

GERBER SCIENTIFIC INC
Form 10-Q
December 07, 2007

**UNITED STATES
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, 2007

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

06-0640743

(State or other jurisdiction of incorporation
or organization)

(I.R.S. Employer Identification
No.)

83 Gerber Road West, South Windsor, Connecticut

06074

(Address of principal executive offices)

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x
No "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

23,447,942 shares of common stock of the registrant were outstanding as of November 30, 2007 exclusive of treasury shares.

GERBER SCIENTIFIC, INC.
Index to Quarterly Report
on Form 10-Q
Fiscal Quarter Ended October 31, 2007

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Gerber Scientific, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

In thousands except per share data	For the Fiscal Quarters Ended October	
	2007	2006
Revenue:		
Product sales	\$142,095	\$128,423
Service sales	18,621	16,626
	160,716	145,049
Costs and Expenses:		
Cost of products sold	102,217	91,272
Cost of services sold	12,103	10,145
Selling, general and administrative expenses	34,658	30,990
Research and development	6,552	6,175
	155,530	138,582
Operating income	5,186	6,467
Other income (expense), net	(386)	279
Interest expense	(1,083)	(971)
Income before income taxes	3,717	5,775

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Income tax expense	1,216	2,086
Net income	\$ 2,501	\$ 3,689
Earnings per share of common stock:		
Basic	\$ 0.11	\$ 0.16
Diluted	\$ 0.11	\$ 0.16
Weighted average shares outstanding:		
	23,329	22,854
Basic	23,638	23,343
Diluted		

See accompanying Notes to Condensed Consolidated Financial Statements.

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Gerber Scientific, Inc.
 Condensed Consolidated Statements of Operations
 (Unaudited)

	For the Six Months Ended October	
		31,
In thousands except per share data	2007	2006
Revenue:		
Product sales	\$277,385	\$249,835
Service sales	36,998	32,702
	314,383	282,537
Costs and Expenses:		
Cost of products sold	198,874	177,520
Cost of services sold	23,652	19,680
Selling, general and administrative expenses	69,281	62,353
Research and development	13,017	12,143
	304,824	271,696
Operating income	9,559	10,841
Other income (expense), net	339	120
Interest expense	(2,072)	(1,748)
Income before income taxes	7,826	9,213

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Income tax expense	2,488	3,500
Net income	\$ 5,338	\$ 5,713
Earnings per share of common stock:		
Basic	\$ 0.23	\$ 0.25
Diluted	\$ 0.23	\$ 0.25
Weighted average shares outstanding:		
	23,257	22,737
Basic	23,594	23,183
Diluted		

See accompanying Notes to Condensed Consolidated Financial Statements.

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Gerber Scientific, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

In thousands	October 31, 2007	April 30, 2007
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 14,357	\$ 8,052
Accounts receivable, net	106,879	106,421
Inventories	77,368	65,299
Deferred tax assets	9,183	8,969
Prepaid expenses and other current assets	7,836	6,137
Total current assets	215,623	194,878
Property, plant and equipment, net	38,299	36,982
Goodwill	62,090	54,825
Deferred tax assets	37,187	34,893
Other assets	14,889	14,384
Total assets	\$368,088	\$335,962
Liabilities and Shareholders' Equity:		
Current Liabilities:		
Current portion of long-term debt	\$ 2,698	\$ 1,773
Accounts payable	45,980	48,772
Accrued compensation and benefits	20,450	21,615
Other accrued liabilities	27,673	25,585
Deferred revenue	14,983	16,008
Total current liabilities	111,784	113,753
Long-term debt	45,826	31,603
Accrued pension benefit liability	26,744	28,789
Other long-term liabilities	23,200	17,336
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock	---	---
Common stock	240	238

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Paid-in capital	74,366	72,612
Retained earnings	88,415	83,290
	(12,457)	(12,814)
Treasury stock		
Accumulated other comprehensive income	9,970	1,155
Total shareholders' equity	160,534	144,481
Total liabilities and shareholders' equity	\$368,088	\$335,962

See accompanying Notes to Condensed Consolidated Financial Statements.

