GERBER SCIENTIFIC INC
Form 10-K
July 14, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended April 30, 2004

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each Exchange on which registered
Common Stock, par value $1.00 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

---

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

/X/

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

Yes /X/. No / /.

The aggregate market value of Gerber Scientific, Inc. common stock held by non-affiliates at October 31, 2003, based on the reported last sale price of such stock on the New York Stock Exchange on such date, was approximately $162,170,000.

At June 30, 2004, 22,233,235 shares of common stock of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 2004 Annual Meeting Proxy Statement, which is expected to be filed within 120 days following the end of fiscal year covered by this report, are incorporated by reference into Part III hereof.

GERBER SCIENTIFIC, INC.

Index to Annual Report
on Form 10-K
Year Ended April 30, 2004

PART I			PAGE
Item	1.	Business	6
Item	2.	Properties	45
Item	3.	Legal Proceedings	46
Item	4.	Submission of Matters to a Vote of Security Holders	46
		Executive Officers of the Registrant	47

PART II

Item	5.	Market for the Registrant's Common Equity and Related Stockholder Matters	49
Item	6.	Selected Financial Data	50
Item	7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	53
Item	7a.	Quantitative and Qualitative Disclosures About Market Risk	83
Item	8.	Financial Statements and Supplementary Data	85
Item	9.	Changes in and Disagreements with Auditors on Accounting and Financial Disclosure	124
Item	9a.	Controls and Procedures	124
PART III			
Item	10.	Directors and Executive Officers of the Registrant	126
Item	11.	Executive Compensation	126
Item	12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	126
Item	13.	Certain Relationships and Related Transactions	126
Item	14.	Principal Accountant Fees and Services	126
PART IV			
Item	15.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	127
Signatures			128

Exhibit Index 130

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K for the fiscal year ended April 30, 2004 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 Exchange 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 valid. Forward-looking statements within (or incorporated by reference in) this annual report can be identified by the use of words such as "believe," "expects" or "expected to," "intends," "foresee," "may" or "should," "plans," "anticipate," and other words of similar meaning in connection with a discussion of future operating or financial performance. Forward-looking statements contained in this annual report relate to, among other things:

- prospective product developments (and the timing of introduction), product development focus, and new business opportunities;
- developments with respect to product development and product introductions by competitors;
- demand for certain of the Company's products and services;
- methods of and costs associated with potential geographic expansion;
- restructuring initiatives;
- efforts to enhance organizational responsiveness operating performance;
- regulatory and market developments, and the impact of such developments on future operating results;
- expected levels of growth or the future size (typically stated in revenues) of market segments or geographic markets, or future market conditions;
- growth opportunities for certain of the Company's products or in certain geographic markets;
- the availability of raw materials;
- future earnings and other measurements of financial performance;
- cost saving initiatives, including efforts to reduce working capital and employee headcount;
- debt reduction and refinancing plans or expectations;
- future cash flows and uses of cash; and

- the outcome of contingencies.

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 1 of this annual report on Form 10-K. We cannot assure you that our results of operations or financial condition will not be adversely affected by one or more of these risks.

Some of the information contained in this annual report on Form 10-K concerning the markets and industries in which we operate is derived from publicly available information and from industry sources. Although we believe that this publicly available information and the information provided by these industry sources are reliable, we have not independently verified the accuracy of any of this information.

PART I

ITEM 1. BUSINESS.

Overview

Gerber Scientific, Inc. was incorporated in Connecticut in 1948. Gerber Scientific, Inc. is a leading provider of innovative, end-to-end customer solutions to the world's sign making and specialty graphics, apparel and flexible materials, and ophthalmic lens processing industries. The Company conducts its business through three principal operating segments. Each operating segment and the principal businesses within those segments are as follows:

Operating Segment	Principal Business
Sign Making and Specialty Graphics	Gerber Scientific Products and Spandex Ltd.
Apparel and Flexible Materials	Gerber Technology
Ophthalmic Lens Processing	Gerber Coburn Optical

The following provides an overview of key corporate initiatives and of the operating segments and their principal products and services, principal methods of distribution, and other information relevant to an understanding of our business.

Key Corporate Initiatives

The Company's key corporate initiatives encompass Gerber Scientific Operations, Gerber Service, customer experience, and reinvigorating innovation.

Gerber Scientific Operations

In response to lower demand for our capital equipment and aftermarket products in fiscal 2001 and 2002, we implemented a shared services initiative in October 2002, based partly on the successful restructuring program initiated in our Apparel and Flexible Materials business segment in fiscal year 2001. As part of this initiative, we created a separate organization, internally referred to as Gerber Scientific Operations ("GSO"). GSO focuses on the following items on behalf of the entire Company:

- inventory reduction;
- strategic purchasing;

- manufacturing and supply chain optimization;
- real estate consolidation;
- continued implementation of SAP enterprise resource planning system ("SAP"); and
- freight and logistics rationalization.

During fiscal 2004, we made substantial progress towards these goals by reducing our vendors, consolidating shipping providers, moving inventory to shipping locations, reducing warehouses and office space by sharing facilities among our business units, and continuing worldwide SAP implementations. These initiatives have reduced costs, improved organizational responsiveness and customer satisfaction, and enhanced operating performance.

GSO reduced inventory in fiscal 2004 through completing the transition of all United States business units to material resource planning ("MRP") and reorder point planning ("ROP"), which facilitated improved forecasting and lead time planning. Within the Sign Making and Specialty Graphics operating segment, aftermarket inventories were reduced. Within the Apparel and Flexible Materials operating segment, reductions resulting from improved forecasting, shorter lead times, and managing agreements with key suppliers throughout the production process resulted in lower equipment raw materials and work in process inventories. Within the Ophthalmic Lens Processing operating segment, forecast improvements and better management of internal data, facilitated by the transition to SAP, reduced equipment raw materials and work in process inventories.

We continue to implement ongoing strategic purchasing initiatives. During fiscal 2004, we formalized several supplier agreements, standardized key terms and conditions with certain original equipment manufacturer ("OEM") agreements, and formalized a policy for minimum inventory levels to be maintained by certain vendors.

As part of our strategy to optimize manufacturing and supply chain operations, we increased overhead efficiencies through facility consolidations by lowering production overhead costs across business units and lower labor costs by reducing workforce headcount. The Company is currently exploring the benefits of a flexible workforce, by replacing attrition with a temporary workforce that can fulfill demand during peak periods. Through these efforts, GSO has achieved significant productivity gains in fiscal 2004 within its United States facilities. Price erosion in the Company's key markets, however, largely offset its efforts to reduce manufacturing costs. Rising inflationary costs in the supply chain, coupled with price erosion, negatively affected the Company's gross margins. To address these concerns, GSO is seeking better pricing from existing vendors or by changing vendors. In addition, GSO seeks to reduce manufacturing costs by reengineering existing products and by becoming involved earlier in new product development for sourcing opportunities.

Real estate consolidation initiatives made substantial progress during fiscal 2004. The majority of the United States Sign Making and Specialty Graphics segment operations relocated to other existing facilities in Connecticut, while the Ophthalmic Lens Processing segment's Connecticut operations may relocate in fiscal 2005. The Company anticipates that, during fiscal 2005, it will sublease the vacant facilities resulting from these relocations. Internationally, certain facilities were combined resulting in shared space among the Company's different business units. GSO continues to seek real estate consolidation opportunities both within the United States and internationally.

As of the end of fiscal 2004, SAP was fully implemented within the Apparel and Flexible Materials and Ophthalmic Lens Processing operating segments. Within the Sign Making and Specialty Graphics operating segment, Gerber

Scientific Products has fully implemented SAP, and Spandex continues with its remaining implementations. SAP implementations during fiscal 2004 included all of the Ophthalmic Lens Processing locations; the China subsidiary of the Apparel and Flexible Materials operating segment; and the Spandex French, Spanish, and Italian operations. SAP was implemented for Spandex's Switzerland subsidiary early in fiscal 2005 and will be implemented for its United Kingdom and Canadian subsidiaries later in fiscal 2005. SAP will be implemented for the remaining Spandex businesses in fiscal 2006.

GSO has made progress towards its freight and logistics rationalization goal. During fiscal 2003 and 2004, GSO consolidated freight carriers within the United States and began consolidation within the Company's foreign subsidiaries. Certain inventory was relocated to shipping locations managed by third-party logistic providers, which resulted in a reduction of warehouse and office space. Savings have resulted from lower freight costs per shipment, a reduction of personnel involved in the freight process through use of third-party logistic providers, and overall process improvements. These savings, however, have been offset by more frequent expedited deliveries, consistent with the transition to MRP and ROP inventory.

We have made changes to our legal organizational structure at the same time we created GSO. In fiscal 2003, we merged Gerber Scientific Products, Inc., the United States component of our Sign Making and Specialty Graphics operating segment, with Gerber Technology, Inc., our Apparel and Flexible Materials operating segment. The combined entity, a wholly-owned subsidiary of the Company, is named Gerber Scientific International, Inc. In fiscal 2004, we merged Gerber Coburn Optical, Inc. into Gerber Scientific International, Inc. Each of the component businesses continue to maintain their separate identity, using its former names, Gerber Scientific Products ("GSP"), Gerber Technology ("GT"), and Gerber Coburn Optical ("GC"), respectively. Other similar international legal entity mergers have occurred during fiscal 2004.

Gerber Service

Gerber Service is the Company's combined service organization formed during fiscal 2004 and includes over 400 employees. Gerber Service's structure is designed to improve customer response time and the efficiency, utilization, and profitability of the service organization by leveraging the organization's scale and size. Gerber Service was developed to restructure the individual business unit's service organizations into one organization, focus on customer perception of our service capabilities, and improve profitability through a fully integrated service organization.

