

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.

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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)

|  | For the Fiscal Quarters Ended October |           |
|--|---------------------------------------|-----------|
|  |                                       | 31,       |
| In thousands except per share data           | 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      |
| <b>Revenue:</b>                              |                                  |           |
| Product sales                                | \$277,385                        | \$249,835 |
| Service sales                                | 36,998                           | 32,702    |
|  | 314,383                          | 282,537   |
| <b>Costs and Expenses:</b>                   |                                  |           |
| 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,<br>2007 | April 30,<br>2007 |
|--|---------------------|-------------------|
| <b>Assets:</b>                               |                     |                   |
| <b>Current Assets:</b>                       |                     |                   |
| 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         |
| <b>Liabilities and Shareholders' Equity:</b> |                     |                   |
| <b>Current Liabilities:</b>                  |                     |                   |
| 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                |                     |                   |
| <b>Shareholders' Equity:</b>                 |                     |                   |
| 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)

|  | For the Six Months Ended October |           |
|--|----------------------------------|-----------|
|  |                                  | 31,       |
| In thousands   | 2007                             | 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<br>Carrying<br>Amount | Accumulated<br>Amortization | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |
| Amortized intangible assets:         |                             |                             |                             |                             |
| Patents                              | \$7,099                     | \$2,908                     | \$7,233                     | \$2,916                     |
| Other                                | 686                         | 345                         | 694                         | 304                         |
| Total amortized intangible<br>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<br>and Specialty<br>Graphics | Apparel and<br>Flexible<br>Materials | Ophthalmic<br>Lens<br>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<br>Ended October 31, |                  | For the Six Months<br>Ended October 31, |                  |
|--|--|------------------|---|------------------|
|  | 2007   | 2006             | 2007                                    | 2006             |
| <b>Sign Making and Specialty<br/>Graphics:</b> |  |                  |   |                  |
| Gerber Scientific Products                     | \$ 27,081                                    | \$ 23,298        | \$ 52,275                               | \$ 46,435        |
| Spandex  | 64,103                                       | 52,283           | 124,854                                 | 102,305          |
| <b>Sign Making and Specialty<br/>Graphics</b>  | <b>91,184</b>                                | <b>75,581</b>    | <b>177,129</b>                          | <b>148,740</b>   |
| 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)                                   | ---              |
| <b>Consolidated revenue</b>                    | <b>\$160,716</b>                             | <b>\$145,049</b> | <b>\$314,383</b>                        | <b>\$282,537</b> |
| <b>Sign Making and Specialty<br/>Graphics:</b> |  |                  |   |                  |
| Gerber Scientific Products                     | \$ 771                                       | \$ 1,557         | \$ 627                                  | \$ 3,263         |
| Spandex  | 2,303  | 1,717            | 4,021                                   | 3,249            |
| <b>Sign Making and Specialty<br/>Graphics</b>  | <b>3,074</b>                                 | <b>3,274</b>     | <b>4,648</b>                            | <b>6,512</b>     |
| 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<br>Ended October 31, |         | For the Six Months<br>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<br>Ended October 31, |         | For the Six Months<br>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<br>Ended October 31, |      | For the Six Months<br>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 ended October 31, 2007, respectively. Revenue in China for the second quarter of fiscal 2008 represented the highest quarterly revenue ever and was primarily driven by the Apparel and Flexible Materials segment.

#### Gross Profit / Margin

|                     | For the Fiscal Quarters<br>Ended October 31, |          |                   | For the Six Months<br>Ended October 31, |          |                   |
|---------------------|--|----------|-------------------|---|----------|-------------------|
|                     | 2007   | 2006     | Percent<br>Change | 2007                                    | 2006     | Percent<br>Change |
| In thousands        |  |          |                   |   |          |                   |
| Gross profit        | \$46,396                                     | \$43,632 | 6.3%              | \$91,857                                | \$85,337 | 7.6%              |
| Gross profit margin | 28.9%  | 30.1%    |                   | 29.2%                                   | 30.2%    |                   |

Gross profit increased in the fiscal quarter and six months ended October 31, 2007 by \$2.8 million and \$6.5 million, respectively, as compared with prior year similar periods. Favorable foreign currency translation from international operations of \$2.0 million contributed significantly to the gross profit increase in second quarter of fiscal 2008 as compared with the prior year. The remaining increase for the second quarter of fiscal 2008 was primarily from increased volume, which provided \$0.8 million incremental gross profit, and contribution from the Data Technology acquired business. These increases were partially offset by unfavorable net pricing and product mix of \$0.7 million as compared with the prior year.

