GERBER SCIENTIFIC INC
Form 10-Q
December 11, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended October 31, 2003

OR

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

For the transition period from ___________ to ___________

Commission file number 1-5865

Gerber Scientific, Inc

•
(Exact name of registrant as specified in its charter)

Connecticut (State or other jurisdiction of incorporation or organization)	06-0640743 (I.R.S. Employer Identification No.)
83 Gerber Road West, South Windsor, Connecticut (Address of principal executive offices)	06074 (Zip Code)

Registrant's telephone number, including area code: (860) 644-1551

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes /X/. No / /.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes /X/. No / /.

At October 31, 2003, 22,202,786 shares of common stock of the registrant were outstanding.

GERBER SCIENTIFIC, INC.
AND SUBSIDIARIES
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Quarter Ended October 31, 2003

PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

GERBER SCIENTIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended October 31,	
In thousands, except per share data	2003	2002
Revenue:		
Product sales	$ 115,747	$ 114,869
Service sales	14,538	13,911
	130,285	128,780
Costs and Expenses:		
Cost of products sold	77,701	75,799
Cost of services sold	7,820	7,145
Selling, general and administrative	32,714	32,417
Research and development	6,435	6,516
Restructuring charges (Note 3)	486	---
	125,156	121,877
Operating income	5,129	6,903
Other income (expense)	(1,137)	(340)
Interest expense	(3,212)	(2,146)
Earnings before income taxes	780	4,417
Provision (benefit) for income taxes	(1,982)	1,300
Net earnings	$ 2,762	$ 3,117

	=======	=======
Earnings per share of common stock:		
Basic	$ .12	$ .14
Diluted	$ .12	$ .14
Dividends	$ ---	$ ---
Average shares outstanding:		
Basic	22,193	22,137
Diluted	22,455	22,137

See accompanying notes to consolidated financial statements.

GERBER SCIENTIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Six Months Ended October 31,	
In thousands, except per share data	2003	2002
Revenue:		
Product sales	$ 230,436	$ 227,096
Service sales	28,806	27,562
	259,242	254,658
Costs and Expenses:		
Cost of products sold	155,336	150,613
Cost of services sold	15,314	14,337
Selling, general and administrative	65,747	64,130
Research and development	12,626	12,792
Restructuring charges (Note 3)	486	(100)
	249,509	241,772
Operating income	9,733	12,886

Other income (expense)	(2,153)	(1,206)
Interest expense	(6,315)	(4,377)
Earnings from continuing operations before income taxes	1,265	7,303
Provision (benefit) for income taxes	(1,860)	1,964
Earnings from continuing operations	3,125	5,339
Discontinued operations (Note 9):		
Income from operations of disposed business, net of taxes of $92 in fiscal 2003	---	172
Gain on sale of disposed business, net of taxes of $2,244 in fiscal 2003	---	1,222
Net earnings	$ 3,125	$ 6,733
	=======	=======
Earnings per share of common stock:		
Basic:		
Earnings from continuing operations	$ .14	$ .24
Discontinued operations	---	.06
Net earnings	$ .14	$ .30
	=======	=======
Diluted:		
Earnings from continuing operations	$ .14	$ .24
Discontinued operations	---	.06
Net earnings	$ .14	$ .30
	=======	=======
Dividends	$ ---	$ ---
Average shares outstanding:		
Basic	22,183	22,123
Diluted	22,464	22,123

See accompanying notes to consolidated financial statements.

GERBER SCIENTIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Unaudited)

In thousands, except share data	October 31, 2003	April 30, 2003
Assets:		
Current Assets:		
Cash and cash equivalents	$ 9,680	$ 20,697
Accounts receivable, net of allowance for doubtful accounts of $8,251 and $7,277, respectively	89,938	89,657
Inventories	52,736	51,982
Deferred income taxes	3,855	5,300
Prepaid expenses and other current assets	10,330	8,327
	166,539	175,963
Property, Plant and Equipment	122,368	122,674
Less accumulated depreciation	77,614	75,309
	44,754	47,365
Intangible Assets:		
Goodwill	50,231	48,912
Prepaid pension cost	8,483	8,483
Patents and other intangible assets, net of accumulated amortization	6,718	6,777
	65,432	64,172
Deferred Income Taxes	17,779	14,855
Other Assets	8,913	4,336
	$ 303,417	$ 306,691
	=======	=======