Gerber Service manages seven customer solutions centers serving six continents. Technical skills among all of the Company's business units have been combined and service technicians have been cross-trained. Gerber Service's operations are complemented by the introduction of GERBERnet, the Company's Internet-based customer service portal. GERBERnet currently includes software updates, online parts ordering, and technical information for GT and GSP and will be expanded to include additional business units. GERBERnet delivers online services and value to our customers via the Internet to make support available at any time of the day using advanced software delivery tools.

Customer Experience

The Company is developing a "Customer Experience" process to enhance customer satisfaction. This initiative is intended to improve on-time shipping performance and measure customer response and call performance. This initiative is designed to benchmark and measure customer satisfaction as a basis for ameliorating any deficiencies and to identify critical market and customer needs for all of the Company's markets.

Reinvigorating Innovation

As part of its strategy of innovation, the Company and its internal Technology Advisory Board ("TAB") have developed and adopted the New Product Development ("NPD") process, which was created by a cross-functional team with representatives from each business unit. The NPD process employs cross-functional project teams and concurrent engineering to accelerate time to market and provide high-quality products that are designed to meet customers' needs. The process is structured in six phases, each separated by a "gate" review to ensure that risks are properly understood and project requirements completed.

In fiscal 2005, the Company anticipates that it will configure its NPD process for software development and continue development and implementation of several other enterprise-wide technical process integrations, including engineering design and documentation systems. The TAB is implementing centralized offshore engineering management for its engineering resources in India and China. Other processes contemplated include a research and development project portfolio management process to assess projects based on a quantifiable attractiveness scale, a formalized design review process integrated with the NPD process, and a centrally managed intellectual property process.

The TAB plans further development of the infrastructure to reinvigorate and sustain innovation. The TAB relies upon its internally formed "Innovation Hub" unit to determine selectively which new ideas to pursue and the Company's Gerber Ventures unit to assess the technological feasibility of these ideas. Strategies to sustain innovation include plans to eliminate re-work, manage the product portfolio across the entire Company, and improve resource management.

The Company continues to seek partnering opportunities to develop externally funded projects that are consistent with the Company's strategic initiatives and take advantage of its operating strengths. The Company will pursue grants for applied technology development relating to new applications as solicitations are released. The Company also actively seeks to attract research and development contracts to develop new technologies for third parties.

Segment Information

As permitted by applicable Securities and Exchange Commission regulations, information regarding the Company's measurement of segment profit or loss and segment assets, factors used to identify reportable segments, and the financial information required by Item 1 of Form 10-K relating to the reportable segments and geographic areas are included in Part II of this annual report on Form 10-K. See Item 8 of this annual report and, specifically, Note 15 ("Segment Reporting") of the "Notes to Consolidated Financial Statements."

The Company is organized under the laws of the State of Connecticut. Our principal executive offices are located at 83 Gerber Road West, South Windsor, Connecticut 06074. Our telephone number is (860) 644-1551. Our website address is www.gerberscientific.com. On our website within the investors section, you can access, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed with or furnished to the SEC, in accordance with Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after the reports are electronically filed with or furnished to the SEC. In addition, the SEC maintains a website, www.sec.gov, which contains reports, proxy and information statements, and other information regarding issuers filing electronically, including the Company. We have adopted a financial code of ethics applicable to our chief executive officer and our senior financial officers that meets the requirements of a "code of ethics" as defined by Item 406 of Regulation S-K. This financial code of ethics is posted on our website. In addition, by September 22, 2004, the date of the Company's 2004 Annual Meeting of Shareholders, the Company will have posted on its website, a code of business conduct and ethics applicable to all directors, officers, and employees,

under NYSE listing standards. We will also provide copies of these codes in print without charge to any shareholder that requests them. Requests for copies may be directed to our General Counsel at the address above.

We intend to disclose any amendments to these codes, and any waiver of a provision of these codes for the benefit of the Company's directors, principal executive officer, and senior financial officers, on our website referred to above within five business days following such amendment or waiver, or within any other period that may be required under SEC rules from time to time.

SIGN MAKING AND SPECIALTY GRAPHICS

Gerber Scientific Products ("GSP") and Spandex Ltd. ("Spandex") constitute the Company's Sign Making and Specialty Graphics business segment.

Gerber Scientific Products

Overview

GSP is a leading provider of integrated computerized design and manufacturing solutions for the sign making and specialty graphics industries, consisting of:

- software to design signs and graphics and to run imaging and cutting equipment;
- digital imaging systems, which include thermal and ink jet systems;
- state-of-the-art aftermarket materials designed to maximize equipment performance and output;
- cutting systems (referred to in the industry as plotters or routers); and
- customer training, service, and other support.

GSP's products are characterized by easy-to-use, highly-reliable, highly-durable customized sign production in both process colors and the large palette of pure vibrant spot colors.

GSP's primary target market for its products and services is the small- to medium-size sign printing shops, with yearly revenues ranging up to $1,000,000. GSP's target end-use customers also include graphic arts professionals, printing chains/franchises (such as Kinko's, FASTSIGNS and Signs Now), major corporations, and government agencies. GSP distributes its products through independent distributors and through Spandex. GSP offers the end-users of its products a combination of hardware and software engineering, materials, spare parts, an extensive distribution network, and superior customer service.

There was not a significant increase in demand for sign making and specialty graphics output during fiscal 2004, nor do market predictions indicate a significant increase in fiscal 2005. Most market growth potential is concentrated on the rapid growth in demand for low cost digital printing, specifically, ink jet products.

In the 1980s, GSP's thermal imaging and cutting systems transformed the sign making industry, which until then had been dominated by manual sign making systems. GSP's *GERBER EDGE*® thermal imaging system produces durable images (ideally suited for outdoor signage), intense or varied spot colors, and a high return on capital investment for sign shop owners who need an entry level system. The EDGE and the EDGE 2 are reliable pieces of equipment, as reflected by the degree to which they have historically held their value in the secondary market.

In recent years, thermal imaging has seen little technological advancement. In contrast, ink jet imaging systems have experienced significant technological advances and continue to improve as far as speed, color produced, and reliability of equipment. In the past, ink jet printing systems had been limited to either water-soluble ink-based systems, requiring a specially coated vinyl and over-lamination for protection, or higher priced, super-wide (in terms of printing width), solvent ink-based systems, primarily used by the larger commercial and screen printing shops. Today, with the price of lower-end ink jet systems being in the range of $12,000 to $30,000 and with the advances made in inks and substrate materials, ink jet imaging systems are in high demand. Ink jet offers many benefits through rapid technological advancement including lower output costs, flexibility, improving durability and print quality, and lower capital cost. Increasingly lower-priced solvent and slower drying eco-solvent ink jet systems with typical printing widths of 60 inches are becoming prevalent. The higher dots per inch (dpi) of which ink jets are now capable allow for the production of high quality and reasonably durable (with over-lamination) signage. In addition, on a per unit basis, which is critical for the typical low-piece count sign shop order, the output is less expensive than thermal imaging. These developments, together with the lesser importance of durability for outdoor signage, which is reflected by the cycle for sign changes of approximately one to three years, compared to historical cycles of approximately five years, have contributed to a greatly accelerated rate of adoption of ink jet systems by the sign industry. Ink jet developments correspondingly spur demand for aftermarket materials such as the inks and vinyls. There is a continued lessening in demand for high-performance cast vinyl, with continued increasing demand for calendered vinyl.

Notwithstanding the sign industry's transition to ink jet imaging systems, GSP believes that its end-use customers will continue to require both ink jet and thermal systems to serve the wide range of sign applications. GSP is also targeting small- to medium-size sign shops that are still not using any imaging system. The retail printing chains and franchises represent another segment of the market for which there are opportunities for GSP's thermal imaging systems. These chains and franchises, which are accounting for an increasing percentage of GSP's revenues, particularly Kinkos, seek outdoor durability and easy-to-use systems that do not involve the use of solvent inks. A significant project to equip Kinkos with thermal imaging systems was completed in 2004 and will not recur in 2005. The advantage of thermal imaging products is their production of durable (without the need for lamination) outdoor spot and process colors, which are extremely well-defined, on self-adhesive vinyl. This makes thermal images ideal for applications such as pictures on the sides of vehicles and four-color pictures. In addition, the current ink jet systems still require more distributor expertise than thermal imagers because of the greater complexity of calibrating inks and substrate materials. Further, the use of solvent inks makes ink jet systems susceptible to ambient conditions and odors, as well as jet nozzle blockages, if used only intermittently. These factors ensure a continuing role for thermal imaging within the sign making and specialty graphics market.

Products

GSP offers a platform of fully integrated products through its *Matched Technology System*™, which assures customers that GSP's products, including software, imaging systems, plotters, routers, and materials, are compatible and inks are calibrated. GSP's Matched Technology System involves the thorough testing of each of GSP's products for performance, accuracy, reliability, bonding, and durability to ensure integration between GSP's software, imaging systems, plotters, and media products. This platform allows end-users to design and manufacture sign and specialty graphics.

Digital Imaging Equipment

Thermal Imaging Systems

GSP's principal products in the sign making and specialty graphics market include its thermal transfer digital imaging systems, the EDGE and the EDGE 2. These are leading thermal imaging systems for small to medium-size sign shops and the main products promoting GSP's brand awareness. Both systems create continuous length, durable, professional quality text and graphics, including halftones, multiple colors, and process four-color images directly onto sign vinyl. The EDGE 2, an upgraded version of the EDGE, can print more dpi and is faster than the EDGE. In addition to the EDGE products, GSP manufactures the *GERBER MAXX™ 2,* a wide-format, thermal transfer digital imaging system designed for a niche market. GSP's large installed base of thermal imaging systems provides the opportunity to supply its end-use customer base with other equipment (plotters and routers), software, and aftermarket supplies.