Favorable foreign currency translation contributed \$3.4 million to the gross profit increase for the six months ended October 31, 2007 as compared with the prior year. The remaining increase for the fiscal 2008 year-to-date period was primarily from increased volume, which provided \$2.3 million of incremental gross profit, and contribution from the Data Technology acquired business. These increases were partially offset by unfavorable net pricing and product mix of approximately \$0.6 million.

The Company's gross profit margin declined 1.2 percentage points and 1.0 percentage points for the fiscal quarter and six months ended October 31, 2007, respectively, as compared with the fiscal quarter and six months ended October 31, 2006. The lower gross profit margins were primarily attributable to a higher contribution of revenue from the Company's Spandex business unit, which is an international distribution business and realizes lower gross margins

than the Company's manufacturing businesses. The Company's manufacturing businesses reported a slight increase in gross profit margin as compared with the prior year.

The Company continues to focus on the implementation of lean manufacturing initiatives. These initiatives involve programs focusing on improving the Company's profit margins, enhancing the quality of the Company's product offerings, increasing the availability of aftermarket parts and supplies, and strengthening manufacturing policies and procedures. The Company's manufacturing businesses gross profit margins have started to benefit from the application of lean manufacturing principles. This improvement however, was offset by the business mix of increased distribution sales, which are at substantially lower gross profit margins. Additionally, the Company continues to investigate low-cost sourcing of key parts and components of new equipment products. The Company anticipates that all of these programs should contribute to enhanced profitability.

## Selling, General and Administrative Expenses

| In thousands                                 | For the Fiscal Quarters<br>Ended October 31, |          |                   | For the Six Months<br>Ended October 31, |          |                   |
|--|--|----------|-------------------|---|----------|-------------------|
|  | 2007   | 2006     | Percent<br>Change | 2007                                    | 2006     | Percent<br>Change |
| Selling, general and administrative expenses | \$34,658                                     | \$30,990 | 11.8%             | \$69,281                                | \$62,353 | 11.1%             |
| Percentage of revenue                        | 21.6%  | 21.4%    |                   | 22.0%                                   | 22.1%    |                   |

Selling, general and administrative expenses increased \$3.7 million in the second quarter and \$6.9 million in the first six months of fiscal 2008 from the prior year comparable periods. Foreign currency translation contributed approximately \$1.3 million and \$2.4 million, respectively, to those increases.

The remaining increase in selling, general and administrative costs in the second quarter and first six months of fiscal 2008, as compared with the same periods of fiscal 2007, was attributable to higher commissions, sales and marketing costs that included strategic investments related to new products, and incremental costs from geographic expansion, as well as higher professional fees. The higher professional fees included \$1.0 million related to external assistance associated with the adoption of FIN 48. These costs were partially offset by lower self-insurance costs and lower pension costs.

## Research and Development

| In thousands             | For the Fiscal Quarters<br>Ended October 31, |         |                   | For the Six Months<br>Ended October 31, |          |                   |
|--------------------------|--|---------|-------------------|---|----------|-------------------|
|                          | 2007   | 2006    | Percent<br>Change | 2007                                    | 2006     | Percent<br>Change |
| Research and development | \$6,552                                      | \$6,175 | 6.1%              | \$13,017                                | \$12,143 | 7.2%              |
| Percentage of revenue    | 4.1%   | 4.3%    |                   | 4.1%                                    | 4.3%     |                   |

The overall increased research and development expenses in both the second quarter and first six months of fiscal 2008, as compared with the same periods of fiscal 2007, were primarily related to additional investment in development activities associated with the Company's next generation UV inkjet printer, the Solara ion, and the Company's Advanced Lens Processing System, which incorporates free-form capability.

