



**SECOND QUARTER FISCAL 2010 EARNINGS CONFERENCE CALL**  
**December 7, 2009 – 10:00 am ET**

**Operator:** Good day and welcome to the Gerber Scientific, Inc.'s Second Quarter 2010 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 responses during the question and answer session will include certain forward-looking statements as defined in the federal securities laws regarding Gerber's expected financial conditions, results of operations, cash flows and other matters related to the business. For a discussion of the 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, 2009 as well as Gerber's other filings with the Securities and Exchange Commission. 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. Giles, please go ahead, sir.

**Marc Giles:** Thank you operator. Good morning everybody. We appreciate your continued interest and participation today in Gerber Scientifics' Fiscal 2010 Second 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. I'll be providing a high level overview of last quarter's performance, current business conditions and our outlook and Mike will provide additional insights into the quarter.

Please note all results discussed during this call exclude discontinued operations from all periods. These discontinued operations include FOBA and ND Graphics, which were sold during the quarter and a small after market distribution facility in Poland, for which we ceased operations.

Before digging into segment performance let me give you a summary of what has been accomplished in the last quarter. As everyone on this call knows we have been intently focused on cash generation through a variety of means including cost reductions, asset sales and working capital improvements all with the goal to reduce our debt, improve our flexibility and continue to weather this downturn.

In our 2010 fiscal first quarter we generated more than \$13 million of operating cash flow and nearly another half a million dollars this past quarter through working capital improvements and cost savings. This combined with the successful sales of our non-core FOBA and ND Graphics business units last quarter allowed us to reduce our outstanding debt by an additional \$9.5 million in the second quarter bringing the fiscal year to date total debt reduction to \$22-1/2 million.

With respect to cost savings initiatives we are continuing to tightly manage our expenses, but the year over year comparison may not seem as significant as the past several quarters, which is due principally to the fact that we're now comparing against an already reduced SG&A expense base in the second quarter of last year when we began to aggressively take down costs.

Last year in the second quarter we reduced SG&A by \$2.3 million so the total between the two periods is \$4.6 million. And in this environment where the economy may experience only a slow and lumpy recovery we need to do more. However, in order to complete some of the permanent cost structure reductions we have identified we needed to have more flexibility under our credit facility, which we successfully amended in November. Mike will give you more details about cost reduction efforts and the credit facility.

But I did want to point out that we're continuing to target further reductions to our structural costs, not just short-term cuts to overhead and the amendment paves the way for us to do so. In addition to focusing on cutting costs and reducing debt to weather the downturn we have also been focused on new product development and strategic initiatives to position Gerber for growth when our markets do rebound.

We announced last week that we completed the acquisition of a small but very progressive software company named Yunique Solutions, Incorporated within the Apparel and Flexible Materials segment, which we are very excited about. While small in terms of financial impact today, we expect to reap long-term benefits from this important acquisition as it provides us with a new leading edge product life cycle management software platform offering for the apparel industry to which we can integrate the future versions of our market leading product data management software offering.

At Gerber Coburn we recently commercially launched our E2G Green lens blocking system at the Optical Labs Association trade show and it was very well received by the attendees there. In addition, Coburn has been making strong inroads in Asia with several significant orders in the last quarter for their new advanced lens processing system, which is encouraging given the current market environment.

At Gerber Technology we are excited about the pending introduction of the new XLP Plotter, a low cost and high performance plotter designed and built as a result of our gamma acquisition in China last year. This new plotter bearing the Gerber trademark and support network will allow us to better tap into the burgeoning domestic apparel design market in China bundled with a digitizer and a suite of Gerber design software.

Speaking of China, we're also building our capabilities in China further by expanding our own assembly operations using Gamma as a base versus using contract manufacturers.

And finally at Gerber Scientific Products we are getting ready to release the next generation Ion, the IonZ, which is a high resolution and high speed ultraviolet inkjet printer that also brings all the advantages of Gerber's patent pending Cold Fire Cure cationic ink technology to the marketplace.

So bottom line is although business has been very slow since early last year, we haven't slowed down on any fronts and we are ready for the rebound with a host of new products and a streamlined manufacturing organization as well as improved marketing position.

I'll now review a few key financial results and segment performance and then turn the call over to Mike. While continuing to face difficult year over year comparisons with sales down by almost 16% compared to a year ago in the second quarter, our sequential sales performance from year end gives us continued optimism that our markets have bottomed out.

After factoring in currency volatility, revenues from the first half of 2010 are flat with the second half of 2009, which we believe is a further indication that our markets have stabilized. Having said that, we remain cautious in the near term due to the normal seasonality of our business where we see slower sales during our third quarter due to the weather particularly in our sign making and specialty graphics segment.

Also encouraging is that after factoring in currency volatility first half fiscal 2010 sales orders are up 4% from the second half of fiscal 2009. More importantly, orders in all business segments in the second quarter of fiscal 2010 were up over the first quarter of fiscal 2010.

