

GERBER SCIENTIFIC INC
Form 10-Q
December 08, 2009

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 October 31, 2009

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 1-5865

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

25,213,728 shares of common stock of the registrant were outstanding as of November 30, 2009, exclusive of treasury shares.

GERBER SCIENTIFIC, INC.

Index to Quarterly Report

on Form 10-Q

Fiscal Quarter Ended October 31, 2009

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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 October	
	2009	31, 2008
Revenue:		
Product sales	\$ 103,546	\$ 123,760
Service sales	16,614	18,793
	120,160	142,553
Cost of Sales:		
Cost of products sold	74,646	88,811
Cost of services sold	10,294	12,337
	84,940	101,148
Gross profit	35,220	41,405
Selling, general and administrative expenses	27,817	30,155
Research and development	4,532	5,698
Operating income	2,871	5,552
Other income (expense), net	(394)	(412)
Interest expense	(918)	(748)
Income from continuing operations before income taxes	1,559	4,392
Income tax benefit	(374)	(1,973)
Income from continuing operations	1,933	6,365
Loss from discontinued operations, net of taxes of (\$971) and \$13, respectively	(1,474)	(271)
Net income	\$ 459	\$ 6,094
Basic earnings (loss) per common share:		
Continuing operations	\$ 0.08	\$ 0.27
Discontinued operations	(0.06)	(0.02)
Basic earnings per common share	\$ 0.02	\$ 0.25
Diluted earnings (loss) per common share:		
Continuing operations	\$ 0.08	\$ 0.26
Discontinued operations	(0.06)	(0.01)
Diluted earnings per common share	\$ 0.02	\$ 0.25
Weighted Average Common Shares Outstanding:		
Basic	24,907	23,965
Diluted	24,956	24,087

See accompanying notes to condensed consolidated financial statements.

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

In thousands, except per share data	For the Six Months Ended	
	2009	October 31, 2008
Revenue:		
Product sales	\$ 197,310	\$ 252,950
Service sales	33,438	37,768
	230,748	290,718
Cost of Sales:		
Cost of products sold	143,430	183,624
Cost of services sold	20,071	25,345
	163,501	208,969
Gross profit	67,247	81,749
Selling, general and administrative expenses	51,967	62,718
Research and development	8,960	11,931
Operating income	6,320	7,100
Other income (expense), net	(1,399)	(537)
Interest expense	(1,860)	(1,287)
Income from continuing operations before income taxes	3,061	5,276
Income tax benefit	(15)	(1,813)
Income from continuing operations	3,076	7,089
Loss from discontinued operations, net of taxes of (\$891) and \$30, respectively	(2,103)	(314)
Net income	\$ 973	\$ 6,775
Basic earnings (loss) per common share:		
Continuing operations	\$ 0.12	\$ 0.30
Discontinued operations	(0.08)	(0.02)
Basic earnings per common share	\$ 0.04	\$ 0.28
Diluted earnings (loss) per common share:		
Continuing operations	\$ 0.12	\$ 0.29
Discontinued operations	(0.08)	(0.01)
Diluted earnings per common share	\$ 0.04	\$ 0.28
Weighted Average Common Shares Outstanding:		
Basic	24,759	23,865
Diluted	24,782	24,047

See accompanying notes to condensed consolidated financial statements.

