

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.

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GERBER SCIENTIFIC, INC.  
 Index to Quarterly Report  
 on Form 10-Q  
 Fiscal Quarter Ended July 31, 2010

<u>PART I – FINANCIAL INFORMATION</u>		PAGE
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>	
	<u>Condensed Consolidated Statements of Operations</u>	<u>3</u>
	<u>Condensed Consolidated Balance Sheets</u>	<u>4</u>
	<u>Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>6-14</u>
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>15-25</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>25</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>25</u>
<u>PART II – OTHER INFORMATION</u>		
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>26</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>26</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>27</u>
<u>Signature</u>		<u>28</u>
<u>Exhibit Index</u>		<u>29</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 July 31,	
	2010	2009
<b>Revenue:</b>		
Product sales	\$ 102,533	\$ 92,605
Service sales	15,791	16,749
	118,324	109,354
<b>Costs of Sales:</b>		
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
<b>Basic earnings (loss) per common share:</b>		
Continuing operations	\$ 0.06	\$ 0.05
Discontinued operations	---	(0.03)
Basic earnings per common share	\$ 0.06	\$ 0.02
<b>Diluted earnings (loss) per common share:</b>		
Continuing operations	\$ 0.06	\$ 0.05
Discontinued operations	---	(0.03)
Diluted earnings per common share	\$ 0.06	\$ 0.02
<b>Weighted Average Common Shares Outstanding:</b>		
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
<b>Assets:</b>		
<b>Current Assets:</b>		
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
<b>Liabilities and Shareholders' Equity:</b>		
<b>Current Liabilities:</b>		
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
<b>Commitments and contingencies</b>		
<b>Shareholders' Equity:</b>		
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
<b>Amortized intangible assets:</b>				
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
<b>Balance as of April 30, 2010</b>				
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
<b>Total comprehensive (loss) income</b>	<b>\$ (335)</b>	<b>\$ 13,450</b>

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
<b>Sign Making and Specialty Graphics:</b>		
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
<b>Sign Making and Specialty Graphics:</b>		
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:

In thousands	For the Fiscal Quarters Ended July 31,	
	2010	2009
Interest cost	\$ 1,653	\$ 1,699
Expected return on plan assets	(1,584)	(1,316)
Amortization of actuarial loss	190	153
Net periodic benefit cost	\$ 259	\$ 536

For the fiscal quarter ended July 31, 2010, \$0.1 million in cash contributions were made to the Company's nonqualified pension plan. The Company expects to contribute \$0.8 million to the qualified plan and \$0.6 million to the nonqualified plan in the fiscal year ending April 30, 2011.

## Note 9. Income Taxes

For the fiscal quarter ended July 31, 2010 and 2009, the Company's effective tax rates from continuing operations were less than the statutory tax rate of 35.0 percent primarily as a result of foreign rate differences. The rate for the fiscal quarter ended July 31, 2009 further benefitted from tax credits which were unavailable for the fiscal quarter ended July 31, 2010 due to a change in the tax law.

## Note 10. Derivative Instruments

The Company has used derivative instruments including interest rate swaps and foreign currency contracts during the quarters ended July 31, 2010 and 2009. Derivative instruments are viewed as risk management tools and are not used for trading or speculative purposes.

**Interest Rate Swaps** – The Company is subject to market risk exposure from changes to interest rates due to the variable nature of the credit facility market interest rates. The Company manages these exposures by periodically assessing the market environments and swapping variable interest payments for fixed interest payments at an acceptable level for a

portion of its debt. These derivative instruments are accounted for as cash flow hedges. The fair value of interest rate swaps is classified as an other asset or other liability at fair value on the Condensed Consolidated Balance Sheets. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, and otherwise meet the hedge accounting criteria, changes in the derivatives' fair value are not included in current earnings but are included in Accumulated Other Comprehensive Loss in Shareholders' Equity. These changes in fair value will subsequently be reclassified in current earnings as a component of Interest expense when the interest payments are incurred. If a previously designated hedging transaction ceases to be effective as a hedge, any ineffectiveness measured in the hedging relationship would be recorded in earnings in

the period that it occurs. Cash flows associated with the interest rate swaps are recorded within cash flows from operating activities in the Condensed Consolidated Statements of Cash Flows.

