



Fourth Quarter Earnings Conference Call Transcript
June 26, 2009 – 10:00 a.m. ET
Moderator: Marc Giles

Operator: Good day and welcome to the Gerber Scientific, Incorporated's Fourth Quarter and Fiscal Year End 2009 Earnings Release conference call. Today's conference is being recorded and broadcast over the Internet.

I would like to remind everyone that some of today's remarks and the answers during the Q&A will include certain forward-looking statements as defined in the federal securities laws. These include statements regarding Gerber's expected financial condition, results of operations, cash flows, product launches and planned cost reductions as well as other planned events and expectations.

For a discussion of important risks and uncertainties that could cause Gerber's actual results to differ from the results expressed or implied in these forward-looking statements, you should read Gerber's annual report on Form 10-K for the fiscal year ended April 30, 2008, which was filed with the SEC on June 27, 2008, as well as other information included in subsequently filed quarterly reports on Form 10-Q and current report on Form 8-K.

These risks include but are not limited to, delays in the company's new product development and commercialization; intense competition in markets for each of the company's operation segments; rapid technological advances; availability and cost of raw materials, adverse economic and credit market conditions; volatility in foreign currency exchange rates and fluctuation in interest rates.

At this time for opening remarks and introductions, I would like to turn the conference over to the company's President and Chief Executive Officer, Mr. Marc Giles. Mr. Marc Giles, please go ahead, sir.

Marc Giles: Thank you operator. Good morning everybody. We appreciate your continued interest and participation today in Gerber Scientific's Fiscal 2009 Fourth Quarter conference call. Joining me on the call today is our Executive Vice President and Chief Financial Officer Mike Elia and our Vice President and Chief Accounting Officer John Krawczynski.

A housekeeping note before beginning, we have added some financial tables to the press release that we normally recite during the call so that you would have the opportunity to review beforehand. In addition, in trying to shorten what is typically a lengthy call we will no longer recite all results that are detailed in the earnings release but rather focus on the qualitative issues affecting the quarter. Many of the tables, the financial numbers are self-explanatory and do not need further comment. Hopefully, this will give you more time to ask questions that are of the most importance to you. I am going to provide a high level overview of last quarter's performance, current business conditions and our outlook. Then Mike will provide more details regarding financial results and liquidity.

As is apparent from this morning's release, the persistence of the unprecedented global recession significantly impacted results in our fiscal fourth quarter. Revenue in the quarter was significantly below even our dramatically reduced expectations.

This was the first time that I can recall that we did not get a seasonal bounce from the third to the fourth quarter and that's telling me that the economic conditions and the markets we serve worsened in that quarter. That being said, I believe that the fourth quarter was likely the bottom of our cycle as we have begun to see some encouraging improvement in activity in many of our markets.

China in particular has strengthened in order activity since the end of the fiscal year. When we reported our third quarter results in March we revised our fiscal 2009 revenue guidance downward to between \$550 and \$570 million. And as you can see we came in at the very low end of that guidance.

However, from an EPS standpoint we didn't achieve our revised guidance of between 20 and 30 cents per share due principally to the margin impact of significantly lower volume and less favorable mix. On the other hand I will say that I am very pleased with the management team's ability to generate positive cash flow from operations in the fourth quarter despite the loss in net earnings.

The intense focus on cost control and cash management is delivering the necessary results. Sales performance was weak across all of our markets. Versus a year ago, the current fourth quarter sales for our three reporting segments.

Sign Making and Specialty Graphics, Apparel and Flexible Materials and Ophthalmic Lens Processing, were off 31%, 33% and 24% respectively, reflecting the broad based global nature of the economic downturn.

As compared to the third quarter of fiscal 2009, continued erosion at Gerber Technology, our historically most profitable business during normal times, fully offset revenue improvements at Spandex and Gerber Coburn. Equipment and software sales fared the worst, declining 44% from a year ago while after market revenues were down 28%. Actually our service revenue, which provides a more stable annuity stream and represents about 15% of our consolidated revenues in the fourth quarter were off a more modest 5% and helped to somewhat cushion the impact of the steep decline in the other revenue categories.