Gerber Scientific, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

In thousands	For the Six Months Ended October	
	2007	31, 2006
Cash flows from operating activities:		
Net income	\$ 5,338	\$ 5,713
Adjustments to reconcile net income to cash used for operating activities:		
Depreciation and amortization	4,708	4,209
Deferred income taxes	1,255	448
Stock-based compensation	569	611
Gain on sale of assets	(950)	---
Other noncash items	960	617
Changes in operating accounts, net of acquisitions:		
Accounts receivable	5,174	(8,224)
Inventories	(6,776)	(4,929)
Prepaid expenses and other assets	(536)	441
Accounts payable and other accrued liabilities	(8,821)	(4,446)
Accrued compensation and benefits	(2,116)	(3,232)
Net cash used for operating activities	(1,195)	(8,792)
Cash flows from investing activities:		
Capital expenditures	(3,849)	(1,533)
Proceeds from sale of assets	150	---
Proceeds from sale of available for sale investments	346	365
Purchases of available for sale investments	(201)	(163)
Acquisitions, net	(4,650)	---
Acquisition of intangible assets	(251)	(338)
Net cash used for investing activities	(8,455)	(1,669)
Cash flows from financing activities:		
Debt repayments	(162,524)	(139,179)
Debt proceeds	177,666	142,840
Excess tax benefits from stock-based compensation	---	902
Common stock issued	1,348	2,677
Net cash provided by financing activities	16,490	7,240
Effect of exchange rate changes on cash	(535)	(612)

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Increase (Decrease) in cash and cash equivalents	6,305	(3,833)
Cash and cash equivalents at beginning of period	8,052	14,145
Cash and cash equivalents at end of period	\$ 14,357	\$ 10,312

See accompanying Notes to Condensed Consolidated Financial Statements.

Gerber Scientific, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Gerber Scientific, Inc. and its subsidiaries (collectively, the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these condensed consolidated financial statements do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. The condensed consolidated balance sheet as of April 30, 2007 has been derived from the audited consolidated financial statements. All significant intercompany transactions have been eliminated in the condensed consolidated financial statements. The condensed consolidated financial statements have been prepared, in all material respects, in accordance with the same accounting principles followed in the preparation of the Company's annual financial statements for the fiscal year ended April 30, 2007, except for the Company's adoption of the Financial Accounting Standards Board's Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ("FIN 48"), on May 1, 2007. See Note 10.

Management believes that all adjustments, which include only normal recurring adjustments necessary to fairly state the Company's consolidated financial position, results of operations and cash flows for the periods reported, have been included. The financial information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2007, filed with the Securities and Exchange Commission on July 9, 2007.

Note 2. Inventories

Inventories, net of reserves, were as follows:

	October 31,	April 30,
In thousands	2007	2007
Raw materials and purchased parts	\$58,869	\$49,822
Work in process	3,116	2,134
Finished goods	15,383	13,343
Total inventories	\$77,368	\$65,299

Note 3. Restructuring

The Company has a restructuring accrual related to a leased facility consolidation in the Sign Making and Specialty Graphics segment that was initiated in the fiscal year ended April 30, 2004. During the six months ended October 31, 2007, \$0.1 million of cash payments reduced the accrual to an ending balance of \$1.0 million. The remaining cash payments will continue over the life of the lease, through the fiscal year ending April 30, 2019.

Note 4. Goodwill and Intangible Assets

The table below presents the gross carrying amount and accumulated amortization of the Company's acquired intangible assets other than goodwill included in Other assets on the Company's Condensed Consolidated Balance

Sheets:

In thousands	October 31, 2007		April 30, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Patents	\$7,099	\$2,908	\$7,233	\$2,916
Other	686	345	694	304
Total amortized intangible assets	\$7,785	\$3,253	\$7,927	\$3,220

Intangible asset amortization expense was \$0.2 million and \$0.3 million, respectively, for the quarter and six months ended October 31, 2007 and 2006. It is estimated that such expense will be \$0.7 million for the fiscal year ending April 30, 2008, \$0.6 million for the fiscal year ending April 30, 2009 and \$0.4 million annually for fiscal years ending April 30, 2010 through 2013.