Order activity also increased across all geographic markets with the strongest growth in North America, which was up 16% from the first quarter due principally to higher order volume in the sign making and ophthalmic lens processing businesses. And in Asia, particularly China, we saw orders return to within 11% of their peak 2009 levels.

Revenue from China was up over \$1.7 million or 34% versus the first quarter driven principally by improvement in the apparel business there. An interesting note about China - our apparel segment improvement is primarily due to a pick up in demand from consumption within China itself.

This trend is very good news for Gerber Technology, which has built the leading position in that country. I want to just touch on gross profit margin. On a reported basis gross margin was up 30 basis points, which was due in large part to the positive impact of the \$1.3 million in patent license income.

But it had a substantial impact on gross profit in the quarter. Patent license income is not predictable. Excluding patent income gross margin was 28.6% compared with 29% last year due to less favorable product sales mix and to a lesser degree lower absorption of manufacturing costs.

For the second quarter of fiscal 2010 on a consolidated basis equipment and software sales declined 31% from a year ago while after market revenue was down 8% and service revenue was up 12%. However, the picture is much different on a sequential basis.

From the first quarter to the second quarter equipment and software revenue was up 16% and after market revenue was up 8% while service was essentially flat. Sales in the sign making and specialty graphics segment, which consists of Gerber Scientific products and Spandex, was down 15% year over year to \$69.1 million in the current quarter.

However, on a sequential basis sales were up \$5 million or 8%. The market and competitive landscape has not materially improved in the sign making segment - weak market demand, difficult credit availability and severe price competition. On a year over year basis after market revenue in the second quarter was off \$4.5 million or 7% to \$59.2 million.

However, on a sequential basis again after market revenue in the second quarter was up \$5 million or 9% versus the first quarter. The good news is that Spandex on a constant dollar basis is showing sequential growth in after market sales as well as significant profit improvement.

Year over year however, equipment and software sales in this segment are off 51% in the second quarter and were flat on a sequential basis. Sales of the Solara Ion System and related inks contributed about \$1.4 million to the segment's top line with 18 units shipped in the quarter.

This is off from the first quarter and lower than planned. We are still seeing hesitation on the part of our customers in committing to capital purchases as well as the lack of credit availability to finance those purchases. Second quarter operating profit for the sign making and specialty graphics segment was off \$600,000 to \$2.3 million versus a year ago.

Our Spandex aftermarket business unit has done an excellent job in reducing costs, better optimizing pricing decisions and by drawing a share of its proprietary ImagePerfect line for digital after market consumables and as a result reported a 30% increase in operating profit year over year in the second quarter.

This improvement was offset by the impact of lower equipment volume and higher than desired field and warranty costs associated with the ion. As before we have continued to make progress in improving Ion service costs but still have work left to do.

The segment also increased its R&D and marketing spend in anticipation of market recovery. In the Apparel and Flexible Materials segment, which consists of Gerber Technology and the new acquisitions Virtek and Gamma, business continues to be affected by lower consumer spending for apparel, furniture and automobiles, particularly in the US and Europe.

Second quarter reported sales were down 18% year over year to \$37.1 million, which included approximately \$2-1/2 million of incremental revenue from the acquisitions. Currency had a negligible impact. Going forward the comparisons will now be on an apples to apples basis as we will have owned Virtek and Gamma for over a year.

Sequentially the Apparel and Flexible Materials segment sales were up \$2 million or 6% from the first quarter. This segments' operating profit was down \$1.6 million or 33% from the same quarter a year ago, reflecting higher SG&A expense as a percentage of sales due primarily to higher sales and marketing expenses primarily for trade show participation.

Gerber Technology's business in China continues to gain momentum. From a year ago revenue from China was up about \$1.1 million in the second quarter and up about \$1.3 million on a sequential basis from the first quarter. This represents the second consecutive growth in China for Gerber Technology.

This business unit has seen a slight uptick in orders from its European markets on a sequential basis from the first quarter but North America remains weak. While retail sales are up in China, they continue to slump in the US and Europe. In addition, while Virtek's markets are rebounding slightly they are still seeing production delays associated with aerospace and government contracts.

Gerber Coburn sales were off 10% to \$14 million year over year in the second quarter but were up \$2-1/2 million on a sequential basis from the first quarter. We don't want to sound like a broken record but the story remains the same in Coburn's markets.

Their wholesale lab customers are continuing to report reduced volumes and key retail eyewear and lens processing customers in the US are reporting sluggish same store sales and significant staff reduction. Yet despite the sales decline, Gerber Coburn made an operating profit of 11.6% of sales year over year in the second quarter driven in part by the management team's aggressive cost management and a 220 basis point overall improvement in gross margin.

Operating income for this segment in the current quarter was \$1.6 million compared to operating income of \$1.8 million in the second quarter of last year.

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 website shortly after the call. Now let me provide a few additional financial highlights about the quarter that we haven't already discussed.