Sales in the Sign Making segment, which consists of Gerber Scientific Products and Spandex, were down 31% year over year to \$69.4 million in the current quarter. However, unfavorable currency exchange had a significant impact. On a constant currency basis, total sales for this segment were down 18%. Equipment, software and distribution sales all slowed dramatically in this segment during the quarter with equipment posting the largest decline of 46%.

Despite this, Solara Ion and related inks contributed about \$2.8 million to the segment's top line, which is certainly encouraging in this very difficult economic environment. We shipped about 30 Ion units in the quarter meaning we were shy of our goal to ship 100 units in the second half of the fiscal year, shipping a total of 83 units during that timeframe, which isn't surprising in this environment. Versus our expectations Ion sales were particularly weaker in the United States.

So for the full fiscal year, we shipped about 240 units or about \$16 million in incremental revenue. During the quarter we also continued to experience higher than desired launch and service costs for this new product but we have a tighter team in place that I believe has its hands around the issues. And we expect that we will make the necessary progress to bring those costs in line during the course of the next couple of quarters.

Fourth quarter operating profit for the Sign Making and Specialty Graphics segment declined 70% to \$1.6 million due principally to the volume decline.

Economic uncertainty and tightened credit have hurt GSP's equipment business but we believe that this impact has peaked and we are beginning to see some signs of an improvement based on consumable sales and activity around lower priced equipment. At this point, we believe that most of Gerber Scientific Products' markets have bottomed out and we expect moderate improvement in the second half of fiscal 2010.

At Spandex sign makers are holding down materials inventories and as a result current orders are smaller and more frequent. But on the positive side they also tend to be at a higher margin. Price competition among sign makers and reduced ad budgets have impacted demand for traditional Sign Making materials. However, orders for digital materials continue to grow at a double digit pace. And Spandex's proprietary

ImagePerfect line of digital materials is outpacing the market. Certain Spandex markets including Spain, the UK, France and Scandinavia now appear to be firming. However, the outlook in Germany is unclear and Eastern Europe is increasingly weak.

In the Apparel and Flexible Materials segment, which consists of Gerber Technology and the new acquisitions Virtek and Gamma, sales continue to be affected by the global slide in consumer spending for apparel, furniture and automobiles with fourth quarter sales down 33% year over year to 36.7 million. The Virtek and Gamma acquisitions contributed \$8.7 million in sales during the quarter. Excluding these sales Gerber Technology's base business was off 49% reflecting particular weakness in systems and higher margin software sales.

Gerber Technology's performance reflected the weakness in China where sales were off 49% year over year in the fourth quarter. We are now finally just beginning to see improved order volume in China as a result of the government's stimulus plan there, which is very encouraging as this is the largest single geographic market for Gerber Technology.

At its low point in the third quarter, Gerber Technology booked a total of \$800,000 in orders for equipment and software in China. In the fourth quarter they booked \$1.6 million and so far this quarter Gerber Technology has already booked over \$1.9 million. Nevertheless, we do have a long way to go to get back to the pre-recession sales levels when we would expect 7 to \$8 million in orders per quarter for equipment and software.

Unfortunately Eastern Europe, which has also been an important driver of Gerber Technology's growth, peaking at an average quarterly equipment and software order rate of almost \$4 million in the fiscal year 2008, remains very weak and orders to date during this quarter so far are under \$400,000. While automotive activity remains weak we are seeing signs of strengthening in the US and Europe for industrial fabrics and the aerospace and composites markets are still relatively strong with a number of large orders being quoted currently.

Operating profit for the segment was off \$6.8 million or 90% from the same quarter a year ago reflecting the impact of lower sales volume and a less favorable mix of higher margin software.

Many of Gerber Technology's apparel customers have cut back on design staff, which we believe have caused this decline in new CAD software sales, which declined disproportionately down year over year 66% versus the decline in hardware sales, which were down year over year 42% in the fourth quarter.

Though our recent acquisitions Virtek and Gamma contributed positively to our fourth quarter, their collective revenues declined in the fourth quarter from their pre-acquisition levels a year ago. However, at Virtek we are working on a number of very large quotes in the aerospace composite markets. And at Gamma, we continue to find ways to leverage our production resources and expect to see our strategy there contribute positively to our bottom line during fiscal 2010.

While, overall, Gerber Technology's sales pipeline is relatively strong, orders have been difficult to close due to the lack of credit. Nonetheless in this segment, based on what we are seeing over the past couple of months, we are cautiously optimistic the worst is behind us and expect the recovery to begin slowly in the second half of the current fiscal year.

