GERBER SCIENTIFIC INC
Form 10-Q
December 08, 2008

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, 2008

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, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer x |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company ¨ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

24,131,290 shares of common stock of the registrant were outstanding as of November 30, 2008, exclusive of treasury shares.

GERBER SCIENTIFIC, INC.
Index to Quarterly Report
on Form 10-Q
Fiscal Quarter Ended October 31, 2008

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 | 2008 | 2007 |
| Revenue: | | |
| Product sales | $ 134,794 | $ 142,095 |
| Service sales | 18,964 | 18,621 |
| | 153,758 | 160,716 |
| Cost of Sales: | | |
| Cost of products sold | 97,615 | 102,217 |
| Cost of services sold | 12,549 | 12,103 |
| | 110,164 | 114,320 |
| | | |
| Gross profit | 43,594 | 46,396 |
| | | |
| Selling, general and administrative expenses | 32,445 | 34,658 |
| Research and development | 5,769 | 6,552 |
| Operating income | 5,380 | 5,186 |
| | | |
| Other income (expense), net | (383) | (386) |
| Interest expense | (863) | (1,083) |
| Income before income taxes | 4,134 | 3,717 |
| Income tax (benefit) expense | (1,960) | 1,216 |
| Net income | $ 6,094 | $ 2,501 |
| Earnings Per Share of Common Stock: | | |
| Basic | $ 0.26 | $ 0.11 |
| Diluted | $ 0.26 | $ 0.11 |
| Weighted Average Shares Outstanding: | | |
| Basic | 23,557 | 23,329 |
| Diluted | 23,711 | 23,638 |

See accompanying notes to condensed consolidated financial statements.

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

| | For the Six Months Ended October 31, | |
|---|---|---|
| In thousands, except per share data | 2008 | 2007 |
| Revenue: | | |
| Product sales | $ 274,601 | $ 277,385 |
| Service sales | 38,015 | 36,998 |
| | 312,616 | 314,383 |
| Cost of Sales: | | |
| Cost of products sold | 201,209 | 198,874 |
| Cost of services sold | 25,769 | 23,652 |
| | 226,978 | 222,526 |
| | | |
| Gross profit | 85,638 | 91,857 |
| | | |
| Selling, general and administrative expenses | 66,656 | 69,281 |
| Research and development | 12,002 | 13,017 |
| Operating income | 6,980 | 9,559 |
| | | |
| Other income (expense), net | (511) | 339 |
| Interest expense | (1,477) | (2,072) |
| Income before income taxes | 4,992 | 7,826 |
| Income tax (benefit) expense | (1,783) | 2,488 |
| Net income | $ 6,775 | $ 5,338 |
| Earnings Per Share of Common Stock: | | |
| Basic | $ 0.29 | $ 0.23 |
| Diluted | $ 0.29 | $ 0.23 |
| Weighted Average Shares Outstanding: | | |
| Basic | 23,508 | 23,257 |
| Diluted | 23,733 | 23,594 |

See accompanying notes to condensed consolidated financial statements.

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

| In thousands | October 31, 2008 | April 30, 2008 |
|---|---|---|
| Assets: | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 16,401 | $ 13,892 |
| Accounts receivable, net | 104,521 | 120,752 |
| Inventories | 80,582 | 76,927 |
| Deferred tax assets | 7,004 | 7,600 |
| Prepaid expenses and other current assets | 11,024 | 5,829 |
| Total Current Assets | 219,532 | 225,000 |
| Property, plant and equipment, net | 38,886 | 39,852 |
| Goodwill | 78,809 | 61,844 |
| Deferred tax assets | 37,658 | 34,354 |
| Other assets | 15,024 | 17,489 |
| Total Assets | $ 389,909 | $ 378,539 |
| Liabilities and Shareholders' Equity: | | |
| Current Liabilities: | | |
| Accounts payable | $ 47,695 | $ 51,253 |
| Accrued compensation and benefits | 18,456 | 23,671 |
| Other accrued liabilities | 30,215 | 27,672 |
| Deferred revenue | 15,982 | 16,399 |
| Total Current Liabilities | 112,348 | 118,995 |
| Long-term debt | 84,000 | 42,000 |
| Accrued pension benefit liability | 25,658 | 28,514 |
| Other long-term liabilities | 17,193 | 19,467 |
| | | |
| Commitments and contingencies | | |
| | | |
| Shareholders' Equity: | | |
| Preferred stock | --- | --- |
| Common stock | 247 | 243 |
| Paid-in capital | 77,647 | 75,472 |
| Retained earnings | 102,201 | 95,426 |
| Treasury stock | (11,840) | (12,148) |
| Accumulated other comprehensive (loss) income | (17,545) | 10,570 |
| Total Shareholders' Equity | 150,710 | 169,563 |
| Total Liabilities and Shareholders' Equity | $ 389,909 | $ 378,539 |