Backlog at the end of our current quarter or the second quarter was essentially flat from the end of our first quarter. Backlog in the Apparel and Flexible Materials and Sign Making and Specialty Graphics segments was up slightly 500,000 and 200,000 respectively.

But these gains were offset by a decline of \$600,000 in backlog from our lens processing segment. This quarter was helped by a \$1.3 million non-recurring licensing fee so buyers remain the key issue. Based on our past four quarters and after adjusting for currency it appears our revenues have stabilized.

After excluding the licensing fee our overall mix continues to favor lower margin products and improving manufacturing absorption remains a focus. As a result of cutting \$2.3 million in SG&A expenses in the second quarter of last year we are now comparing SG&A expenses against a reduced SG&A expense base. When you take this into consideration, SG&A expenses between the two quarters is down about \$5.9 million despite an increase in bad debt and incentive stock compensation expenses in the second quarter. I also want to point out that SG&A in the current period was impacted by increased marketing spend as we stepped up our marketing efforts in the quarter.

Last year we severely curtailed our participation in trade shows and other marketing related activities but resumed some of these activities in the current quarter in anticipation of a second half improvement.

On a sequential quarter to quarter comparison SG&A in the second quarter is up from the first quarter as a result of increased marketing expenses, higher commissions, the impact of not having the benefit of the forced vacation actions taken in the first quarter and the incurrence of certain expenses associated with executing our longer term strategy.

One final point on expenses - we are actively reviewing a number of potential cost reduction initiatives that if consummated will drive down our permanent cost structure but will most likely lead to additional one-time charges. With the recent amendment to our credit agreement we now have the flexibility to complete these cost-cutting actions without adversely impacting our financial covenants.

We continue to maintain a very proactive relationship with our bank group and they have been very supportive of our efforts. Overall on a consolidated basis operating income in the quarter was down \$2.7 million to \$2.9 million from the same quarter last year due to the lower gross profit.

On a constant dollar basis and excluding the \$700,000 benefit of the recent acquisitions operating profit was \$1.8 million. Diluted EPS from continuing operations was 8 cents per share compared to 26 cents per share in the first quarter of 2009.

On a net income basis diluted EPS for the current quarter, which included a 6 cent loss from discontinued operations was 2 cents per share while the prior year impact of the loss from discontinued operations lowered diluted EPS by a penny to 25 cents per share.

Current quarter results included a non-recurring tax benefit of \$700,000 or 3 cents per diluted share as a result of the settlement of a foreign tax audit. The prior year second quarter results include a non-recurring tax benefit of \$3.4 million or 14 cents per diluted share associated with an international business restructuring.

Now let me just touch on a few balance sheet and cash flow items that should be mentioned. First off, we are very pleased with the progress we have made with reducing our debt. Over the last 12 months we have reduced our total debt by \$33 million from \$84 million to \$51 million, which is slightly less than the fiscal first quarter of 2009 before we completed our acquisitions, the biggest one being Virtek.

Since last fiscal year end we have reduced our total debt by \$22-1/2 million. Let's talk a little bit about working capital.

Trade receivables at the end of the second quarter were \$84.1 million compared to \$87.8 million at our fiscal year end or a drop of \$3.7 million due to strong collection efforts as well as the sales of ND Graphics and FOBA partially offset by the impact of currency exchange and higher volume. DSO decreased to 63 days as of October 31, 2009 compared to 66 days at the end of our fiscal year, April 30, 2009. From a cash flow perspective in the current second quarter we used cash of \$6.2 million related to accounts receivable due primarily to higher volume in the second quarter.

Inventories at the end of the second quarter were \$64.1 million compared with \$7.2 million at our fiscal year end or down \$8 million. Inventory turns at the end of the second quarter were 5.1 times compared to 4.6 times at year end. From a cash flow perspective we generated \$1.9 million in positive cash flow during the second quarter due to reductions in inventory.

Net cash provided by operating activities in the current quarter net of capital expenditures was \$400,000 compared with \$5.2 million in the second quarter of last year. The change was due principally to the lower net income in the current quarter. Capital expenditures were down \$1.9 million year over year in the current second quarter to \$800,000.

We continue to minimize capital spending in the current environment and expect CAPEX spending of approximately \$6 million in fiscal 2010.

As of October 31, 2009 we have \$51 million in debt. This included \$45 million drawn under our senior revolver accruing interest at various LIBOR rates plus 400 basis points and \$6 million in industrial development bonds accruing interest at 1%. We also have outstanding \$7.6 million of undrawn letters of credit.

Total debt, net of cash, outstanding on October 31, 2009 was \$36.6 million. Total liquidity was \$23.8 million, which consisted of \$14.4 million in cash and \$9.4 million in availability under our senior revolving credit facility based on current financial covenants. We were in compliance with our bank covenants at the end of the quarter.

A few highlights on the credit facility amendment, which was executed on November 19 - financial covenant requirements were revised through October 31, 2010 as follows.