Liabilities and Shareholders' Equity

Current Liabilities:		
Current maturities of long-term debt	$ 10,941	$ 14,807
Accounts payable	39,917	45,024
Accrued compensation and benefits	13,766	23,167
Other accrued liabilities	22,646	18,202
Deferred revenue	11,153	10,000
Advances on sales contracts	1,045	945
	99,468	112,145
Noncurrent Liabilities:		
Accrued pension benefit liability	23,549	23,549
Other liabilities	5,517	5,534
Long-term debt	69,704	71,000
	98,770	100,083

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Contingencies and Commitments (Note 10)		
Shareholders' Equity:		
Preferred stock, no par value; authorized 10,000,000 shares; no shares issued	---	---
Common stock, $1.00 par value; authorized 65,000,000 shares; issued 22,933,421 and 22,908,180 shares, respectively	22,933	22,908
Paid-in capital	43,624	43,703
Retained earnings	71,037	67,912
Treasury stock, at cost (730,635 and 745,184 shares, respectively)	(15,024)	(15,323)

Unamortized value of restricted stock grants	(151)	(211)
Accumulated other comprehensive loss	(17,240)	(24,526)
	105,179	94,463
	$303,417	$306,691
	=======	=======

See accompanying notes to consolidated financial statements.

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

(Unaudited)

	Six Months Ended October 31,	
In thousands	2003	2002
Cash Provided by (Used for):		
Operating Activities:		
Net earnings	$ 3,125	$ 6,733
Adjustments to reconcile net earnings to cash provided by (used for) operating activities:		
Depreciation and amortization	5,926	6,751
Restructuring charges	486	(100)
Gain on sale of disposed business, net of taxes	---	(1,222)
Deferred income taxes	(1,855)	289
Other non-cash items	1,370	550
Changes in operating accounts:		
Receivables	1,101	1,360
Inventories	677	(380)

Prepaid expenses	(1,520)	2,903
Accounts payable and accrued expenses	(9,671)	(4,198)
Provided by (Used for) Operating Activities:	(361)	12,686
Investing Activities:		
Additions to property, plant and equipment	(1,654)	(900)
Intangible and other assets	(567)	(480)
Proceeds from sales of assets	---	3,937
Proceeds from sale of disposed business	---	6,595
Proceeds from settlement of promissory note	994	---
Provided by (Used for) Investing Activities:	(1,227)	9,152
Financing Activities:		
Borrowings under term loans	65,000	3,000
Repayments of borrowings under term loans	(81,103)	(16,673)
Net change in revolver	10,941	---
Net short-term financing	---	(205)
Debt issue costs	(5,604)	(376)
Exercise of stock options	71	---
Other common stock activity	44	53
(Used for) Financing Activities:	(10,651)	(14,201)
Effect of exchange rate changes on cash	1,222	889
Increase (Decrease) in Cash and Cash Equivalents	(11,017)	8,526
Cash and Cash Equivalents, Beginning of Period	20,697	16,220
Cash and Cash Equivalents, End of Period	$ 9,680	$ 24,746
	======	======

See accompanying notes to consolidated financial statements.

GERBER SCIENTIFIC, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three- and six-month periods ended October 31, 2003 are not necessarily indicative of the results that may be expected for the year ending April 30, 2004. The financial information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and notes in the Company's annual report on Form 10-K for the fiscal year ended April 30, 2003, filed with the SEC on July 29, 2003. The balance sheet at April 30, 2003 has been derived from the audited consolidated financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

NOTE 2. Inventories

The classification of inventories was as follows (in thousands):

	October 31, 2003	April 30, 2003
Raw materials and purchased parts	$31,187	$28,796
Work in process	1,395	1,859
Finished goods	20,154	21,327
	$52,736	$51,982
	======	======

NOTE 3. Restructuring Charges

In fiscal 2004, 2003 and 2002, the Company recorded restructuring charges, consisting of employee separation and facility consolidation costs, associated with ongoing efforts to reduce costs. For further information on the fiscal 2003 and 2002 charges, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended April 30, 2003, filed with the SEC on July 29, 2003.

In fiscal 2004, the Company recorded restructuring charges of $0.5 million. The Sign Making and Specialty Graphics segment incurred $0.2 million of these charges and the Ophthalmic Lens Processing segment incurred $0.3 million of these charges.