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 | 2008 | 2007 |
| Cash flows from operating activities: | | |
| Net income | $ 6,775 | $ 5,338 |
| Adjustments to reconcile net income to cash provided by (used for) operating activities: | | |
| Depreciation and amortization | 4,826 | 4,708 |
| Deferred income taxes | (2,376) | 1,255 |
| Stock-based compensation | 1,422 | 569 |
| Gain on sale of assets | (622) | (950) |
| Other noncash items | 578 | 960 |
| Changes in operating accounts, excluding effects of acquisitions | | |
| Accounts receivable | 9,938 | 5,174 |
| Inventories | (3,724) | (6,964) |
| Prepaid expenses and other assets | (851) | (813) |
| Accounts payable and other accrued liabilities | (9,702) | (8,646) |
| Accrued compensation and benefits | (3,323) | (2,116) |
| Net cash provided by (used for) operating activities | 2,941 | (1,485) |
| Cash flows from investing activities: | | |
| Capital expenditures | (4,921) | (3,849) |
| Proceeds from sale of assets | 1,369 | 150 |
| Proceeds from sale of available for sale investments | 612 | 346 |
| Purchases of available for sale investments | (363) | (201) |
| Business acquisitions | (34,273) | (4,650) |
| Acquisition of intangible assets | (505) | (251) |
| Net cash used for investing activities | (38,081) | (8,455) |
| Cash flows from financing activities: | | |
| Debt repayments | (23,271) | (163,536) |
| Debt proceeds | 64,000 | 177,666 |
| Common stock issued | 908 | 1,348 |
| Net cash provided by financing activities | 41,637 | 15,478 |
| Effect of exchange rate changes on cash | (3,988) | 767 |
| Increase in cash and cash equivalents | 2,509 | 6,305 |
| Cash and cash equivalents at beginning of period | 13,892 | 8,052 |
| Cash and cash equivalents at end of period | $ 16,401 | $ 14,357 |

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. The condensed consolidated balance sheet as of April 30, 2008 has been derived from the audited consolidated financial statements, however, these condensed consolidated financial statements do not include all of the disclosures required by accounting principles generally accepted in the United States of America. 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 accounting principles followed in the preparation of the Company's annual financial statements for the fiscal year ended April 30, 2008. The results of operations and cash flows for the fiscal quarter and six months ended October 31, 2008 are not necessarily indicative of the operating results and cash flows for the full fiscal year or any other future period.

Management believes that all adjustments, which include only normal recurring adjustments necessary to fairly state the Company's consolidated financial position, results of operation, cash flows and footnote disclosures 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, 2008, filed with the Securities and Exchange Commission on June 27, 2008. Certain reclassifications have been made to the prior year fiscal quarter and six month amounts disclosed to conform to the presentation for the fiscal quarter and six months ended October 31, 2008.

The results of operations and cash flows for two companies that were acquired during the second quarter of fiscal 2009, Virtek Vision International, Inc. ("Virtek") and Gamma Computer Tech Company, Ltd. ("Gamma"), are included from the dates of acquisition through October 31, 2008 in the accompanying Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows. The accompanying Condensed Consolidated Balance Sheets as of October 31, 2008 include the acquired assets and liabilities of Virtek and Gamma. See Note 4.

Note 2. Inventories

Inventories were as follows:

| In thousands | October 31, 2008 | April 30, 2008 |
|---|---|---|
| Raw materials and purchased parts | $ 65,110 | $ 64,230 |
| Work in process | 4,167 | 2,894 |
| Finished goods | 11,305 | 9,803 |
| Total inventories | $ 80,582 | $ 76,927 |

Inventories as of October 31, 2008 included acquired inventory from the acquisitions. See Note 4.