Ink Jet Imaging Systems

GSP recently launched a new high speed ink jet imaging system referred to as the *GERBER ELAN™* XL under the terms of a distribution agreement with a leading manufacturer of ink jet imaging systems. The Elan XL is designed to provide industry professionals with an extensive range of applications, accommodating uncoated media width up to 62 inches. The Elan XL uses six colors, enabling the creation of a broad spectrum of colors and excellent spot simulation. It uses a Gerber proprietary environmentally safe solvent ink and does not require lamination for most applications to achieve customer desired point durability. The Elan XL also employs a Raster Image Processor ("RIP") developed with Onyx, a leader in the industry for the supply of RIP's for a wide range of ink jet products. The custom combination of these key system components provides users with an easy to use, reliable, highly productive imaging system. GSP plans to expand its product line with additional ink jet imaging systems in fiscal 2005.

Plotters

GSP's plotters are used to cut the sign or graphic form from the vinyl substrate. GSP sells high speed plotters with automatic material loading and edge detection features (*ODYSSEY™* XP), tabletop and sprocket fed plotters that can only be used with the EDGE and EDGE 2 (*Gerber enVision™* plotters), and other plotters, one of which is sold on an OEM basis. GSP recently introduced the *Gerber P2C™* range of 24, 48, and 62 inch plotters available with Opus optical positioning system to detect automatically the periphery of the graphic image and cut it with high accuracy and speed. The P2C is an OEM product which uses GSP software for optimal integration with other GSP imaging systems.

Routers

Routers are used to make 3-D cuts from materials such as wood or plastic. GSP's product offering includes both large and small formats to meet customer needs.

Aftermarket Supplies

GSP offers a wide range of aftermarket materials such as color foil cartridges and adhesive-backed vinyls, banner materials, and ink jet systems' inks.

GSP has a leading position in its primary markets in North America in thermal imaging foil cartridges. GSP's thermal imaging foils include the *Process Pro™* foils, which provide a wide variety of pure vibrant spot and process colors

known for high durability and reliable performance. In April 2003, GSP introduced into all of its foil offerings the *GerberGauge*™ foil marking system, which is a proprietary measurement system for thermal transfer color foils designed to indicate the current levels of remaining foil inside the color cartridge.

GSP's foils are designed to produce durable, high-quality process color images on its thermal imaging products as well as to provide a wide range of colors that match popular vinyls, inks, and paint as one alternative to process color images. GSP has also designed foils that are compatible with specialty sign applications.

GSP has a modest total market share in vinyls, which consist almost entirely of the higher quality cast vinyl products obtained from 3M. Ink jet dominance affects the vinyl market through continued share growth of calendered vinyl at the expense of cast vinyl.

GSP offers a range of digital materials to support ink jet media and inks. These high-quality ink jet materials are marketed under the *ImagePerfect*™ brand name.

Software

GSP's software products are used to design signs and specialty graphics and manage every phase of the process from design to printing and cutting. These products are designed to promote sales of GSP's imaging and plotter products, enhance imaging products' functionality and output, improve production efficiency, interface with other vendor imaging products, and provide digital color matching when used with GSP's thermal and ink jet imaging products. The *OMEGA*™ *2.0* is GSP's most powerful design and product software.

Strategy

GSP seeks to become a leader in digital solutions for its North American markets by offering a comprehensive suite of products and services through superior market knowledge, systems integration, and product development via internally and externally designed and/or manufactured products that embody advanced technology. In addition, GSP plans to leverage its leadership position in thermal technology. The principal components of GSP's business strategy include the following:

Offer a Comprehensive Suite of Products and Services

Approximately 75 percent of every dollar spent within the digital imaging market is for ink jet related purchases. GSP's strategy to increase sales in this market is to enhance current OEM offerings and to continue new product development efforts by developing GSP's internal digital imaging capacity. GSP seeks to become a leading integrator of ink jet systems by leveraging its existing support capabilities for ink jet systems and building brand recognition for innovation, quality and service.

GSP anticipates that it will launch several new products in fiscal 2005 to complement most existing product lines. As a result of its transition to services provided by Gerber Service, GSP will benefit from responsive and cost-effective installation, repair, and maintenance services to support its product delivery to users.

Leverage Thermal Imaging Leadership

GSP intends to emphasize the development of advanced thermal imaging systems that will result in new products and promote market penetration. GSP believes that its market position is primarily attributable to the durability of output

and ease of use of its systems. GSP will also seek to maximize the revenue contribution of its aftermarket business related to thermal materials. GSP continues to market its thermal imaging products to the sign making and specialty graphics shops that are currently not using any digital imaging equipment, which it estimates constitute approximately 40 percent of the United States market.

Implementation of GSP's strategy is subject to risks of delays in the introduction of new products and heightened quality control issues. GSP seeks to manage the risks of its product development efforts through the Company-wide NPD stage "gate" review process and service support by Gerber Service.

Distribution

GSP distributes all of its products, supplies, and services through 57 independent United States distributors, 20 independent international distributors, and Spandex. GSP's United States distributors operate from 169 locations in 43 states and represent approximately 35 percent of all United States distribution outlets for small and medium-size sign shops. GSP's top 15 United States distributors generated approximately 75 percent of GSP's total United States revenues for fiscal year 2004. None of the United States distributors individually accounted for more than ten percent of the Company's consolidated revenue. GSP has long-standing relationships, ranging from 10 to 20 years, with the majority of these distributors. However, because of the transition to ink jet imaging systems and lower-cost calendered vinyls, GSP's products have represented a declining percentage of key distributors' sales in recent years. The agreements with GSP's United States distributors are subject to renewal on an annual basis. GSP believes that these relationships demonstrate a strong commitment to GSP's existing and future product lines.

Raw Materials

GSP sources critical materials from three primary suppliers and OEM arrangements. Cast vinyl is primarily sourced from 3M, with whom GSP has a long-standing relationship. Thermal transfer foils are supplied by Kurz, a leading German provider of hot and cold roll foils for a wide range of industries. The thermal transfer printheads used in GSP's imaging systems are supplied by Kyocera, a Japanese company and worldwide leader in the manufacture of thermal heads for fax and bar code applications. GSP sources certain ink jet printers from Mutoh. GSP has agreements with Suma Graphics for plotters and Onyx for RIP's. No other supplier is significant.

Competition

There is no competitor in GSP's industry offering the comprehensive range of products and services offered by GSP. Nonetheless, GSP faces strong competition in almost all sub-segments of its business, particularly with respect to the sale of ink jet products because of low entry barriers and aftermarket materials. GSP principally competes on the basis of product quality, service, price, and customer awareness of product alternatives.

Backlog

The backlog of orders considered firm within the Sign Making and Specialty Graphics business segment (which includes GSP and Spandex) at April 30, 2004 and 2003 was $0.5 million and $0.2 million, respectively. Substantially all backlog at April 30, 2004 is scheduled for delivery in fiscal year 2005.

Intellectual Property Rights

GSP owns and has applications for a large number of patents in the United States and other countries, which expire from time to time, and cover many of its products and systems. While GSP considers such patents and patent applications as a group to be important to its operations, it does not consider that any patent or group of patents related to a specific product or system to be of such importance that the loss or expiration of any one or more patents would have a materially adverse effect on its overall business.

Seasonality

GSP's sales of equipment and aftermarket materials are affected by seasonality in the sign industry, in which demand historically slows in cold weather months.

Spandex Ltd.

Overview

Spandex, which occupies new headquarters in Brussels, Belgium, is the largest international distributor of equipment and aftermarket materials and value-added services to the sign making and specialty graphics industry. We believe Spandex is the only international distributor of a comprehensive suite of design and manufacturing equipment and supplies; other distributors tend to specialize in either design or in manufacturing. Spandex's distribution network extends to 16 countries within Europe, as well as Canada, Australia, and New Zealand. Spandex serves over 30,000 customers.

Spandex has come to be perceived by its customers as a premier provider of high-quality products. The end-use market, however, has been evolving largely as a function of the transition toward ink jet imaging systems and lower-cost aftermarket consumables. To meet new market requirements, Spandex seeks to lower its cost without compromising its levels of customer service and responsiveness.

The European market, where Spandex derives the majority of its revenue, demands digital products, both wide format ink jet equipment and digital aftermarket materials, and is characterized by its short-run and quick demand requirements. This market has seen a proliferation of equipment suppliers and distributors, thus increasing competition among aftermarket and equipment suppliers. Spandex believes that it can leverage its position as a differentiated vertical provider in this changing market.

Strategy

The principal components of Spandex's business strategy include the following:

Leverage Market Position to Become the Leading Digital Supplier

Spandex's competitive advantage is its ability, built on market and technical knowledge, to offer a full array of products, services, and support to supply sign and design industries worldwide. Most customers are small sign shops that prefer to satisfy all of their product requirements from one distributor. Spandex customers perceive the "one-stop

shopping" offered by Spandex to be a benefit. Software is configured to be compatible with the equipment sold, and most materials are calibrated for use with equipment sold. Service, if necessary, is available for items purchased, and shipment typically occurs by the next day, which is an important industry requirement.

Spandex seeks to meet customer needs by emphasizing digital imaging solutions and other products that feature advanced technology. In fiscal 2004, Spandex introduced new ink jet products, including the Jetster ADO and the GERBER ELAN XL and an enhanced line of ImagePerfect aftermarket materials. Spandex plans to build and implement enhanced profiling capabilities of its materials and hardware. Other new products are planned.

Introduce New Products

Spandex seeks strategic OEM agreements with influential equipment manufacturers to provide advanced technology to its customers and increase its product offerings and its penetration of new and existing market segments. Product failures or substandard performance from OEM-sourced products represent a significant risk of this business.

Spandex's results depend principally on its ability to provide competitive ink jet product offerings. Customer service technicians and sales personnel receive special training in ink jet technology to facilitate effective marketing and product support, including proper matching of equipment, software, and aftermarket materials.