In May 2007, the Company acquired for cash the stock of Data Technology, Inc. ("Data Technology"), a manufacturer of automated cutting hardware for the design, die making and short run production segments of the packaging and graphics industries, located in Massachusetts. The Company plans to leverage its global multi-market distribution channels and commercial brand development expertise to release Data Technology's products into its international markets. The Company also plans to leverage Data Technology's product portfolio into Sign Making and Specialty Graphics applications. Additionally, opportunities exist for the Company's Apparel and Flexible Materials operating segment to leverage Data Technology's product offering and precision cutting technologies for its customers. Under the terms of the stock purchase agreement, the purchase price was \$6.2 million, of which the Company paid \$5.2 million in cash to the stockholders of Data Technology and expects to pay approximately \$1.0 million under the terms of the stockholder agreement as contingent consideration in May 2009. Additionally, the Company may pay further contingent cash consideration as payments become due through May 2010 related to certain earn-out provisions based upon operating profit objectives contained in the agreement. In May 2007, the Company entered into a new borrowing facilitated by an amendment to its existing credit facility to fund this acquisition and repay Data Technology's pre-existing debt. See Note 12. The operating results of this business are included within the Sign Making and Specialty Graphic's segment in the Company's condensed consolidated financial statements from the effective date of the acquisition on May 1, 2007.

The assets and liabilities of Data Technology were recorded at fair value on the date of acquisition under the purchase method of accounting. The Company determined the intangible asset fair value of the acquired order backlog through the use of a valuation model. The unallocated purchase price was recorded as goodwill of the Sign Making and Specialty Graphics operating segment.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed, including capitalized transaction costs, and related deferred income taxes as of the acquisition date:

In thousands	May 1, 2007
Assets acquired:	
Cash and cash equivalents	\$ 500
Accounts receivable	701
Inventories	2,106
Prepaid expenses and other current assets	71
Property, plant and equipment	450
Goodwill	5,862
Other assets	68
Total assets acquired	9,758
Liabilities assumed:	
Accounts payable	1,447
Accrued compensation and benefits	139

Other accrued liabilities	749
Deferred revenue	1,038
Deferred income taxes	223
Long-term debt	1,012
Total liabilities assumed	4,608
Net assets acquired	\$5,150

The Company believes that its results of operations for the fiscal quarter and six months ended October 31, 2006 would not have been materially different had the acquisition occurred at May 1, 2006.

There were no impairments or dispositions of goodwill during the six months ended October 31, 2007 or 2006.

Balances and changes in the carrying amount of goodwill for the six months ended October 31, 2007 were as follows:

In thousands	Sign Making and Specialty Graphics	Apparel and Flexible Materials	Ophthalmic Lens Processing	Total
Balance as of April 30, 2007	\$23,923	\$13,906	\$16,996	\$54,825
Business acquisition	5,862	---	---	5,862
Effects of currency translation	1,324	79	---	1,403
Balance as of October 31, 2007	\$31,109	\$13,985	\$16,996	\$62,090

Note 5. Segment Reporting

The Company's operations are classified into three reportable operating segments: Sign Making and Specialty Graphics, Apparel and Flexible Materials and Ophthalmic Lens Processing. The Sign Making and Specialty Graphics reportable operating segment is comprised of the Gerber Scientific Products and Spandex business units. The results of Data Technology, acquired during May 2007, are included within Gerber Scientific Products' results. See Note 4.

The following table presents revenue and operating income by reportable segment.