The Sign Making and Specialty Graphics segment charges consisted of employee separation costs related to an insignificant product line that was exited. The Ophthalmic Lens Processing segment's charges consisted of employee separation costs associated with the transition of segment operations to the shared services program and costs associated with a facility consolidation. Both segments' employee separations will be completed during the third quarter of fiscal 2004. There will be an insignificant amount of future costs related to these activities.

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The following table displays a roll forward of the accruals established during the second quarter of fiscal 2004 by segment (in thousands):

	Employee Separation Accrual	Facility Consolidation Accrual	Total
Sign Making and Specialty Graphics			
Fiscal 2004 charge	$ 172	$ ---	$ 172
Utilization	(155)	---	(155)
Ending balance at October 31, 2003	17	---	17
Ophthalmic Lens Processing			
Fiscal 2004 charge	179	135	314
Utilization	(19)	---	(19)
Ending balance at October 31, 2003	160	135	295
	$ 177	$ 135	$ 312
	======	======	======

Of the remaining balance at October 31, 2003, $0.2 million is expected to be paid in fiscal 2004, and $0.1 million in fiscal 2005.

Fiscal Year 2003 Restructuring Update

The following table displays a roll forward of the accruals established in fiscal 2003 by segment (in thousands):

	Employee Separation Accrual	Facility Consolidation Accrual	Total

Sign Making and Specialty Graphics			
Balance at April 30, 2003	$ 666	$ ---	$ 666
Utilization	(666)	---	(666)
Ending balance at October 31, 2003	---	---	---
Apparel and Flexible Materials			
Balance at April 30, 2003	602	401	1,003
Utilization	(599)	(90)	(689)
Ending balance at October 31, 2003	3	311	314
	$ 3	$ 311	$ 314
	======	======	======

Of the remaining balance at October 31, 2003, $0.1 million is expected to be paid in fiscal 2004, $0.1 million in fiscal 2005, and $0.1 million in fiscal 2006.

Fiscal Year 2002 Restructuring Update

As of April 30, 2003, accruals of approximately $1.0 million for severance costs remained, all of which represented severance and other amounts payable to the former Chief Executive Officer. In the three and six months ended October 31, 2003, approximately $0.1 million and $0.7 million, respectively, in cash payments were charged against this accrual, reducing the balance to $0.3 million at October 31, 2003. Of this remaining balance, $0.1 million is expected to be paid in fiscal 2004 and $0.2 million in fiscal 2005.

NOTE 4. Goodwill and Other Intangible Assets

Goodwill and other intangible assets include (in thousands):

	As of October 31, 2003		As of April 30, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				

Patents	$ 9,969	$ 3,711	$ 10,300	$ 3,886
Other	1,112	652	1,073	710
	11,081	4,363	11,373	4,596
Unamortized intangible assets:				
Goodwill	50,231	---	48,912	---
Prepaid pension cost	8,483	---	8,483	---
	58,714	---	57,395	---
	$ 69,795	$ 4,363	$ 68,768	$ 4,596
	======	=====	======	=====

Intangible amortization expense was $0.2 million and $0.5 million for the three and six months ended October 31, 2003, respectively, and $0.3 million and $0.6 million for the three and six months ended October 31, 2002, respectively. Intangible amortization expense is estimated to be approximately $0.8 million for fiscal 2004 and approximately $0.7 million for fiscal 2005, and approximately $0.6 million annually for fiscal years 2006 through 2009.

The following table displays the changes in the carrying amount of goodwill by operating segment for the six months ended October 31, 2003 (in thousands):

	Sign Making and Specialty Graphics	Apparel and Flexible Materials	Ophthalmic Lens Processing	Total
Balance as of May 1, 2003	$19,276	$12,640	$16,996	$48,912
Effects of currency translation	1,271	48	---	1,319
Balance as of October 31, 2003	$20,547	$12,688	$16,996	$50,231
	======	======	======	======

During the first six months of fiscal 2004, the Company reviewed its goodwill for impairment in the Sign Making and Specialty Graphics and Ophthalmic Lens Processing segments. Based on this review, the Company was not required to record any additional goodwill impairments.