The Company maintained two interest rate swap arrangements effective during the fiscal quarter ended July 31, 2010, hedging its variable LIBOR-based interest payments on \$20.0 million and \$25.0 million of its debt, which qualified for hedge accounting as cash flow hedges. The interest rate swap agreement on \$20.0 million of debt matured in May 2010 and the interest rate swap agreement on \$25.0 million of debt matures in November 2010.

Foreign Currency Contracts - The Company is subject to foreign currency risk exposure from changes in foreign currency rates on cash payments from its foreign subsidiaries to the United States parent company. The Company manages these exposures by periodically assessing the market environments and entering into foreign currency derivative contracts. These derivative instruments are accounted for as cash flow hedges. The fair value of the foreign currency cash flow hedges are classified as an other asset or other liability at fair value on the Condensed Consolidated Balance Sheets. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, and otherwise meet the hedge accounting criteria, changes in the derivatives' fair value are not included in current earnings but are included in Accumulated Other Comprehensive Loss in Shareholders' Equity. These changes in fair value will subsequently be reclassified in current earnings as a component of Other income (expense), net when the foreign currency transactions are settled. If a previously designated hedging transaction ceases to be effective as a hedge, any ineffectiveness measured in the hedging relationship would be recorded in earnings in the period in which it occurs. Cash flows associated with the foreign currency contracts are recorded within cash flows from operating activities in the Condensed Consolidated Statements of Cash Flows.

The Company entered into three foreign currency contracts effective during the fiscal quarter ended July 31, 2010, hedging forecasted euro cash payments from its foreign subsidiaries to the United States parent company of approximately \$16.9 million. These contracts settle on various dates through April 30, 2011. As of April 30, 2010, there were no outstanding foreign currency forward contracts.

The following table summarizes the fair value of these derivative instruments as of July 31, 2010 and April 30, 2010:

In thousands	Balance Sheet Location	Liabilities	
		July 31, 2010	April 30, 2010
Derivatives designated as hedging instruments:			
Foreign currency contracts	Other accrued liabilities	\$785	\$---
Interest rate swap arrangements	Other accrued liabilities	200	479
		\$985	\$479

During the fiscal quarter ended July 31, 2010, there was no impact to the fair value of the Company's derivative liabilities due to the Company's credit risk.

The following table summarizes the pre-tax impact on Accumulated Other Comprehensive Loss in Shareholders' Equity from cash flow hedges for the fiscal quarters ended July 31, 2010 and 2009:

In thousands	For the fiscal quarters ended July 31,	
	2010	2009
(Loss) Gain recognized in Accumulated Other Comprehensive Loss before tax effect	\$ (985)	) \$72
Loss reclassified from Accumulated Other Comprehensive Loss to Interest Expense (effective portion)	\$ (293)	) \$ (241)



Assuming current market conditions continue, of the amount recorded in Accumulated Other Comprehensive Loss, a \$0.2 million loss is expected to be reclassified as Interest expense to reflect the fixed interest payments obtained from interest rate swap arrangements within the next 12 months and an \$0.8 million loss is expected to be reclassified as Other income (expense), net to reflect the anticipated foreign exchange losses within the next 12 months.

## Note 11. Fair Value Measurements

Fair value guidance for the accounting of both financial assets and liabilities and nonrecurring nonfinancial assets and liabilities is part of ASC 820, Fair Value Measurements and Disclosures (“ASC 820”). ASC 820 defines fair value, establishes a framework for measuring fair value and provides disclosure requirements. Nonrecurring nonfinancial assets and liabilities for the Company include those measured at fair value in goodwill impairment testing, asset retirement obligations initially measured at fair value, and nonrecurring nonfinancial assets and liabilities initially measured at fair value in a business combination.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly business transaction in the principal market for the asset or liability.