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

In thousands	October 31, 2009	April 30, 2009
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 14,443	\$ 10,313
Accounts receivable, net	84,122	87,798
Inventories	64,065	72,108
Deferred tax assets, net	10,016	9,022
Prepaid expenses and other current assets	6,922	4,659
Total Current Assets	179,568	183,900
Property, plant and equipment, net	34,554	37,119
Goodwill	81,143	76,940
Deferred tax assets, net	44,144	43,339
Other assets	17,649	17,919
Total Assets	\$ 357,058	\$ 359,217
Liabilities and Shareholders' Equity:		
Current Liabilities:		
Accounts payable	\$ 41,554	\$ 37,494
Accrued compensation and benefits	14,851	15,735
Other accrued liabilities	23,365	24,748
Deferred revenue	11,990	13,084
Total Current Liabilities	91,760	91,061
Long-term debt	51,000	73,500
Accrued pension benefit liability	30,121	29,629
Other long-term liabilities	17,362	16,725
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock	---	---
Common stock	258	252
Paid-in capital	80,625	79,198
Retained earnings	98,635	97,662
Treasury stock	(11,214)	(11,531)
Accumulated other comprehensive loss	(1,489)	(17,279)
Total Shareholders' Equity	166,815	148,302
Total Liabilities and Shareholders' Equity	\$ 357,058	\$ 359,217

See accompanying notes to condensed consolidated financial statements.

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

In thousands	For the Six Months Ended	
	2009	October 31, 2008
Cash flows from operating activities:		
Net income	\$ 973	\$ 6,775
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	5,144	4,826
Deferred income taxes	(1,435)	(2,376)
Stock-based compensation	1,796	1,422
Loss (gain) on sale of assets	2,168	(622)
Other noncash items	670	578
Changes in operating accounts, excluding effects of acquisitions:		
Accounts receivable	4,396	9,938
Inventories	4,056	(3,724)
Prepaid expenses and other assets	(1,208)	(851)
Accounts payable and other accrued liabilities	849	(9,702)
Accrued compensation and benefits	(1,655)	(3,323)
Net cash provided by operating activities	15,754	2,941
Cash flows from investing activities:		
Capital expenditures	(1,992)	(4,921)
Proceeds from sale of net assets	13,040	1,369
Proceeds from sale of available for sale investments	3	612
Purchases of available for sale investments	(42)	(363)
Business acquisitions	(1,461)	(34,273)
Investments in intangible assets	(1,049)	(505)
Net cash provided by (used for) investing activities	8,499	(38,081)
Cash flows from financing activities:		
Debt repayments	(63,815)	(23,271)
Debt proceeds	41,878	64,000
Common stock activity	(113)	908
Net cash (used for) provided by financing activities	(22,050)	41,637
Effect of exchange rate changes on cash	1,927	(3,988)
Increase in cash and cash equivalents	4,130	2,509
Cash and cash equivalents at beginning of period	10,313	13,892
Cash and cash equivalents at end of period	\$ 14,443	\$ 16,401

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, 2009 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, 2009. The results of operations and cash flows for the fiscal quarter and six months ended October 31, 2009 are not necessarily indicative of the operating results and cash flows for the full fiscal year or any other future period.

The Company has evaluated subsequent events for disclosure that have occurred up to December 8, 2009, the date of issuance of the accompanying condensed consolidated financial statements.

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, 2009, filed with the Securities and Exchange Commission on July 7, 2009. Certain reclassifications have been made to conform to the presentation for the fiscal quarter and six months ended October 31, 2009.

The results of operations and cash flows for two companies that were acquired during the fiscal year ended April 30, 2009, Gamma Computer Tech Company, Ltd. ("Gamma") acquired in September 2008 and Virtek Vision International, Inc. ("Virtek") acquired in October 2008, are included in the accompanying Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows for the quarter and six months ended October 31, 2009. The Company believes that its consolidated results of operations for the quarter and six months ended October 31, 2008 would not have been materially different had the fiscal 2009 acquisitions occurred on May 1, 2008.

The Company completed the sale of 100 percent of the capital stock of its wholly-owned subsidiary, FOBA Technology + Services GmbH ("FOBA"), on September 1, 2009. FOBA was acquired as part of the acquisition of Virtek. The results of FOBA's operations were previously reported within the Apparel and Flexible Materials segment. The Company has reported the results of operations and the gain on the sale of FOBA as discontinued operations for the quarter and six months ended October 31, 2009 and October 31, 2008 within the condensed consolidated financial statements. The April 30, 2009 comparative Condensed Consolidated Balance Sheet and related disclosures do not reflect net assets held for sale as the criteria for assets held for sale were not met as of April 30, 2009. See Note 12.

