GERBER SCIENTIFIC INC
Form 10-Q/A
March 10, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment Number 1

x

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

For the Quarterly Period Ended October 31, 2005

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. (Check one):

Large accelerated filer

¨ Accelerated filer x 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 x

Common stock $0.01 par value per share. Total shares outstanding February 28, 2006	22,574,107

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Quarter Ended October 31, 2005

Explanatory Note - Restatement of Condensed Consolidated Financial Statements

This amendment to the Company's Quarterly Report on Form 10-Q for the quarter ended October 31, 2005 is being filed to revise the condensed consolidated financial statements, as set forth in Note 16 of the Notes to Condensed Consolidated Financial Statements, from those previously filed with the Securities and Exchange Commission (the "SEC") on December 1, 2005 (the "Original Filing"). The Company has filed this amendment to correct an error relating to accounting for foreign exchange transaction losses on certain intercompany balances as described in Note 16 of the Notes to Condensed Consolidated Financial Statements. In this amendment, the disclosures have not been updated other than to reflect the adjustments specifically discussed in Note 16 of the Notes to Condensed Consolidated Financial Statements.

The following Part/Item disclosures have been amended solely as a result of, and to reflect, the restatement, and no other information in the Original Filing is amended hereby as a result of the restatement:

Part I - Item 1. Financial Statements

Part I - Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Part I - Item 4. Controls and Procedures

Part II - Item 6. Exhibits

This Quarterly Report on Form 10-Q/A does not reflect events occurring after the filing of the Original Filing or modify or update disclosures (including, except as otherwise provided herein, the Exhibits to the Original Filing), affected by subsequent events. In accordance with applicable SEC rules, this Quarterly Report on Form 10-Q/A includes updated certifications from the Company's Chief Executive Officer and Chief Financial Officer as Exhibits 31.1, 31.2 and 32.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GERBER SCIENTIFIC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Quarter Ended October 31,	
	(As Restated See Note 16)	
In thousands, except per share data	**2005**	2004
Revenue:		
Product sales	$ 118,376	$ 117,059
Service sales	15,585	14,357
	133,961	131,416
Costs and Expenses:		
Cost of products sold	84,205	83,704
Cost of services sold	9,306	9,629
Selling, general and administrative	29,308	30,027

Research and development	6,518	6,108
Restructuring charges	(195)	351
	129,142	129,819
Operating income	4,819	1,597
Other expense, net	(508)	(1,238)
Loss on early extinguishment of debt	(2,483)	---
Interest expense	(1,525)	(1,673)
Earnings (Loss) before income taxes	303	(1,314)
Provision (Benefit) for income taxes	427	(226)
Net loss	$ (124)	$ (1,088)
	=======	=======
Loss per share:		
Basic	$ (0.01)	$ (0.05)
Diluted	$ (0.01)	$ (0.05)
Weighted average shares outstanding:		
Basic	22,368	22,267
Diluted	22,368	22,267

See accompanying notes to condensed consolidated financial statements.

GERBER SCIENTIFIC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Six Months Ended October 31,	
	(As Restated See Note 16)	
In thousands, except per share data	**2005**	2004
Revenue:		

Product sales	$ 231,793	$ 229,982
Service sales	30,932	29,120
	262,725	259,102
Costs and Expenses:		
Cost of products sold	164,070	162,453
Cost of services sold	18,949	19,345
Selling, general and administrative	58,883	58,125
Research and development	12,830	12,221
Restructuring charges	(231)	2,245
	254,501	254,389
Operating income	8,224	4,713
Other expense, net	(683)	(1,436)
Loss on early extinguishment of debt	(2,483)	---
Interest expense	(2,956)	(3,750)
Earnings (Loss) before income taxes	2,102	(473)
Provision (Benefit) for income taxes	3,309	(82)
Net loss	$ (1,207)	$ (391)
	=======	=======
Loss per share:		
Basic	$ (0.05)	$ (0.02)
Diluted	$ (0.05)	$ (0.02)
Weighted average shares outstanding:		
Basic	22,340	22,251
Diluted	22,340	22,251

See accompanying notes to condensed consolidated financial statements.