Note 3. Restructuring

The Company's restructuring accrual as of October 31, 2008 and April 30, 2008 was 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. The Company made cash payments of $0.1 million during the six months ended October 31, 2008 that reduced the accrual to $0.9 million as of October 31, 2008. The remaining cash payments will continue over the life of the lease, through the fiscal year ending April 30, 2019.

Note 4. Acquisitions

The Company completed acquisitions of two companies during the second quarter of fiscal 2009. In September 2008, the Company acquired for cash the stock of Gamma and in October 2008, the Company acquired for cash the stock of Virtek. The acquisitions were funded through borrowings under the Company's existing revolving credit facility. The operating results of these businesses are included within the Apparel and Flexible Material segment in the Company's condensed consolidated financial statements from the respective dates of acquisition.

Gamma is a manufacturer of equipment for apparel and flexible materials markets and is located in China. This acquisition is expected to expand the Company's position within greater China. Under the terms of the stock purchase agreement, the Company paid $5.1 million to the stockholders of Gamma and may be required to pay approximately $0.6 million under the terms of the stock purchase agreement as contingent consideration during the second quarter of fiscal 2010. The assets and liabilities of Gamma were recorded at fair value on the date of acquisition under the purchase method of accounting. The Company determined the fair value of acquired intangible assets through the use of valuation models. The unallocated purchase price was recorded as goodwill.

Virtek is a manufacturer of precision laser-based templating, inspection, marking and engraving solutions for industrial material. Virtek serves customers in the prefabricated construction, transportation, metalworking, tool, die and mold making industries worldwide, and is located primarily in Canada and Germany. The Company intends to utilize its global reach, service and customer relationships to increase sales of Virtek's products, as well as to provide products and services to customers in the flexible materials business. Prior to the acquisition, the common stock of Virtek was publicly listed on the Toronto Stock Exchange.

The Company purchased the outstanding common stock of Virtek for an aggregate purchase price of approximately $29.0 million. As of October 31, 2008, approximately 12 percent of the outstanding common stock of Virtek had not yet been tendered. As of December 1, 2008, approximately 1 percent of pre-acquisition outstanding common stock had not yet been tendered. The Company established an accrual for the residual purchase price as of October 31, 2008, as the remaining shares are expected to be tendered subsequent to October 31, 2008 per the Canada Business Corporations Act, which allows companies that own a significant majority of the outstanding shares to force legal tender of the remaining shares.

As of the date of this report, the Company has not finalized the determination of the fair value of the assets acquired and liabilities assumed for Virtek as a result of the proximity of the acquisition date to the Company's quarter end date of October 31, 2008. The Company anticipates that it will record purchase accounting adjustments to properly reflect the fair values of accounts receivable, inventories, deferred tax assets, property, plant and equipment, and warranty and other accruals acquired. The Company plans to terminate certain employee positions that are redundant and is in process of finalizing these plans. Severance accruals from these plans will be reported as an adjustment to goodwill. Additionally, the Company has not completed the valuation of intangible assets. The Company expects that intangible assets will include the acquired customer relationships, order backlog, technology and trade names. The purchase price in excess of the net book value of assets acquired was recorded as Goodwill in the accompanying Condensed Consolidated Balance Sheets as of October 31, 2008. The table below summarizes the assets acquired and liabilities assumed prior to the application of purchase accounting adjustments as of the acquisition date. The Company expects to substantially complete its purchase accounting and valuation procedures by January 31, 2009 and material adjustments to the amounts shown in the table below may be required. The amount reported for Goodwill includes capitalized transaction costs of approximately $3.4 million.

| In thousands | October 21, 2008 |
|---|---|
| Assets acquired: | |
| Cash and cash equivalents | $ 4,138 |
| Accounts receivable | 8,568 |
| Inventories | 8,373 |
| Prepaid and other assets | 634 |
| Property, plant and equipment | 2,295 |
| Goodwill | 18,141 |

| | | |
|---|---|---|
| Other assets | | 545 |
| Total assets acquired | $ | 42,694 |
| Liabilities assumed: | | |
| Accounts payable | | 5,431 |
| Accrued compensation and benefits | | 712 |
| Other liabilities | | 1,705 |
| Deferred revenue | | 2,378 |
| Total liabilities assumed | $ | 10,226 |
| Net assets acquired | $ | 32,468 |

The Company believes that its results of operations for the quarter and six months ended October 31, 2007 would not have been materially different had the acquisition occurred at May 1, 2007.