Expand Share of Traditional Sign Market

To expand its share of the traditional sign market, Spandex plans to strengthen brand management and tactical marketing. Spandex will also emphasize product development through formal product management and NPD processes. The integration of Spandex's field service operations within Gerber Service will significantly enhance the support services component of this customer-orientated distribution business.

Strengthen Supply Chain Operations

Spandex believes that the fundamental changes in the sign making and specialty graphics industry require it to continue to focus on lowering its costs. In recent years, the softening of the European economy has tempered demand for capital equipment and associated aftermarket consumables. In addition, there has been a steady transition to lower-priced aftermarket supplies. To compete in these market conditions, Spandex seeks to achieve efficiencies by implementing SAP to optimize its supply chain and inventory management, modernize operations and logistics, centralize purchasing, and leverage the Company-wide shared services opportunities. As of April 30, 2004, eight Spandex subsidiaries were using SAP. Four SAP implementations are planned for fiscal 2005, with the remaining Spandex subsidiaries scheduled to complete implementation in fiscal 2006. Spandex is also working with GSO to coordinate Spandex's purchases of equipment and aftermarket supplies from major suppliers and to optimize freight costs and response time.

Expand Share of Aftermarket Materials Market

Spandex is pursuing a strategy to expand its share of the market for digital materials and other aftermarket consumables. Ultramark, a wholly-owned manufacturer of calendered vinyl materials, has augmented digital material offerings.

Expand Geographically

Spandex's revenue is primarily generated by sales in Europe, which accounted for 77 percent of Spandex's revenues in fiscal year 2004. To take full global advantage of developing markets, Spandex is assessing opportunities for growth in Asia. Spandex plans to enhance its position in Eastern Europe as more countries join the European Union.

Distribution Relationships

Spandex acts as a distributor, in some instances on an exclusive basis in certain territories, for a number of different equipment and aftermarket consumables suppliers. These suppliers place a high value on the reach of Spandex's distribution network and its capabilities. Many of these suppliers also employ direct sales forces, which can lead to competition with Spandex's products.

Raw Materials

Spandex sources critical products from various suppliers and through OEM arrangements. Thermal transfer foils are supplied by Kurz in Germany, vinyl materials are primarily sourced from 3M and Avery, and certain ink jet printers are sourced from Mutoh.

Competition

As the only provider of a comprehensive suite of equipment, materials, and services, Spandex historically has faced limited direct competition. Competitive conditions have increased significantly in recent years, however, as more companies market vinyl materials and as price and delivery times have evolved as key competitive criteria. Spandex competes today with large commodity distributors, including Paperlink and Antalis.

APPAREL AND FLEXIBLE MATERIALS

Overview

Gerber Technology ("GT"), the business within the Company's Apparel and Flexible Materials operating segment, offers a leading brand of integrated software and hardware automation systems for the sewn products and flexible materials industries. These systems automate and significantly improve the efficiency of information management, product design and development, and pre-production and production processes. GT offers specialized solutions to a variety of end-user markets, including apparel, retail, transportation interiors, furniture, composites, and industrial fabrics.

GT offers a comprehensive suite of products that can be used in an integrated platform throughout the entire design and manufacturing process, including:

- product data management ("PDM") software, which is used to facilitate communication of measurement specifications, construction details, costing and bill of material information among apparel and other flexible materials' designers, raw materials suppliers, makers of the materials, brands, and retailers;
- conceptual design, advanced computer-aided design ("CAD") pattern-making and marking/nesting software;

- pattern design digitizers and large format plotters;
- computer-aided manufacturing ("CAM") material spreading and single- and multi-ply cutting systems;
- spare parts and consumable materials; and
- comprehensive support and maintenance services for its software and equipment.

The table below indicates the percentage of GT's fiscal year 2004 orders for new equipment and software derived from each of the principal industry segments that make use of GT's products:

Segment	% of FY 2004 Orders
Apparel and retail	69%
Industrial fabrics and composites	12%
Transportation interiors	10%
Furniture	9%

GT has over 15,000 customers worldwide, including the market leaders in each of the four key industry segments it serves. GT's ten largest customers each average less than 10 percent of segment sales in a given year.

Although technological developments have significantly reduced design times and other aspects of the apparel and flexible materials production process, there have been no comparable improvements in sewing systems to join fabrics. As a result, the manufacture of garments, a labor intensive process, has shifted to countries with lower labor costs. Most flexible materials manufacturing operations have migrated from the United States to countries and areas such as China, India, Turkey, Vietnam, Sri Lanka, Bangladesh, Mexico, and Central America. Western Europe has also experienced a significant shift of its apparel production to Eastern European, Asian, and Middle Eastern markets. According to industry analysts, United States manufacturers now produce less than 30 percent of apparel sold in the United States. The expectation of these analysts is that over the next few years the remaining manufacturers in the United States will limit their production to items requiring specialized fabric or shorter runs for just-in-time delivery and to accommodate niche markets.

There has been a slower rate of automation in the lower labor cost countries to which apparel and flexible materials production has migrated, creating an automation lag, which is the time differential between manual labor intensive manufacturing and the eventual investment in equipment that eliminates labor intensive processes. The automation lag is beginning to disappear in China, Turkey, Mexico, and Central America, but persists in most other growth markets. There have been a number of reasons for the lag, the most important of which is the relatively large initial investment required, coupled with the uncertainty of the forthcoming phasing out of trade quotas.

The slower rate of automation has had a negative effect on GT's operating results over the past several years. This effect has been exacerbated by the weak economic conditions in developed markets, particularly the United States, although conditions have improved from the prior year. At the same time, the developed markets have been characterized by the shift of market share to discount retailers from traditional distribution channels, such as department stores and specialty retailers, resulting in pricing and margin pressure on apparel manufacturers.

A number of developments are expected to hasten manufacturing outsourcing, cause consolidation among garment makers, and increase demand for automated equipment and knowledge sharing technology as manufacturers seek to capture the savings in the cost of production. The World Trade Organization ("WTO") will phase out trade quotas by January 1, 2005, although some quotas between the United States and certain countries could be re-instituted as

emergency trade control measures until 2008. China's export and domestic textile and apparel manufacturing is estimated to grow by 18 percent annually over the next five years. In addition, there is a trend among retailers to utilize a "full package" sourcing model for their products, which requires offshore garment manufacturers to handle more front-end design work, develop samples, and source raw materials. Automation will be spurred by retailer and brand demands for quality products, reduced output costs, and increased volume. These developments will provide increasing opportunities as the automation lag disappears.

Products

GT's products assist in, and accelerate, the coordination of product development, design, costing, manufacturing, and merchandising, and increase product quality and reduce staffing needs and time-to-market. *GERBERsuite*®, a comprehensive, integrated suite of hardware and software products, includes systems and computer software for production planning, design, pattern development, costing, cut planning, marker making, fabric spreading, cutting, and sewing floor automation.

Software

GT's software products and subscriptions add value to customers by providing a regular flow of new updates, easily accessible through Internet downloads via GERBERnet. During fiscal 2004, GT enhanced software security measures to protect intellectual property. The following is an overview of GT's more significant software product lines:

Product Data Management Software

Product data management ("PDM") software systems reduce lead times, increase the accuracy of prototyping, and improve the quality of information flow along the production chain. In light of the greater extent to which design and manufacturing processes are occurring at geographically separate locations, PDM software offers increasingly important advantages, including a reduction in the margin of contractor error and in delivery delays, increased product quality, and, perhaps most important, getting products to market more quickly, which is of critical importance in the apparel industry with its increasingly shorter fashion cycles. GT's PDM product lifecycle management software has been adopted by over 1,000 customers who use more than 12,000 software seats. GT continues to enhance software offerings, such as the upgraded *WebPDM*™ V4. WebPDM Version 4.1 was released in April 2004 and provides enhancements to manage more effectively the challenge of offshore sourcing and manufacturing.

Conceptual Design Software

Developed in coordination with third-party supplier Browzwear, *AccuMark*™ *V-Stitcher* is a 3-D visualization solution that allows true-to-life garment design, fitting, and merchandising. The product allows users to streamline their product development process, share designs over the Internet, and reduce the number of physical samples that need to be created prior to finalizing a production model. AccuMark V-Stitcher links to GT's AccuMark PDS application via an exclusive GT software interface.

Fashion Studio

is a leading conceptual design software system, developed by Nedgraphics, a third-party supplier. It enables the designer to sketch or scan styles and conceptualize potential designs using an array of electronic tools and color palettes. The software also enables the design of custom fabrics, allowing the rework of prints on screen, and permits users to create catalogues and perform other merchandising functions.

CAD Pattern-Making and Marking/Nesting Software

GT's pattern-making and marking/nesting software automates the design, pattern-making, pattern-grading (sizing), and marker-making functions. AccuMark is the standard for pattern design, grading and marker-making/nesting in the apparel, transportation interiors, furniture and industrial fabrics, and composites industries. AccuMark pattern design and grading software is used to draft and digitize new patterns and replicate existing garments. In addition, the software enables the automatic generation of markers that maximize the efficiency of material utilization, prior to the cutting process. AccuMark V8, the latest product release, enhances productivity, simplifies data conversion operations, and improves data reliability across networks. Currently, more than 11,000 of GT's customers and over 500 educational institutions worldwide utilize the AccuMark software, with a total of 32,000 software seats across multiple industries. The degree of CAD system penetration is a key performance measure in GT's industries, as historically over 95 percent of customers who buy a CAD system eventually buy cutting systems from the same manufacturer.