## Other Income (Expense), net

| In thousands                | For the Fiscal Quarters<br>Ended October 31, |       | For the Six Months<br>Ended October 31, |       |
|-----------------------------|--|-------|---|-------|
|                             | 2007   | 2006  | 2007                                    | 2006  |
| Other income (expense), net | \$(386)                                      | \$279 | \$339                                   | \$120 |

Other income (expense), net primarily includes interest income, bank fees and foreign currency exchange gains and losses. The Company incurred foreign currency exchange losses in both the second quarter and first six months of fiscal 2008 of \$0.3 million, caused primarily by the impact of foreign currency fluctuations on translating intercompany short-term trade balances. In the second quarter and first six months of fiscal 2007, the Company recorded foreign currency exchange gains of \$0.4 million and \$0.6 million, respectively.

Other income (expense), net also included a \$1.0 million gain on the sale of certain assets in the Ophthalmic Lens Processing segment for the first six months of fiscal 2008.

Interest Expense

|  | For the Fiscal<br>Quarters |       |         | For the Six Months<br>Ended October 31, |         |         |
|--|----------------------------|-------|---------|---|---------|---------|
|  | Ended October 31,          |       | Percent |   |         | Percent |
| In thousands                                       | 2007                       | 2006  | Change  | 2007                                    | 2006    | Change  |
| Interest expense                                   | \$1,083                    | \$971 | 11.5%   | \$2,072                                 | \$1,748 | 18.5%   |
| Weighted-average credit facility<br>interest rates | 9.6%                       | 10.3% |         | 9.6%                                    | 9.7%    |         |

Interest expense increased in both the second quarter and first six months of fiscal 2008 primarily as a result of higher average credit facility balances in fiscal 2008 as compared with fiscal 2007. Included in interest expense for the quarter and six months ended October 31, 2007 was \$0.1 million and \$0.2 million, respectively, of interest charges attributable to new term loan debt entered into in conjunction with the Company's acquisition of Data Technology.

#### Income Tax Expense

The Company's effective tax rate was 32.7 percent in the fiscal quarter ended October 31, 2007 and 31.8 percent for the six months ended October 31, 2007, as compared with 36.1 percent in the fiscal quarter ended October 31, 2006 and 38.0 percent in the six months ended October 31, 2006. In both fiscal 2008 periods, the Company's effective tax rates were lower than the statutory rate of 35.0 percent primarily attributable to benefits recognized related to foreign tax credits and international tax rate differences. The Company's effective tax rate was greater than the statutory rate of 35.0 percent for the second quarter and first six months of fiscal 2007 primarily attributable to the establishment of certain valuation allowances for fiscal 2007 anticipated losses in certain foreign jurisdictions where the Company was unable to take a tax benefit.

#### SEGMENT REVIEW

The Company is a leading worldwide provider of equipment, software and related services in the sign making and specialty graphics, apparel and flexible materials and ophthalmic lens processing industries. The Company conducts business through three principal operating segments. These operating segments and the principal businesses within those segments are as follows:

| Operating Segment                  | Principal Business                             |
|------------------------------------|--|
| Sign Making and Specialty Graphics | Gerber Scientific Products ("GSP") and Spandex |
| Apparel and Flexible Materials     | Gerber Technology                              |
| Ophthalmic Lens Processing         | Gerber Coburn                                  |

#### Sign Making and Specialty Graphics

| In thousands             | For the Fiscal Quarter<br>Ended October 31, 2007 |          |          | For the Fiscal Quarter<br>Ended October 31, 2006 |          |          |
|--------------------------|--|----------|----------|--|----------|----------|
|                          | GSP  | Spandex  | Total    | GSP  | Spandex  | Total    |
| Revenue                  | \$27,081   | \$64,103 | \$91,184 | \$23,298   | \$52,283 | \$75,581 |
| Segment operating profit | \$ 771   | \$ 2,303 | \$ 3,074 | \$ 1,557   | \$ 1,717 | \$ 3,274 |

| In thousands             | For the Six Months<br>Ended October 31, 2007 |           |           | For the Six Months<br>Ended October 31, 2006 |           |           |
|--------------------------|--|-----------|-----------|--|-----------|-----------|
|                          | GSP  | Spandex   | Total     | GSP  | Spandex   | Total     |
| Revenue                  | \$52,275                                     | \$124,854 | \$177,129 | \$46,435                                     | \$102,305 | \$148,740 |
| Segment operating profit | \$ 627                                       | \$ 4,021  | \$ 4,648  | \$ 3,263                                     | \$ 3,249  | \$ 6,512  |