NOTE 5. Derivative Instruments and Hedging Activities

The Company is exposed to fluctuations in foreign currency exchange rates due to its global presence and international sales and purchase activities. These foreign currency exposures are identified and managed at the operating unit level. To manage some of these risks, the Company uses forward exchange contracts. These contracts are viewed as risk management tools, involve little complexity, and are not used for trading or speculative purposes. Counterparties to forward exchange contracts are major international commercial banks. The Company does not anticipate non-performance by the counterparties.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. In this documentation, the Company identifies the forecasted transactions that have been designated as a hedged item and states how the hedging instrument is expected to hedge the risks related to that item. The Company formally measures effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis. The Company discontinues hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item; when the derivative expires or is sold, terminated or exercised; when it is probable that the forecasted transaction will not occur; or when management determines that designation of the derivative as a hedge instrument is not appropriate.

The Company's forward exchange contracts are designated as a hedge of the cash flow variability arising from forecasted foreign-currency denominated purchases. Accordingly, changes in the cash flows of these contracts must be highly correlated with changes in the cash flows of the underlying hedged item at inception of the hedge and over the life of the hedge contract. Gains and losses on these derivatives are recorded in shareholders' equity to the extent they are effective as hedges and reclassified into earnings in the period in which the hedged transaction settles. To the extent that the derivatives are not effective as hedges, gains and losses on these derivatives are recorded immediately into current earnings in other income (expense).

As of October 31, 2003, the Company was party to approximately $22.0 million in forward exchange contracts providing for the delivery of the various currencies in exchange for others over the succeeding 12 months. The fair value of the contracts outstanding at October 31, 2003 was a $1.5 million net liability.

For the six months ended October 31, 2003, the Company recognized in earnings realized losses of $0.1 million related to the ineffectiveness of settled cash flow hedges. Also, as of October 31, 2003, the Company reclassified into earnings an unrealized loss of $0.2 million as a result of the discontinuance of cash flow hedges because it became probable that the original forecasted transactions would not occur.

Year to Date Activity

The changes in shareholders' equity associated with hedging activity for the six months ended October 31, 2003 and 2002 were as follows:

	Six Months Ended October 31,	
(In thousands)	2003	2002
Balance -- May 1, 2003 and 2002	$ (1,420)	$ (669)
Cash flow hedging loss	(608)	(2,160)

Net loss reclassified to income statement	1,215	1,164
Balance -- October 31, 2003 and 2002	$ (813)	$ (1,665)
	======	======

Of the amount recorded in shareholders' equity at October 31, 2003, a $0.8 million loss is expected to be reclassified into earnings over the next twelve months.

NOTE 6. Segment Information

The Company's operations are classified into three operating segments: Sign Making and Specialty Graphics, Apparel and Flexible Materials, and Ophthalmic Lens Processing. Those segments are determined based on management's evaluation of the Company's businesses. Financial data for the three- and six-month periods ended October 31, 2003 and 2002 are shown in the following tables.

	Three Months Ended October 31,		Six Months Ended October 31,	
In thousands	2003	2002	2003	2002
Segment revenue:				
Sign Making and Specialty Graphics	$ 71,472	$ 68,872	$144,313	$135,266
Apparel and Flexible Materials	38,378	37,806	75,985	76,484
Ophthalmic Lens Processing	20,435	22,102	38,944	42,908
	$130,285	$128,780	$259,242	$254,658
	=======	=======	=======	=======
Segment profit:				
Sign Making and Specialty Graphics	$ 4,509	$ 5,431	$ 9,578	$ 9,920
Apparel and Flexible Materials	4,178	3,712	7,151	7,706
Ophthalmic Lens Processing	392	1,626	351	2,707
	$ **9,079**	$ 10,769	$ 17,080	$ 20,333
	=======	=======	=======	=======

A reconciliation of total segment profit to consolidated income from continuing operations before income taxes follows:

	Three Months Ended October 31,		Six Months Ended October 31,	
In thousands	2003	2002	2003	2002
Segment profit	$ 9,079	$10,769	$17,080	$20,333
Corporate expenses, net of other income/(expense)	(5,087)	(4,206)	(9,500)	(8,653)
Earnings from continuing operations before interest and taxes	3,992	6,563	7,580	11,680
Interest expense	(3,212)	(2,146)	(6,315)	(4,377)
Earnings from continuing operations before income taxes	$ 780	$ 4,417	$ 1,265	$ 7,303
	======	======	======	======

Segment profit for the three and six months ended October 31, 2003 included restructuring charges of $0.2 million incurred in the Sign Making and Specialty Graphics operating segment and $0.3 million incurred in the Ophthalmic Lens Processing operating segment.