Plotters

Once a design is complete, GT's plotters are used to draw designs on industrial-width paper, to be placed on fabric or other materials in preparation for cutting. GT currently markets the *Infinity*™ family of thermal ink jet printers, which are designed in coordination with Hewlett-Packard, and a range of pen plotter systems. In April 2004, GT announced the introduction of the Infinity AE to Chinese markets. GT designed and engineered the Infinity AE, a state-of-the-art ink jet plotter, at its world headquarters in the United States, and produces it locally in China **for** Chinese markets.

CAM Material Spreading and Cutting Systems

GT's spreading and cutting products are designed to reduce previously labor intensive functions, material waste, and assembly error.

GT's *Synchron*™ line of *GERBERspreaders*™ deliver tension-free spreading of materials at speeds of up to 100 meters per minute (110 yards per minute). Its *GERBERsaver*™ *Flaw Management System* is available as an option to help maximize material utilization during the spreading process. During fiscal 2004, GT introduced the *InfoMark*™ *Synchron*, the world's only integrated system for automatic printing, positioning, and application of labels during the spreading process.

GT's cutting systems enhance cutting room efficiency by accurately cutting parts out of single and multiple layers of flexible materials, such as textiles, leathers, vinyls, plastics, fiberglass, and advanced composites, quickly, efficiently, and with more precision than the traditional methods of hand or die cutting. Its single-ply *GERBERcutters*®, which are generally used in industrial applications, can quickly and accurately cut a wide variety of materials. Its medium- and high-ply GERBERcutters are designed to cut up to 7.2 centimeters (3 inches) of compressed fabric height. All of GT's GERBERcutters have "Cut Path Intelligence" to control cutting speed for maximum quality and output and "Zoned Vacuum Intelligence" to hold material firmly in place to improve cut quality and reduce overall power consumption. GT also markets its *Taurus*™ automated leather cutting system with hide scanning, flaw capture, and multiple nesting package capabilities. During fiscal 2004, GT released the new Taurus XD and Taurus XM models. Taurus XD is a dual-station, full hide leather cutting system, while the Taurus XM is a single-station, full hide leather cutting system.

Strategy

The ongoing migration of flexible materials manufacturing operations to lower labor cost areas, and the persistence of the automation lag, are expected to provide GT with continuing growth opportunities. GT views the growth market countries in Turkey, in Asia, particularly China, and in Mexico and Central America as the source of significant future opportunities. The principal components of GT's business strategy include the following:

Expand in Growth Markets

GT will continue to expand and invest in areas of growing apparel production such as China, Turkey, India and other parts of South West Asia, and Mexico and Central American regions. GT's management believes that these markets will be the primary source of additional GT revenue for the foreseeable future. GT plans to pursue continued investment in growth market manufacturing in China, in technology and engineering, and in sales and service. An automation lag remains despite the increase in manufacturing outsourcing to growth market countries and the continued increase in domestic apparel consumption and production. The persistence of this lag represents an opportunity for GT, particularly as competition intensifies within and among the lower labor cost garment manufacturing countries. Even in low labor cost areas, the ease with which garment manufacturing operations can be relocated from country to country contributes to the inevitability of automation, with its savings in fabric, elimination of production bottlenecks, and improvement in quality, to compete in a quota-free, global market.

China is the world's largest apparel producing nation and the fastest growing market. China apparel production, currently estimated at $115 billion, is expected to grow at a rate of 18 percent per annum over the next five years. China exports are expected to represent nearly 50 percent of world apparel trade by the year 2010. There are over 40,000 sizeable garment makers in China. To match the market's demand, GT has 21 sales and service locations (including seven independent agents) within Greater China and anticipates opening two additional offices in fiscal 2005. To date, GT has an installed base of products amounting to approximately $135 million in Greater China, with more than 1,500 customers operating more than 5,000 systems and workstations.

GT has identified India, where it has over 380 customers, as another important growth market. A $6 billion industry today, India's garment exports are expected to grow at a very rapid rate in the coming years. GT has a presence in India through its agent, India Industrial Garment Machines Pvt Ltd., which has nine sales and service offices around the country. From its regional headquarters in Bangalore, India, GT provides sales, consulting, and technical support operations in Sri Lanka, Bangladesh, Pakistan, the United Arab Emirates, Kenya, Mauritius, Madagascar, and South Africa. Apparel exports from South West Asia, the Middle East, and sub-Saharan Africa total approximately $20 billion and, fueled by the elimination of quotas on textile and apparel imports as of January 1, 2005, are expected to continue growing. The largest exporters of apparel in this region are India, Bangladesh, Sri Lanka, and Pakistan.

In Mexico and Central America, GT has two direct offices and nine independent agents. GT provides approximately 60 percent of all CAD/CAM systems installed in Mexico and more than 60 percent of the systems in Central America.

GT's management believes that the opportunities in the growth market countries are not limited to the developments in their apparel industries. The manufacture of transportation interiors is becoming more significant in these markets, as automobile companies, in particular, establish local manufacturing operations to address domestic growth opportunities. Another important development is a trend toward production of cut-and-sewn kits in upholstered fabric and leather furniture markets for export to the developed countries for final assembly. Composites and technical textiles also show growth in these markets as companies license foreign manufacturers to comply with local content requirements. Smaller companies in these market segments in the developed countries are increasingly able to afford automation.

Consistent with its strategy to expand in growth markets, GT is developing a number of products for specific regional markets to optimize manufacturing efficiencies. As of April 2004, GT announced its first product manufactured in China. GT designed and engineered the Infinity AE, a state-of-the-art ink jet plotter, at its headquarters in Connecticut and built it locally in China. GT plans to launch additional products manufactured in China for the local market during fiscal year 2005.

Leverage Positions in North American and European Markets

GT seeks to leverage its North American leadership position with its domestic presence and to build on prior years' restructuring efforts to maintain profitable operations in Europe. GT will continue servicing its installed base and look for new opportunities to develop its key account relationships in North America and Europe. Although GT recognizes the migration of apparel manufacturing to the identified growth markets has displaced opportunities in North America and Europe, these markets still represent a significant portion of recurring business, including software subscriptions and sales of aftermarket materials. In addition, the North American and European markets generate new demand for GT products, such as apparel design, development and PDM software, and GT's industrial software and hardware solutions including its leather cutting systems. Regional markets outside of the identified growth markets remain important to retailers and brands, as these markets provide a regional production source where demand can be filled in a timely manner, though at a higher cost.

Invest In and Expand Aftermarket Revenue

GT's strategy is to invest in and expand the aftermarket revenue stream by leveraging the comprehensive capabilities and infrastructure of the Gerber Service organization. In particular, GT will look to increase its software subscription penetration and internally manage hardware aftermarket revenue from its existing customer base and in growth markets. GT also has been pursuing more advantageous raw material supply arrangements through shared services. GT offers customers technical support, a full technical library, and software upgrades through its GERBERnet Internet portal, and will continue to expand and enhance its range of web-based customer services.

Distribution

GT's products are sold through its worldwide direct distribution and service network (which accounted for roughly 63 percent of fiscal year 2004 revenue) and through independent agents and distributors in a total of 117 countries. GT's management recognizes that employing a direct sales model in certain regions would likely increase its overall direct revenue, but believes that GT's long-standing agent and distributor network, staffed with knowledgeable individuals who speak the local language and understand the particular challenges and opportunities of their markets, represents an asset in these markets.

Raw Materials

GT purchases materials, such as computers, computer peripherals, electronic parts, and equipment, from numerous suppliers. Many of these materials are incorporated directly into GT's manufactured products, while others require additional processing. In some cases, GT uses only one source of supply for certain materials, but to date GT has not experienced significant difficulties in obtaining timely deliveries. Increased demand for these materials or future unavailability could result in production delays that might adversely affect GT's business. GT's management believes that, if required, it could develop alternative sources of supply for the materials it uses. In the near term, GT's management does not foresee that the potential unavailability of materials, components, or supplies from any particular supplier would have a material adverse effect on its overall business.

Competition

GT is a leading worldwide brand within the apparel and flexible materials market for computer-controlled material cutting systems, PDM and pattern-making software, and grading and nesting software. GT faces intense competition in each of these product areas, including from certain companies from Europe, such as Lectra and Assyst-Bullmer, and in Japan, such as Takatori and Toray, which are significant suppliers in their respective regions. However, GT believes that only Lectra has a product range and breadth of distribution network that is comparable to GT's. This capability enables GT to compete on a global basis and support key international accounts as they shift production and sourcing activities around the world.

Backlog

The backlog of orders considered firm within the Apparel and Flexible Materials operating segment at April 30, 2004 and 2003 was $31.0 million and $26.2 million, respectively. All of the backlog at April 30, 2004 is scheduled for delivery in fiscal year 2005.

Intellectual Property Rights

GT owns and has applications pending for a large number of patents in the United States and other countries, which expire from time to time, and cover many of its products and systems. While GT considers such patents and patent applications as a group to be important to its operations, it does not consider that any patent or group of patents related to a specific product or system to be of such importance that the loss or expiration of any one or more patents would have a materially adverse effect on its overall business.

Government Regulation

GT is not directly subject to government regulation that is material to its business. However, its business has been and will continue to be affected by trade laws and regulations pertaining to the apparel and textile industries.

As discussed above, members of the WTO have agreed to eliminate quota restrictions on textile and apparel imports as of January 1, 2005. However, a special textile safeguard was included as part of China's accession to the WTO that allows other WTO members to re-impose quotas on Chinese imports through 2008. The United States Department of Commerce has published procedures the United States will use to implement this safeguard. These procedures differ from other major United States trade remedies in that they will allow component producers, such as textile companies, to file petitions requesting quota restrictions on a finished product, such as apparel. Other major trade remedies allow only the producer of a "like product" to petition for relief. Therefore, it is likely that the textile companies will petition for import relief even if new quota restrictions are not supported by the apparel producers and retailers, which have been increasingly moving their operations offshore.