The Company completed the sale of substantially all of the assets and liabilities of ND Graphics, a Canadian business unit of Gerber Scientific Products within the Sign Making and Specialty Graphics segment, to a group of investors led by the President of ND Graphics on September 30, 2009. The Company has reported the results of operations and the

loss on the sale of ND Graphics as discontinued operations for the quarter and six months ended October 31, 2009 and October 31, 2008 within the condensed consolidated financial statements. The April 30, 2009 comparative Condensed Consolidated Balance Sheet and related disclosures do not reflect net assets held for sale as the criteria for assets held for sale were not met as of April 30, 2009. See Note 12.

The Company closed the majority of its Spandex Poland operations during the quarter ended October 31, 2009. The results of this business were previously reported within the Sign Making and Specialty Graphics segment. The Company has reported the results of operations of Spandex Poland as discontinued operations for the quarter and six months ended October 31, 2009 and 2008 within the condensed consolidated financial statements. See Note 12.

Note 2. Inventories

Inventories were as follows:

In thousands	October 31, 2009	April 30, 2009
Raw materials and purchased parts	\$ 52,313	\$ 58,779
Work in process	1,803	3,510
Finished goods	9,949	9,819
Total inventories	\$ 64,065	\$ 72,108

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	October 31, 2009		April 30, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Patents	\$ 8,305	\$ 3,484	\$ 7,603	\$ 3,210
Other	5,261	812	5,131	739
Total amortized intangible assets	\$ 13,566	\$ 4,296	\$ 12,734	\$ 3,949

Intangible asset amortization expense was \$0.3 million and \$0.6 million, respectively, for the quarter and six months ended October 31, 2009. For the quarter and six months ended October 31, 2008, intangible asset amortization expense was \$0.2 million and \$0.4 million, respectively. It is estimated that such expense will be \$1.2 million for the fiscal year ending April 30, 2010, \$1.1 million annually for the fiscal years ending April 30, 2011 and 2012, \$1.0 million for the fiscal year ending April 30, 2013 and \$0.8 million annually for the fiscal years ending April 30, 2014 and 2015 based on the amortizable intangible assets as of October 31, 2009.

The Company settled contingent obligation commitments for \$2.8 million for the six months ended October 31, 2009 related to past acquisitions with the former owners of Data Technology, Inc. and Gamma. In connection with the sale of FOBA and ND Graphics, the Company recorded a charge of \$2.6 million for the write-off of goodwill as part of the Loss from Discontinued Operations in the accompanying Condensed Consolidated Statements of Operations. Balances and changes in the carrying amount of goodwill for the six months ended October 31, 2009 were as follows:

In thousands	Sign Making and Specialty Graphics	Apparel and Flexible Materials	Ophthalmic Lens Processing	Total
Balance as of April 30, 2009	\$ 25,737	\$ 34,207	\$ 16,996	\$ 76,940
Business acquisitions	1,086	1,677	---	2,763
Business dispositions	(972)	(1,581)	---	(2,553)
Effects of currency translation	2,493	1,500	--	3,993
Balance as of October 31, 2009	\$ 28,344	\$ 35,803	\$ 16,996	\$ 81,143