In thousands	For the Fiscal Quarters Ended October 31,		For the Six Months Ended October 31,	
	2007	2006	2007	2006
Sign Making and Specialty Graphics:				
Gerber Scientific Products	\$ 27,081	\$ 23,298	\$ 52,275	\$ 46,435
Spandex	64,103	52,283	124,854	102,305
Sign Making and Specialty Graphics	91,184	75,581	177,129	148,740
Apparel and Flexible Materials	51,440	49,038	100,919	95,581
Ophthalmic Lens Processing	18,521	20,430	36,829	38,216
Intersegment revenue eliminations	(429)	---	(494)	---
Consolidated revenue	\$160,716	\$145,049	\$314,383	\$282,537
Sign Making and Specialty Graphics:				
Gerber Scientific Products	\$ 771	\$ 1,557	\$ 627	\$ 3,263
Spandex	2,303	1,717	4,021	3,249
Sign Making and Specialty Graphics	3,074	3,274	4,648	6,512
Apparel and Flexible Materials	6,431	7,008	13,484	12,975

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Ophthalmic Lens Processing	1,050	381	2,429	641
Intersegment operating profit eliminations	(168)	---	(196)	---
Segment operating income	10,387	10,663	20,365	20,128
Corporate operating expenses	(5,201)	(4,196)	(10,806)	(9,287)
Total operating income	\$ 5,186	\$ 6,467	\$ 9,559	\$ 10,841

Note 6. Comprehensive Income

The Company's total comprehensive income was as follows:

In thousands	For the Fiscal Quarters Ended October 31,		For the Six Months Ended October 31,	
	2007	2006	2007	2006
Net income	\$2,501	\$3,689	\$ 5,338	\$5,713
Other comprehensive income:				
Foreign currency translation adjustments	7,086	597	8,539	1,427
Defined benefit pension plans activity, net of tax	143	---	285	---
Unrealized investment income (loss), net of tax	56	148	(9)	105
Total comprehensive income	\$9,786	\$4,434	\$14,153	\$7,245

Note 7. Earnings Per Share

Basic and diluted earnings per common share are calculated in accordance with the provisions of FASB Statement of Financial Accounting Standards No. 128, *Earnings per Share*. Basic earnings per common share are equal to net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share are equal to net income divided by the weighted average number of common shares outstanding during the period, including the effect of stock-based compensation, where such effect is dilutive.

The following tables set forth the computation of basic and diluted net earnings per common share:

	For the Fiscal Quarters Ended October 31,					
	2007			2006		
In thousands except per share amounts	Net Income	Average Shares	Per Share	Net Income	Average Shares	Per Share
Basic earnings per share	\$2,501	23,329	\$0.11	\$3,689	22,854	\$0.16
Effect of dilutive options and awards	---	309	---	---	489	---
Diluted earnings per share	\$2,501	23,638	\$0.11	\$3,689	23,343	\$0.16

	For the Six Months Ended October 31,					
	2007			2006		
In thousands except per share amounts	Net Income	Average Shares	Per Share	Net Income	Average Shares	Per Share
Basic earnings per share	\$5,338	23,257	\$0.23	\$5,713	22,737	\$0.25
Effect of dilutive options and awards	---	337	---	---	446	---
Diluted earnings per share	\$5,338	23,594	\$0.23	\$5,713	23,183	\$0.25

Note 8. Guarantees

The Company extends financial and product performance guarantees to third parties. There have been no material changes to guarantees outstanding during the fiscal quarter or six months ended October 31, 2007.