And at Gerber Coburn wholesale customers are continuing to report significantly reduced volumes. And major retail eyewear and lens processing customers are reporting lower same store sales. As a result, for the fourth quarter of 2009 sales from this segment were down 23.7% to \$14 million from a year ago. However, in comparison to the third quarter sales improved 13% or by \$1.6 million.

Excluding an unfavorable currency exchange of \$1 million, current order sales were off 18.4% from a year ago. Despite the sales decline, Gerber Coburn made an operating profit of 4% on sales driven by the management team's aggressive cost cutting actions and the improved gross margins of their new product.

Operating profit from this segment in the current quarter was \$573,000 compared to operating income of \$1.3 million last year driven primarily by the significantly lower volume.

While orders for equipment, after market and consumable products all remained soft, the Asian market for Gerber Coburn's products is showing signs of improvement with several recent orders for their recently launched advanced lens processing system Digital Lens Manufacturing Analogy.

At this point, I will turn the call over to Mike and then afterward I will provide our current outlook and summary. Mike.

Mike Elia: Thanks Marc. As a reminder a webcast replay of this call and a transcript will be available on our web site shortly after the call.

On a constant dollar basis and excluding the recent acquisitions, Q4 revenues were down 26.1%. Recent acquisitions added about \$8.7 million to the Q4 revenues. Unfavorable exchange rates decreased revenues \$16.9 million from a year ago. These significant revenue declines across all our business segments outpaced nearly \$10 million in Q4 manufacturing and distribution cost reductions from a year ago and drove down gross profits and lowered gross margins to 27.7%.

Order backlog was down significantly at quarter end compared to a year ago due to the market dynamics already mentioned. Order backlog from the Sign Making and specialty graphics segment was off 43% or \$1.5 million to \$2 million at the end of the fourth quarter. Backlog from the Apparel and Flexible Materials segment was off 32% or \$10.9 million to \$22.9 million. And the lens processing segment backlog was down 17% or \$240,000 or \$1.2 million. Total backlog at the end of Q4 was about \$26.1 million, about the same as the third quarter.

As you may recall, we began attacking our cost structure last August and positioning us for significant reductions in SG&A. We took further actions in the fourth quarter. We froze our defined benefit pension plans, which we estimate will reduce our year over year pension expense by about \$1.8 million or about a half million dollars a quarter. As a result of the freeze we also had to recognize a half million dollars in non-cash charges in the fourth quarter for unrecognized prior service costs. At the same time we made certain elections and assumption changes to our qualified defined benefit plan, which allowed us to eliminate fiscal 2010 cash funding requirements, which was about a reduction of approximately \$6 million in funding from fiscal 2009.

Also during Q4, we implemented a two-month, 10% across the board wage cut in the US. As a result of these current and past actions, reported SG&A expenses dropped \$6.8 million. Yet on a constant dollar basis and excluding recent acquisitions, the pension charge and additional bad debt charges, Q4 SG&A spending fell around \$9 million of which \$2.2 million related to lower incentive and compensation expense due to lower performance.

As mentioned on past calls, we took actions to limit our R&D spending to sustaining projects. With much of the core R&D costs behind us, reported R&D dropped \$1.6 million to \$5.1 million for the quarter. Excluding the recent acquisitions, R&D expenses dropped \$2.6 million.

In terms of taxes, you may recall that we recorded a significant second quarter tax benefit from the reversal of a French tax valuation reserve. This benefit distorts our effective tax rate for the fiscal year 2009. Without this benefit our effective tax rate for fiscal 2009 is about 41%. Differences between our effective tax rate and our statutory rate are due to tax contingencies and the impact of international rate differences.

For fiscal 2010 we expect our effective tax rate to return to a more normal level in the 30 to 40% range depending upon performance and country by country profit mix.

As this quarter highlights, our profit performance is sensitive to sales volume and product mix and additional cost reduction actions are required. We have extended the 10% wage reduction in the US and continue to attack all discretionary spending. More important, we are considering a number of asset sales that will allow us to generate cash and in certain cases remove non-core underperforming assets. At the present time we cannot elaborate because we are in various stages of discussions with potential buyers. However, if consummated, these sales could generate proceeds of up to \$20 million, which will substantially improve our bank covenant ratios.