GERBER SCIENTIFIC, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

In thousands, except share data	(As Restated See Note 16) October 31, 2005	April 30, 2005
Assets:		
Current Assets:		
Cash and cash equivalents	$ 12,205	$ 6,148
Accounts receivable, net of allowance for doubtful accounts of $9,238 and $9,421, respectively	84,881	89,800
Inventories	50,818	52,363
Current deferred tax assets	9,887	7,559
Prepaid expenses and other current assets	4,877	5,295
	162,668	161,165
Property, Plant and Equipment	104,777	122,444
	(65,686)	(82,521)
Accumulated depreciation		
	39,091	39,923
Intangible Assets:		
Goodwill	51,352	52,315
Pension intangible asset	1,692	1,692
Patents and other intangible assets, net	5,181	5,392
	58,225	59,399
Deferred Tax Assets	26,734	29,788
Other Assets	3,901	6,014
Total Assets	$ 290,619	$ 296,289
	========	========

Liabilities and Shareholders' Equity:		
Current Liabilities:		
Short-term debt	$ 38,985	$ 29,482
Accounts payable	46,935	47,023
Accrued compensation and benefits	18,736	16,438
Other accrued liabilities	19,180	20,654
Deferred revenue	13,941	15,467
Income taxes payable	3,948	2,822
Advances on sales contracts	738	674
	142,463	132,560
Accrued pension benefit liability	26,198	25,264
Other liabilities	5,979	6,399
Long-term debt	6,953	16,260
	39,130	47,923
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock, $0.01 par value; authorized 10,000,000 shares; no shares issued	---	---
Common stock, $0.01 par value; authorized 100,000,000 shares; issued 23,091,158 and 22,983,654 shares, respectively	231	230
Additional paid-in capital	66,263	66,045
Retained earnings	66,678	67,885
Treasury stock, at cost (665,142 and 680,398 shares, respectively)	(13,677)	(13,991)

Unamortized value of restricted stock grants	(101)	(130)
Accumulated other comprehensive loss	(10,368)	(4,233)
	109,026	115,806
Total Liabilities and Shareholders' Equity	$ 290,619	$ 296,289
	========	========

See accompanying notes to condensed consolidated financial statements.

GERBER SCIENTIFIC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended October 31,	
	(As Restated See Note 16)	
In thousands	**2005**	2004
Operating Activities:		
Net loss	$ (1,207)	$ (391)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	4,307	6,014
Restructuring charges	(231)	2,245
Deferred income taxes	726	(3,143)
Loss on early extinguishment of debt	2,483	---
Other non-cash items	1,166	1,169
Changes in operating accounts:		
Receivables	1,621	2,978

Inventories	(39)	(2,106)
Prepaid expenses and other assets	(107)	1,343
Accounts payable and accrued liabilities	4,861	(239)
Provided by Operating Activities	13,580	7,870
Investing Activities:		
Capital expenditures	(5,241)	(3,061)
Investments in intangible assets	(532)	(238)
Proceeds from sale of assets	434	---
Used for Investing Activities	(5,339)	(3,299)
Financing Activities:		
Debt repayments	(152,656)	(159,614)
Debt proceeds	152,852	154,288
Net short-term financing	---	(126)
Debt issue costs	(1,146)	---
Exercise of stock options	441	142
Used for Financing Activities	(509)	(5,310)
Effect of exchange rate changes on cash	(1,675)	658
Increase (Decrease) in cash and cash equivalents	6,057	(81)
Cash and cash equivalents at beginning of period	6,148	6,371
Cash and cash equivalents at end of period	$ 12,205	$ 6,290
	======	======

See accompanying notes to condensed consolidated financial statements.

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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, they 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. In the opinion of management, all significant adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included. Operating results for the quarter and six months ended October 31, 2005 are not necessarily indicative of the results that may be expected for the year ending April 30, 2006. The financial information included in this Quarterly Report on Form 10-Q/A should be read in conjunction with the consolidated financial statements and notes in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2005, filed with the Securities and Exchange Commission (the "SEC") on July 14, 2005. The condensed consolidated balance sheet has been derived from the April 30, 2005 audited consolidated financial statements, but does not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements.