Segment revenue increased \$15.6 million, or 20.6 percent, for the second quarter of fiscal 2008 as compared with the same period in the prior year. Foreign currency translation contributed \$6.3 million to this increase. Segment revenue increased \$28.4 million, or 19.1 percent, for the six months ended October 31, 2007 as compared with the same period in the prior year. Foreign currency translation contributed \$10.9 million to this increase.

On a business unit basis and excluding the favorable impact of foreign currency translation, GSP's revenue increased \$3.0 million and Spandex's revenue increased \$6.3 million during the second quarter of fiscal 2008 as compared with the same prior year period. For the six months ended October 31, 2007, excluding the impact of foreign currency translation, GSP's revenue increased \$4.7 million and Spandex's revenue increased \$12.9 million. The increase in GSP's revenue was primarily from the acquisition of Data Technology in May 2007, which provided incremental revenue of \$3.2 million to the second quarter of fiscal 2008 and \$6.3 million to the six months ended October 31, 2007. The increase in Spandex's revenue was primarily from higher aftermarket materials sales volume across most of its European branches and Australia. Spandex opened an office in Poland during the second half of fiscal 2007 that also contributed to the revenue increase for the second quarter and first six months of fiscal 2008.



Segment operating profit decreased \$0.2 million and \$1.9 million for the second quarter and first six months of fiscal 2008, respectively, as compared with the same prior year periods.

The lower segment operating profit was driven by the GSP business unit and was attributable to both lower volume and pricing, as well as higher research and development costs. The higher research and development expenses were related to additional investment in activities associated with the Solara ion.

Spandex reported an increase in operating profit of \$0.6 million and \$0.8 million for the second quarter and first six months of fiscal 2008, respectively, as compared with the same prior year periods related to the gross margin contribution from increased volume, which was partially offset by increased commissions and selling and marketing costs.

#### Apparel and Flexible Materials

| In thousands             | For the Fiscal Quarters<br>Ended October 31, |          | For the Six Months<br>Ended October 31, |          |
|--------------------------|--|----------|---|----------|
|                          | 2007   | 2006     | 2007                                    | 2006     |
| Revenue                  | \$51,440                                     | \$49,038 | \$100,919                               | \$95,581 |
| Segment operating profit | \$ 6,431                                     | \$ 7,008 | \$ 13,484                               | \$12,975 |

Segment revenue increased \$2.4 million, or 4.9 percent, for the second quarter of fiscal 2008 as compared with the same period in the prior year and increased \$5.3 million, or 5.6 percent, for the six months ended October 31, 2007 as compared with the same period in the prior year. Foreign currency translation contributed \$1.6 million to the increase in segment revenue for the second quarter and \$2.8 million to the increase in the six months ended October 31, 2007 as compared with the prior year. The revenue growth for both periods was primarily attributable to increased sales volume and favorable product mix, including the XLc7000 multi-ply GERBERcutter® and the GERBERSpreader XLs50, as well as increased software and service volume.

Segment operating profit decreased \$0.6 million for the second quarter of fiscal 2008 as compared with the second quarter of fiscal 2007 and increased by \$0.5 million for the first six months of fiscal 2008 as compared with the same period in fiscal 2007. The decrease for the second quarter of fiscal 2008 was primarily attributable to higher selling and marketing expenses, which were partially offset by higher gross profit from the second quarter business volume. For the first six months of fiscal 2008, operating profit growth was primarily attributable to the margin contribution from increased sales volume and favorable product mix and pricing, which were partially offset by higher selling and marketing costs.