The diluted loss per share from the current quarter excluding a one cent per share non-cash charge from the write off of capitalized debt financing costs related to the amendment of our credit facility was nine cents per share compared to diluted EPS of 22 cents earned in the fourth quarter of 2008 after adjusting for a four cent per share gain on the sale of non-operating assets.

Now let me just touch on a few balance sheet and cash flow items that should be mentioned.

Trade receivables at the end of the fourth quarter were \$87.8 million compared to \$120.8 million a year ago in the fourth quarter or a year over year drop of \$33 million primarily due to lower volume. DSO increased to 66 days in the fourth quarter from 63 days a year ago reflecting a higher mix of international sales. However, from a cash flow perspective, a cash receivable was the use of cash of about \$2.1 million. Inventories at the end of the fourth quarter were \$72.1 million compared with \$76.9 million a year ago or down \$4.8 million.

Inventory turns at the end of the fourth quarter were 4.6 times compared to 6.4 times a year ago, reflecting the rapid drop in sales volume. By reducing our inventories we generated about \$9 million in positive cash flow during the fourth quarter.

Net cash provided by operating activities in the current quarter net of capital expenditures was \$1.7 million compared to \$9.4 million in the fourth quarter of last year. The change was due principally to net loss in the current fourth quarter compared to the net income last year.

Capital expenditures were down about a half million dollars year over year in the current fourth quarter to \$1.7 million. Obviously in this environment we plan to minimize CAPEX spending keeping it around 7 to \$8 million at an annual rate.

As of April 30, 2009 we had \$73.5 million in debt. This included \$67.5 million drawn under our senior revolver, accruing interest at various LIBOR rates plus 225 basis points; undrawn letters of credit outstanding of \$7.6 million; and \$6 million in industrial development plans accruing interest at about 3.15%. Total debt net of cash outstanding on April 30, 2009 was \$63.2 million. Total liquidity was \$11-1/2 million, which consisted of \$10.3 million in cash and \$1.2 million in availability under our senior revolving credit facility based on the current financial covenants.

We were in compliance with the bank covenants at quarter end. We are aggressively working our 2010 plan to further reduce costs and improve earnings. This plan, enhanced by the selective asset sales I mentioned earlier, will provide us with additional flexibility and availability under our credit facility.

I'll now turn the call back over to Marc to review our fiscal 2010 outlook and then we'll open the call up for your questions.

Marc Giles: Thanks Mike. Visibility remains clouded. However, we are seeing pockets of improvement and expect that we'll begin to see modest recovery in the last half of our current fiscal year.

If this assessment is correct, we believe that given our reduced cost structure, combined with operating improvements we have made, fiscal 2010 should deliver substantial improvement in earnings versus fiscal 2009. Having said that, though, with a lack of real market visibility we are not comfortable providing guidance at this time. We do think that our market conditions bottom in the fourth quarter. However, business conditions remain very weak. As soon as we are able to resume providing guidance we will do so.

In summary, with the persistence of the weak business conditions, our team continues to aggressively execute a near term strategy focused on cash generation through unrelenting expense management, working capital reductions and asset sales that will allow us to improve our liquidity position and financial flexibility.

We recognize and we're sure you do too that this recession, while certainly more protracted than any of us would have liked, will eventually end and we'll get back to doing what we do best, leading the market in technological innovation.

Until that happens, rest assured we are doing everything we possibly can to ensure that we weather this downturn and come out the other side as a leaner, more efficient and competitively positioned global technology manufacturer.

And now, I will open up the call to your questions. Operator.

Operator: Thank you, sir. Today's question and answer session will be conducted electronically. If you would like to ask a question today, you can do so by pressing the star key followed by the digit 1 on your touchtone telephone. If you're speaking on a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. And once again, it is star 1 on your touchtone telephone if you'd like to ask a question. And we'll pause for just a moment to assemble the queue.

And we will take our first question from Arnie Ursaner with CJS Securities.

Arnie Ursaner: Hi. Good morning.

Marc Giles: Good morning Arnie.