Segment profit for the six months ended October 31, 2002 included reversals of previously established restructuring reserves of $0.1 million for the Apparel and Flexible Material operating segment.

There were no material changes in segment assets, the measure of segment profit, or differences in the basis of segmentation since the Company's last annual report on Form 10-K for the fiscal year ended April 30, 2003, filed with the SEC on July 29, 2003.

NOTE 7. Comprehensive Income

The Company's total comprehensive income was as follows:

	Three Months Ended October 31,		Six Months Ended October 31,	
In thousands	2003	2002	2003	2002
Net earnings	$ 2,762	$ 3,117	$ 3,125	$ 6,733
Other comprehensive income:				

Foreign currency translation adjustments	5,800	929	6,679	6,890
Cash flow hedging gain (loss), net	275	79	607	(996)
Total comprehensive income	$ 8,837	$ 4,125	$10,411	$12,627
	======	======	======	======

NOTE 8. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated:

	Three Months Ended October 31,		Six Months Ended October 31,	
In thousands, except per share amounts	2003	2002	2003	2002
Numerator:				
Earnings from continuing operations	$ 2,762	$ 3,117	$ 3,125	$ 5,339
Discontinued operations:				
Income from operations of disposed business, net of tax	---	---	---	172
Gain on sale of disposed business, net of tax	---	---	---	1,222
Net earnings	$ 2,762	$ 3,117	$ 3,125	$ 6,733
	=====	=====	=====	=====
Denominators:				
Denominator for basic earnings per share--weighted-average shares outstanding	22,193	22,137	22,183	22,123
Effect of dilutive securities:				
Stock options	262	---	281	---
Denominator for diluted earnings per share--adjusted weighted-average shares outstanding	22,455	22,137	22,464	22,123

	=====	=====	=====	=====
Basic earnings per share from continuing operations	$ .12	$ .14	$ .14	$ .24
Discontinued operations	---	---	---	.06
Basic earnings per share	$ .12	$ .14	$ .14	$ .30
	=====	=====	=====	=====
Diluted earnings per share from continuing operations	$ .12	$ .14	$ .14	$ .24
Discontinued operations	---	---	---	.06
Diluted earnings per share	$ .12	$ .14	$ .14	$ .30
	=====	=====	=====	=====

For both the three- and six-month periods ended October 31, 2003, 2.4 million common stock equivalents were antidilutive and not included in the above calculation. For both the three- and six-month periods ended October 31, 2002, 4.4 million common stock equivalents were antidilutive and not included in the above calculation.

NOTE 9. Discontinued Operations

On July 1, 2002, the Company completed the sale of Stereo Optical Company, Inc. (Stereo Optical), which was included in the Ophthalmic Lens Processing operating segment, for $7.5 million in cash less an amount held in escrow for purchase price adjustments, the majority of which has been collected. Stereo Optical was accounted for as a discontinued operation beginning with the fiscal 2003 consolidated financial statements. This accounting recognition was required by the Company's adoption of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The gain on disposition was $3.5 million before income taxes and $1.2 million after taxes, or $.06 per diluted share. Stereo Optical's revenue and pre-tax income reported in discontinued operations were $0.7 million and $0.3 million, respectively, for the six-month period ended October 31, 2002.

NOTE 10. Commitments and Contingencies

SEC Enforcement Investigation

In September 2000, the Division of Enforcement of the Securities and Exchange Commission initiated an investigation relating to possible insider trading activity with respect to the Company's securities. In October 2001, the SEC expanded its investigation to encompass the Company's inventory and reserve accounting practices and related disclosures. The Enforcement staff has since asked for information and documents relating to various accounting and other matters (including matters that have been addressed through the restatement of the Company's prior annual financial statements for fiscal years 2000 and 2001). In addition, the staff has taken the testimony of current and former officers and employees of the Company. The Company believes that it has cooperated fully with the staff during the course of this investigation. If the SEC's investigation results in any formal adverse findings, the Company's financial condition, results of operations, and business could be adversely affected. The Company has incurred, and may continue to incur, significant legal and other costs in connection with this investigation. As the investigation is ongoing, the Company cannot predict the length nor the potential outcome of the investigation, nor the potential impact on the Company.