#### Ophthalmic Lens Processing

| In thousands             | For the Fiscal Quarters<br>Ended October 31, |          | For the Six Months<br>Ended October 31, |          |
|--------------------------|--|----------|---|----------|
|                          | 2007   | 2006     | 2007                                    | 2006     |
| Revenue                  | \$18,521                                     | \$20,430 | \$36,829                                | \$38,216 |
| Segment operating profit | \$ 1,050                                     | \$ 381   | \$ 2,429                                | \$ 641   |

Segment revenue decreased \$1.9 million, or 9.3 percent, from the prior year comparable second quarter and decreased \$1.4 million, or 3.6 percent, for the six months ended October 31, 2007 as compared with the same period in the prior year. The overall decrease is believed to be driven by market conditions resulting in lower aftermarket material purchases and equipment sales. The Company believes that the ophthalmic markets are continuing to evaluate new technologies, including free-form capabilities. During November 2007 the Company launched new products incorporating free-form capability to the market. These products include the DTL200 generator and the MAAT polisher, which form the basis for the Advanced Lens Processing System with free-form capability. The favorable impact of foreign currency translation of \$0.5 million for the second quarter of fiscal 2008 and \$0.9 million for the six months ended October 31, 2007 partially offset the overall decrease in segment revenue. Increased new product revenue, primarily from sales of the DTL lens generator, also partially offset the decrease in revenue in both periods.

Segment operating profit increased \$0.7 million and \$1.8 million for the second quarter and first six months of fiscal 2008, respectively, as compared with the same periods in the prior year. The improved profitability in both periods

was related to increased gross profit associated with a favorable product mix and pricing and lower operating expenses.

#### Corporate Expenses

| In thousands       | For the Fiscal Quarters<br>Ended October 31, |         | For the Six Months<br>Ended October 31, |         |
|--------------------|--|---------|---|---------|
|                    | 2007   | 2006    | 2007                                    | 2006    |
| Operating expenses | \$5,201                                      | \$4,196 | \$10,806                                | \$9,287 |

Corporate operating expenses increased \$1.0 million in the second quarter of fiscal 2008 as compared with the second quarter of fiscal 2007 and \$1.5 million for the six months ended October 31, 2007 as compared with the same period in fiscal 2007. Operating expenses in both periods were unfavorably impacted by \$1.0 million related to professional fees for external assistance associated with the adoption of FIN 48. Incremental severance costs of \$0.9 million were also incurred for the six months ended October 31, 2007.

#### FINANCIAL CONDITION

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's primary ongoing cash requirements, both in the short and long-term, will be to fund operating and capital expenditures, product development, acquisitions, expansion in China, pension plan contributions and debt service obligations. The primary sources of liquidity are internally generated cash flows from operations and available borrowings under the Company's credit facility. The sources of liquidity are subject to all of the risks of the Company's business and could be adversely affected by, among other factors, a decrease in demand for the Company's products, charges that may be required because of changes in market conditions or other costs of doing business, delayed product introductions or adverse changes to the Company's availability of funds.

The Company believes that its cash on hand, cash flows from operations and borrowings expected to be available under the Company's revolving credit facility will enable the Company to meet its ongoing cash requirements. As of October 31, 2007, the Company had \$9.5 million available for borrowing under its revolving credit facility based on its borrowing base.

The following table provides information about the Company's capitalization:

| In thousands except ratio amounts                    | October 31,<br>2007 | April 30,<br>2007 |
|--|---------------------|-------------------|
| Cash and cash equivalents                            | \$ 14,357           | \$ 8,052          |
| Working capital                                      | \$103,839           | \$ 81,125         |
| Total debt   | \$ 48,524           | \$ 33,376         |
| Net debt (total debt less cash and cash equivalents) | \$ 34,167           | \$ 25,324         |
| Shareholders' equity                                 | \$160,534           | \$144,481         |
| Total capital (net debt plus shareholders' equity)   | \$194,701           | \$169,805         |
| Current ratio  | 1.93:1              | 1.71:1            |
| Net debt-to-total capital ratio                      | 17.5%               | 14.9%             |