The interest coverage ratio improved to Gerber's benefit, decreasing to 1.5 times for our fiscal 2010 second and third quarters then stepping up in the next two quarters to level off at three times by the end of our second quarter 2011 or October 31, 2010.

This was the same level as what was in our original credit agreement. Our leverage ratio decreased to 3-1/2 times as of the second quarter 2010 and returns to the level of the original agreement, which is three times starting with our fiscal third quarter 2010.

The minimum asset coverage calculation has changed. While the ratio remains one to one, the net asset value assigned to fixed assets is completely phased out by the fiscal second quarter 2011. Pricing grid remains unchanged. The facility size was reduced from \$100 million to \$75 million.

We also now have a \$3 million basket for cash restructuring activities and the ability to make other adjustments from calculating certain covenant ratios. And finally we received approval to acquire Yunique Solutions.

Speaking about Yunique Solutions, I'd like to add to Marc's comments on the acquisition. While we didn't disclose the terms of the deal, it is a small transaction in terms of its size and impact on our debt. However, as Marc said, we will reap significant long-term benefits including financial. Basically this was a make versus buy decision. We are acquiring technology that we have been trying to develop ourselves. Thus the acquisition provides immediate synergies and will save us an estimated 1.3 to \$1.6 million a year in product development costs. So while the acquisition is an excellent fit from a market and strategic perspective, we also expect it will benefit Gerber financially starting in the fiscal fourth quarter of 2010.

I'll now turn the call back over to Marc and then we'll open the call up for questions.

**Marc Giles:** Thanks Mike. So in summary here are the takeaways for the quarter and our outlook. Year over year quarterly comparisons going forward should reflect the bottoming out of the depressed market cycle, which began in the second quarter of last fiscal year.

While the top line trend has been more encouraging, the next quarter is our seasonally weakest quarter so we don't expect sequential growth. Based on current trends we should start to report modest top line sequential growth in our fiscal fourth quarter.

We continue to drive down costs and will target additional permanent cost reduction actions, which if consummated as planned will generate additional one-time charges but are expected to reap longer term benefits. With our more streamlined organization and reduced cost structure we are positioned to deliver earnings improvement going forward with the help of modest top line growth.

As we have reported for the last several quarters though, with the lack of real market visibility we are still not comfortable providing more detailed guidance. But we will resume doing so as soon as business conditions become more predictable. Now I will open the call up to your questions. Operator.

**Operator:** Thank you very much, sir. Ladies and gentlemen, if you would like to ask a question, please press star 1 on your telephone keypad. Once again, that is star 1 to ask a question. If you are using a speakerphone, please make certain your mute function is disengaged to allow your signal to reach our equipment. Again, that is star 1 for questions. We go first to Arnie Ursaner with CJS Securities.

**Arnie Ursaner:** Good morning.

**Marc Giles:** Morning Arnie.

**Arnie Ursaner:** My first question is for Mike. How should we think about tax rate for Q4 and for 2011?

**Mike Elia:** Arnie, we continue to look at a full year of about 35%.

**Arnie Ursaner:** Okay. And you mentioned a couple of times in your prepared remarks that you're at least evaluating more aggressive or more substantial cost cutting initiatives. Can you give us a sense of if you do implement them what you think you can take out of the cost structure for next year?

**Mike Elia:** I'd rather not comment on that right now. We are still working through some pretty significant activities but I think we'll have that finalized for you by the end of the next quarter.

**Arnie Ursaner:** Okay. You also mentioned in your prepared remarks that you have incurred some warranty or had some warranty issues related to various products, I believe primarily the Solara and some others. And yet you also indicated that you're moving forward on some more aggressive plans for new product roll outs. Can you help us understand how the two equate meaning if you are continuing to have manufacturing problems are you confident they are far enough behind you that you do want to introduce new programs and new products?

**Marc Giles:** Yeah Arnie. This is Marc. We won't commercially launch the new IonZ. We're not quite ready to from our field testing anyway. But we won't do that until we're absolutely certain that we have put the rest of the service cost issues behind us, which we should have a pretty good handle on over the next few months.

**Arnie Ursaner:** Okay. And also Marc, you have talked about an enhanced Solara version targeting the 14-picoliter market and I believe demonstrated a product at the SIGA show. What is the status of that please?

**Marc Giles:** Yeah. That's the new IonZ actually. So we have demonstrated and shown it. We have gotten quite a bit of interest in it. We have got customer feedback that have since that show led us to make some additional improvements and changes to the product. But that's the product that we're still in beta testing now in field. And as I said earlier, we want to make sure that any of the quality issues that we may have experienced problems with up to now are fully behind us before we would launch that.

**Arnie Ursaner:** Okay. My final question relates to Coburn. You have had this blocking technology where you use new materials and there was this very sizable retrofit opportunity. Was is the status of that please?

**Marc Giles:** Yeah. That product was shown for commercial sale for the first time this past weekend and I don't have - we were kind of doing a slow launch and we're expecting to take some orders even in this weak environment. I don't have an order count for you but that product line is now commercially launched. I think we're anticipating shipments, commercial shipments of the final product early fourth quarter.