Changes in the carrying amounts of product warranties were as follows:

In thousands	For the Six Months Ended October 31,	
	2007	2006
Beginning balance	\$ 2,337	\$ 2,445
Changes in accruals related to warranties issued in the current period	2,952	2,453
Reductions for costs incurred	(2,776)	(2,627)

Ending balance \$ 2,513 \$ 2,271

Note 9. Employee Benefit Plans

Components of net periodic benefit cost were as follows:

In thousands	For the Fiscal Quarters Ended October 31,		For the Six Months Ended October 31,	
	2007	2006	2007	2006
Service cost	\$ 647	\$ 614	\$ 1,294	\$ 1,228
Interest cost	1,615	1,576	3,230	3,151
Expected return on plan assets	(1,760)	(1,533)	(3,520)	(3,066)
Amortization of:				
Prior service cost	73	73	146	146
Actuarial loss	154	188	308	376
Net periodic benefit cost	\$ 729	\$ 918	\$ 1,458	\$ 1,835

Cash contributions of \$1.9 million and \$3.0 million were made to the Company's pension defined benefit plans for the fiscal quarter and six months ended October 31, 2007, respectively. The Company expects to contribute \$6.0 million to these plans in the fiscal year ending April 30, 2008.

Note 10. Income Taxes

The Company adopted the provisions of FIN 48 on May 1, 2007. As a result of the implementation of FIN 48, the Company recorded a charge of \$0.2 million, which was accounted for as a reduction to the May 1, 2007 retained earnings balance. As of May 1, 2007, the total amount of gross unrecognized tax benefits recorded in the Company's Condensed Consolidated Balance Sheets was \$7.0 million, of which \$2.9 million, if recognized, would impact the Company's effective tax rate. The Company estimates that the total unrecognized tax benefits will decrease by approximately \$0.5 million to \$0.8 million within the next 12 months as a result of the statute of limitations closing on certain foreign transactions. There have been no significant changes to these amounts during the six months ended October 31, 2007.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties within income tax expense. An immaterial amount for the payment of interest and penalties was included in the unrecognized tax benefits recorded as of May 1, 2007 associated with those positions.

The Company or its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state, local and international jurisdictions. With few exceptions, the Company is no longer subject to state or foreign income tax examinations by tax authorities for years before April 30, 2002. The Company is no longer subject to U.S. federal tax examination by the Internal Revenue Service for years before April 30, 2004.

Note 11. Sale of Assets

On July 27, 2007, the Company sold its rights to the Gerber Coburn Innovations software product to Ocuco, Inc. for \$1.0 million. The Company received \$0.2 million in cash and \$0.6 million in notes receivable. Additionally, the Company received shares of preferred stock in Ocuco Holdings Limited, a private company. Included in the consideration received, Ocuco assumed a liability of \$0.2 million related to the product. A gain of \$1.0 million was recorded in Other income (expense), net on the Company's Condensed Consolidated Statement of Operations for the six months ended October 31, 2007. The sale of these assets did not meet the criteria for the sale of a component of the Ophthalmic Lens Processing segment.

Note 12. Borrowings

In November 2007, the Company extended its revolving credit facility maturity date with Citizens Bank of Massachusetts and Sovereign Bank (collectively, its "Lenders") to November 1, 2008.

The Company was in compliance with its financial covenants as of July 31, 2007; however, the Company did not file its quarterly financial statements or the related compliance certificate within the prescribed time period for the first quarter of fiscal 2008. The Company obtained a waiver of this noncompliance from its Lenders for this violation that provided the Company with an extended period to file its quarterly financial statements and related compliance certificate and completed its filing during the extension period. The Company was in compliance with its financial covenants as of October 31, 2007.

In May 2007, the Company entered into a third amendment to its credit facility with its Lenders (the "Third Amendment"). The Third Amendment provides for a line of credit available in the form of term loans with a maximum aggregate amount of \$10.0 million for permitted acquisitions. Principal amounts outstanding under the

Third Amendment are payable in 30 equal installments. The Third Amendment provides that borrowings accrue interest, payable monthly, at an annual rate equal to the specified LIBOR plus 175 basis points or the designated prime rate, at the option of the Company. In addition, a fee of 25 basis points is incurred on the difference between \$10.0 million and the average daily principal amount outstanding under the Third Amendment. Term loan borrowings may be made through October 31, 2008 so long as the aggregate amount of outstanding term loans does not exceed \$10.0 million. As of October 31, 2007, \$5.3 million was outstanding under the acquisition line of credit.