Cash Flows

The following table provides information about the Company's cash flows:

| In thousands                                | For the Six Months Ended October 31, |           |
|---|--------------------------------------|-----------|
|   | 2007                                 | 2006      |
| Cash flows used for operating activities    | \$(1,195)                            | \$(8,792) |
| Cash flows used for investing activities    | \$(8,455)                            | \$(1,669) |
| Cash flows provided by financing activities | \$16,490                             | \$ 7,240  |

Cash used for operating activities decreased \$7.6 million for the six months ended October 31, 2007 from the same period of fiscal 2007. The use of \$1.2 million in cash in the first six months of fiscal 2008 resulted primarily from unfavorable changes in working capital that included increased inventories and decreased accounts payable, attributable to the timing of payments to vendors, and was partially mitigated by accounts receivable collections. The increase in inventories was primarily related to parts for key new products, including the Solara ion and the Advanced Lens Processing System. For the six months ended October 31, 2006, the operating cash usage was attributable to an increase in accounts receivable and inventories, and the timing of payments to vendors.

Cash flows used for investing activities for the six months ended October 31, 2007 increased \$6.8 million as compared with the same period of fiscal 2007. The use of cash of \$8.5 million for the six months ended October 31, 2007 was primarily attributable to the Data Technology acquisition, pursuant to which the Company paid \$5.2 million in May 2007 to acquire the net assets, which included \$0.5 million of cash. The Company also invested \$3.8 million in capital additions during the first six months of fiscal 2008. Total capital expenditures are expected to be approximately \$6.0 million to \$9.0 million in fiscal 2008. These total expenditures include costs to implement a Customer Relationship Management software tool. The investment in this software is expected to enhance the Company's ability to capture, store and analyze customer information. The Company realized \$0.2 million in proceeds from the sale of certain assets within the Ophthalmic Lens Processing segment during the six months ended October 31, 2007. In the six months ended October 31, 2006, the Company's cash usage for investing activities was primarily related to capital expenditures.

Cash flows provided by financing activities for the six months ended October 31, 2007 increased \$9.3 million as compared with the same period of fiscal 2007. Total cash flows provided by financing activities of \$16.5 million for the six months ended October 31, 2007 were primarily derived from net borrowings on the Company's credit facility of \$15.1 million and stock option exercises of \$1.3 million. Net borrowings included a new term loan of \$6.2 million associated with the Company's acquisition of Data Technology. In the six months ended October 31, 2006, the Company borrowed \$3.7 million to fund operations and realized \$2.7 million in cash from stock option exercises.

#### Financial Condition

At October 31, 2007, the United States dollar weakened against the Euro, the Pound Sterling, the Canadian dollar and the Australian dollar as compared with April 30, 2007 exchange rates. The net impact of these currency movements resulted in higher translated assets and liabilities as compared with balances as of April 30, 2007. The most significant portion of the Company's international assets and liabilities are denominated in Euros.

Net accounts receivable increased slightly to \$106.9 million as of October 31, 2007 from \$106.4 million as of April 30, 2007. This increase includes the effect of foreign currency translation and the acquired Data Technology receivables. Partially offsetting these items were improved accounts receivable collections, which were reflected by lower days sales outstanding in ending accounts receivable of 60 days as of October 31, 2007, as compared with 62 days as of April 30, 2007.

Inventories increased to \$77.4 million as of October 31, 2007 from \$65.3 million as of April 30, 2007. This increase was primarily attributable to the Data Technology acquisition in May 2007, certain customer service and geographic expansion initiatives, parts for key new products and the effects of foreign currency translation. The Company's order backlog increased to \$48.8 million at October 31, 2007 as compared with \$47.4 million at April 30, 2007. The increase was primarily attributable to the acquired Data Technology backlog. The Company is in the process of implementing lean manufacturing principles to better determine optimum levels for the Company's operating needs. Inventory turnover decreased to 6.0 times annually as of October 31, 2007 from 6.7 times annually as of April 30, 2007.