Note 5. 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, 2008 Gross Carrying Amount | October 31, 2008 Accumulated Amortization | April 30, 2008 Gross Carrying Amount | April 30, 2008 Accumulated Amortization |
|---|---|---|---|---|
| Amortized intangible assets: | | | | |
| Patents | $ 7,853 | $ 3,212 | $ 7,512 | $ 3,062 |
| Other | 2,119 | 413 | 646 | 413 |
| Total amortized intangible assets | $ 9,972 | $ 3,625 | $ 8,158 | $ 3,475 |

Total amortized intangible assets as of October 31, 2008 included acquired intangible assets of $1.4 million from the Gamma acquisition. See Note 4.

Intangible asset amortization expense was $0.2 million and $0.4 million, respectively, for the quarter and six months ended October 31, 2008. For the quarter and six months ended October 31, 2007, intangible asset amortization expense was $0.2 million and $0.3 million, respectively. It is estimated that such expense will be $0.8 million for the fiscal year ending April 30, 2009, $0.6 million for the fiscal year ending April 30, 2010 and $0.5 million annually for fiscal years ending April 30, 2011 through 2014 based on the acquired intangible assets as of October 31, 2008. The estimated amortization for future years does not reflect the amortization of acquired intangible assets from Virtek, as the valuation of these assets has not yet been completed. See Note 4.

There were no impairments or dispositions of goodwill during the quarter ended October 31, 2008 or October 31, 2007. Balances and changes in the carrying amount of goodwill for the quarter ended October 31, 2008 were as follows:

| In thousands | Sign Making and Specialty Graphics | Apparel and Flexible Materials | Ophthalmic Lens Processing | Total |
|---|---|---|---|---|
| Balance as of April 30, 2008 | $ 30,699 | $ 14,149 | $ 16,996 | $ 61,844 |
| Business acquisitions | --- | 21,992 | --- | 21,992 |
| Adjustment to previously reported goodwill | 92 | --- | --- | 92 |
| Effects of currency translation | (4,685) | (434) | -- | (5,119) |
| Balance as of October 31, 2008 | $ 26,106 | $ 35,707 | $ 16,996 | $ 78,809 |

Note 6. 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 Gamma and Virtek are included within the Apparel and Flexible Materials segment from the respective dates of acquisition. See Note 4.

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

| In thousands | For the Fiscal Quarters Ended October 31, 2008 | 2007 | For the Six Months Ended October 31, 2008 | 2007 |
|---|---|---|---|---|
| Sign Making and Specialty Graphics: | | | | |
| Gerber Scientific Products | $ 28,283 | $ 26,652 | $ 52,217 | $ 51,781 |
| Spandex | 63,907 | 64,103 | 134,342 | 124,854 |
| Sign Making and Specialty Graphics | 92,190 | 90,755 | 186,559 | 176,635 |
| Apparel and Flexible Materials | 45,932 | 51,440 | 94,881 | 100,919 |
| Ophthalmic Lens Processing | 15,636 | 18,521 | 31,176 | 36,829 |
| Consolidated revenue | $ 153,758 | $ 160,716 | $ 312,616 | $ 314,383 |
| | | | | |
| Sign Making and Specialty Graphics: | | | | |
| Gerber Scientific Products | $ 540 | $ 603 | $ (623) | $ 431 |
| Spandex | 2,613 | 2,303 | 5,916 | 4,021 |
| Sign Making and Specialty Graphics | 3,153 | 2,906 | 5,293 | 4,452 |
| Apparel and Flexible Materials | 4,983 | 6,431 | 8,649 | 13,484 |
| Ophthalmic Lens Processing | 1,219 | 1,050 | 1,334 | 2,429 |
| Segment operating income | 9,355 | 10,387 | 15,276 | 20,365 |
| Corporate operating expenses | (3,975) | (5,201) | (8,296) | (10,806) |
| Consolidated operating income | $ 5,380 | $ 5,186 | $ 6,980 | $ 9,559 |