Arnie Ursaner: Kind of a two- or three-part interrelated question. You mention in your outlook and guidance you expect significant improvement in business conditions in the last half of the fiscal year. Do you expect to lose money in the first half of the year? And then the interrelated piece, you also talk about some asset sales you might generate. What I'm trying to get a feel for is if I look at the first half of the year while you're not tripping any covenants now, how much room do we have? And if you were to continue to lose money in the first half how that would impact it? And of the asset sales, will you be able to take - are the sales you're considering businesses that are losing money? And will you in fact be able to take the losses out when you do your EBITDA calculations?

Marc Giles: All right Arnie, I'll try to remember. I'll go back. I didn't get all of those notes but let me just go back to the beginning. I didn't say that we were looking for significantly improved market conditions in the back half of our fiscal year, which would begin in November. But we do forecast that improvement will begin in the back half of the fiscal year and build through the fourth quarter. We do not currently forecast to lose money in any quarter in the coming fiscal year. Yes, of course because of the fourth quarter our bank covenants are tighter than we would prefer.

And the first couple quarters of this fiscal year we currently forecast to meet and pass those covenants. So based on our forecasting and analysis, that should not be a problem. That being said, as Mike indicated, we are focused on making sure we build as comfortable a cushion as we can around those covenants.

And that's why we decided a few months ago now obviously to begin a process to sell some underperforming and/or non-strategic assets so that we could pay down debt. Now we do have in that mix without specifying anything, assets that are operationally losing money and that we can sell for cash.

So obviously that kind of an asset would have the biggest positive impact on our bank covenants because we lose a loss EBITDA situation and then at the same time pay down debt. Obviously any of the sales that we would consider that are operational sales, we would only do so at this particular time and spend the resource to do so if it contributed favorably to our ratios.

And that means that we could pay down more debt than we would give up in the profit ratio with regard to EBITDA. So those are the things that we're focused on. There are also other asset sales that are non-operating asset sales that are in this mix as well although not as large in terms of dollar contribution.

And obviously those other kinds of assets don't contribute anything directly on a profit basis. So that would be a straight debt reduction and provide us a greater latitude. And then in the meantime until we complete those things, as Mike indicated we're just very, very focused on containing our costs and at the same time still investing where we need to invest so that we ensure that we can get going very quickly when the conditions do start to improve. Did I cover the ground for you, Arnie?

Arnie Ursaner: You nailed it. It was really the three that you did weave them together, which is exactly what I was hoping you would try to do. One very quick question for Mike if I can, the increase of 1.8 million in bad debt, was that a single account or was that multiple accounts? And how do you think we should look about this on this going forward?

Mike Elia: Yeah. It was multiple across for mostly for general economic conditions that we're seeing. On the whole, Arnie, our past due over 90 days was about 8% of total accounts receivable. So - and that's in fact down from where it was in the third quarter, which was about 12%. So the receivables are healthy. We're very comfortable with what we're seeing. And we think this reserve just clears things up.

Arnie Ursaner: Okay. Marc, a little maybe more strategic question to have you think about. Your driver of gross margin was really a function of two things, better manufacturing and lean improvements, lowering your cost and efficiency of manufacturing.

But the other side is introducing new products that have higher margin, better mix, an example being the Solara Ion. Can you comment a little bit more about where we are on the new product roll out, some of the things you might have, how they could improve gross margins and where you stand on the improvements on lean manufacturing initiatives?

Marc Giles: Sure. Why don't I start at the end one? I mentioned a little while ago that we continue to make investments in some key areas.

One of those areas that we're investing in and continue to invest in, resource and money, is in our lean implementation on which I think we're finally making some good traction and I give our Vice President of Operations Joe Mill credit for the progress he is beginning to make there as well as supply chain simplification and cost management there. And I'll note that again give Joe some credit that since he has come on board we have reduced our manufacturing suppliers by almost half to have more strategic relationships with fewer vendors. So we are making progress and we continue to make progress on that front. So that will again continue to accrete to us. Obviously it's not a light switch but will continue to accrete to us gradually over time. And we're very pleased about where we stand on that. On new products, we have reduced our R&D spending.

We are not doing as many projects as under normal times we probably would. But we are more focused on fewer higher impact projects. And just to name a couple of those, one is the E2G Blocking System for Gerber Coburn. And although Gerber Coburn is a relatively small business, we see this market opportunity as a

very sizable and very, very profitable market opportunity within that context. And we're planning to launch that product during this current fiscal year assuming we continue to move through the gate process at the pace we're at now. We also plan to further extend the Ion line.

We did a technology exhibition at a trade show recently of another Ion product, which is a higher resolution, higher priced, higher performance product that we're extremely enthusiastic about. That product also we do plan to launch during this current fiscal year assuming things continue to move as they are.

At Gerber Technology we have plans to launch two new products this year, one in the apparel industry that is linked to our recent acquisition in China and another product line that is more focused on industrial applications that we expect will be the first in a series of systems focused on industrial applications.

And then with our new acquisition of Virtek, which was a laser imaging and templating, we do have an ongoing project there that is software based that will better integrate and optimize the coordination between Gerber Technology's cutting systems and Virtek's templating systems.

That will show how that system can be integrated and optimized for customer applications so we're very excited about that. And that's something we plan also and expect to launch during the coming fiscal year. So we are very busy. We're very focused.

We're not doing as many projects as we manage the cash but we're very focused on some high end, high impact products.

Arnie Ursaner: Thank you very much.

Marc Giles: Absolutely Arnie.

Operator: And ladies and gentlemen, just as a reminder, it is star 1 on your phone if you'd like to ask a question. And we'll move on to our next question from Jim Ricchiuti with Needham and Company.

Jim Ricchiuti: Thank you. Good morning.

Marc Giles: Good morning Jim.

Jim Ricchiuti: Marc, on the question of margins, obviously the lower revenues are impacting margins as is mix. I'm just curious on the pricing side, what's the pricing environment like in the various businesses? And to what extent is that perhaps impacting your gross margin?

Marc Giles: Actually we've been fortunate so far that we have not had to be very aggressive on the pricing front. We have been able to maintain our pricing levels for the vast majority of our sales and our product lines.

Some of that internationally, obviously we're being helped a little bit by the dollar having weakened over the past couple of quarters. Right around now \$1.38 or \$1.40 to the euro. So that has helped us sustain some pricing viability when we're talking about international sales of larger equipment. That being said, there are some cases where we are moving on price to bring in if it makes sense for volume and commitments. So net-net I'd say pricing is relatively neutral.

Jim Ricchiuti: Okay. Now it sounds like you still have a fairly active product development effort judging by some of the projects you just talked about. Would you expect your R&D though to be flat to down this year?

Marc Giles: Our spending will definitely be down.

Jim Ricchiuti: Okay.

Marc Giles: It's down pretty substantially right now and I would - our plans are that it will remain substantially lower. Part of that is obviously not only are we focused on being careful with expenses and just focusing on some of the key projects and doing less. The other part of it is we did do some big launches last year, particularly the Ion that were very, very significant drivers of R&D spending. So that has tapered off.

Jim Ricchiuti: Okay and Mike, a question for you. Just in light of the cost reduction initiatives, I'm just trying to get a sense and maybe you could help us. In terms of your quarterly cash break even going forward, what kind of revenue level would you be cash neutral now?

Mike Elia: We're probably - I mean this quarter we were about 120 even though we had \$120 million in revenue. And we had some kind of unusual charges but from a cash perspective as we continue to drive down inventory receivables will stabilize. I would say that we're in the 115 to 120 range per quarter from a cash perspective.

Jim Ricchiuti: Okay. Okay. That's helpful. And Marc, as you talked about the increase in quote activity and it sounds like you're a little bit more positive with respect to the back half of the year. So first question is any more specifics in terms of where you're seeing the increase in quote activity? And then secondly, as you look out at the balance of the year and you think about potentially some improvement in the results, is that basically just you're assuming some pick up in the economy? Or do you have some specific visibility?

Marc Giles: Yeah. As far as the larger quotes, most of those are tied around activity that our Gerber Technology linked with the Virtek acquisition is driving, particularly in industrial composite areas where there are some very large bids out right now. So we're encouraged by that activity. There is also finally starting to see some increased activity around larger software orders particularly on the PLM front. It's always hard to figure out exactly when and if those will really close. But at least some of the larger firms in the apparel side are starting to consider that again.

So that is also encouraging. I mentioned China activity in China for Gerber Technology and Gerber Coburn - for both have picked up very, very significantly. So that's encouraging that that stimulus appears to have worked particularly in China. Although Asia in general is up particularly in China because it drives so much of our volume there. And then in other areas, there is a mixed bag but I would say on balance we see while it's still very, very weak, we see certainly no worse worsening of situation in the Sign Making area. And so that feels pretty good. And then when we talk about the back half of the year, it's really just beginning. We're forecasting just beginning in the third quarter.