**Arnie Ursaner:** Okay. Thank you very much.

**Marc Giles:** Sure.

**Operator:** And our next question comes from Jim Ricchiuti with Needham & Company.

**Jim Ricchiuti:** Thank you. Good morning.

**Marc Giles:** Good morning Jim.

**Jim Ricchiuti:** Just a question on gross margins - should we be assuming something along the lines of 28% overall gross margins if we back out the patent license revenue?

**Mike Elia:** Yeah. 28% is probably a good proxy going forward. We just don't have the visibility into mix to guide you any other way at this point.

**Jim Ricchiuti:** Okay. And Mike, just to follow up on some of the commentary on SG&A, it grew a little faster than revenue sequentially. And you alluded to some increased marketing spend on trade shows and there was some temporary restoration of some of the temporary cost savings. Can you give us a sense as to how you see SG&A going forward?

**Mike Elia:** Yeah. I think what you're seeing in the second quarter is a peaking of I don't think we'll grow much more than that. I mean the next big driver to that would be commissions and that will only be driven to the extent that we get the revenue growth associated with that. But we'll also be taking out some additional costs. So I think you're probably looking at a range of SG&A of if anything maybe a little lower by \$1 million.

**Jim Ricchiuti:** Okay. And overall on a quarter over quarter basis it looks like you showed improvement in all of the major units. And I guess what I was a little surprised by and maybe I just don't have my numbers correct. But on Gerber Scientific you were up sequentially but yet Marc, maybe you just go back to how many Ion units - was it 18 units that you shipped in the quarter?

**Marc Giles:** Yeah. It was 18 units that we shipped in the second quarter. I mean just from a high level Jim, we're seeing nice improvement at Gerber Technology in our order patterns.

Like we had some additional trade show expenses this past quarter that jumped up SG&A but we're seeing some nice improvement in orders and particularly as I said on our Asia for Gerber Technology. Spandex, we're seeing some nice movement on their order patterns in general particularly after markets.

Equipment sales on their end are still depressed, down 50%. But we're seeing considerable improvement in their after market business, which is the bulk of their business, which is encouraging for that market. GS, Gerber Coburn continues to be hit at the revenue line. But we have done a good job; the team has done a good job both on the cost side but also on the mix side with sales of new products at higher margins and some good reasonable pricing actions there.

So the one that's really struggling and hurting us right now is Gerber Scientific Products, which of course we're going through this transition from to the inkjet world and we're hit by the market economy at the same time as well as some field costs that are higher than we anticipated for the new Ion.

So even sequentially that business, we're just not seeing particularly domestically any significant improvement in the marketplace for that business and we're spending a little bit more money than we would intend to spend going forward. So obviously we're hopeful to start to see a turnaround in that marketplace but I don't think we'll see it in the third quarter. But if anything I think we'll probably see it, if we're going to see it we'll start to see it in the fourth quarter I would expect. I hope that's helpful.

**Jim Ricchiuti:** No, that is helpful. I'd say that's good color. And then just lastly - final question - Yunique. Talk to us a little bit about how this strengthens your competitive - how you see it strengthening your competitive position.

**Marc Giles:** Yeah. Yunique I think is just a real - I mean it's small but it's a real exciting acquisition. It strengthens our competitive position because this is an operation that brought together a product life cycle management software program built on the latest technology, dot net technology, which is our legacy PDF/PLM product. We were looking at a few years of code rewriting to get ourselves onto the dot net platform, which quite honestly is where we need to be and where our customers expect us to be if they are going to invest that kind of money in new systems. So they are on the latest modern platform. They have a tremendous range of capabilities that they modeled a lot of what they do off of our PDM platform but they just have been a small operation. So where they have suffered a little bit is their geographic reach as well as their ability to service and support larger customers, which of course is a critical demand. So putting our world's largest install base of PDM and that customer list along with our service and support infrastructure globally together with their modern structure, their platform I think so a lot of opportunity for success and it's just shortening up our timeframe to deliver what our customers want.

**Jim Ricchiuti:** Okay. Thank you.

**Marc Giles:** Sure.

**Operator:** Once again, ladies and gentlemen, it is star 1 on your telephone keypad if you have a question. That was star 1 for questions. We'll pause for just a moment to allow everyone time to signal.

And we'll go now to Graeme MacLetchie with Deutsche Bank.

**Graeme MacLetchie:** Good morning.

**Marc Giles:** Good morning Graeme.

**Graeme MacLetchie:** Marc, could we spend some more time on the Ion and I'd like you to describe where you think you stand in the competitive situation on a product basis, number one? Number two, I'd like you to address these service issues you're talking about. Where are they coming from and is that having any impact on our sales and marketing process? And thirdly, talk to the usage of the consumables in the Ion product area.