Accounts payable and other accrued liabilities decreased to \$94.1 million as of October 31, 2007 from \$96.0 million as of April 30, 2007, primarily due to the timing of payments to the Company's vendors. This was partially offset by the effects of foreign currency translation and increased professional fee accruals. Days purchases outstanding in accounts payable decreased to 36 days as of October 31, 2007 from 41 days as of April 30, 2007.

## Long-term Debt

The Company's primary source of debt is a \$50.0 million asset-based revolving line of credit with a group of banking institutions. The Company also has two term loans that are payable in monthly installments through fiscal 2010. One of these term loans was entered into during May 2007 through a third amendment to the Company's credit facility. This amendment provides for available borrowings in the form of term loans with a maximum aggregate amount of \$10.0 million for permitted acquisitions. Term loan borrowings may be made through October 31, 2008 as long as the aggregate principal amount of outstanding term loans does not exceed \$10.0 million.

In November 2007, the Company extended its revolving credit facility maturity date with Citizens Bank of Massachusetts and Sovereign Bank from October 31, 2008 to November 1, 2008. The Company is currently in-process of negotiating a new \$100 million secured credit facility to replace the current asset-based facility. The Company expects to finalize the new credit facility during the third quarter of fiscal 2008. The Company has deferred financing costs of \$0.4 million as of October 31, 2007 that may be subject to expensing as a loss on early extinguishment of debt if the current credit facility is extinguished prior to the maturity date.

The Company's future compliance with its covenants will depend primarily on its success in growing the business and generating operating cash flows. Future compliance with the financial covenants may be adversely affected by various economic, financial and industrial factors. Noncompliance with the covenants would constitute an event of default under the credit facility, allowing the lenders to accelerate repayment of any outstanding borrowings. In the event of potential failure by the Company to continue to be in compliance with any covenants, the Company would seek to negotiate amendments to the applicable covenants or obtain compliance waivers from its lenders. **The Company was in compliance with its financial covenants as of October 31, 2007.**

## OBLIGATIONS, COMMITMENTS, AND CONTINGENCIES

The Company's qualified and non-qualified pension funding estimate expected for fiscal 2008 increased from \$4.4 million, as reported in the Annual Report on Form 10-K for the year ended April 30, 2007, to \$6.0 million. There were no other material changes to the Company's cash obligations or commercial commitments from those disclosed in the Annual Report on Form 10-K for the year ended April 30, 2007.

## NEW ACCOUNTING PRONOUNCEMENTS

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.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported. Actual results could differ from management's estimates. The Company described the critical accounting estimates that require management's most difficult, subjective, or complex judgments in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2007. There were no significant changes to the Company's critical accounting estimates during the six months ended October 31, 2007 from those previously disclosed in the Company's Annual Report on Form 10-K, other than the adoption of FIN 48. As discussed in Notes 1 and 10 of the Notes to the Condensed Consolidated Financial Statements included within this Quarterly Report on Form 10-Q, the Company adopted FIN 48 on May 1, 2007.



Update to Income Taxes critical accounting estimate from the Company's Annual Report on Form 10-K for the year ended April 30, 2007:

In the ordinary course of business there is inherent uncertainty in quantifying the Company's income tax positions. The Company assesses its income tax positions and records tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, the Company has recorded the largest amount of tax benefit with a greater than 50 percent likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Where applicable, associated interest has also been recognized.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

No material changes have occurred in the quantitative and qualitative market risk disclosures for the Company during the six months ended October 31, 2007 from those disclosed under Item 7A. "Quantitative and Qualitative Disclosures about Market Risk," presented in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2007.

### ITEM 4. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

The Company's management, including its Chief Executive Officer, who is the Company's principal executive officer and is currently performing the functions of the Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures as of October 31, 2007. Based upon that evaluation, the Company's Chief Executive Officer concluded that the disclosure controls and procedures were effective as of October 31, 2007.

#### Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended October 31, 2007 that have materially affected, or that are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II - OTHER INFORMATION

## ITEM 1A. RISK FACTORS

Gerber Scientific's business, financial condition, operating results and cash flows can be impacted by a number of factors, any one of which could cause its actual results to vary materially from recent results or from anticipated future results. No material changes have occurred in the Company's risk factors during the quarter or six months ended October 31, 2007 from those disclosed under Item 1A. "Risk Factors," presented in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2007.