Note 7. Comprehensive (Loss) Income

The Company's total comprehensive (loss) income was as follows:

| In thousands | For the Fiscal Quarters Ended October 31, 2008 | 2007 | For the Six Months Ended October 31, 2008 | 2007 |
|---|---|---|---|---|
| Net income | $ 6,094 | $ 2,501 | $ 6,775 | $ 5,338 |
| | | | | |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustments | (26,963) | 7,086 | (27,589) | 8,539 |
| Defined benefit pension plans activity, net of tax | 205 | 143 | 410 | 285 |
| Unrealized investment (loss) income, net of tax | (593) | 56 | (809) | (9) |
| Net loss on derivative instrument, net of tax | (147) | --- | (127) | --- |
| Total comprehensive (loss) income | $ (21,404) | $ 9,786 | $ (21,340) | $ 14,153 |

Note 8. Earnings Per Share

Basic and diluted earnings per common share are calculated in accordance with the provisions of the Financial Accounting Standards Board's ("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.

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The following table sets forth the computation of basic and diluted net earnings per common share:

| | For the Fiscal Quarters Ended October 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| In thousands, except per share amounts | Net Income | Average Shares | Per Share | Net Income | Average Shares | Per Share |
| Basic earnings per share | $ 6,094 | 23,557 | $ 0.26 | $ 2,501 | 23,329 | $ 0.11 |
| Effect of dilutive options and awards | --- | 154 | --- | --- | 309 | --- |
| Diluted earnings per share | $ 6,094 | 23,711 | $ 0.26 | $ 2,501 | 23,638 | $ 0.11 |

| | For the Six Months Ended October 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| In thousands, except per share amounts | Net Income | Average Shares | Per Share | Net Income | Average Shares | Per Share |
| Basic earnings per share | $ 6,775 | 23,508 | $ 0.29 | $ 5,338 | 23,257 | $ 0.23 |
| Effect of dilutive options and awards | --- | 225 | --- | --- | 337 | --- |
| Diluted earnings per share | $ 6,775 | 23,733 | $ 0.29 | $ 5,338 | 23,594 | $ 0.23 |

Note 9. 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, 2008.

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

| | For the Six Months Ended October 31, | |
|---|---|---|
| In thousands | 2008 | 2007 |
| Beginning balance | $ 2,327 | $ 2,337 |
| Warranties issued in the current period | 2,552 | 2,952 |
| Impact of business acquisitions | 755 | --- |
| Reductions for costs incurred | (2,594) | (2,776) |
| Ending balance | $ 3,040 | $ 2,513 |

Warranty accruals as of October 31, 2008 included acquired accruals from the acquisitions. See Note 4.

Note 10. Employee Benefit Plans

Components of net periodic benefit cost were as follows:

| | For the Fiscal Quarters Ended October 31, | | For the Six Months Ended October 31, | |
|---|---|---|---|---|
| In thousands | 2008 | 2007 | 2008 | 2007 |
| Service cost | $ 597 | $ 647 | $ 1,194 | $ 1,294 |
| Interest cost | 1,770 | 1,615 | 3,540 | 3,230 |
| Expected return on plan assets | (1,710) | (1,760) | (3,420) | (3,520) |
| Amortization of: | | | | |
| Prior service cost | 73 | 73 | 146 | 146 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Actuarial loss | | 253 | | 154 | | 506 | | 308 |
| Net periodic benefit cost | $ | 983 | $ | 729 | $ | 1,966 | $ | 1,458 |

Cash contributions of $3.1 and $4.2 million were made to the Company's pension defined benefit plans for the fiscal quarter and six months ended October 31, 2008, respectively. The Company expects to contribute $6.6 million to these plans in the fiscal year ending April 30, 2009. The Company may make voluntary contributions in fiscal 2009 based upon certain facts and circumstances, including market value volatility of its investments.

Note 11. Sales of Assets

During August 2008, the Company sold the Ophthalmic Lens Processing segment's Australian facility for $1.0 million. The Company realized a gain of $0.6 million related to this transaction, which was recorded in Other income (expense), net on the Company's Condensed Consolidated Statement of Operations during the fiscal quarter ended October 31, 2008.

During the first quarter of fiscal 2008, the Company sold its rights to its Ophthalmic Lens Processing segment's 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 at the date of the sale. Additionally, the Company received shares of preferred stock in Ocuco Holdings Limited, a private company. Included in the consideration received, Ocuco assumed liabilities of $0.2 million related to the product line. A gain of $1.0 million was recorded in Other income (expense), net on the accompanying 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. Derivative Instruments

The Company entered into an interest rate swap arrangement during the first quarter of fiscal 2009. The Company also entered into and settled certain foreign currency derivative contracts during the second quarter of fiscal 2009.

The Company uses derivative instruments as risk and cash flow management tools and does not use derivative instruments for trading or speculative purposes. Derivatives used for interest rate swap hedging purposes may be designated and effective as a cash flow hedge of the identified risk exposure at the inception of the contract. Accordingly, changes in the fair value of the derivative contract must be highly correlated with changes in the underlying hedged item at inception of the hedge and over the life of the hedge contract. To the extent the interest rate swap is effective, changes in the fair value will be recognized through Other Comprehensive Income over the term of the derivative contract. To the extent the interest rate swap is not effective, changes in the fair value will be recognized through earnings.

At October 31, 2008, the fair value of the swap agreement recorded as a liability was $0.2 million. Based upon current market conditions, of the amount recorded in shareholders' equity, a pre-tax loss is expected to be reclassified into Interest expense on the Condensed Consolidated Statements of Operations to reflect actual interest rate payment dates and settlement within the next 12 months. There were no gains or losses recognized in net income related to the swap agreement during the quarter ended October 31, 2008, as the interest rate swap was highly effective as a cash flow hedge. The interest rate swap matures in May 2010.

The Company recorded foreign currency losses from a derivative transaction associated with the funding of the Virtek acquisition entered into in the second quarter of fiscal 2009 of $0.7 million within Other income (expense), net on the Company's Condensed Consolidated Statement of Operations for the fiscal quarter and six months ended October 31, 2008.

Note 13. Fair Value Measurements

The Company adopted FASB Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157") on May 1, 2008 for its financial assets and financial liabilities. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands related disclosure requirements. The Company plans to adopt SFAS 157 for its nonrecurring nonfinancial assets and nonfinancial liabilities on May 1, 2009, in accordance with FASB Staff Position No. 157-2, Effective Date of FASB No. 157. See Note 15. Nonrecurring nonfinancial assets and liabilities for which the Company has not applied the provisions of SFAS 157 include those measured at fair value in goodwill impairment testing, asset retirement obligations initially measured at fair value, and those nonrecurring nonfinancial assets and liabilities initially measured at fair value in a business combination.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly business transaction in the principal market for the asset or liability.

SFAS 157 establishes a hierarchy of inputs used to measure fair value, as follows:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 Quoted prices for similar assets or liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 Unobservable inputs for the asset or liability.

The following table provides the financial assets and financial liabilities reported at fair value and measured on a recurring basis as of October 31, 2008:

| In thousands | Total | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) |
|---|---|---|---|
| Interest rate swap agreement | $ (203) | $ --- | $ (203) |
| Available for sale investments | 3,078 | 3,078 | --- |
| Total | $ 2,875 | $ 3,078 | $ (203) |

The fair value for the interest rate swap agreement was valued using observable current market information as of the reporting date such as the prevailing LIBOR-based currency spot and forward rates (Level 2). The fair values of the available for sale investments were based on quoted market prices from financial exchanges (Level 1).

The Company reviews its available for sale investments routinely for other-than-temporary impairment. The primary factors used to determine if an impairment charge must be recorded because a decline in the fair value of a marketable security is other than temporary include whether: (i) the fair value of the investment is significantly below the Company's cost basis; (ii) the financial condition of the issuer of the security has deteriorated; (iii) the decline in fair value has existed for an extended period of time; and (iv) the Company has the intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in market value.