United States textile and apparel companies have focused in recent years on structuring the quota and tariff benefits of regional trade arrangements, such as the North American Free Trade Agreement and the Central America Free Trade Agreement, to favor production using United States components. For much of the past decade, these arrangements resulted in Mexico, Central America, and the Caribbean nations being the top apparel suppliers to the United States market, despite lower labor costs in Asia. However, as the quota restrictions are eliminated, Asian countries, including China and India in particular, can be expected to gain additional global market share. It is not possible to predict what

effect, if any, these regulatory developments may have on GT's business.

OPHTHALMIC LENS PROCESSING

Overview

Gerber Coburn Optical ("GC"), the Company's Ophthalmic Lens Processing operating segment, is the world's leading provider of computer integrated optical lens processing systems. GC designs, produces, markets, and supports equipment software and supplies used in surfacing prescriptions in lens blanks, coating lenses, and machine lenses to fit patient frames and is a global market leader in its roughly $630 million industry. GC's equipment, software, consumables, systems, and accessories are utilized in all aspects of processing both single- and multi-vision prescription eyewear. GC's product offerings include the components required to process an entire prescription, including computerized prescription entry, lens blocking and surfacing, lens fining and polishing, lens cleaning and scratch-resistant coating, lens edging, and lens inspection equipment. The individual systems can be used with other manufacturers' equipment or can be combined in a complete system managed by GC's processing software. GC also provides maintenance services for a substantial portion of the systems it sells and derives additional revenues from the sale and distribution of spare parts and aftermarket consumables such as surfacing and fining pads, tinting chemicals, scratch-resistant coatings, and miscellaneous tools. GC sources consumables from third-party suppliers and performs certain value-added operations prior to sale.

The worldwide market for eyewear and eye care goods is estimated to be approximately $53 billion currently, with the United States representing the largest market at approximately $23 billion. The percentage of eyeglass-wearers differs markedly in the various geographic areas. In the United States, it is roughly 60 percent; in Europe, including Central and Eastern Europe, 37 percent; and in other areas of the world, 17 percent. Historically, outside of North America and Europe, there has been little demand for GC's products because of the absence of sufficient eye care infrastructure, including eye care practitioners prescribing complex lenses. Lenses that need only one correction, for nearsightedness or farsightedness, typically do not need to be processed on equipment such as that offered by GC, with the exception of GC's edging equipment. As worldwide eye care infrastructure improves, however, these other geographic markets represent a growing base of consumers who are expected to increasingly purchase more sophisticated eyewear.

GC's customer base consists of:

- wholesale optical lens production laboratories;
- retail eyewear chains and central processing laboratories; and
- independent eye care practitioners, consisting principally of eye care professionals such as ophthalmologists, optometrists, and opticians, who perform some of their own in-office lens processing.

The composition of GC's customer base varies in the different geographic markets. Customers in the European and Japanese markets, like those in the United States, include optical retailers (who are not as prevalent as in the United States), wholesale laboratories, and independent eye doctors. The central processing laboratories in European and Japanese markets are primarily large laboratories owned by the lens manufacturers. In recent years, the United States ophthalmic lens industry has been characterized by acquisition and consolidation of independent wholesale laboratories. Leading lens manufacturers such as Essilor International, Hoya, and SOLA International, seeking to enhance their distribution systems to eye care professionals, have been acquiring previously independent wholesale laboratories. GC's principal customer base historically has consisted of retail eyewear chains, eye care professionals, and smaller independent wholesale laboratories, because GC product offerings have been sized and specifically designed to serve the smaller volume laboratories more cost effectively. GC has new products in development focused

towards the larger laboratories.

According to Essilor International, the worldwide ophthalmic lens market has a long-term growth rate of about four percent per year, which reflects both volume growth and product-mix growth. The volume growth is being fueled by the aging of the population, unfulfilled needs, particularly outside the United States and Western Europe, and rising living standards. The population aged over 45 is expected to represent 31 percent of the total population by the year 2025. At age 45, presbyopia, a visual condition characterized by loss of elasticity of the lens of the eye causing defective accommodation and inability to focus sharply for near vision, is inevitable. As a result, nearly 95 percent of people over age 45 require some form of corrective eyewear. The product-mix growth reflects an increased consumer interest in premium lenses, such as polycarbonate (shatter resistant) lenses and high-index materials for making thinner, lighter, and more transparent lenses, with greater ultraviolet protection, anti-scratch resistance, and progressive lenses, such as no-line bifocals.

To date, advances in corrective laser surgery do not appear to have dampened the demand for eyeglasses. The number of LASIK (Laser in-situ keratomileusis) procedures is reported to have soared in the 1990's and peaked in 2001 at 1.8 million. Procedures have subsequently contracted because of consumer fear and evidence of side effects. There are approximately 167 million people with refractive vision conditions in the United States, so that, even at its peak, the total population receiving this treatment was only one percent. Wavefront technology, a powerful diagnostic technology, offers the promise of giving eye care professionals a new window into the imperfections of the human eye, enabling the customization of laser treatments to yield unparalleled results. However, GC's management does not believe LASIK surgery presently poses a threat to its business for several reasons:

- Most people who have had the surgery have been contact lens wearers.
- Typically, LASIK corrects either far- or near-sightedness, but not both conditions. As disclosed above, GC's products are designed for lenses with sophisticated compound curves. Its products are generally not needed for single vision corrective lenses, which currently represent approximately 52 percent of the total corrective lens market.
- LASIK cannot yet reduce the impact of aging on the eye, such as the occurrence of presbyopia.

An estimated 90 percent of the current world market for corrective lenses is a replacement market, with an average three-year frequency cycle. However, this cycle is very much dependent on overall economic conditions. When general economic conditions are weak, eyeglass wearers tend to postpone visits to their eye care professionals and defer eyeglass purchases or they choose replacement lenses for their current eyeglasses instead of a new pair of eyeglasses. This has adversely affected prescription volumes for spectacle lens eyewear and increased competitive pricing pressures, negatively affecting GC's sales of capital equipment products and aftermarket consumables over the past few years. Although GC believes that economic business conditions will improve, industry data do not yet indicate a steady trend of growth within the ophthalmic market.

Products

GC's products reduce the time and steps needed to process complex lens prescriptions. The benefits of GC's comprehensive solutions include:

- a reduction of production steps;
- lower manufacturing costs per square foot;
- a reduction in staffing needs;
- minimal optical knowledge required by laboratory staff;

- a clean work environment;
- a reduction in lens breakage;
- improved lens quality;
- a reduction in staff training cycles;
- a reduction in operating errors; and
- elimination of toxic metals and coolants.

Software

GC's software is the backbone of GC's comprehensive solutions, especially for small laboratories. From simple remote tracing with GC's *Innovations™ Lite* software to a more comprehensive software package such as its *Innovations Standard* software, GC can provide prescription calculation software necessary to run an optical laboratory. GC provides on-site software installation, training, and support. This level of service has been augmented recently with the integration of GC into the Gerber Service initiative.

Equipment

Prescription lenses are generally processed in two ways. One method entails the use of a "stock lens," with the patient's prescription already existing on the lens that is finish "blocked." Blocking is a process that orients the lens curve to match the prescription. A block, which is a tool used to hold the lens during processing, is then attached to the lens. The shape of the frame has been "traced" in a tracer which digitizes the measurements and then communicates them to an edger. This blocked lens is then "finished," or edges are machined, to match the shape of the frames.

The other method starts with a semi-finished lens blank. The blank is surface blocked and has a curve "generated," or cut into the lens by a generator, on the backside to correspond to the already existing front curves to create the desired prescription. A generator is a computer numerically controlled machine that uses logarithms to calculate the tool path required to generate the curve. This process can create single vision or multi-focal lenses. The lens generating process creates a lens that is not optically clear. This "cut" lens is put through a fining and polishing process. The fining and polishing process uses abrasive pads and polish to smooth cutting marks out of the lens. The lens is then de-blocked and ready for coating or finishing.

GC's equipment offerings consist of surfacing equipment (such as blockers and generators), finers and polishers, finishing equipment (such as tracers and edgers), cleaning and coating equipment, and lens inspection equipment.

Surfacing Equipment

GC offers a range of surfacing equipment that uses computer control to create precise curves on the lenses. GC's lens surface generator offerings include products for high-, mid-, and low-volume manufacturing environments as well as a generator for glass and other lens materials. GC also offers blocking products designed for high throughput manufacturing environments. In addition, GC sells its *Gemini™* lens processing system, which is composed of two primary components, the Hexapod and the Clarifyer. Gemini eliminates hard laps and polish from the lens surfacing process and produces a more exact patient prescription. During fiscal 2004, GC added the alloy *AcuBlock™ Eclipse Surface Blocker™* to its comprehensive line of digital lens layout blocking systems.

Finers and Polishers

The fining process involves the use of abrasive pads to smooth cutting marks out of the lens and polishing involves the use of a liquid slurry to polish the lens to an optically clear finish. Through the use of microprocessor programming, GC's systems automatically select the best processing times and pressures for all lens materials including CR39, polycarbonate, high-index, and glass. The degree of precision is supported by a mechanical design that provides optimized fining and polishing orbits and durability for a long production life. Although GC's current product offerings address the needs of customers in each of its market segments, GC seeks to develop new products, particularly to meet the needs of high volume laboratories.

Coating Equipment

GC's environmentally-friendly, scratch-resistant coating process eliminates waste and reduces operator exposure to coating materials. During fiscal 2004, GC released the HRC-180 Coater. Designed to meet the needs of wholesale laboratories, the high throughput HRC-180 is a self-contained, fully automated system for the application of high-performance, scratch resistant coating to all types of plastic and polycarbonate lenses.

