

GERBER SCIENTIFIC INC  
Form 10-Q  
December 09, 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 October 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

25,138,523 shares of common stock of the registrant were outstanding as of November 30, 2010, exclusive of treasury shares.

---

GERBER SCIENTIFIC, INC.

Index to Quarterly Report

on Form 10-Q

Fiscal Quarter Ended October 31, 2010

<u>PART I</u>		<u>PAGE</u>
<u>Item 1.</u>	<u>Financial Statements</u>	
	<u>Condensed Consolidated Statements of Operations</u>	<u>-- 3-4</u>
	<u>Condensed Consolidated Balance Sheets</u>	<u>-- 5</u>
	<u>Condensed Consolidated Statements of Cash Flows</u>	<u>-- 6</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>-- 7-18</u>
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>-- 19-32</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>-- 32</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>-- 32</u>
<u>PART II</u>		
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>-- 33</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>-- 33</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>-- 34</u>
<u>Signature</u>		<u>-- 35</u>
<u>Exhibit Index</u>		<u>-- 36</u>

## 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 31,	
	2010	2009
<b>Revenue:</b>		
Product sales	\$ 112,775	\$ 102,108
Service sales	16,528	16,547
	129,303	118,655
<b>Cost of Sales:</b>		
Cost of products sold	79,568	73,346
Cost of services sold	11,107	10,067
	90,675	83,413
Gross profit	38,628	35,242
Selling, general and administrative expenses	29,545	27,505
Research and development	4,351	4,240
Goodwill impairment	16,888	---
Restructuring and other expenses	2,212	548
Operating (loss) income	(14,368)	2,949
Other income (expense), net	(720)	(414)
Interest expense	(653)	(918)
(Loss) Income from continuing operations before income taxes	(15,741)	1,617
Income tax expense (benefit)	366	(374)
(Loss) Income from continuing operations	(16,107)	1,991
Loss from discontinued operations, net of taxes of \$(971)	---	(1,532)
Net (loss) income	\$ (16,107)	\$ 459
<b>Basic (loss) earnings per common share:</b>		
Continuing operations	\$ (0.64)	\$ 0.08
Discontinued operations	---	(0.06)
Basic (loss) earnings per common share	\$ (0.64)	\$ 0.02
<b>Diluted (loss) earnings per common share:</b>		
Continuing operations	\$ (0.64)	\$ 0.08
Discontinued operations	---	(0.06)
Diluted (loss) earnings per common share	\$ (0.64)	\$ 0.02
<b>Weighted Average Common Shares Outstanding:</b>		
Basic	25,131	24,907
Diluted	25,131	24,956

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 October 31,	
	2010	2009
<b>Revenue:</b>		
Product sales	\$ 215,308	\$ 194,713
Service sales	32,319	33,296
	247,627	228,009
<b>Cost of Sales:</b>		
Cost of products sold	151,559	140,977
Cost of services sold	21,454	19,645
	173,013	160,622
Gross profit	74,614	67,387
Selling, general and administrative expenses	57,632	51,877
Research and development	8,675	8,376
Goodwill impairment	16,888	---
Restructuring and other expenses	2,983	550
Operating (loss) income	(11,564)	6,584
Other income (expense), net	(350)	(1,459)
Interest expense	(1,435)	(1,860)
(Loss) Income from continuing operations before income taxes	(13,349)	3,265
Income tax expense (benefit)	1,159	(15)
(Loss) Income from continuing operations	(14,508)	3,280
Loss from discontinued operations, net of taxes of \$(21) and (\$891) respectively	(75)	(2,307)
Net (loss) income	\$ (14,583)	\$ 973
<b>Basic (loss) earnings per common share:</b>		
Continuing operations	\$ (0.58)	\$ 0.13
Discontinued operations	---	(0.09)
Basic (loss) earnings per common share	\$ (0.58)	\$ 0.04
<b>Diluted (loss) earnings per common share:</b>		
Continuing operations	\$ (0.58)	\$ 0.13
Discontinued operations	---	(0.09)
Diluted (loss) earnings per common share	\$ (0.58)	\$ 0.04
<b>Weighted Average Common Shares Outstanding:</b>		
Basic	25,129	24,759
Diluted	25,129	24,782

See accompanying notes to condensed consolidated financial statements.



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

In thousands	October 31, 2010	April 30, 2010
<b>Assets:</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 10,128	\$ 11,305
Accounts receivable, net	82,789	80,925
Inventories	61,505	59,823
Deferred tax assets, net	10,498	10,029
Prepaid expenses and other current assets	5,611	4,732
Total Current Assets	170,531	166,814
Property, plant and equipment, net	32,235	32,223
Goodwill	67,772	83,654
Deferred tax assets, net	47,363	48,362
Other assets	18,894	20,824
Total Assets	\$ 336,795	\$ 351,877
<b>Liabilities and Shareholders' Equity:</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 41,127	\$ 39,185
Accrued compensation and benefits	18,483	15,997
Other liabilities	24,540	22,080
Deferred revenue	12,589	13,003
Total Current Liabilities	96,739	90,265
Long-term debt	35,000	45,000
Accrued pension benefit liability	36,802	36,932
Deferred tax liabilities, net	12,761	12,600
Other long-term liabilities	7,868	8,874
<b>Commitments and contingencies</b>		
<b>Shareholders' Equity:</b>		
Preferred stock	---	---
Common stock	257	257
Paid-in capital	83,165	81,981
Retained earnings	81,621	96,204
Treasury stock	(10,461)	(10,855)
Accumulated other comprehensive loss	(6,957)	(9,381)
Total Shareholders' Equity	147,625	158,206
Total Liabilities and Shareholders' Equity	\$ 336,795	\$ 351,877

See accompanying notes to condensed consolidated financial statements.



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

	For the Six Months Ended October 31,	
In thousands	2010	2009
Cash flows from operating activities:		
Net (loss) income	\$ (14,583)	\$ 973
Adjustments to reconcile net (loss) income to cash provided by operating activities:		
Depreciation and amortization	4,054	5,144
Deferred income taxes	862	(1,435)
Stock-based compensation	1,862	1,796
Loss on sale of assets	---	2,168
Goodwill impairment	16,888	---
Other noncash items	1,596	670
Changes in operating accounts, excluding effects of acquisitions:		
Accounts receivable	486	4,396
Inventories	(51)	4,056
Prepaid expenses and other assets	(295)	(1,208)
Accounts payable and other liabilities	950	849
Accrued compensation and benefits	2,014	(1,655)
Net cash provided by operating activities	13,783	15,754
Cash flows from investing activities:		
Capital expenditures	(2,506)	(1,992)
Proceeds from sale of net assets	32	13,040
Proceeds from sale of available for sale investments	560	3
Purchases of available for sale investments	(322)	(42)
Business acquisitions	---	(1,461)
Investments in intangible assets	(136)	(1,049)
Net cash (used for) provided by investing activities	(2,372)	8,499
Cash flows from financing activities:		
Debt repayments	(46,022)	(63,815)
Debt proceeds	36,000	41,878
Common stock activity	(396)	(113)
Payments on vendor financed debt	(801)	---
Net cash used for financing activities	(11,219)	(22,050)
Effect of exchange rate changes on cash and cash equivalents	(1,369)	1,927
(Decrease) Increase in cash and cash equivalents	(1,177)	4,130
Cash and cash equivalents at beginning of period	11,305	10,313
Cash and cash equivalents at end of period	\$ 10,128	\$ 14,443

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 and six months ended October 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 and six months ended October 31, 2010. During the six months ended October 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 ("GSP") business unit of the Sign Making and Specialty Graphics segment to the Apparel and Industrial segment (see Note 5). Additionally, United States defined benefit pension expenses were reclassified from Cost of products sold, Cost of services sold, and Research and development to Selling, general and administrative expenses, and professional fees related to business process improvement initiatives and strategic transactional fees were reclassified from Selling, general and administrative expenses to Restructuring and other expenses.

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 and six months ended October 31, 2010. The Company believes that its results of operations for the fiscal quarter and six months ended October 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	October 31, 2010	April 30, 2010
Raw materials and purchased parts	\$ 47,709	\$ 49,400
Work in process	2,947	1,774

Finished goods		10,849		8,649
Total inventories	\$	61,505	\$	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	October 31, 2010		April 30, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Amortized intangible assets:</b>				
Patents	\$ 7,263	\$ 3,962	\$ 7,732	\$ 3,641
Other	8,333	1,671	8,346	1,136
Total amortized intangible assets	\$ 15,596	\$ 5,633	\$ 16,078	\$ 4,777

The Company decided during the fiscal quarter ended October 31, 2010 to abandon several patents and reduce the net book value to zero, after evaluating the expected future benefits of the patents as compared with the ongoing patent maintenance fees. Intangible asset amortization expense was \$0.4 million and \$0.8 million, respectively, for the fiscal quarter and six months ended October 31, 2010. For the fiscal quarter and six months ended October 31, 2009, intangible asset amortization expense was \$0.3 million and \$0.6 million, respectively. It is estimated that such expense will be \$1.6 million for the fiscal year ending April 30, 2011, \$1.4 million for the fiscal year ending April 30, 2012, \$1.3 million for the fiscal year ending April 30, 2013 and \$1.0 million annually for fiscal years ending April 30, 2014 through 2016, based on the amortizable intangible assets as of October 31, 2010.

The Company reviews the value of goodwill for impairment annually during its fourth fiscal quarter or when events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. The identification and measurement of goodwill impairment involves an estimation of the fair value of the reporting units, using assumptions that could affect whether an impairment charge is recognized and the amount of any such charge. Significant assumptions include inputs into discounted cash flow analysis that are used for measuring fair value such as future sales, new product launches and expense levels.

In connection with the GI business unit transfer to the Apparel and Industrial reporting unit from the GSP reporting unit, the Company conducted a goodwill impairment test for the remaining GSP business during the fiscal quarter ended July 31, 2010. As of the interim testing date at July 31, 2010, GSP's goodwill of \$5.9 million was not impaired. If there is a significant decline in projected results of new product launches, a goodwill impairment charge may be required in future periods. The extent of the potential goodwill impairment charge will be based upon the facts, circumstances and estimates in existence at the time of the goodwill impairment analysis.

During the fiscal quarter ended October 31, 2010, the Company concluded that there was evidence that the fair value of the Ophthalmic Lens Processing reporting unit had decreased below the reporting unit's book value as a result of the potential sales process for the Ophthalmic Lens Processing segment assets and therefore performed an interim goodwill impairment test. See Note 15. The results of the first step of the goodwill impairment test as of October 31, 2010 indicated potential impairment, as the fair value of the reporting unit was less than the book value. The primary measure of fair value was the purchase price proposed in a letter of intent for sale of the assets that was being considered by the Company. The second step of the impairment test was performed to determine the potential impairment loss. The second step of the goodwill impairment test requires the Company to calculate the implied fair value of goodwill by allocating the fair value of the reporting unit to all assets and liabilities of that reporting unit, including unrecognized intangible assets, as if the reporting unit had been acquired in a business combination. As a result of that test, there was no excess fair value to allocate to goodwill. Therefore, the Company recorded a \$16.9 million goodwill impairment charge during the fiscal quarter ended October 31, 2010.



Balances and changes in the carrying amount of goodwill for the six months ended October 31, 2010 were as follows:

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	876	130	---	1,006
Effect of Gerber Innovations segment change	(1,112)	1,112	---	---
Goodwill impairment	---	---	(16,888)	(16,888)
Net balance as of October 31, 2010	\$ 27,119	\$ 40,653	\$ ---	\$ 67,772
Net balance as of October 31, 2010 was comprised of:				
Gross goodwill	120,072	40,653	38,588	199,313
Accumulated impairment losses	(92,953)	---	(38,588)	(131,541)
Net balance as of October 31, 2010	\$ 27,119	\$ 40,653	\$ ---	