**Marc Giles:** Sure. Graeme, I guess the first question is how we feel in our competitive positioning and I think we feel pretty good. We still believe that we are the leading supplier of this UV inkjet wide format UV inkjet systems to the market segment that we target, which is the sign maker, not the digital processor or the higher end processors but the sign makers. So we still believe and based on the data we get or at least anecdotally that we are leading the way there in that marketplace, the marketplace especially in that segment however extremely depressed both by the economy, which this market seems to be more of a lagging indicator as well as the availability of credit, which we're getting some signs may start to ease.

And if that's true we should see some improvement there. So we feel pretty good about our competitive position. Number two, in terms of costs we had identified that we were spending more time in field maintaining and repairing these systems quite a while ago. And so we put together a program and a tiger team to get at these issues. We have made some significant progress in bringing those costs down so we're encouraged there that we're on the right track. We're still not where we need to go. A lot of the issues are applications related and we're learning those as we go. And a lot of the issues are some of the changes that we have made to the ink chemistry along the way as well as the print heads. But we're working our way through those with our partner and feel reasonably confident that we have got the formula there.

**Graeme MacLetchie:** Do you think that's having any impact on your ability to sell this product?

**Marc Giles:** And to your third question, yeah, I think it does. I think there is a certain amount of wait and see. Let's make sure everything is okay because while our service team has done a great job supporting our customer needs nobody wants to endure any more service issues than they have to. So I think there is a little bit of damper and maybe that's somewhat of a blessing having a weaker market environment right now in any case because we don't see ourselves losing much in terms of market share.

**Graeme MacLetchie:** And the last question was the supply side of the consumable side of the machines.

**Marc Giles:** Yeah. I mean it has grown as we have grown our install base. But the usage per machine has not grown at all. As a matter of fact it is down from what we would expect normally.

**Graeme MacLetchie:** And that you think is economy related?

**Marc Giles:** I believe so, yes. That would be our expectation.

**Graeme MacLetchie:** Second area question on gross margin - to be candid with you, I'm very disappointed that Mike says that we should use 28% going forward. That's not satisfactory I don't believe.

**Mike Elia:** What I said Graeme was at this point without having visibility into the mix from a forecasting perspective I'm advising people to stay with 28.

**Graeme MacLetchie:** No Mike, I understood what you said but it seems to me that if we can't count on volume increases we have got to do more to drive our gross margin higher. That 28% still isn't an acceptable number.

**Mike Elia:** You're exactly right and when I answered the other question earlier on my response was that we haven't been able to quantify the aggressive actions that we're going to be taking on the cost side to share on this call yet. So I can assure you that we are looking aggressively at the cost structure to take costs out.

**Graeme MacLetchie:** Okay. And that was part of the amendment of your financial agreement, which I think you indicated allowed you at least \$3 million worth of charge offs to within the covenants that currently exist?

**Mike Elia:** That's correct. Up until we got that amendment our hands had been pretty tied in terms of changing the cost structure.

**Graeme MacLetchie:** Okay. And last subject area, Marc, over the period of time last year or so you have talked about sales of non-necessary units or other cost reductions, which Mike, I think you used a figure of around \$20 million. Could you give us an update as to where we stand on other potential money raising opportunities?

**Marc Giles:** Yeah. The ones that I referred to that I said had a potential of up to roughly around \$20 million and consisted of three opportunities. We have executed as you know against two of those opportunities. And whether or not we are able to complete a third one I don't have any comment on right now at least of the ones that I was referring to at that time. That is as a strategy however, Graeme, remains a direction for us to clean up and reorganize our portfolio going forward both at a near term debt oriented perspective but also in a long term strategic perspective. We'll be looking - I don't think that Gerber will look the same three years from now as it does today. So that's from a strategic perspective but those items are not open at this point for comment or more clarity.

**Graeme MacLetchie:** Well, over the next two quarters do we have other opportunities near term to be able to create cash to pay down bank debt?

**Marc Giles:** I'd say there are of course opportunities that are on the table but I don't have enough clarity to be able to quantify any of that at this point.

**Graeme MacLetchie:** Thank you.

**Operator:** And again, ladies and gentlemen, star 1 if you have a question. We'll go now to Beth Lilly with Gabelli & Company.

**Beth Lilly:** Good morning.

**Marc Giles:** Good morning Beth.

**Beth Lilly:** I wanted to ask a couple questions. I want to get a little more granularity on what's going on in Gerber Scientific in the sense of is it a service issue in terms of you losing money? Is it a cost issue? Is it a revenue issue? And can you get the costs down in that business on this level of revenues in order to earn money? I mean can you just provide a little insight?

**Marc Giles:** Sure. I mean first and foremost it's a revenue issue. It's a revenue of new products at higher margins issue on top of that. So it's the business invests money to generate leading edge technology and sell it at good margins.