ASC 820 establishes a hierarchy of inputs used to measure fair value as Level 1, 2 and 3, as described in the following table, which provides assets and liabilities reported at fair value and measured on a recurring basis as of July 31, 2010 and April 30, 2010:

In thousands	Total	July 31, 2010		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Available for sale investments	\$ 3,449	\$ 3,449	\$ ---	\$ ---
Foreign exchange derivative contracts	(785)	---	(785)	---
Interest rate swap agreements	(200)	---	(200)	---
Estimated fair value of contingent consideration	(3,422)	---	---	(3,422)
Estimated fair value for lease liability guarantee	(700)	---	---	(700)
Total	\$ (1,658)	\$ 3,449	\$ (985)	\$ (4,122)

In thousands	Total	April 30, 2010		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Available for sale investments	\$ 3,806	\$ 3,806	\$ ---	\$ ---
Interest rate swap agreements	(479)	---	(479)	---
Estimated fair value of contingent consideration	(3,174)	---	---	(3,174)
Estimated fair value for lease liability guarantee	(700)	---	---	(700)
Total	\$ (547)	\$ 3,806	\$ (479)	\$ (3,874)

The fair values for the available for sale investments were based on quoted market prices unadjusted from financial exchanges (Level 1), except for preferred shares in an international private company, for which the fair value was based upon Level 3 evidence and determined to be insignificant. The available for sale investments were primarily comprised of investments in a balanced United States mutual fund held in a rabbi trust for unqualified pension plan payments. The interest rate swap agreements and foreign exchange derivative contracts were valued using observable current market information as of the reporting date, such as the prevailing LIBOR-based currency spot and forward rates (Level 2). There were no transfers between level 1 and level 2 categories during the fiscal quarter ended July 31, 2010.

In connection with the acquisition of Yunique in November 2009, a liability was recognized for the Company's estimate of the fair value of contingent consideration on the acquisition date based on probability-based forecasted revenue. Any change in fair value of the contingent consideration subsequent to the acquisition date is recognized in operating income within the statement of operations. This fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect the Company's

own assumptions concerning future revenue of Yunique in measuring fair value. A change in the estimated probabilities of revenue achievement could have a material effect on the statement of operations and balance sheets in the period of change. The fair value increased \$0.2 million during the fiscal quarter ended July 31, 2010 to reflect changes in expected payments based on forecasted performance and the time value of money.

In connection with the sale of ND Graphics in September 2009, the Company remained a guarantor under a lease for ND Graphic's headquarters facility in Toronto, Canada. This lease expires during the fiscal year ending April 30, 2018. The remaining undiscounted monthly lease payments were \$2.3 million as of the sale date. The fair value of this liability of \$0.7 million was recorded in Other long-term liabilities on the accompanying Consolidated Balance Sheets. The fair value of the \$0.7 million liability was estimated using a probability-based discounted cash flow analysis for the probability of non-performance by ND Graphics. As of July 31, 2010, there was no existing default or indication of a prospective default by ND Graphics under the lease. There were no changes to the level 3 liability during the fiscal quarter ended July 31, 2010.

The above fair values were computed based on quoted market prices or an estimate of the amount received or paid to terminate or settle the agreement, as applicable. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate the carrying amounts due to their short-term nature. All of the Company's outstanding debt accrues interest at variable interest rates. As the underlying interest rates are believed to represent market rates, the carrying amounts are considered to approximate fair value.

#### Note 12. Restructuring and Other Expenses

In the fiscal quarter ended July 31, 2010, the Company approved plans to consolidate its Massachusetts-based Gerber Innovations business, a business unit of the Apparel and Industrial segment as of the first quarter of fiscal 2011, into an existing Connecticut facility, with an expected completion date of September 30, 2010. As a result of the consolidation, the Company expects to generate annualized savings of approximately \$0.9 million. The Company estimated the costs related to the facility consolidation to be approximately \$1.1 million, the substantial majority of which will require the outlay of cash. In the fiscal quarter ended July 31, 2010, the Company incurred \$0.4 million in employee severance costs related to this action. The Company anticipates that it will incur \$0.7 million in future costs related to this action through April 30, 2011, primarily for lease contract termination costs and moving expenses. The Company also recorded other employee severance expenses of \$0.1 million during the fiscal quarter ended July 31, 2010 based on business process improvement initiatives. The following table shows a rollforward of the severance accruals established during the fiscal quarter ended July 31, 2010 by segment:

In thousands	For the fiscal quarter ended July 31, 2010
<b>Apparel and Industrial</b>	
Severance expenses	\$520
Cash payments	(62 )
Ending balance at July 31, 2010	\$458