Certain reclassifications have been made to the prior year amounts to conform to the current year presentation. These included reclassifications of all warranty, installation, and training costs from Selling, General and Administrative Expense ("SG&A") to Cost of Products Sold and an improved allocation of the Sign Making and Specialty Graphics segment's overhead costs from SG&A to Cost of Products Sold.

NOTE 2. Stock Option Plans

The Company has stock option plans authorizing grants to officers and employees. The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock options (intrinsic value method). No stock-based compensation cost related to stock options has been reflected in the net loss, as all options granted under these plans had an exercise price equal to the quoted market value of the underlying common stock on the date of the grant. The Company has adopted those provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" and Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of Statement of Financial Accounting Standards No. 123," which require the disclosure of pro forma effects on net income and earnings per share as if compensation cost had been recognized based upon the fair value method at the date of grant for options awarded.

The following table illustrates the effect on net loss and loss per share if compensation cost had been recognized for the Company's stock based compensation based on the fair value of the options at the grant dates using the Black-Scholes fair value method for option pricing:

	Quarter Ended October 31,		Six Months Ended October 31,	
	(As Restated See Note 16)		(As Restated See Note 16)	
In thousands, except per share amounts	2005	2004	**2005**	2004
Net loss, as reported	$ (124)	$ (1,088)	$ (1,207)	$ (391)
Add: Stock based employee compensation expense included in				

net loss, net of related tax effects	**7**	23	**14**	41
Less: Total stock-based employee compensation expense determined under Black-Scholes option pricing model, net of related tax effects	(89)	(271)	(177)	(535)
Pro forma net loss	$ (206)	$ (1,336)	$ (1,370)	$ (885)
	======	======	======	======
Loss per share:				
Basic, as reported	$ (0.01)	$ (0.05)	$ (0.05)	$ (0.02)
Basic, pro forma	$ (0.01)	$ (0.06)	$ (0.06)	$ (0.04)
Diluted, as reported	$ (0.01)	$ (0.05)	$ (0.05)	$ (0.02)
Diluted, pro forma	$ (0.01)	$ (0.06)	$ (0.06)	$ (0.04)

The weighted-average assumptions used in estimating the fair value of stock options granted in the quarter and six months ended October 31, 2005 were as follows: risk-free interest rate of 3.9 percent, expected option life of 5.7 years, expected volatility of 70 percent, and no expected dividend yield.

The weighted-average assumptions used in estimating the fair value of stock options granted in the quarter and six months ended October 31, 2004 were as follows: risk-free interest rate of 3.7 percent, expected option life of 4.7 years, expected volatility of 74 percent, and no expected dividend yield.

In April 2005, the SEC delayed the required adoption date for Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) is effective for the Company beginning on May 1, 2006. The Company expects to use the modified prospective method and is currently evaluating the impact of adopting SFAS 123(R) on its consolidated financial position and results of operations. The Company believes that the pro forma disclosures provide an appropriate short-term indicator of the level of expense that will be recognized in accordance with SFAS 123(R); however, the total expense recorded in future periods will depend on several factors, including the number of share-based awards issued and the fair value of those awards.

NOTE 3. Inventories

Inventories, net of reserves, were as follows:

In thousands	October 31, 2005	April 30, 2005
Raw materials and purchased parts	$ 40,918	$ 39,800
Work in process	1,461	1,326

Finished goods	8,439	11,237
	$ 50,818	$ 52,363
	======	======

NOTE 4. Restructuring Charges

Fiscal 2005 Restructuring

During the fiscal year ended April 30, 2005, the Company recorded restructuring charges of $3.0 million consisting of employee separation costs of $2.6 million and an adjustment to the fiscal 2004 facility consolidation costs of $0.4 million. The employee separation costs were primarily attributable to the relocation of the Ophthalmic Lens Processing segment's operations in Muskogee, Oklahoma and efforts to reduce Spandex's costs in the Sign Making and Specialty Graphics segment. During fiscal 2006, the Company expensed $0.1 million for changes in employee separation cost estimates. The facility consolidation adjustment related to the sublease of a vacant facility in the Sign Making and Specialty Graphics segment.

