derivative instruments, net of tax	(316)	45
Total comprehensive (loss) income	\$ (335)	\$ 13,450

Note 5. Segment Reporting

The Company's operations are classified into three reportable operating segments: Sign Making and Specialty Graphics, Apparel and Industrial and Ophthalmic Lens Processing. The Sign Making and Specialty Graphics operating segment is comprised of the Gerber Scientific Products and Spandex business units. During the fiscal

quarter ended July 31, 2010, management realigned the GI business under the Apparel and Industrial segment and reclassified all segment reporting of GI from the Gerber Scientific Products business unit of the Sign Making and Specialty Graphics segment to the Apparel and Industrial segment. The management realignment of the GI business was executed for expected synergies from the integration of GI manufacturing into a Connecticut manufacturing facility which is primarily used for Apparel and Industrial segment production needs.

The following table presents revenue and operating income by reportable segment:

In thousands	For the Fiscal Quarters Ended July 31,	
	2010	2009
Sign Making and Specialty Graphics:		
Gerber Scientific Products	\$ 9,994	\$ 8,858
Spandex	52,292	52,697
Sign Making and Specialty Graphics	62,286	61,555
Apparel and Industrial	44,052	37,338
Ophthalmic Lens Processing	11,996	10,710
Intersegment revenue elimination	(10)	(249)
Consolidated revenue	\$ 118,324	\$ 109,354
Sign Making and Specialty Graphics:		
Gerber Scientific Products	\$ (872)	\$ (952)
Spandex	4,159	3,042
Sign Making and Specialty Graphics	3,287	2,090
Apparel and Industrial	3,606	4,837
Ophthalmic Lens Processing	1,202	970
Segment operating income	8,095	7,897
Corporate operating expenses	(5,291)	(4,262)
Consolidated operating income	\$ 2,804	\$ 3,635

Note 6. Earnings Per Share

Basic earnings per common share are equal to net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share are equal to net income divided by the weighted average number of common shares outstanding during the period, including the effect of stock-based compensation, where such effect is dilutive.

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

In thousands except per share amounts	For the Fiscal Quarters Ended July 31,					
	2010			2009		
	Income from Continuing Operations	Average Shares	Per Share	Income from Continuing Operations	Average Shares	Per Share
Basic earnings per share	\$ 1,599	25,126	\$ 0.06	\$ 1,289	24,611	\$ 0.05
Effect of dilutive options and awards	---	60	---	---	1	---
Diluted earnings per share	\$ 1,599	25,186	\$ 0.06	\$ 1,289	24,612	\$ 0.05

Note 7. Guarantees

The Company extends financial and product performance guarantees to third parties. There have been no material changes to its financial guarantees outstanding during the fiscal quarter ended July 31, 2010.

Changes in the carrying amounts of product warranties were as follows:

In thousands	For the Fiscal Quarters	
	Ended July 31,	
	2010	2009
Beginning balance	\$ 2,250	\$ 2,815
Warranties issued in the current period	786	1,636
Reductions for costs incurred	(885)	(1,489)
Reclassification to liabilities held for sale	---	(529)
Ending balance	\$ 2,151	\$ 2,433

Note 8. Employee Benefit Plans

The Company's United States defined benefit pension plans were frozen effective April 30, 2009. Components of net periodic benefit cost were as follows: