

GERBER SCIENTIFIC INC
Form 8-K
February 28, 2002

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): February 28, 2002

GERBER SCIENTIFIC, INC.

(Exact name of Registrant as specified in its charter)

CONNECTICUT

1-5865

06-0640743

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(State or other jurisdiction of
incorporation or organization)

(Commission File No.)

(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)

Not Applicable

(Former name or former address, if changes since last report)

Item 5. Other Events and Regulation FD Disclosure

See the following press release, dated February 28, 2002, announcing the Company's third quarter results:

For Immediate Release

Contact: Shawn M. Harrington

February 28, 2002

(860) 644-1551

Gerber Scientific, Inc. Reports Third Quarter Results

SOUTH WINDSOR, CT -- Gerber Scientific, Inc. (NYSE: GRB) today reported a third quarter diluted loss per share of \$.16, which included restructuring charges attributable to employee separations of \$.19. Adjusting for the restructuring charges, third quarter diluted earnings per share were \$.03 representing an increase of \$.20 versus the prior year period. This was due to the favorable impact of not amortizing goodwill under a newly adopted accounting standard of \$.15 per diluted share and significant benefits from restructuring and cost reduction actions. Revenues for the third quarter were down \$17.9 million (13.3 percent) versus the prior year period due to continued weakness in most of the Company's geographic markets.

The diluted loss per share reported for the nine-month period ended January 31, 2002 was \$6.09 versus a loss of \$.20 last year. Excluding the third quarter restructuring charge of \$.19 and the cumulative effect of an accounting change for goodwill impairment of \$6.09, diluted earnings per share for the nine-month period ended January 31, 2002 were \$.19. For the nine month period ended January 31, 2001, the diluted loss per share was \$.08 before restructuring charges of \$.13 for employee separations, provision for losses on the sale of facilities, and other asset impairments. The favorable goodwill amortization impact amounted to \$.30 per diluted share on a year-to-date basis.

Further Restructuring Actions Taken in the Quarter

The Company recorded \$5.5 million of restructuring charges in the third quarter consisting of 165 employee separations that are expected to result in annualized cost savings of approximately \$10.0 million. These charges occurred in each operating segment, as well as the corporate headquarters, and were required to offset the earnings impact of the continued economic and market weakness the Company is experiencing in its capital equipment markets.

Steady Cash Flow Generation Continued. Debt Reduced

The Company generated \$18.7 million in cash from operations in the nine-month period ended January 31, 2002, continuing its pattern of steady cash flow generation. This cash flow was generated largely by incremental operating earnings from restructuring and cost reduction actions. Operating cash flow and reduced capital expenditures enabled the Company to reduce total debt \$2.6 million in the third quarter. Working capital reductions this year as well as the proceeds of a sale and leaseback of certain facilities in the second quarter enabled the Company to reduce total debt \$36.4 million from the beginning of the year in May.

Continued Softness in Capital Equipment Markets Impact Top Line

Revenue was \$116.4 million and \$372.6 million for the three and nine months ended January 31, 2002, respectively, compared with \$134.2 million and \$415.5 million in the prior year periods. Although not as significant as in the prior year, the impact of foreign currency translation continued to lower revenues this year. Weaker foreign currency translation rates suppressed revenue by \$1.2 million and \$6.6 million in the three- and nine-month periods ended January 31, 2002 versus the prior year comparable periods. New orders totaled \$113.6 million and \$365.7 million for the third quarter and first nine months this year, respectively, compared with \$133.5 million and \$412.1 million last year. Each of the Company's operating and geographic segments reported lower revenue and orders, except in North American markets for the Company's ophthalmic lens processing equipment. This segment benefited from a general improvement in third quarter orders and sales to a large U.S. discount chain. Lower new equipment volume again accounted for the overall decline as customers continued to delay capital spending due to global economic uncertainty. The lower equipment volume continued to negatively impact profitability although these margin effects were offset by cost reductions realized from last year's initiatives as well as further spending control this year.

Further Operating Initiatives Planned to Improve Working Capital Performance

Commenting on the third quarter results, Marc T. Giles, President and Chief Executive Officer, said, "We delivered solid operating results and continued to reduce our debt despite the weak worldwide economic conditions. Our markets continue to show weakness as indicated by low new order intake rates and backlog levels for our capital equipment products. Accordingly, we took additional restructuring actions in the third quarter. Further, the delayed introduction of MAXX™ and market changes faced by our Spandex distribution business have resulted in unacceptable inventory levels. We have launched a special task force charged with streamlining warehousing and logistics and optimizing inventory. In addition, we implemented longer term best practices and shared service initiatives across the Company in the areas of working capital efficiency, supply chain management, manufacturing, service, and aftermarket to improve our profitability and competitiveness going forward."

Gerber Scientific, Inc. (<http://www.gerberscientific.com>) is the world's leading supplier of sophisticated automated manufacturing systems that enable mass customization in sign making and specialty graphics, apparel and flexible goods, and optical lens processing. Headquartered in South Windsor, Connecticut, the Company operates through four wholly-owned subsidiaries: Gerber Scientific Products, Spandex PLC, Gerber Technology, and Gerber Coburn.

In addition to the historical information contained herein, there are matters discussed that are considered to be "forward looking statements." The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. These forward looking statements involve risks and uncertainties, including, but not limited to, economic, competitive, governmental, and technological factors affecting the Company's operations, markets, products, and services, that could significantly affect results in the future. For a discussion of other risk factors relating to the Company's business, see the Company's Annual Report on Form 10-K for the year ended April 30, 2001, and Quarterly Reports on Form 10-Q for the quarters ended July 31, 2001 and October 31, 2001 as filed with the Securities and Exchange Commission. The forward-looking statements contained in this release are made as of the date of this release, and the Company assumes no obligation to update or revise any forward-looking statements contained in this release.

Maxx is a registered trademark of Gerber Scientific Products

GERBER SCIENTIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

| <u>In thousands (except per share amounts)</u> | Three Months Ended | | Nine Months Ended | |
|---|--------------------|----------------|--------------------|-----------------|
| | <u>January 31,</u> | | <u>January 31,</u> | |
| | <u>2002</u> | <u>2001</u> | <u>2002</u> | <u>2001</u> |
| Revenue: | | | | |
| Product sales | \$104,684 | \$122,056 | \$336,489 | \$378,477 |
| Service | <u>11,691</u> | <u>12,189</u> | <u>36,135</u> | <u>37,012</u> |
| | <u>116,375</u> | <u>134,245</u> | <u>372,624</u> | <u>415,489</u> |
| Costs and Expenses: | | | | |
| Cost of product sales | 68,031 | 79,639 | 219,775 | 243,331 |
| Cost of service | 6,406 | 7,997 | 20,197 | 24,335 |
| Selling, general and administrative | 31,215 | 36,937 | 96,307 | 108,706 |
| Research and development expenses | 6,396 | 7,256 | 20,664 | 22,526 |
| Goodwill amortization ⁽¹⁾ | --- | 2,237 | --- | 6,713 |
| Restructuring charges ^{(2), (3)} | <u>5,468</u> | <u>---</u> | <u>5,468</u> | <u>4,419</u> |
| | <u>117,516</u> | <u>134,066</u> | <u>362,411</u> | <u>410,030</u> |
| Operating income (loss) | (1,141) | 179 | 10,213 | 5,459 |
| Other income (expense) | (380) | 289 | (598) | 395 |
| Interest expense | <u>(3,102)</u> | <u>(3,408)</u> | <u>(9,709)</u> | <u>(10,044)</u> |
| Earnings (loss) before income taxes and cumulative effect of accounting change ^{(1), (2), (3)} | (4,623) | (2,940) | (94) | (4,190) |
| Provision (benefit) for income taxes ^{(1), (2), (3)} | <u>(1,100)</u> | <u>700</u> | <u>---</u> | <u>300</u> |
| Earnings (loss) before cumulative effect of accounting change ^{(1), (2), (3)} | (3,523) | (3,640) | (94) | (4,490) |
| Cumulative effect of accounting change ⁽⁴⁾ | <u>---</u> | <u>---</u> | <u>(134,251)</u> | <u>---</u> |

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| | | | | |
|--|------------|------------|-------------|------------|
| Net earnings (loss) | \$ (3,523) | \$ (3,640) | \$(134,345) | \$ (4,490) |
| | ===== | ===== | ===== | ===== |
| Per share of common stock: | | | | |
| Basic before cumulative effect of accounting change ^{(1), (2), (3)} | \$ (.16) | \$ (.17) | \$ --- | \$ (.20) |
| Cumulative effect of accounting change ⁽⁴⁾ | --- | --- | (6.09) | --- |
| Basic | \$ (.16) | \$ (.17) | \$ (6.09) | \$ (.20) |
| | ===== | ===== | ===== | ===== |
| Diluted before cumulative effect of accounting change ^{(1),(2),(3)} | \$ (.16) | \$ (.17) | \$ --- | \$ (.20) |
| Cumulative effect of accounting change ⁽⁴⁾ | --- | --- | (6.09) | --- |
| Diluted | \$ (.16) | \$ (.17) | \$ (6.09) | \$ (.20) |
| | ===== | ===== | ===== | ===== |
| Dividends | \$ --- | \$.08 | \$ --- | \$.24 |
| | ===== | ===== | ===== | ===== |
| Average shares outstanding: | | | | |
| Basic | 22,083 | 22,025 | 22,063 | 22,010 |
| Diluted | 22,083 | 22,025 | 22,063 | 22,010 |

(1)

Effective May 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which resulted in a favorable impact to earnings (loss) before income taxes and cumulative effect of accounting change of \$2,222 and \$6,667 and to net earnings of \$3,222 and \$6,667 (\$.15 and \$.30 per share on a diluted basis) in the third quarter and nine months ended January 31, 2002, respectively.

(2)

Included in the nine months ended January 31, 2001 was a restructuring charge related to a reduction in workforce, provisions for losses on the sale of facilities, and other asset impairments. This charge amounted to \$4,419 before income taxes and \$2,819 after taxes (\$.13 per share on a diluted basis.)

(3)

Included in the three and nine months ended January 31, 2002 was a restructuring charge related to a reduction in workforce. This charge amounted to \$5,468 before income taxes and \$4,268 after taxes (\$.19 per share on a diluted basis.)

(4)

In accordance with the new accounting statement for goodwill and other intangible assets, the Company recorded a charge for goodwill impairment in its Ophthalmic Lens Processing segment of \$20,651 and its Sign Making and Specialty Graphics segment of \$113,600. These charges were recorded retroactively to the beginning of the fiscal year (May 1, 2001).

GERBER SCIENTIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

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| <u>In thousands (except share amounts)</u> | <u>January 31,</u> <u>2002</u> | <u>April 30,</u> <u>2001</u> |
|--|-----------------------------------|---------------------------------|
| Assets: | | |
| Current Assets: | | |
| Cash and short-term cash investments | \$14,892 | \$ 20,866 |
| Accounts receivable | 79,849 | 98,159 |
| Inventories | 69,592 | 69,441 |
| Prepaid expenses | 22,404 | 18,965 |
| Net assets held for sale | <u>4,590</u> | <u>21,369</u> |
| | <u>191,327</u> | <u>228,800</u> |
| Property, Plant and Equipment: | 113,932 | 112,572 |
| Less accumulated depreciation | <u>60,652</u> | <u>53,022</u> |
| | <u>53,280</u> | <u>59,550</u> |
| Intangible Assets: | | |
| Goodwill, net of accumulated amortization ⁽¹⁾ | 49,158 | 183,451 |
| Prepaid pension cost | 16,761 | 16,761 |
| Patents and other intangible assets, net of accumulated amortization | <u>7,274</u> | <u>7,345</u> |
| | <u>73,193</u> | <u>207,557</u> |
| Deferred Income Taxes | 687 | 793 |
| Other Assets | <u>4,805</u> | <u>4,493</u> |
| | <u>\$323,292</u> | <u>\$501,193</u> |
| | ===== | ===== |
| Liabilities and Shareholders' Equity: | | |
| Current Liabilities: | | |
| Notes payable | \$ --- | \$ --- |
| Accounts payable | 41,906 | 48,520 |
| Accrued compensation and benefits | 16,850 | 18,576 |
| Other accrued liabilities | 28,823 | 25,749 |
| Deferred revenue | 12,246 | 13,129 |
| Advances on sales contracts | <u>744</u> | <u>1,562</u> |
| | <u>100,569</u> | <u>107,536</u> |
| Noncurrent Liabilities: | | |
| Other liabilities | 2,407 | --- |
| Long-term debt | <u>133,559</u> | <u>169,914</u> |
| | <u>135,966</u> | <u>169,914</u> |
| Contingencies and Commitments | | |
| Shareholders' Equity: | | |
| Preferred stock, no par value; authorized 10,000,000 shares; no shares issued | --- | --- |
| Common stock, \$1.00 par value; authorized 65,000,000 shares; issued 22,877,669 and 22,828,742 shares | 22,878 | 22,829 |
| Paid-in capital | 44,131 | 43,835 |
| Retained earnings ⁽¹⁾ | 45,737 | 180,082 |
| Treasury stock, at cost (777,117 and 784,837 shares, respectively) | (15,980) | (16,138) |
| Unamortized value of restricted stock grants | (506) | (439) |
| Accumulated other comprehensive income (loss) | <u>(9,503)</u> | <u>(6,426)</u> |
| | <u>86,757</u> | <u>223,743</u> |
| | <u>\$323,292</u> | <u>\$501,193</u> |
| | ===== | ===== |

(1)

Includes a charge for goodwill impairment of \$134,251 in accordance with the new accounting statement for goodwill and other intangible assets, which was recorded retroactively to the beginning of the fiscal year (May 1, 2001).

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GERBER SCIENTIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| <u>In thousands</u> | Nine Months Ended <u>January 31,</u> | |
|---|---|-----------------|
| | <u>2002</u> | <u>2001</u> |
| Cash Provided by (Used for): | | |
| Operating Activities: | | |
| Net earnings (loss) | \$(134,345) | \$ (4,490) |
| Adjustments to reconcile net earnings (loss) to cash provided by operating activities: | | |
| Cumulative effect of accounting change ⁽¹⁾ | 134,251 | --- |
| Depreciation and amortization | 11,830 | 20,827 |
| Restructuring charges | 5,468 | 4,419 |
| Deferred income taxes | 106 | (313) |
| Other non-cash items | 769 | 399 |
| Changes in operating accounts: | | |
| Receivables | 16,985 | 21,175 |
| Inventories | (1,552) | (3,255) |
| Prepaid expenses | (3,987) | 2,231 |
| Accounts payable and accrued expenses | <u>(10,826)</u> | <u>(15,682)</u> |
| Provided by Operating Activities | <u>18,699</u> | <u>25,311</u> |
| Investing Activities: | | |
| Additions to property, plant and equipment | (3,576) | (14,245) |
| Proceeds from sale of assets | 17,183 | 13,721 |
| Intangible and other assets | (1,378) | (1,749) |
| Other, net | <u>(426)</u> | <u>977</u> |
| Provided by (Used for) Investing Activities | <u>11,803</u> | <u>(1,296)</u> |
| Financing Activities: | | |
| Additions of long-term debt | 33,500 | 34,000 |
| Repayments of long-term debt | (69,461) | (61,265) |
| Exercise of stock options | 97 | --- |
| Debt issue costs | (563) | (168) |
| Other common stock activity | (49) | 66 |
| Dividends on common stock | <u>---</u> | <u>(5,275)</u> |
| (Used for) Financing Activities | <u>(36,476)</u> | <u>(32,642)</u> |
| (Decrease) in Cash and Short-Term Cash Investments | (5,974) | (8,627) |
| Cash and Short-Term Cash Investments, Beginning of Period | <u>20,866</u> | <u>22,954</u> |
| Cash and Short-Term Cash Investments, End of Period | <u>\$14,892</u> | <u>\$14,327</u> |
| | ===== | ===== |