Finishing Equipment

GC sources most of its lens finishing products from Essilor International and through this relationship offers a wide range of finishing equipment. GC's finishing products are designed to meet the needs of ophthalmic laboratories of all sizes and production levels. During fiscal 2004, GC launched the Esprit 3D Lens Finishing System for international markets. Within the finishing equipment market segment, the edger business is very competitive internationally. There are several strong companies from Japan, France, and Spain who participate in this segment. During May 2004, GC announced the addition of the *Titan*™ Pick and Place automated edging system to its finishing product line. Consistent with GC's strategy to develop innovative products for the wholesale laboratory, the Titan Pick and Place combines a robotic pick and place device with its industrial Titan edger to create an automated edging solution that is targeted at medium-size to large wholesale laboratories.

Lens Inspection Equipment

Lens inspection equipment is used to test the quality and accuracy of the lenses produced. Certain lens inspection equipment, such as the recently released Dimetrix Lens Inspection and Finish Blocker, also block the lens. Co-developed with Visionix, Ltd. Jerusalem, Dimetrix supports the streamlining of lens processing by combining automatic finish blocking and lens power inspection into one device.

Full Service Laboratory Equipment

GC also sells a complete ophthalmic lens processing system, *Premier Lab*™. Premier Lab is a compact, full service laboratory for processing CR39, high-index, and polycarbonate lenses. A Premier Lab includes a frame tracer, a blocking system, a surface generator, a finer/polisher, a coating system, and a finishing system.

Strategy

GC's business strategy emphasizes the need to update continuously its product offerings to keep pace with technological advances that further streamline ophthalmic lens processing, and to ensure that its products are aligned with evolving market needs. GC also plans to continue developing strategic alliances and responding to key industry trends and developments described in the "Overview" above. The principal components of GC's business strategy

include the following:

Strengthen and Broaden Product Offerings to Expand Market Participation

GC has identified market opportunities in a number of areas, including larger optical laboratories that have become increasingly important as a result of industry consolidation, and seeks to capitalize on these opportunities through a combination of internal product development, strategic alliances, and distribution arrangements with third-party suppliers and manufacturers to supplement GC's offerings. GC believes that its products provide the automation and process simplification that meet the needs of large wholesale laboratories.

Although GC's historic focus has been on retail eyewear chains, smaller optical laboratories, and eye care professionals, GC is seeking to expand sales to the large laboratory and leading high-volume lens companies to take advantage of industry consolidation and the increase in market share captured by the larger retail chains. This strategy requires GC to enhance its product line with new products oriented towards these segments of the market. GC's current product development efforts targeted toward the large laboratories and high volume production facilities include a full range of products for surfacing and coating lenses.

The major lens manufacturers are implementing centralized purchasing initiatives and dealing with fewer third-party equipment and aftermarket materials suppliers in an effort to ensure quality control and consistency. GC has focused on the leading lens companies as a key to increasing its market share in the larger wholesale laboratory market segment. These relationships are intended to enable GC to become a leading equipment supplier to the larger laboratories.

GC will continue to dedicate significant resources to serving eye care professionals and smaller laboratories. GC's strategy is to supplement and strengthen its core product lines to incorporate or introduce the latest technological innovations into products to be sold at prices these customers consider attractive. GC also plans to market small volume, low cost laboratory solutions to growth markets.

GC offers a wide range of lens processing supplies for every aspect of the lens manufacturing market, which GC estimates at greater than $5 billion worldwide, including surfacing pads, fining pads, cutters, and blocks. GC believes that its large installed base of products, involving over 7,000 customers in approximately 75 countries, provides it with a significant opportunity to increase its aftermarket consumables business through expanded product offerings.

GC is also seeking to capture greater market share with its emerging finishing business through expanded product offerings, new sales resources, and increased geographic reach. The finishing sector, with an estimated market of $264 million, is the largest segment of the $630 million ophthalmic lens processing industry.

Reduce Manufacturing Costs Through Shared Services

GC's industry is characterized by large customers and suppliers that can obtain favorable pricing terms. GC is seeking to reduce manufacturing costs to mitigate the effects of this pricing pressure. GC expects that it should realize operating efficiencies and reduced manufacturing costs following its adoption in fiscal year 2004 of the Company-wide shared services model. Cost savings from lower workforce headcount and lower overhead through facility consolidations are expected to result in lower product costs. These consolidations include the relocation of GC's Muskogee, Oklahoma production operation to other United States locations, which was announced in June 2004, and the planned relocation during fiscal year 2005 of GC's South Windsor, Connecticut facility to an existing facility.

Enhance Global Company Efforts

GC believes that the growth market countries in Eastern Europe, Asia, and Latin America represent an important revenue opportunity for GC. These markets are beginning to develop the infrastructure to perform sophisticated eye exams of a mature middle class market. Doctors in these markets typically dispense single vision glasses that utilize a glass lens rather than the more advanced multi-focal polycarbonate and high-index plastic lenses. GC believes that, as these markets develop, doctors will begin to prescribe complex prescriptions that require processing, and eyeglass wearers will demand more sophisticated amenities, such as polycarbonate lenses and anti-reflective coatings, as well as multi-focal lenses that require surfacing.

GC plans to leverage the global service capability of Gerber Service. Through Gerber Service, GC is able to provide a higher volume of on-site installation, training, and support for more regions worldwide. Gerber Service has over 400 technicians, application specialists, and call center caregivers to meet customer needs.

To support its marketing initiatives in growth market countries, GC also can take advantage of the Company's existing facilities and engineering and supply chain management to lower its cost of entry into these countries. GC's equipment, which employs sophisticated software that automates and integrates the lens processing process, can be operated by laboratory staff having relatively minimal optical knowledge, compared to the training required to operate less sophisticated equipment.

Distribution

GC primarily distributes products directly and through independent agents in South America. GC participates in industry trade shows in the United States and Europe, which are a significant source of new sales.

Raw Materials

GC purchases materials from numerous suppliers. Many of these materials are incorporated directly into GC's manufactured products, while others require additional processing. In some cases, such as its purchase of patternless edging solutions from Essilor International, GC uses only one source of supply for certain materials or OEM products. GC has not experienced significant difficulties in obtaining timely deliveries. Increased demand for these materials or future unavailability could result in production delays that might adversely affect GC's business. GC's management believes that, if required, it could develop alternative sources of supply for the materials it uses. In the near term, GC's management does not foresee that the unavailability of materials, components, or supplies from any particular supplier would have any material adverse effect on its overall business.

Competition

GC believes that it is the largest worldwide supplier of ophthalmic lens processing systems. GC believes that the combination of its technological leadership and strategic alliances and distribution arrangements has enabled it to become the largest supplier of computerized surface blocking and lens generating systems to the smaller laboratory segment. GC's principal competitors in sales to the larger laboratory market segment in Europe and Japan are LOH Optical Machinery, Inc. and Schneider GmbH and Co. KG. GC believes that it has the second largest market share worldwide in fining and polishing equipment and aftermarket materials.

Backlog

The backlog of orders considered firm within the Ophthalmic Lens Processing operating segment at April 30, 2004 and 2003 was $4.4 million and $3.3 million, respectively. Substantially all of the backlog at April 30, 2004 is scheduled for delivery in fiscal year 2005.

Intellectual Property Rights

GC owns and has applications pending for a large number of patents in the United States and other countries, which expire from time to time, and cover many of its products and systems. While GC considers such patents and patent applications to collectively be important to its operations, it does not consider that any patent or group of them related to a specific product or system to be of such importance that the loss or expiration of any one or more of them would have a materially adverse effect on its overall business.

EMPLOYEES

As of April 30, 2004, the Company had approximately 1,980 full-time employees. With the exception of Gerber Technology's Ikast, Denmark facility, which had approximately 67 full-time employees, the Company is not subject to any collective bargaining agreements.

RISK FACTORS

Our business is subject to a number of risks, including those discussed below.

Company-Wide Risks

If we are unable to continue to develop and commercialize new technologies and products, we may experience a decrease in demand for our products or our products could become obsolete.

Each of our business units operate in highly competitive industries. Our Sign Making and Specialty Graphics and Ophthalmic Lens Processing operating segments are also subject to rapid technological change. Our management believes that the Company's ability to develop or acquire new technologies is crucial to our success. We may not be successful in enhancing existing products or developing or acquiring new products and technologies that will receive desired or expected levels of market acceptance. In addition, new products must respond to technological changes and evolving industry standards. Our operating results could be adversely affected if we are unable, for technological or other reasons, to develop and introduce new products in a timely manner in response to changing market conditions or customer requirements, or if our products are introduced late to the market, thereby resulting in missed opportunities in dynamic, fast-moving markets, or do not achieve market acceptance.

New product introductions in future periods may also affect the sales of existing products. As new or enhanced products are introduced, we must successfully manage the transition from older products in order to minimize disruption in customers' ordering patterns, avoid excessive levels of older product inventories, and ensure that

sufficient supplies of new products can be delivered to meet customers' demands.

Delays in product development and introduction could adversely affect the operating results of Gerber Scientific Products and Spandex. The failure of these businesses to respond effectively to the continuing transition of sign shops to lower-cost ink jet imaging systems, calendered vinyls, and digital media systems, and delays in product introductions at GSP and the time to reengineer Spandex through GSO's objectives may lead to a loss of market share that may be difficult to recapture.

Local competitors have developed products for sale in Gerber Technology's identified growth markets. A delay by GT in introducing products of its own in these markets may result in a loss of market share or affect GT's ability to achieve market penetration in accordance with its strategy.

Delays in product development could disrupt Gerber Coburn's current plans to capture increased business from the higher-volume wholesale optical lens production laboratories and make it more difficult to respond on a timely basis to competitors' product introductions.

Our businesses could suffer as a result of a manufacturer's or supplier's inability to supply us with systems, parts, or aftermarket consumables on time and to our specifications.