And in this market environment selling equipment at that price range into this target segment is a problem. And it's hurt us. We sold 18 units this last quarter. I think we sold somewhere between 25 and 30 units in the first quarter, somewhere between 25 and 30 units in the quarter before that. So in this depressed market we are not moving enough product at the higher end of the margin range to make the kind of money that we would like to make and sustain the R&D spend level that we need to spend to capture the market share position that we want going forward.

So we're in that conundrum. On top of that we have some other issues in terms of operating overhead costs and stuff. Mike has talked a little bit about actions that we need to take to bring our structural overhead costs down. We plan to move forward with those on a consolidated basis. And we will do that and we have also had some field expenses. But in the grand scheme of expenses, the field service expenses are not the things that are driving the business strategically toward a loss or a profit. It's really launching the new products and getting the economy turned around such that we can support the sales of these systems.

**Beth Lilly:** And would you say 18 million units is kind of a base level? I mean you said you see the stabilization in the economy.

**Marc Giles:** Eighteen. 18 units.

**Beth Lilly:** Yeah, 18.

**Marc Giles:** I'd say right now that's what we have done the last three quarters is right around 25, 30. So that seems to be where things are bumping along right now.

I think if we get to the point where we have the comfort level to launch the IonZ, the higher resolution 14-picoliter system, we should generate a good bump in revenue even in this market because it will target a little bit more of the higher end, larger customer base.

**Beth Lilly:** Okay. Now the second question I wanted to ask you is in terms of your gross margin. So just so I can get some clarity on that, 28% is the number we should use going forward for 2010. But as you look out, do you think that that 28% can go back into 30% levels?

**Mike Elia:** Yeah. There is no doubt about that. I mean we're going to - I think the 28% is going to be our low end. I'm not willing to go out at 30% at this point. I mean it depends a lot on the mix. Mix will shift in the upcoming quarter as Spandex's business usually contracts a bit in the third quarter. That will probably help the margins but as you know we'll get a pick up in the margins but the sales will probably trend down for that quarter.

So our mission here is still to get above 30% in gross profit and it's going to come through a combination of the things that Marc said in terms of the new products getting additional traction and us finding ways to better improve our overhead absorption, which up until the recent amendment we have kind of had our hands tied. So we need to do that because as we showed, if we can't avoid the trade show circuit. We have to be involved in the marketing side. And if we're going to be able to bring those costs back into line as well as some other temporary cost reductions we're going to have to make it up in margin.

**Beth Lilly:** Okay. And so you'll take the costs out this year in 2010 going forward?

**Mike Elia:** Our intent is you'll see us going after this pretty aggressively in the next three quarters.

**Beth Lilly:** And you haven't - are you willing to talk publicly about the areas where you are expecting costs to come out?

**Mike Elia:** Not at this time.

**Beth Lilly:** Okay.

**Mike Elia:** You can appreciate these are sensitive areas.

**Beth Lilly:** I understand. I understand. Okay. One other question - that is SG&A you said that number can come down by another \$1 million?

**Mike Elia:** Yeah. From the second quarter.

**Beth Lilly:** The second quarter.

**Mike Elia:** I think we're seeing kind of a high point in the second quarter. I think somebody made the comment that it kind of came back a little bit quicker than they had anticipated. But there were a couple of things going on. We did some spending to help us execute some of these strategies. So I don't want to drag everybody through one time charges and things like that but we're also keep in mind too that we're still trying to work actively to restore some of the pay cuts and things that we have had in place. So it's something that we're going to have to manage but I don't see us getting much above where we were in the second quarter.

**Beth Lilly:** Okay. So the 27.8 - that number will come down by \$1 million?

**Mike Elia:** It could potentially, yes. But it's going to be driven too by commissions, okay? I mean commissions is a significant, variable piece in that SG&A piece. So if the sales come back up then you will see SG&A move up as well.

**Beth Lilly:** Okay. All right. So the rest of the year is going to be messy in terms of charges and costs to take out and such and so as we go forward hopefully 2011 will look much cleaner with higher margins?

**Mike Elia:** That's right. And remember too that when you compare year over year, we still haven't - this is sort of the last period where Virtek SG&A expenses and things like that were not in the previous year. So we're getting sort of a true up so you're absolutely right.

**Marc Giles:** And we'll provide updates on our margin expectations as we go on quarter over quarter here too.

**Beth Lilly:** Okay. Okay. Great. Thanks so much.

**Mike Elia:** Yep.

**Operator:** We'll go now to Zahid Siddique with Gabelli & Company.

**Zahid Siddique:** Hi. Good morning. I have a couple of questions. First on the Solara Ion, just to refresh us, what is the purchase price roughly that you're looking to get?

**Marc Giles:** I think the street price right now is right around \$75,000 to 80,000 and we get \$60,000 a unit or something like that on that.

**Zahid Siddique:** And what is the dynamics in the credit market that may be adversely impacting some of your sales? Could you comment on the credit markets?