The following table presents a rollforward of the accruals at April 30, 2005 to October 31, 2005 by segment:

In thousands	Employee Separation Accrual
Sign Making and Specialty Graphics	
Balance at April 30, 2005	$ 395
Cash payments	(359)
Change in estimates	(36)
Balance at October 31, 2005	---
	=====
Ophthalmic Lens Processing	
Balance at April 30, 2005	508
Cash payments	(564)
Change in estimates	87
Balance at October 31, 2005	31
	=====
Fiscal 2005 balance at October 31, 2005	$ 31
	=====

The remaining balance at October 31, 2005 is expected to be paid during fiscal 2006.

Fiscal 2004 Restructuring

The following table presents a rollforward of the accruals established in fiscal 2004 by segment:

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In thousands	Facility Consolidation Accrual
Sign Making and Specialty Graphics	
Balance at April 30, 2005	$ 1,775
Cash payments	(153)
Balance at October 31, 2005	1,622
	======
Ophthalmic Lens Processing	
Balance at April 30, 2005	65
Cash payments	(33)
Change in estimates	(32)
Balance at October 31, 2005	---
	======
Fiscal 2004 balance at October 31, 2005	$ 1,622
	======

Of the remaining balance at October 31, 2005, $0.3 million is expected to be paid in the fiscal year ending April 30, 2006, $0.3 million in the fiscal year ending April 30, 2007, $0.1 million in the fiscal year ending April 30, 2008, $0.1 million in the fiscal year ending April 30, 2009, $0.1 million in the fiscal year ending April 30, 2010, and $0.7 million thereafter.

Fiscal 2003 Restructuring

The remaining accrual of $0.1 million at April 30, 2005 related to a fiscal 2003 facility consolidation charge, the majority of which was paid in the first and second quarters of fiscal 2006.

Fiscal 2002 Restructuring

As of April 30, 2005, the remaining accrual of $0.3 million related to severance costs payable to a former employee of the Company. During the second quarter, it was determined that this amount would not be paid and the remaining accrual was reversed to Restructuring Charges.

NOTE 5. Goodwill and Other Intangible Assets

Goodwill and other intangible assets include:

	October 31, 2005			April 30, 2005		
In thousands	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
Amortized intangible assets:						
Patents	$ 7,609	$ 2,847	$ 4,762	$ 8,010	$ 3,095	$ 4,915
Other	676	257	419	703	226	477
	8,285	3,104	5,181	8,713	3,321	5,392
Unamortized intangible assets:						
Goodwill	51,352	---	51,352	52,315	---	52,315
Pension intangible asset	1,692	---	1,692	1,692	---	1,692
	53,044	---	53,044	54,007	---	54,007
	$61,329	$ 3,104	$ 58,225	$ 62,720	$ 3,321	$ 59,399
	======	=====	=====	======	=====	=====

Intangible amortization expense was $0.1 million for the quarters ended October 31, 2005 and 2004 and $0.3 million for the six-month periods ended October 31, 2005 and 2004. Intangible amortization expense is estimated to be approximately $0.5 million annually for fiscal years ending April 30, 2006 through 2011.

The following table presents the changes in the carrying amount of goodwill by operating segment for the six months ended October 31, 2005:

In thousands	Sign Making and Specialty Graphics	Apparel and Flexible Materials	Ophthalmic Lens Processing	Total
Balance as of April 30, 2005	$ 22,583	$ 12,736	$ 16,996	$ 52,315

Effects of currency translation	(902)	(61)	---	(963)
Balance as of October 31, 2005	$ 21,681	$ 12,675	$ 16,996	$ 51,352
	======	======	======	======

NOTE 6. Derivative Instruments and Hedging Activities

The Company is exposed to fluctuations in foreign currency exchange rates because of its global presence and international sales and purchase activities. These foreign currency exposures are identified and managed at the operating unit level. To manage some of these risks, the Company has used forward exchange contracts. As of October 31, 2005, the Company was not party to any forward exchange contracts.