Note 13. Recently Issued Accounting Standards

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115* ("SFAS 159"), which is effective for the Company beginning on May 1, 2008. SFAS 159 provides companies with the option to elect to measure many financial assets and liabilities at fair value, subject to certain exceptions. The Company is currently evaluating whether it will apply SFAS 159 to any of its qualified financial assets and liabilities and the potential impact of those choices on its consolidated financial position, results of operations and cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"), which is effective for the Company beginning on May 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands related disclosure requirements. The Company is evaluating the potential impact of SFAS 157 on its consolidated financial position, results of operations and cash flows.

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

CAUTIONARY NOTE CONCERNING FACTORS THAT MAY INFLUENCE FUTURE RESULTS

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

- expected financial condition, future earnings, levels of growth, or other measures of financial performance, or the future size of market segments or geographic markets;
- future cash flows and uses of cash and debt strategies;
- prospective product developments and business growth opportunities, as well as competitor product developments;
- demand for the Company's products and services;
- the impact of recently enacted and proposed international environmental laws on the Company's revenue;
- methods of and costs associated with potential geographic or market expansion;
- regulatory and market developments and the impact of such developments on future operating results;
- future effective income tax rates;
- the outcome of contingencies;
- the availability and cost of raw materials; and
- pension plan assumptions and future contributions.

All forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those expressed or implied in the forward-looking statements. Certain risk factors that could cause actual results to differ from expectations are set forth in Item 1A. "Risk Factors" of the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2007. The Company cannot assure that its financial position, result of operations or cash flows will not be adversely affected by one or more of these factors. The Company does not undertake to update any forward-looking statement made in this report or that may from time to time be made by or on behalf of the Company, except as required by law.

OVERVIEW

The Company reported increased revenue of \$15.7 million and \$31.8 million for the fiscal quarter and six months ended October 31, 2007, respectively, as compared with the same prior year periods. The increased revenue for these periods resulted from the favorable impact of foreign currency translation of \$8.4 million and \$14.6 million for the fiscal quarter and six months ended October 31, 2007, respectively, revenue from key new products, the impact of geographic and organic growth, and the Company's service business. Additionally, the Data Technology acquisition in May 2007 contributed incremental revenue of \$3.2 million and \$6.3 million for the fiscal quarter and six months ended October 31, 2007, respectively.

The Company's primary sources of revenue are from the initial sale of equipment and software and subsequent sales of aftermarket materials and services. Ongoing research and development activities enable the Company to focus on revenue growth through new product introductions. For the fiscal quarter and six months ended October 31, 2007, key new products revenue was \$8.7 million and \$16.6 million, respectively. This represented an increase in key new products revenue of \$2.2 million and \$5.2 million, respectively, as compared with the same periods of the prior year.

Those increases were primarily driven by sales of the XLc7000 multi-ply GERBERcutter® in the Apparel and Flexible Materials segment and the DTL lens generator in the Ophthalmic Lens Processing segment. Within the Sign Making and Specialty Graphics segment, new product revenue from the Solara UV2 has declined as compared with the fiscal quarter and six months ended October 31, 2006, as anticipated by the Company. The Company is preparing to launch the Gerber Solara ion™, a wide-format UV inkjet printer, in the fourth quarter of fiscal 2008 and recent trade show introductions of the Solara ion have already generated a substantial number of advance orders.

In addition, the Ophthalmic Lens Processing segment recently announced the introduction of two new products that form the basis of the Advanced Lens Processing System ("ALPS") with free-form capability. ALPS is considered to be a significant milestone for the Ophthalmic Lens Processing segment and is expected to be a strong driver of future growth for this segment.

The Company continues to take actions to expand geographically, both into new markets and existing markets. China remains the most dynamic growth market for the Apparel and Flexible Materials segment. Total revenue within greater China reached \$8.6 million and \$16.5 million for the fiscal quarter and six months ended October 31, 2007, respectively, and represented the highest quarterly revenue ever in China. The Apparel and Flexible Materials segment revenue in China was \$8.2 million and included increased sales of the XLc7000 multi-ply GERBERcutter® and the GERBERspreaders XLs50.