**Marc Giles:** Yeah. I mean it's just been very, very tight for our target. Our target customers are in a revenue range of typically 300 to \$500,000 a year. They're sole proprietorship companies who when things get tough have a very difficult time getting credit for a machine that is going to cost them 70 to \$80,000. So they're more limited to kind of equipment investments, probably more in the 20 to \$30,000 range or even less. And as a result actually interestingly enough we have seen a pretty significant increase in the sales of our older printer system, the Gerber Edge, which has increased maybe 50 to 75% in terms of sales volume over the last couple of quarters, which is priced down in that under \$20,000 category.

**Zahid Siddique:** Okay. And when you were projecting say a year ago or two years ago unit sales, ideally what was the number that you were looking to get in terms of units? My understanding is you're trailing at less than 100 units or roughly 100 units. But what is the ideal number?

**Marc Giles:** We were projecting and the market size would support somewhere in the range I think we said something like 400 to 500 units per year.

**Zahid Siddique:** Okay.

**Marc Giles:** And of course we were well on our way at that before the bottom fell out. And if we look at the sales of wide format UV printer systems, this calendar year at least according to association projections, the first half of the calendar fiscal 2009 is supposed to be decreased by close to 50%.

The second half of calendar '09 is supposed to be down versus prior periods by around 25 to 30%. So this calendar year is probably the first contraction of sales of these systems ever. But they do expect to begin a return to at least slight growth next year again depending on how the credit markets and overall economy begins to move.

**Zahid Siddique:** Okay. And just one last question - are you seeing any competition given the current economy? Any competition from China or Asian countries?

**Marc Giles:** In that segment, no not really.

**Zahid Siddique:** And in general?

**Marc Giles:** In general, no. I mean there is increased competition, which we have expected in the apparel manufacturing sector in Asia. So local producers of CAD systems, plotting systems, digitizing systems and other spreading systems and so forth continue to grow and increase in number in China to serve that growing market there. But outside of that region, not really in any of our segments, no.

**Zahid Siddique:** Thank you so much.

**Marc Giles:** Sure.

**Operator:** And we now have a follow up question from Graeme MacLetchie with Deutsche Bank.

**Graeme MacLetchie:** Question on inventory in terms of absolute level - where do you stand on that? And also a follow up on cost of good sold in terms of consolidating/purchasing of raw materials, etcetera? Where do we stand on those two items?

**Mike Elia:** At the end of the quarter inventory was \$64 million. And then I'm not sure I follow you on the consolidated...

**Marc Giles:** Yeah. I think Graeme if you're talking about consolidating our supplier base to fewer, I mean we have two supplier bases. Our domestic supplier base if we look back I think just over a year ago give or take we had about 1500 suppliers for our tiled assembly operation. We're now down to and I can't remember the exact number, which I just saw the other day but right around maybe 700 to 900 suppliers. Our target is to bring that down to around 500 suppliers in the US. So we have made significant consolidation process in that effort. The other important supply base of course is in China. We have continued to expand our operations there. We have of course incorporated Gamma's supply base into our own supply base there in China as well and are rationalizing that.

**Graeme MacLetchie:** Okay. That's good. Question, Mike, on inventory was whether on an absolute basis it can come down more?

**Mike Elia:** Yeah. I mean that's our intent. So I mean we're getting to it as business begins to rebound we're going to focus more on the turns though rather than the absolute dollar amount. So we need to drive those turns back up. We saw a little bit of improvement in the turns this quarter as well as volume came back.

**Graeme MacLetchie:** Right. Right.

**Mike Elia:** The third quarter is just always just a tough month for comparison purposes because you have the holidays and all of that and the swing with Spandex. But we're focusing now. We're shifting more to focusing on the turns and we have got quite a few initiatives underway on the inventory side.

**Graeme MacLetchie:** Okay. So the bottom line is we could really use some revenue increases.

**Mike Elia:** Yeah. Yeah. But we haven't taken our eye off the ball on all the other stuff. I mean hopefully you're seeing that we have accomplished quite a bit in the last (three months) and we'll continue to do so going forward.

**Graeme MacLetchie:** Right.

**Marc Giles:** I mean overall we're down from about a \$700 million run rate to just under \$500 million now. While we would like to see an aggressive return of strength in the market to start to move again toward that higher revenue rate, we can't count on it. We can't count on the timing and that's why getting this amendment, getting this flexibility to take some additional cost measures to establish a better profit position to support.

**Graeme MacLetchie:** No, I think that's great. I think that's what you should be doing. And then shareholders will benefit when volume ultimately comes back. We'll have that really strong up side leverage in the operating costs.

**Marc Giles:** Absolutely.

**Graeme MacLetchie:** Thank you.

**Marc Giles:** Thank you.

**Operator:** And Mr. Giles, there are no other questions in the queue, sir. I'll turn the call back over to you for additional or closing remarks.

**Marc Giles:** Thanks operator. I really don't have anything more to add other than to thank you for participating today. And we look forward to reporting out to you on our third quarter fiscal results in February or March. Take care everybody.

**Operator:** Ladies and gentlemen, that does conclude today's conference. Once again thank you for your participation.

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