NOTE 7. Segment Information

The Company's operations are classified into three operating segments: Sign Making and Specialty Graphics; Apparel and Flexible Materials; and Ophthalmic Lens Processing. Those segments are determined based on management's evaluation of the Company's businesses.

The following table presents revenue by operating segment:

	Quarter Ended October 31,		Six Months Ended October 31,	
In thousands	2005	2004	2005	2004
Sign Making and Specialty Graphics	$ 71,036	$ 69,418	$140,956	$138,143
Apparel and Flexible Materials	44,653	43,933	86,882	83,697
Ophthalmic Lens Processing	18,272	18,065	34,887	37,262
Consolidated revenue	$133,961	$131,416	$262,725	$259,102
	=======	=======	=======	=======

The table below presents operating income by segment and a reconciliation to consolidated operating income:

	Quarter Ended October 31,		Six Months Ended October 31,	
In thousands	2005	2004	2005	2004
Sign Making and Specialty Graphics	$ 2,659	$ (487)	$ 5,739	$ 2,060
Apparel and Flexible Materials	5,744	6,625	10,812	11,228

Ophthalmic Lens Processing	670	(577)	(12)	(1,080)
Corporate Operating Expenses	(4,254)	(3,964)	(8,315)	(7,495)
Consolidated operating income	$ 4,819	$ 1,597	$ 8,224	$ 4,713
	=======	=======	=======	======

NOTE 8. Comprehensive Income (Loss)

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

	Quarter Ended October 31,		Six Months Ended October 31,	
	(As Restated See Note 16)		(As Restated See Note 16)	
In thousands	2005	2004	2005	2004
Net loss	$ (124)	$ (1,088)	$ (1,207)	$ (391)
Other comprehensive income (loss):				
Foreign currency translation adjustments	215	5,442	(6,135)	6,128
Cash flow hedging loss, net of tax	---	(159)	---	(81)
Total comprehensive income (loss)	$ 91	$ 4,195	$ (7,342)	$ 5,656
	=======	=======	=======	=======

NOTE 9. Earnings (Loss) Per Share

The following table sets forth the computation of basic and diluted loss per share:

	Quarter Ended October 31,		Six Months Ended October 31,	
	(As Restated See Note 16)		(As Restated See Note 16)	
In thousands, except per share amounts	2005	2004	2005	2004
Numerator:				
Net loss	$ (124)	$ (1,088)	$ (1,207)	$ (391)
Denominators:				

Denominator for basic loss per share - weighted-average shares outstanding	22,368	22,267	22,340	22,251
Effect of dilutive securities:				
Stock options	---	---	---	---
Denominator for diluted loss per share - adjusted weighted-average shares outstanding	22,368	22,267	22,340	22,251
	======	======	======	======
Basic loss per share	$ (0.01)	$ (0.05)	$ (0.05)	$ (0.02)
	======	======	======	======
Diluted loss per share	$ (0.01)	$ (0.05)	$ (0.05)	$ (0.02)
	======	======	======	======

For each of the quarterly and six-month periods ended October 31, 2005 and 2004, stock options exercisable for 0.2 million shares of common stock were excluded from the calculation of diluted loss per share because the Company reported a net loss for those periods.

NOTE 10. Commitments and Contingencies

The Company currently has lawsuits and claims pending against it, the ultimate resolution of which management believes will not have a material effect on its consolidated financial condition or results of operations. There were no significant changes to the commitments and contingencies during the six months ended October 31, 2005 from those previously disclosed in the Company's Annual Report on Form 10-K for the year ended April 30, 2005.

NOTE 11. Guarantees

The Company extends financial and product performance guarantees to third parties. There have been no material changes to guarantees outstanding since April 30, 2005.