Some hardware and aftermarket consumables products are manufactured to our specifications by both domestic and international manufacturers or suppliers. The inability of a manufacturer or supplier to ship such products in a timely manner or to meet our quality standards could cause us to miss our customers' delivery date requirements for those items, which could result in the cancellation of orders, refusal to accept deliveries, lost customers, or a reduction in purchase prices, any of which could have an adverse effect on our operating results and financial condition.

Our product development efforts generally have longer-term timetables, on occasion necessitating entering into original equipment manufacturer ("OEM") arrangements to augment our product lines.

We are continually in the process of developing new and enhanced products in an effort to develop incremental sales and improve gross margins. Our industries are highly competitive and subject to significant and rapid technological change. There are periods when revenue growth depends on outsourcing arrangements with OEMs to augment product lines. If OEMs are not able to supply products reliably, timely, or at a competitive cost, our business may suffer. Further, the gross margins associated with sales of OEM products tend to be lower than those associated with internally developed products.

We are subject to risks as a result of international operations.

Our export sales have generally been made in United States dollars, except for certain products and territories, principally Western Europe, where our sales are in local currencies. Approximately 67 percent of our revenues generated were by the international operations of our principal business units in fiscal 2004.

An increase in the value of the United States dollar relative to foreign currencies could make our products more expensive and, therefore, potentially less competitive in foreign markets. For international sales and expenditures denominated in foreign currencies, we are subject to risks associated with currency fluctuations. We have a program to hedge our currency exposure associated with anticipated foreign currency cash flows. Our hedging strategy may not

be successful, and currency exchange rate fluctuations may have a material adverse effect on our operating results.

We expect that revenue from international markets will continue to represent a significant portion of our total revenue. It is costly to maintain international facilities and operations, promote our brand names internationally, and develop localized systems and support centers. Some of the risks that we face as a result of our international presence include:

- general geopolitical risks, such as political and economic instability and changes in diplomatic and trade relationships;
- imposition of or increases in currency exchange controls;
- potential inflation in the applicable foreign economies;
- imposition of or increases in import duties and other tariffs on our products; and
- imposition of or increases in foreign taxation of our earnings and withholding on payments received by us from our subsidiaries.

Part of our strategy over the last few years has been to expand our worldwide market share and decrease costs through strengthening our international distribution network and, to some extent, sourcing materials locally. We continue to consider the location of production facilities closer to end-use customers in international markets. This strategy may heighten the potential impact of certain of the foregoing risks.

Product liability claims could have an adverse effect on our business.

Like any other seller of manufactured products, we face an inherent risk of exposure to product liability claims if the products we sell cause injury. We have obtained primary and excess umbrella liability insurance with respect to product liability claims. This insurance may not continue to be available at a reasonable cost, or, if available, may not be adequate to cover liabilities. We generally seek contractual indemnification from parties supplying our raw materials, component parts or products, but any such indemnification is limited, as a practical matter, to the credit worthiness of the indemnifying party. If we do not have adequate insurance or contractual indemnification available, product liabilities relating to defective products could have a material adverse effect on our business, operating results, and financial condition.

The intellectual property of our businesses, though protected by patents and trademarks, may be at risk when we manufacture at foreign locations.

As some manufacturing is shifting offshore, there is a risk of having patented products reverse engineered and rebuilt by a local competitor. In some countries, such as China, we cannot guarantee that our intellectual property rights will be protected. Management considers patents and patent applications collectively to be important to its operations and has established controls to help secure intellectual property.

Our businesses are subject to fluctuations in operating results because of general economic conditions, specific economic conditions in our industries, and other external forces.

Our businesses and operations could be affected by:

- changes in general economic conditions and specific conditions in our industries (which can result in the deferral or reduction of purchases by end-use customers);
- changes in the level of global corporate spending on our technologies related to such economic conditions;

- the effects of terrorist activity and international conflicts, which have led, and in the future could lead, to business interruptions and difficulty in forecasting;
- the size, timing, and cancellation of significant orders, which can be non-recurring;
- product configuration and mix;
- market acceptance of new products and product enhancements;

- announcements, introductions, and transitions of new products by us or our competitors;
- deferrals of customer orders in anticipation of new products or product enhancements introduced by us or our competitors;
- changes in pricing in response to competitive pricing actions;
- supply constraints;
- the level of expenditures on research and development and sales and marketing programs;
- our ability to achieve targeted cost reductions;
- rising interest rates; and
- excess facilities.

At various times in recent years, markets for one or more of our main products have been characterized by falling prices, unstable exchange rates, weaker global demand, rising inventory, and shifting production bases. In this type of environment, our ability to maintain historic levels of profitability may depend to a great degree on our ability to reduce costs, including the costs of sourced materials, and manage the supply chain, increase productivity levels, reposition ourselves within higher value-added market segments, and establish a production presence in geographic areas outside the United States.

Management believes that diversification of our businesses across multiple industries and geographically has helped, and should continue to help, limit the effect of adverse market conditions in any one industry or the economy of any one country or region on our consolidated results. Nonetheless, there can be no assurance that the effect of adverse conditions in one or more industries or regions will be limited or offset in the future.

Our results are subject to fluctuations in costs of purchased finished goods, components, and aftermarket consumables.

We depend on finished equipment, component parts, and other materials from our suppliers to manufacture and distribute the systems we sell. Each of our business units also relies on suppliers for the products it sells directly to its distribution networks. Fluctuations in the prices of such equipment, components, and materials, whether caused by market demand, shortages, currency exchange rates, or other factors, could adversely affect our cost basis for the production, delivery and/or maintenance of our products and, in turn, have an adverse effect on our operating results and financial condition.

If we do not generate substantial operating cash flow and realize cost savings from our shared services business restructuring plan, we will be unable to service our indebtedness and comply with our financial and operating covenants.

Our ability to make scheduled payments under our credit facilities and our other indebtedness and to comply with our financial and operating covenants will depend primarily on our success in generating substantial operating cash flow

and realizing the cost savings we anticipate will result from our shared services business restructuring plan. We may not be able to meet required payments of principal and interest under our indebtedness if we fail to have sufficient operating cash flow or to reduce costs as we anticipate. We also are subject to risks in connection with the refinancing of our existing indebtedness. Our credit facilities mature in May 2007. We may not be able to refinance our existing indebtedness and, even if we are able to do so, the terms of a refinancing might not be as favorable as the terms of the existing indebtedness. If principal payments due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, including new equity capital, our cash flow may not be sufficient to repay all maturing indebtedness at the relevant times. Failure to pay or extend the maturity of such indebtedness could result in our default under or acceleration of our other indebtedness. If the maturity of our indebtedness were accelerated, we may not have sufficient funds to pay such indebtedness. Prevailing interest rates, our operating results and financial condition, our debt ratings or other factors at the time of refinancing, including the possible reluctance of lenders to make loans, may result in higher interest rates and increased interest expense.

Our indebtedness could adversely affect our financial health and ability to compete.

As of April 30, 2004, we had $59.0 million of total long-term indebtedness, including the current portion. Our indebtedness could have important consequences. For example, it may:

- increase our vulnerability to general adverse economic and industry conditions, including interest rate fluctuations, because a significant portion of our borrowings will continue to be at variable rates of interest;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, and other general corporate purposes;
- limit our ability to borrow additional funds in the future, if we need them, as a result of financial and other restrictive covenants in our indebtedness;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate; and
- place us at a competitive disadvantage relative to companies that have less indebtedness.

Financial and operating covenants in our credit facilities may restrict our business activities.

Our credit facilities contain operating covenants that significantly restrict our ability to engage in specified activities. These covenants include limitations on, among other things, our ability to make capital expenditures, incur additional indebtedness, liens, and contingent liabilities, sell assets, issue capital stock, make investments, and engage in hedging activities and transactions with affiliates, which could restrict our ability to pursue business initiatives or acquisition transactions. In addition, our credit facilities require us to meet specified financial tests and maintain specified financial ratios. Failure to meet any of the covenants could cause an event of default under, and accelerate payment of, some or all of our indebtedness, which would have a material adverse effect on us.

We face intense competition in each of our principal business units.

Although we are a pioneer and/or a leading company in each of our principal business units, competition has grown in recent years in each market segment in which we operate. Unless our business units can effectively implement their respective strategies to lower costs, enhance the rate of product development, stimulate revenue growth, expand the geographic reach of operations, and leverage their brand name and distribution networks, we may experience a decline

in operating results and a deterioration of our financial condition.

If actual results or events differ materially from those contemplated by our management in making estimates and assumptions, our reported financial condition and results of operation for future periods could be materially affected.

The preparation of our consolidated financial statements and related disclosure in conformity with generally accepted accounting principles in the United States requires our management to establish policies that contain estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Note 1 of the "Notes to Consolidated Financial Statements" in Item 8 of this annual report describes the significant accounting policies essential to preparing our consolidated financial statements. Additional information is provided in the discussion of our critical accounting policies contained in Item 7 of this annual report. The preparation of the financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. Management bases its estimates on historical experience and assumptions that are believed to be reasonable under the circumstances. Actual future results may differ materially from these estimates.

We may incur increased costs as a result of recently enacted and proposed changes in laws and regulations.

Recently enacted and proposed changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes Oxley Act of 2002 and rules enacted and proposed by the Securities and Exchange Commission ("SEC") and by The New York Stock Exchange, could result in increased costs to us. The new rules could make it more difficult or more costly for us to obtain certain types of insurance, including directors' and officers' liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees, or as executive officers. We are presently evaluating and monitoring developments with respect to new and proposed rules and cannot predict or estimate the amount of the additional costs we may incur or the timing of such costs.

Future changes in financial accounting standards may cause adverse unexpected revenue or expense fluctuations and affect our reported results of operations.

A change in accounting standards could have a significant effect on our reported operating results and may