And then moving into the fourth quarter based on the indicators and signals from we're getting from our customers in Gerber Technology space and the results that we're seeing in activity right now that are pointing that we should see stronger market activity in that area.

Jim Ricchiuti: Okay. That's helpful. And then last question, you may not be able to comment directly on this but is there any sense you can give us as to the timing of potential asset sales? Would it be in the first half of the year?

Marc Giles: I would say if they're going to happen it's going to be in the first half of the year. Yes.

Jim Ricchiuti: Okay. Thanks very much.

Operator: And our next question comes from Greg Eisen with ICM Asset Management.

Greg Eisen: Thanks. Good morning.

Marc Giles: Good morning.

Greg Eisen: If I could ask about the Solara Ion line, could we talk about - could you review the product line itself, the extensions of the product line that you already brought to market? That you had talked about as I recall from the base model, introducing a lower price point version of the product - that was what was rolled out in this past fiscal year, correct?

Marc Giles: Well, it was rolled out I think in the end of Q3, beginning of Q4.

Greg Eisen: Okay. Was it a meaningful portion of Q4's...

Marc Giles: No.

Greg Eisen: No it wasn't?

Marc Giles: No.

Greg Eisen: Okay.

Marc Giles: It was not. Actually we rolled it out as we had planned all along at that time to roll out a lower price point. Unfortunately that price point appeals to the segment of the market that just can't find credit even for that level of a purchase. So that range, that level of customer in that sector of the market is - they're okay and they're still buying equipment in the \$25,000 or less, \$20,000 or less price range. But when you start talking about pieces of equipment in the 50 to 60 to \$70,000 price range, they just can't get the credit for it. So that is not at least in this market been a win for us.

Greg Eisen: Okay. Have you seen any change since year end in terms of credit availability for those customers?

Marc Giles: Have not. Really have not. It's just kind of it hasn't - in terms of how it's impacting our business, it hasn't deteriorated any but it certainly hasn't as yet improved.

Greg Eisen: Okay. So the shipments that we did see from the Ion machine so far in fourth quarter was from the original model that you had (talked about)?

Marc Giles: Yes it was from the original model that was introduced a year ago. As I said, I think we did right around 30 sold, right around 30 units and/or shipped about 30 units in the fourth quarter.

Have not felt a significant improvement in that market as of today although I would say that there is a little bit more quoting activity. But I wouldn't say that - I'm not ready to say that it's going to result in any additional actual orders at this point.

So the next product extension that will happen during some time in the course of this fiscal year is going in the other direction. It's going into a higher priced, higher performance, higher resolution customer base.

Greg Eisen: Hopefully they will have credit.

Marc Giles: Hopefully. That's right. Hopefully.

Greg Eisen: Right. Are you able to tell us what backlog if any you have in the Solara Ion at the end of the fiscal year? Is that something you can give?

Marc Giles: I don't have it in front of me. I can - it's not significant. We are - we pretty much at this point is that we're building to order. We design our lean cell and our system timed inventory practices such that we can turn these very, very quickly now. So we pretty much only build to order.

Greg Eisen: Okay.

Mike Elia: This is Mike. Just a little clarification, our order backlog has never been on any of our products is very extensive. So at best it gives us maybe 30 days visibility in the GT business.

Greg Eisen: Okay. I get the point. And going back to a prior question, I think it was Arnie's question about better gross margin on new products, excluding of course the disappointment you might have based upon lower volumes in plan this quarter, is the Ion machine that you have been selling coming in at your gross margin expectations that you had had for it?

Marc Giles: Yeah. At a product cost price point we have actually somewhat exceeded our planned gross margin on a unit basis. So that's the positive. As I said during the talk though, it's been somewhat offset by product launch expenses and service expenses that are higher than we would want. But we are focused and we'll be bringing those down the line.

Greg Eisen: Sure. And speaking of service expenses, can you give us any kind of color on how the Ion is performing in the field for customers? Are the service expenses a result of having to service the machine more post sale because it's finicky? Or it's basically just been performing as expected?