The changes in the carrying amount of product warranties for the six months ended October 31, 2005 and 2004 were as follows:

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	Six Months Ended October 31,	
In thousands	2005	2004
Beginning balance	$ 5,765	$ 4,827
Reductions for payments made	(2,288)	(2,571)

Changes in accruals related to warranties issued in the current period	2,247	2,965
Changes in accruals related to pre-existing warranties	(17)	(109)
Ending balance	$ 5,707	$ 5,112
	======	======

NOTE 12. Employee Benefit Plans

Components of net periodic benefit cost for the quarter and six months ended October 31, 2005 and 2004 are presented below.

	Quarter Ended October 31,			
	Qualified Pension Plan		Non-Qualified Pension Plan	
In thousands	2005	2004	2005	2004
Service cost	$ 724	$ 654	$ 41	$ 41
Interest cost	1,382	1,337	102	123
Expected return on plan assets	(1,402)	(1,331)	(109)	(111)
Amortization of prior service cost	74	74	(1)	(1)
Amortization of net loss	427	232	29	41
Net periodic benefit cost	$ 1,205	$ 966	$ 62	$ 93
	======	======	======	======

	Six Months Ended October 31,			
	Qualified Pension Plan		Non-Qualified Pension Plan	
In thousands	2005	2004	2005	2004
Service cost	$ 1,448	$ 1,308	$ 82	$ 81
Interest cost	2,765	2,674	203	246
Expected return on plan assets	(2,805)	(2,663)	(218)	(222)
Amortization of prior service cost	148	148	(2)	(2)

Amortization of net loss	854	465	59	83
Net periodic benefit cost	$ 2,410	$ 1,932	$ 124	$ 186
	======	======	======	======

Employer Contributions

For the six months ended October 31, 2005, $1.6 million in cash contributions have been made to the Gerber Scientific, Inc. and Participating Subsidiaries Pension Plan. The Company expects to contribute a total of $3.1 million to this plan for the fiscal year ending April 30, 2006.

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NOTE 13. Debt and Financing Arrangements

On October 31, 2005, the Company entered into a credit agreement with Citizens Bank of Massachusetts, the Export-Import Bank of the United States ("Ex-Im") and Sovereign Bank, and completed a refinancing of its former senior credit facilities. The financing consisted of a $50.0 million asset-based revolving line of credit that includes a $13.0 million working capital loan guarantee from Ex-Im (the "Revolver"), a $6.5 million standby letter of credit, and a $1.2 million term loan (the "Term Loan"), collectively, the "Credit Facility". The Revolver matures on October 31, 2008. The Term Loan requires 60 equal monthly principal payments beginning in December 2005 and maturing in November 2010.

The Credit Facility obligations are secured by first priority liens on, and security interests in, selected assets of the Company and its subsidiaries in the United Kingdom and Canada, including inventory, accounts receivable, and real estate and leasehold improvements. The Credit Facility obligations are also secured by the capital stock of subsidiaries of the Company and secured by the capital stock held by its subsidiaries in the United Kingdom and Canada.

The initial borrowings under the Credit Facility were used to repay all borrowings under the Company's four-year $110.0 million senior credit facility entered into on May 9, 2003; to pay fees and expenses and for general working capital purposes. Subsequent to the repayment of the amounts due related to the $110.0 million facility, the facility was terminated by the Company.

Under the Revolver, the Company can terminate its commitment at any time, subject to a prepayment fee of 3.0 percent during the first year, 2.0 percent during the second year and 1.0 percent during the third year. The Company may permanently reduce the Revolver commitment by up to $10.0 million without any prepayment fee.

Revolver borrowings are subject to a borrowing base formula based upon eligible accounts receivable, eligible inventory and eligible demonstration equipment. The Company must maintain a minimum availability under the revolver of $1.0 million. Obligations under the Revolver bear interest at a floating rate, which is, at the Company's option, either at the lender's prime rate or LIBOR plus 1.75 percent.

The Company is required to pay a commitment fee of 0.25 percent of the average daily difference between the total commitment amount of the Revolver and the aggregate outstanding principal amount of the loans under the Revolver.