Revenue growth is also expected from incremental bolt-on acquisitions. The Company acquired Data Technology, Inc. ("Data Technology") on May 1, 2007. The Company plans to leverage its global multi-market distribution channels and commercial brand development expertise to release Data Technology's products into its international markets. The Company also plans to leverage Data Technology's product portfolio into sign making and specialty graphics applications. Additionally, opportunities exist for the Company's Apparel and Flexible Materials operating segment to leverage Data Technology's product offering and precision cutting technologies for its customers. The operating results of this acquisition are reported in the Sign Making and Specialty Graphics segment from the date of the acquisition.

Operating income decreased \$1.3 million for both the second quarter of fiscal 2008 and the six months ended October 31, 2007 as compared with the same periods in the prior year. The Company incurred \$1.0 million of professional fees related to external assistance associated with the adoption of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ("FIN 48"), and higher selling and marketing costs that adversely impacted operating income in the fiscal quarter and six months ended October 31, 2007. The higher selling and marketing costs include strategic investments related to new product marketing efforts. These strategic investment efforts are anticipated to result in higher selling and marketing costs for the remainder of fiscal 2008 as compared with the prior fiscal year.

In July 2007, the Company's Ophthalmic Lens Processing segment sold its Gerber Coburn Innovations software to a private international company and recognized a \$1.0 million gain, which is included in Other income (expense), net for the six months ended October 31, 2007. The sale of these assets is not expected to significantly impact this segment's ongoing revenue or profitability, and the Company retains the right to distribute the product on a worldwide basis.

RESULTS OF OPERATIONS

Revenue

	For the Fiscal Quarters			For the Six Months		
	Ended October 31,		Percent	Ended October 31,		Percent
In thousands	2007	2006	Change	2007	2006	Change
Revenue	\$160,716	\$145,049	10.8%	\$314,383	\$282,537	11.3%

The Company's increased revenue for both the fiscal quarter and six months ended October 31, 2007, as compared with the prior year, included \$8.4 million and \$14.6 million, respectively, of favorable foreign currency translation effects. On a product basis, aftermarket supplies revenue contributed \$10.5 million, equipment revenue contributed \$3.2 million and service revenue contributed \$2.0 million to the total increase for the fiscal quarter ended October 31,

2007. For the six months ended October 31, 2007, aftermarket supplies revenue contributed \$20.0 million, equipment revenue contributed \$7.5 million and service revenue contributed \$4.3 million to the total increase. Excluding the favorable impact of foreign currency translation, the growth within aftermarket supplies revenue was primarily attributable to organic growth from the Sign Making and Specialty Graphics segment's international distribution operations. The increase in equipment revenue was from higher volume of key new products, primarily within the Apparel and Flexible Materials segment, and incremental revenue from the business acquisition of Data Technology.

The Company's product mix remained relatively consistent with prior year periods, as illustrated by the table below:

	For the Fiscal Quarters Ended October 31,		For the Six Months Ended October 31,	
	2007	2006	2007	2006
Equipment and software revenue	32%	33%	31%	32%
Aftermarket supplies revenue	57%	56%	57%	56%
Service revenue	11%	11%	12%	12%

International markets continue to be significant to the Company's revenue. The Company generates approximately 75 percent of its revenue annually from sales to non-U.S. markets. Revenue mix by geographic region for the fiscal quarter and six months ended October 31, 2007 was lower in North America, higher in Europe and relatively unchanged in the Rest of World region as compared with the same periods in fiscal 2007. The shift towards Europe primarily reflected the higher contribution from Spandex during second quarter and first six months of fiscal 2008, as well as the favorable impact of foreign currency translation. Although the Rest of World region revenue remained steady, revenue in greater China reached \$8.6 million and \$16.5 million for the second quarter and six months en