In the fiscal year ended April 30, 2010, the Company recorded restructuring and other expenses that included unpaid severance of \$0.9 million as of April 30, 2010. The following table shows a rollforward of the severance accruals established during the fiscal year ended April 30, 2010 by segment:

In thousands	For the fiscal quarter ended July 31, 2010	
<b>Sign Making and Specialty Graphics</b>		
Balance at April 30, 2010	\$	231
Cash payments		(14)
Ending balance at July 31, 2010	\$	217
<b>Apparel and Industrial</b>		
Balance at April 30, 2010	\$	277
Cash payments		(127)
Ending balance at July 31, 2010	\$	150
<b>Corporate</b>		
Balance at April 30, 2010	\$	350
Cash payments		(86)
Ending balance at July 31, 2010	\$	264

Note 13. Discontinued Operations

On September 1, 2009, the Company sold 100 percent of the capital stock of FOBA. The results of this business were previously reported within the Apparel and Industrial segment.

On September 30, 2009, the Company sold substantially all of the assets and liabilities of ND Graphics. The results of this business were previously reported within the Sign Making and Specialty Graphics segment.

The Company allocated a portion of its interest expense to discontinued operations, as the proceeds from the sales were required to reduce the Company's outstanding obligations under its credit facility. The Company allocated approximately \$0.2 million of interest expense to discontinued operations for the fiscal quarter ended July 31, 2009.

The following table provides revenue and pretax loss from the FOBA discontinued operations:

In thousands	For the fiscal quarters ended July 31,	
	2010	2009
Revenue from discontinued operations	\$ ---	\$ 4,587
Pretax loss from discontinued operations	\$ ---	\$ (875)

The following table provides revenue and pretax (loss) income from the ND Graphics discontinued operations:

In thousands	For the fiscal quarters ended July 31,	
	2010	2009

Revenue from discontinued operations	\$	---	\$	8,539
Pretax (loss) income from discontinued operations	\$	(74)	\$	371

The Company closed the majority of its Spandex Poland and Spandex New Zealand operations during the fiscal year ended April 30, 2010. The results of these businesses were previously reported within the Sign Making and Specialty Graphics segment. The Company also closed the majority of its Gerber Coburn Australia operations during the fiscal year ended April 30, 2010. The results of this business were previously reported within the Ophthalmic Lens Processing segment.

The following table provides revenue and pretax loss from the Spandex Poland discontinued operations:

In thousands	For the fiscal quarters ended July 31,	
	2010	2009
Revenue from discontinued operations	\$ ---	\$ 575
Pretax loss from discontinued operations	\$ ---	\$ (45)

The following table provides revenue and pretax loss from the Spandex New Zealand discontinued operations:

In thousands	For the fiscal quarters ended July 31,	
	2010	2009
Revenue from discontinued operations	\$ ---	\$ 441
Pretax loss from discontinued operations	\$ (28)	\$ (10)

The following table provides revenue and pretax income (loss) from the Gerber Coburn Australia discontinued operations:

In thousands	For the fiscal quarters ended July 31,	
	2010	2009
Revenue from discontinued operations	\$ ---	\$ 793
Pretax income (loss) from discontinued operations	\$ 6	\$ (136)

#### Note 14. New Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2009-13, Multiple-Deliverable Revenue Arrangements (“ASU 2009-13”). ASU 2009-13 amends the accounting and reporting guidance for arrangements including multiple revenue-generating activities. ASU 2009-13 amends the criteria for separating deliverables and measuring and allocating arrangement consideration to one or more units of accounting. The amendment also establishes a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures will also be required to provide information about the Company’s multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and performance within arrangements. ASU 2009-13 also requires information to be provided about significant judgments made, changes to those judgments and how the application of the relative selling-price method affects the timing or amount of revenue recognition.

In October 2009, the FASB issued ASU 2009-14, Certain Revenue Arrangements That Include Software Elements (“ASU 2009-14”). ASU 2009-14 changes the accounting model for revenue arrangements that include both tangible products and software elements that are “essential to the functionality,” and removes these products from current software revenue guidance. The new guidance will include factors to help companies determine what software elements are considered “essential to the functionality.” ASU 2009-14 subjects software-enabled products to other revenue guidance and disclosure requirements, such as guidance relating to revenue arrangements with multiple-deliverables.

Both ASU 2009-13 and ASU 2009-14 are effective for fiscal years beginning on or after June 15, 2010, although early application is permitted. If adopted early during the fiscal year, the guidance is applied retrospectively for the full fiscal year. The Company plans to early adopt these provisions during fiscal 2011 using the prospective adoption

methodology and does not anticipate a significant change to its current revenue recognition accounting practices as a result of adoption.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless indicated, or unless the context otherwise requires, references in this report to "Gerber" mean Gerber Scientific, Inc. and its consolidated subsidiaries.

### CAUTIONARY NOTE CONCERNING FACTORS THAT MAY INFLUENCE FUTURE RESULTS

This management's discussion and analysis contains statements which, to the extent they are not statements of historical or present fact, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are intended to provide management's current expectations or plans for the future operating and financial performance of Gerber, based on assumptions currently believed to be reasonable. Forward-looking statements can be identified by the use of words such as "believe," "expect," "intend," "foresee," "may," "plan," "anticipate" and other words of similar meaning in connection with a discussion of future operating or financial performance. These forward-looking statements include, among others, statements relating to:

- expected financial condition, future earnings, levels of growth, or other measures of financial performance, or the future size of market segments or geographic markets;
  - economic conditions;
  - planned cost reductions;
- future cash flows and uses of cash and debt reduction strategies;
- prospective product developments and business growth opportunities, as well as competitor product developments;
  - demand for products and services;
  - methods of and costs associated with potential geographic expansion;
- regulatory and market developments and the impact of such developments on future operating results;
  - potential impacts from credit market risk;
    - future effective income tax rates;
    - the outcome of contingencies;
  - the availability and cost of raw materials; and
  - pension plan assumptions and future contributions.

All forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those expressed or implied in the forward-looking statements. Some of these risks and uncertainties are set forth in Item 1A, "Risk Factors" of Gerber's Annual Report on Form 10-K for the fiscal year ended April 30, 2010 and in Gerber's subsequent filings with the Securities and Exchange Commission. Gerber cannot assure that its results of operations, financial condition or cash flows will not be adversely affected by one or more of these factors. Gerber does not undertake to update any forward-looking statement made in this report or that may from time to time be made by or on behalf of Gerber.

### OVERVIEW

Through its global operations, Gerber develops, manufactures, distributes and services integrated automation equipment and software, as well as related aftermarket supplies, for sign making and specialty graphics, apparel and industrial and the ophthalmic lens processing markets. During the fiscal quarter ended July 31, 2010, management realigned the Gerber Innovations, or 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 first quarter of fiscal 2011 reflected improved economic conditions in certain regions, resulting in revenue growth. Revenue increased \$9.0 million, or 8.2 percent, for the first quarter of fiscal 2011 over the prior year despite negative impacts of foreign currency translation of approximately \$3.4 million as compared with the first quarter of fiscal 2010. The improvement in the macroeconomic conditions from mid-fiscal 2009 throughout

fiscal 2010 led to increased demand, particularly within the Apparel and Industrial segment, which reported an 18.0 percent increase in revenue as compared with the prior year. Gross profit increased \$4.1 million and gross profit margin improved to 30.4 percent for the first quarter of fiscal 2011 as compared with the first quarter of fiscal 2010, which reflected a gross profit margin of 29.1 percent. The improvement in gross profit reflected higher manufacturing volumes, favorable software product mix and \$0.6 million of license revenue.

Though revenue and gross profit improved over the first quarter of fiscal 2010, operating income decreased \$0.8 million as a result of several factors. The first quarter of fiscal 2010 included approximately \$2.0 million in savings from temporary cost controls, such as workforce furloughs and other measures that did not continue in the first quarter of fiscal 2011. Additionally, commission expenses were higher in the first quarter of fiscal 2011 as compared with fiscal 2010 associated with the increased revenue. Further, based on forecasted results, Gerber expensed incentive compensation of \$0.8 million in the first quarter of fiscal 2011, while it did not record any incentive compensation expense in the first quarter of fiscal 2010. Gerber also incurred \$0.5 million of restructuring and other expenses in the fiscal 2011 first quarter that were primarily related to the severance charges associated with the relocation of its Massachusetts production facility into its Connecticut production facilities.

As part of Gerber's strategic planning process, management continually reviews its operating segments and selected markets in terms of their potential long-term returns. Management periodically reviews and negotiates potential business acquisitions and divestitures, some of which may be material. Decisions regarding "bolt-on" acquisitions generally focus on candidates that will contribute to the growth of Gerber's core businesses, increase earnings per share, and generate positive cash flow in the first year of acquisition. Gerber may also consider business divestitures if management determines that the applicable business no longer meets Gerber's long-term strategic objectives or that the divestiture could increase cash flows. Though Gerber looks to maximize the proceeds from business divestitures, there may be times when Gerber concludes that it is in the best interest of its long-term strategy to divest a business at a price that is below the net carrying value of its assets and incur a loss from the divestiture. Decisions to divest a business at a price below the net carrying value of its assets would involve using the proceeds from the divested business to execute strategies that offer potentially higher returns to shareholders. There were no acquisitions or dispositions or assets that met the criteria of assets held for sale in the first quarter of fiscal 2011.

## RESULTS OF OPERATIONS

### Revenue

In thousands	For the Fiscal Quarters		Percent Change
	2010	2009	
Equipment and software revenue	\$ 32,440	\$ 25,821	25.6%
Aftermarket supplies revenue	70,093	66,784	5.0%
Service revenue	15,791	16,749	(5.7%)
Total revenue	\$ 118,324	\$ 109,354	8.2%

International markets are significant to Gerber's revenue base, as Gerber generates approximately two-thirds of its revenue annually from sales to non-U.S. markets. Gerber therefore analyzes its results of operations on a constant currency basis, excluding the impact of foreign currency translation. The impact of foreign currency translation on the operating performance quantified within this management's discussion and analysis was estimated by comparing translated amounts at the first quarter of fiscal 2011 average foreign exchange rates with historical comparison period average foreign exchange rates.

Consolidated revenue increased by \$9.0 million for the fiscal quarter ended July 31, 2010 as compared with the same quarter of the prior year. Unfavorable foreign currency translation negatively impacted revenue for the first quarter of fiscal 2011 by approximately \$3.4 million, as compared with the fiscal 2010 first quarter as a result of the United States dollar strengthening against several other currencies in which Gerber transacts business. The increase in revenue was attributable to the beginning of economic recovery in certain regions of Gerber's end-user markets. Volume improvements contributed to \$11.5 million of the revenue increase over the fiscal quarter

ended July 31, 2009. Incremental revenue from the Yunique acquisition, completed in November 2009, was \$0.8 million in the first quarter of fiscal 2011.

Key new product revenue was \$4.9 million for the fiscal quarter ended July 31, 2010, and included revenue contribution from the recently launched Sign Making and Specialty Graphics segment's GERBER CAT UV inkjet printers and the Apparel and Industrial segment's GERBERplotter XLp. Key new product revenue increased \$0.2 million, or 4.5 percent, from the first quarter of fiscal 2010.

Revenue by geographic region was higher in North America and the Rest of World region for the fiscal quarter ended July 31, 2010 as compared with the fiscal quarter ended July 31, 2009. The decrease in Europe was as a result of the negative impact of foreign currency translation. The growth in the Rest of World region reflected increased revenue from the Asian marketplace. The Asian marketplace has been a strategic focus area for Gerber's expansion in international markets. Consolidated revenue generated within greater China increased \$2.6 million to \$7.5 million for the fiscal quarter ended July 31, 2010 as compared with the prior year. This improvement included revenue growth across all three segments, particularly within the Apparel and Industrial segment. Gerber believes that the greater China region represents significant growth opportunities and continues to invest in its infrastructure in China.