(1)

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In accordance with the new accounting statement for goodwill and other intangible assets, the Company recorded a charge for goodwill impairment in its Ophthalmic Lens Processing segment

of \$20,651 and its Sign Making and Specialty Graphics segment of \$113,600. These charges were recorded retroactively to the beginning of the fiscal year (May 1, 2001).

GERBER SCIENTIFIC, INC. AND SUBSIDIARIES
SEGMENT INFORMATION

| <u>In thousands</u> | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | <u>January 31</u> | | <u>January 31</u> | |
| | <u>2002</u> | <u>2001</u> | <u>2002</u> | <u>2001</u> |
| Segment revenue: | | | | |
| Sign Making & Specialty Graphics | \$ 58,655 | \$ 64,740 | \$190,885 | \$203,705 |
| Apparel & Flexible Materials | 37,272 | 47,403 | 120,525 | 143,905 |
| Ophthalmic Lens Processing | <u>20,448</u> | <u>22,102</u> | <u>61,214</u> | <u>67,879</u> |
| | <u>\$116,375</u> | <u>\$134,245</u> | <u>\$372,624</u> | <u>\$415,489</u> |
| | ===== | ===== | ===== | ===== |
| Segment profit: | | | | |
| Sign Making & Specialty Graphics | \$ 2,808 | \$ 1,993 | \$ 13,767 | \$ 9,252 |
| Apparel & Flexible Materials | 1,033 | 605 | 6,424 | 2,063 |
| Ophthalmic Lens Processing | <u>1,082</u> | <u>1,157</u> | <u>3,331</u> | <u>3,278</u> |
| | \$ 4,923 | \$ 3,755 | \$ 23,522 | \$ 14,593 |
| Corporate expenses and special charge, net of other income/expense | (6,444) | (3,287) | (13,907) | (8,739) |
| Interest expense | <u>(3,102)</u> | <u>(3,408)</u> | <u>(9,709)</u> | <u>(10,044)</u> |
| Earnings (loss) before income taxes and cumulative effect of accounting change | \$ (4,623) | \$ (2,940) | \$ (94) | \$ (4,190) |
| | ===== | ===== | ===== | ===== |

Segment profit (loss) for the three and nine months ended January 31, 2001 included goodwill amortization of \$1.5 million and \$4.5 million, respectively, for the Sign Making and Specialty Graphics operating segment; \$0.2 million and \$0.8 million for the Apparel and Flexible Materials operating segment; and \$0.5 million and \$1.4 million for the Ophthalmic Lens Processing operating segment. Goodwill amortization was not incurred for the three and nine months ended January 31, 2002.

Segment profit (loss) for the three and nine months ended January 31, 2002 included special charges of \$1.1 million for the Sign Making and Specialty Graphics operating segment; \$1.9 million for the Apparel and Flexible Materials operating segment; and \$0.3 million for the Ophthalmic Lens Processing operating segment. Net corporate expenses for the three and nine months ended January 31, 2002 included special charges of \$2.2 million.

Segment profit (loss) for the nine months ended January 31, 2001 included special charges of \$0.8 million for the Sign Making and Specialty Graphics operating segment and \$1.0 million for the Apparel and Flexible Materials operating segment. Net corporate expenses for the nine months ended January 31, 2001 included special charges of \$2.6 million.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

GERBER SCIENTIFIC, INC.

(Registrant)

Date: February 28, 2002 By: /s/ Anthony L. Mattacchione
Anthony L. Mattacchione
Corporate Controller,
Acting Principal Accounting Officer
(Principal Accounting Officer)