Marc Giles: No. I mean we have had finicky mechanical issues primarily with the unit. That means that we're doing more service during the warranty period for these machines than we want. And that's what we have to bring down in line and that's what the Tiger Team is focused on. That being said, I talked to one customer a couple of months ago now personally who is having some issues.

And said that we really appreciate the fact that we did stand behind the machine and that we serviced it very well, that the machine did everything - I won't name the competitor. But he said he had to take a competitor's machine out of there - that this machine was doing everything that we had promised it would do. He just wanted more consistent up time on it. So that's what we have been focused on delivering.

So I'd say in the right applications and not every application has been perfect for the machine. But in the right applications, customers by and large have gotten what they have paid for. But we have had to spend more time and money servicing the machine than we had originally planned.

Greg Eisen: I get you. One last question on Gerber Technology. You mentioned launching two new products this year, one being focused on industrial applications. Could you give us some idea of what area or industry you're looking at there?

Marc Giles: It would be primarily - that one would be primarily focused on the composites area.

Greg Eisen: Okay. You mentioned that you're seeing good quote activity in the composites area. Other companies that I have listened to this quarter and in recent months have - it sounds like they're seeing a slow down in their composites work because of the aerospace slow down.

Marc Giles: Yeah.

Greg Eisen: Slow down order by airlines and then Boeing's backlog problems, Boeing's production problems on the 787.

Marc Giles: Yeah.

Greg Eisen: But it doesn't sound like that's flowing through to you. Can you (mention that directly)?

Marc Giles: No I wouldn't say that. I'd say that overall that the composite business slowed over the last couple of quarters just not significantly. Not badly relative to some of the other sectors that it has held up pretty well. But it did slow. What I said just very recently, during the current quarter, just in the last couple of months we have received some substantial bid packages and we have seen our quotation activity increase. Now hopefully that translates into actual business and orders but it isn't there yet.

It's just we see more activity and we are encouraged about that. And that's both for aerospace, it's for wind energy projects and as well as some other composite projects.

Greg Eisen: Okay. Good. Well, thanks for taking my questions.

Marc Giles: Sure.

Operator: And we'll take our next question from Zahid Siddique with Gabelli and Company.

Zahid Siddique: Hi. Good morning.

Marc Giles: Good morning.

Zahid Siddique: A couple of questions - first one, what is your projected CAPEX for '09?

Mike Elia: Between '09?

Marc Giles: Fiscal '10.

Zahid Siddique: Or I guess for fiscal '10.

Mike Elia: Between 7 and \$8 million.

Zahid Siddique: So just about the same as for fiscal '09 roughly?

Mike Elia: Yeah. If anything it will be lower.

Marc Giles: Yeah.

Zahid Siddique: Okay. And now you touched on potentially selling some of your assets. What is the average asset size we are looking at?

Mike Elia: We'd rather not answer that at this point.

Marc Giles: Yeah. I mean they are relatively on the smaller side, so that as we indicated we're talking about a potential cash value of up to about \$20 million. So collectively they are on the smaller side.

Mike Elia: There is no major Zahid - nothing that we're looking at would constitute a major (sale).

Zahid Siddique: Okay. And that 20 - the number you mentioned, is that for one asset or that's the collective number?

Mike Elia: That's the collective number.

Zahid Siddique: Right. Okay. So that's fairly small. And just one last question - you also touched on the debt covenants. What are some of your major covenants?

Mike Elia: Well, we have the leverage ratio and the interest coverage ratio are the major covenants.

Zahid Siddique: And what are the numbers for those two?

Mike Elia: It varies by quarter but it's generally 3.75 on the leverage covenant and 2 to 2-1/4 on the interest coverage ratio.

Zahid Siddique: Okay. Thanks a lot.

Marc Giles: Thank you Zahid.

Operator: There are no further questions at this time. Mr. Giles, I'd like to turn the conference back to you for any additional remarks.

Marc Giles: Thanks operator. I think I have said all I need to say. I really appreciate you joining us for this report and I look forward to better, more upbeat reports in the quarter.

In the meantime we're going to stay focused and make sure we get to the other side of this recession in as good shape as we possibly can. And I'll probably look forward to talking to you again I believe in August or early September. Thanks.

Operator: Ladies and gentlemen, that does conclude today's conference call. Thank you for attending.

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