Reported backlog is primarily comprised of service contracts that benefit future periods and firm equipment orders. The backlog improvement shown in the following table, which provides backlog by segment, primarily reflected an increase in service backlog from new extended service contracts established during the first quarter of fiscal 2011:

In thousands	July 31, 2010	April 30, 2010
<b>Backlog:</b>		
Sign Making and Specialty Graphics	\$ 1,715	\$ 767
Apparel and Industrial	26,438	25,886
Ophthalmic Lens Processing	1,049	1,550
	\$ 29,202	\$ 28,203

#### Gross Profit / Margin

In thousands	For the Fiscal Quarters Ended July 31,		Percent Change
	2010	2009	
Gross profit	\$ 35,986	\$ 31,858	13.0%
Gross profit margin	30.4%	29.1%	

Gross profit was \$4.1 million higher for the fiscal quarter ended July 31, 2010 as compared with the same period of the prior year. The majority of the increase was attributable to higher sales volume. Sales mix also benefited gross profit, with higher software sales and \$0.6 million of license revenue. Partially offsetting these benefits, foreign currency translation during the first quarter of fiscal 2011 negatively impacted gross profit by approximately \$0.7 million as compared with the prior year. In addition, the prior year period has benefitted from temporary cost reductions that did not continue in fiscal 2011.

Gerber's gross profit margin improved 1.3 percentage points and reflected the impact of increased contribution from software and license revenue. This improvement also reflected operational efficiencies and favorable absorption of manufacturing costs as compared with the prior year.



## Selling, General and Administrative Expenses

In thousands	For the Fiscal Quarters Ended July 31,		Percent Change
	2010	2009	
Selling, general and administrative expenses	\$ 28,338	\$ 23,795	19.1%
Percentage of revenue	23.9%	21.8%	

Selling, general and administrative expenses, or "SG&A," increased by \$4.5 million during the first quarter of fiscal 2011 as compared with the same quarter of the prior year and increased as a percentage of revenue. The first quarter of fiscal 2010 included benefits from temporary cost savings such as workforce furloughs and mandatory vacation usage. The remaining SG&A increase in the first quarter of fiscal 2011 reflected higher sales commissions costs of \$1.1 million associated with increased revenue, higher incentive compensation costs of \$0.8 million associated with forecasted fiscal 2011 performance, \$0.6 million of higher self-insurance costs based on unfavorable experience in the first quarter of fiscal 2011 and incremental SG&A of \$0.4 million from the Yunique acquisition. These increased costs were partially offset by the impact of foreign currency translation, which lowered SG&A by approximately \$0.6 million as compared with the prior year, and by a reduction of \$0.3 million in defined benefit pension expense. Gerber anticipates that, if revenue performance continues to improve, SG&A will remain higher than the prior year throughout fiscal 2011 as a result of the related variable sales costs and the expected cessation of temporary cost control measures in fiscal 2011. Gerber expects that its continued focus on reducing costs and lower pension costs should continue to benefit the company for the remainder of fiscal 2011 by partially offsetting the higher variable sales costs.

## Research and Development

In thousands	For the Fiscal Quarters Ended July 31,		Percent Change
	2010	2009	
Research and development	\$ 4,324	\$ 4,428	(2.3)%
Percentage of revenue	3.7%	4.0%	

Research and development, or "R&D," costs remained consistent with fiscal 2010 levels and are expected to remain consistent throughout fiscal 2011. In fiscal 2011, as in fiscal 2010, research and development efforts are focused on strategic new products and sustaining engineering of existing products, which includes potential design changes to reduce product costs.

## Restructuring and Other Expenses

In thousands	For the Fiscal Quarters Ended July 31,	
	2010	2009
Restructuring and other expenses	\$ 520	\$ ---

Restructuring and other expenses consisted of severance costs in the first quarter of fiscal 2011 incurred in the Apparel and Industrial segment. The severance was primarily related to the relocation of Gerber's Massachusetts production facility into its Connecticut production facilities. The severance is expected to be paid in full by April 30, 2011. This facility consolidation plan is expected to result in savings of approximately \$0.9 million as a result of lower annual rent and other building costs. Future additional restructuring and other expenses associated with the Massachusetts facility relocation are expected to be approximately \$0.7 million. Gerber may incur additional restructuring and other

charges as it continues to examine current facility capacity.

Other Income (Expense), net

In thousands	For the Fiscal Quarters Ended July 31,	
	2010	2009
Other income (expense), net	\$ 370	\$ (1,045)



Other income (expense), net primarily includes bank fees, interest income and foreign currency transaction gains and losses. For the fiscal quarter ended July 31, 2010, bank fees were \$0.4 million and were offset by foreign currency transaction gains of \$0.7 million. For the fiscal quarter ended July 31, 2009, bank fees were \$0.4 million and foreign currency transaction losses were \$0.7 million.

Interest Expense