Claims Which May Be Asserted Under the Company's 401(k) Plan

In December 1997, the Company registered 350,000 shares of the Company's common stock to be purchased by an independent trustee in the open market for the benefit and at the direction of Company employees pursuant to the Gerber Scientific, Inc. and participating Subsidiaries 401(k) Maximum Advantage Program and Trust (the "Plan"). Approximately 1,100,000 shares were acquired by Plan participants before this option was discontinued on July 15, 2002.

The purchase of shares under the Plan in excess of the number of shares registered may have been exempt from registration under the Securities Act of 1933. The Company understands, however, that the staff of the Securities and Exchange Commission takes the position that one possible exemption, under Section 3(a)(2) of the Securities Act, would not apply to shares of an employer-sponsored plan acquired in the open market by an independent trustee at the direction and for the benefit of employee participants pursuant to plans of this type (i.e., plans in which employee contributions can be directed toward the purchase of a company's stock and the company's matching contributions may be less than 1-for-1).

If the acquisitions of these shares are found not to have been exempt from registration, the Company could be liable under Section 12(a)(1) of the Securities Act for rescission or damages to the employees who purchased these shares. Under Section 13 of the Securities Act, a rescission right, which is the effective equivalent to a "put" right, can be maintained to enforce liability under Section 12(a)(1) at any time within one year after the violation on which it is based but not more than three years after the relevant securities were first offered to the public. A rescission right would entitle the employee purchasers of these shares to receive the return of the amounts paid for these shares, together with interest from the date of purchase.

The current members of the Plan's administrative committee, on the advice of counsel, requested the Company to toll (effective July 25, 2002), any statutes of limitations with respect to claims which might be made by or on behalf of Plan participants alleging that the Company should have registered these shares. The Company acceded to this request and entered into a tolling agreement, which has been extended, most recently to December 31, 2003, to allow the independent fiduciary described below adequate time to study the issue. The prices paid for shares acquired during the one year prior to July 25, 2002 aggregated approximately $2.1 million. The prices paid for all of the unregistered shares which were acquired under the Plan aggregated approximately $7.3 million. In July 2003, the Company appointed an independent fiduciary under the Plan to deal with all matters on behalf of the Plan related to the facts described above.

In addition to any claims that may be asserted under the Securities Act, claims may also be asserted under the Employee Retirement Income Security Act of 1974 for recovery of losses incurred with respect to the purchase of the unregistered shares.

The Company does not currently intend to offer rescission to the purchasers of these shares and intends to defend against any claim for either rescission or damages. However, the possibility of such a claim gives rise to a contingent liability that, if realized, could adversely affect the financial condition of the Company. Given the current status of this unasserted claim, the Company cannot reasonably estimate a loss.

Product Liability Litigation

The Company is the defendant in a legal claim alleging that one of its machines caused a fire on the claimant's premises. The Company believes that it has substantial legal defense; however, there is no assurance that the Company will be successful in asserting defense against this claim. As of October 31, 2003, the potential exposure for an unfavorable outcome is estimated to range from $0 - $0.5 million. The consolidated financial statements do not include an accrual for this contingency because the Company does not believe that an unfavorable settlement is probable.

Other

The Company currently has others lawsuits, as well as claims and government proceedings, pending. Management believes that the ultimate resolution of these other lawsuits, claims, and proceedings will not have a material effect on the Company's consolidated financial condition, results of operations, liquidity, or competitive position.

NOTE 11. Guarantees

In December 2002, the Company adopted Financial Accounting Standards Board Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. FIN 45 also requires disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued, including a roll forward of product warranty liabilities. The initial recognition and measurement provisions of FIN 45 were effective for any guarantees that met certain criteria under FIN 45 that were issued or modified after December 31, 2002. Adoption of the initial recognition and measurement provisions of FIN 45 did not materially impact the Company's financial position or results of operations. The Company adopted the disclosure requirements of FIN 45 as of January 31, 2003.

The Company extends financial and product performance guarantees to third parties. There have been no material changes to guarantees outstanding since April 30, 2003.

The changes in the carrying amount of product warranties for the six months ended October 31, 2003, are as follows:

In thousands	
Beginning balance, May 1, 2003	$ 4,372
Reductions for payments made	(2,581)
Changes in accruals related to warranties issued in the current period	2,473
Ending balance, October 31, 2003	$ 4,264
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NOTE 12. Stock Option Plans

The Company has stock option plans authorizing grants to officers and empl