Note 4. Segment Reporting

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

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

In thousands	For the Fiscal Quarters Ended October 31,		For the Six Months Ended October 31,	
	2009	2008	2009	2008
Sign Making and Specialty Graphics:				
Gerber Scientific Products	\$ 13,375	\$ 18,954	\$ 24,262	\$ 33,519
Spandex	55,689	62,581	108,827	131,692
Sign Making and Specialty Graphics	69,064	81,535	133,089	165,211
Apparel and Flexible Materials	37,094	45,382	72,154	94,331
Ophthalmic Lens Processing	14,002	15,636	25,505	31,176
Consolidated revenue	\$ 120,160	\$ 142,553	\$ 230,748	\$ 290,718
Sign Making and Specialty Graphics:				
Gerber Scientific Products	\$ (1,240)	\$ 150	\$ (2,462)	\$ (1,215)
Spandex	3,492	2,675	6,525	6,128
Sign Making and Specialty Graphics	2,252	2,825	4,063	4,913
Apparel and Flexible Materials	3,298	4,929	7,457	8,595
Ophthalmic Lens Processing	1,625	1,773	2,320	1,888
Segment operating income	7,175	9,527	13,840	15,396
Corporate operating expenses	(4,304)	(3,975)	(7,520)	(8,296)
Consolidated operating income	\$ 2,871	\$ 5,552	\$ 6,320	\$ 7,100

Note 5. Comprehensive Income (Loss)

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

In thousands	For the Fiscal Quarters Ended October 31,		For the Six Months Ended October 31,	
	2009	2008	2009	2008
Net income	\$ 459	\$ 6,094	\$ 973	\$ 6,775
Other comprehensive income (loss):				
Foreign currency translation adjustments	2,573	(26,963)	15,111	(27,589)
Defined benefit pension plans activity, net of tax	96	205	192	410
Unrealized investment gain (loss) income, net of tax	114	(593)	371	(809)
Net gain (loss) on derivative instruments, net of tax	71	(147)	116	(127)
Total comprehensive income (loss)	\$ 3,313	\$ (21,404)	\$ 16,763	\$ (21,340)

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.

In June 2008, the Financial Accounting Standards Board ("FASB") issued new guidance regarding the treatment of unvested share-based payment awards with rights to receive non-forfeitable dividends that need to be considered participating securities and must be included in the computation of basic earnings per common share. This application

must be applied retrospectively at the date of adoption. The Company adopted this guidance, which is now a part of Accounting Standards Codification (“ASC”) 260, Earnings per Share, on May 1, 2009, as unvested restricted stock grants include non-forfeitable dividend rights. Approximately 1,502,650 shares and 567,334 shares of unvested restricted stock were outstanding as of October 31, 2009 and October 31, 2008, respectively. Reported basic and diluted earnings per common share after adoption of the new guidance for both the quarter and six months ended October 31, 2008 were each reduced by \$0.01 per share.

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

In thousands, except per share amounts	For the Fiscal Quarters Ended October 31,					
	2009			2008		
	Net Income	Average Shares	Per Share	Net Income	Average Shares	Per Share
Basic earnings (loss) per common share:						
Continuing operations	\$ 1,933	24,907	\$ 0.08	\$ 6,365	23,965	\$ 0.27
Discontinued operations	\$ (1,474)	24,907	\$ (0.06)	(271)	23,965	(0.02)
Basic earnings per common share	\$ 459	24,907	\$ 0.02	\$ 6,094	23,965	\$ 0.25
Diluted earnings (loss) per common share:						
Continuing operations	\$ 1,933	24,907	\$ 0.08	\$ 6,365	23,965	\$ 0.27
Effect of dilutive options and awards	---	49	---	---	122	(0.01)
Continuing operations	\$ 1,933	24,956	\$ 0.08	\$ 6,365	24,087	\$ 0.26
Discontinued operations	\$ (1,474)	24,956	\$ (0.06)	(271)	24,087	(0.01)
Diluted earnings per common share	\$ 459	24,956	\$ 0.02	\$ 6,094	24,087	\$ 0.25

In thousands, except per share amounts	For the Six Months Ended October 31,					
	2009			2008		
	Net Income	Average Shares	Per Share	Net Income	Average Shares	Per Share
Basic earnings (loss) per common share:						
Continuing operations	\$ 3,076	24,759	\$ 0.12	\$ 7,089		