As of October 31, 2008, the Company's available for sale investment was in a balanced mutual fund with an unrealized loss of $2.0 million. As the Company has the ability and intent to hold this investment to allow for the expected recovery in fair value and as the mutual fund performance has been similar with current overall investment market conditions in the United States, the Company does not consider these investments to be other-than-temporarily impaired as of October 31, 2008.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Liabilities, including an amendment of FASB Statement No. 115 ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The Company adopted SFAS 159 on May 1, 2008 and elected not to measure any additional financial instruments and other items at fair value, and therefore the adoption of SFAS 159 did not have a material effect on the Company’s consolidated financial position, results of operations or cash flows for the quarter and six months ended October 31, 2008.

Note 14. Income Taxes

During the second quarter of fiscal 2009, the Company finalized the merger of its two French subsidiaries in order to avoid redundant administrative costs and solidify the capital structure of the entities. Based on the projected future income of the merged entity, a valuation reserve against French loss carryforwards of approximately $3.4 million was reversed, as it is more likely than not that the tax benefits from these carryforwards will be realized.

Note 15. Recently Issued Accounting Standards

In June 2008, the FASB issued Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities ("FSP EITF 03-6-1"), which will be effective for the

Company on May 1, 2009. FSP EITF 03-6-1 clarifies that participating securities used to calculate basic earnings per share must include share-based payment awards that entitle holders to receive nonforfeitable dividends. Therefore, basic earnings per share will include the Company's unvested restricted stock awards upon adoption. Additionally, FSP EITF 03-6-1 requires retrospective adjustment to all prior year earnings per share data. The Company does not expect that the adoption of FSP EITF 03-6-1 will have a material impact on the Company's earnings per share calculation.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 ("SFAS 161"). The provisions of SFAS 161 will be effective for the Company beginning on February 1, 2009. The provisions of SFAS 161 require enhanced disclosures about an entity's derivative instruments, including how and why these instruments are utilized, the accounting for such instruments, and the impact on the Company's consolidated financial position, results of operations and cash flows. The Company will comply with the disclosure requirements of SFAS 161 beginning on February 1, 2009 and does not expect that the adoption of SFAS 161 will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R, Business Combinations ("SFAS 141R"). The provisions of SFAS 141R are effective for the Company for business acquisitions completed by the Company beginning on May 1, 2009. The potential impact of SFAS 141R on the Company's consolidated financial position, results of operations and cash flows will be dependent upon the terms, conditions and details of such future acquisitions.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 ("SFAS 160"). The provisions of SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 will be effective for the Company beginning on May 1, 2009. The Company does not expect that the adoption of SFAS 160 will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157"), which was 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 FASB also issued Staff Positions No. 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13 ("FSP 157-1"), and No. 157-2, Effective Date of FASB No. 157 ("FSP 157-2"), which were also effective for the Company on May 1, 2008. FSP 157-1 excludes certain lease transactions from the scope of SFAS 157, and FSP 157-2 delayed the Company's effective date of SFAS 157 for certain nonfinancial assets and liabilities to May 1, 2009. The Company adopted SFAS 157 and the related FSPs for its financial assets and liabilities as of May 1, 2008 (see Note 13). The Company is currently evaluating the potential impact of SFAS 157 on certain nonfinancial assets and liabilities on its consolidated financial position, results of operations and cash flows.

Note 16. Subsequent Event

In December 2008, the Company initiated action to further reduce its global work force. The Company expects to record approximately $1.4 million for severance costs related to these actions during the quarter ending January 31, 2009.

## 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 statements which, to the extent they are not statements of historical or present fact, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934. 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;
- economic conditions;
- planned cost reductions;
- future cash flows and uses of cash and debt reduction strategies;
- prospective product development and business growth opportunities, as well as competitor product developments;
- demand for the Company's products and services;
- methods of and costs associated with potential geographic expansion;
- regulatory and market developments and the impact of such developments on future operating results;
- potential impacts from credit market risk;
- 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. Some of these risks and uncertainties 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, 2008 and in the Company's subsequent filings with the Securities and Exchange Commission. The Company cannot assure that its results of operations, financial condition, 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 stateme