The Term Loan is payable in 60 equal monthly installments. Obligations under the Term Loan bear interest at either the lender's prime rate or LIBOR plus 2.0 percent, at the Company's option.

The Company is required to maintain two financial covenants set forth in the agreement including leverage and debt service coverage ratios. The agreement also includes limitations on additional indebtedness and liens, investments, legal entity restructurings, changes in control, and restrictions on dividend payments, as well as other customary covenants and representations. The Company was in compliance with all of its covenants under its financing arrangements at October 31, 2005.

The Revolver agreement requires the Company to maintain a lock-box arrangement whereby amounts received into the lock-boxes are applied against the Revolver debt outstanding. The Revolver agreement also contains certain subjective acceleration clauses in the event of an occurrence of a material adverse effect, as defined. Emerging Issues Task Force Issue No. 95-22, "Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that Include both a Subjective Acceleration Clause and a Lock-Box Arrangement," requires the Company to classify outstanding borrowings under the Revolver as short-term obligations due to the existence of both a lock-box arrangement and subjective acceleration clauses.

Previous Senior Credit Facility

Prior to entering into the above mentioned credit facility, the Company was party to a senior secured credit facility. The senior secured credit facility was completely paid in full and terminated in connection with the above refinancing. The Company incurred a $2.5 million pre-tax charge as part of the early extinguishment of its previous senior credit facility, primarily related to the write-off of unamortized deferred financing costs.

NOTE 14. Income Taxes

During the six months ended October 31, 2005, the Company recorded tax expense of $3.3 million. Included in this amount was a $2.3 million non-cash charge attributable to the elimination of a deferred tax asset associated with a tax legislation change in the United Kingdom. Excluding this tax charge, the Company's consolidated tax rate would have been 48.3 percent compared with the statutory rate of 35.0 percent. The higher consolidated tax rate was primarily attributable to the application of interim tax reporting requirements related to losses incurred in foreign jurisdictions where the Company is unable to take a financial statement benefit. Additionally, the establishment of valuation allowances for current year losses in those jurisdictions also negatively impacted the consolidated tax rate.

NOTE 15. Net Asset Held for Sale

The Company relocated its Ophthalmic Lens Processing Muskogee, Oklahoma manufacturing facility during fiscal 2005. In the quarter ended July 31, 2005, the facility met the criteria for classification as a net asset held for sale in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). The facility was sold on August 18, 2005. Other Expense, net for the six months ended October 31, 2005 includes a $0.1 million loss recognized in accordance with SFAS 144 upon reducing the net book value of the facility to its fair value less estimated selling costs.

NOTE 16. Restatement of Previously Issued Financial Statements

On February 20, 2006, the Audit and Finance Committee of the Board of Directors concluded, based upon the recommendation of the Company's management, that the Company's condensed consolidated financial statements for the second quarter of fiscal 2006, included in its Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2005 and filed with the SEC on December 1, 2005, should be restated to correct an error relating to accounting for foreign exchange transaction losses on certain intercompany balances. Specifically, this error related to the translation of an intercompany balance and resulted in the overstatement of foreign exchange transaction losses recorded in "Other expense, net" for the quarter and six months ended October 31, 2005 by $358 thousand, which increased the net loss reported for the second quarter and six-month periods by $258 thousand. The impact of the restatement on the primary financial statement line items is detailed in the following schedules.

The effect of the restatement on the operating results for the quarter and six months ended October 31, 2005, previously reported in the Company's Quarterly Report on Form 10-Q filed on December 1, 2005, was as follows:

	Quarter Ended October 31, 2005		Six Months Ended October 31, 2005	
	(Unaudited)		(Unaudited)	
In thousands except per share data	**As Previously Reported**	**Restated**	**As Previously Reported**	**Restated**
Other expense, net	$ (866)	$ (508)	$ (1,041)	$ (683)
(Loss) Earnings before income taxes	$ (55)	$ 303	$ 1,744	$ 2,102
Provision (Benefit) for income taxes	$			