For a discussion identifying risk factors and other important factors that could cause actual results to differ materially from those anticipated, readers are referred to the Company's filings with the Securities and Exchange Commission, including but not limited to, the information included in Gerber Scientific's Annual Report on Form 10-K for the fiscal year ended April 30, 2007 under the headings "Business," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Cautionary Note Concerning Factors that May Influence Future Results" and within this Quarterly Report on Form 10-Q.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

c. The following table provides information about the Company's purchases of its common stock during the quarter ended October 31, 2007:

| Period  | (a)<br>Total<br>Number<br>of Shares<br>(or Units)<br>Purchased | (b)<br>Average<br>Price<br>Paid per<br>Share<br>(or Unit) | (c)<br>Total Number<br>of Shares<br>(or Units)<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | (d)<br>Maximum<br>Number (or<br>Approximate<br>Dollar Value)<br>of Shares<br>(or Units) that<br>May Yet Be<br>Purchased Under<br>the Plans<br>or Program |
|---|--|---|--|--|
| August 1, 2007 - August 31, 2007 <sup>(1)</sup> | 15   | \$10.11   | Not applicable   | Not applicable   |
| September 1, 2007 - September 30, 2007          | ---  | ---   | Not applicable   | Not applicable   |
| October 1, 2007 - October 31, 2007              | ---  | ---   | Not applicable   | Not applicable   |
|   | 15   | \$10.11   | Not applicable   | Not applicable   |

(1)

Represents shares withheld by, or delivered to, the Company pursuant to provisions in agreements with recipients of restricted stock granted under the Company's stock incentive plan allowing the Company to withhold, or the recipient to deliver to the Company, the number of shares having the fair value equal to tax withholding due.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) Gerber Scientific, Inc. held its fiscal 2007 annual meeting of stockholders on September 20, 2007.

(c) The following sets forth information regarding each matter voted upon at the 2007 annual meeting. There were 23,378,567 shares of common stock outstanding and entitled to vote as of the record date for the 2007 annual meeting.

## Proposal 1.

The stockholders approved a proposal to elect each of the seven nominees to the board of directors. The tabulation of votes on this proposal was as follows:

| Nominees                  | Votes For  | Votes Withheld |
|---------------------------|------------|----------------|
| Donald P. Aiken           | 21,148,076 | 164,586        |
| Marc T. Giles             | 21,160,411 | 152,251        |
| Edward G. Jepsen          | 21,163,132 | 149,530        |
| Randall D. Ledford, Ph.D. | 21,166,399 | 146,263        |
| John R. Lord              | 21,164,436 | 148,226        |
| Carole F. St. Mark        | 21,162,902 | 149,760        |
| W. Jerome Vereen          | 20,861,279 | 451,383        |

## Proposal 2.

The stockholders approved a proposal to ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the 2008 fiscal year. The tabulation of votes on this proposal was as follows:

|   | Votes For  | Votes Against | Votes Abstain |
|---|------------|---------------|---------------|
| Ratification of the appointment of PricewaterhouseCoopers LLP for fiscal 2008 | 21,194,141 | 103,162       | 15,359        |

## ITEM 6. EXHIBITS

| <u>Exhibit Number</u> | <u>Description</u>  |
|-----------------------|---|
| 31.1                  | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, filed herewith.  |
| 31.2                  | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, filed herewith.  |
| 32                    | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) or 15d-14(b) under the Securities Exchange Act of 1934 and to 18 U.S.C. 1350, filed herewith. |
| 99                    | Supplemental Segment Information, filed herewith.   |

SIGNATURE

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

GERBER SCIENTIFIC, INC.

December 7, 2007

By:           /s/ John J. Krawczynski            
John J. Krawczynski

**Vice President, Chief Accounting Officer and  
Corporate Controller  
(On behalf of the Registrant and as  
Principal Accounting Officer)**

GERBER  
SCIENTIFIC,  
INC.

**Exhibit Index**

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