

GERBER SCIENTIFIC INC  
Form 10-Q  
August 25, 2005

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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

For the Quarterly Period Ended July 31, 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-5865

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Gerber Scientific, Inc

•  
(Exact name of registrant as specified in its charter)

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Connecticut

06-0640743

(State or other jurisdiction of  
incorporation or organization)

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

83 Gerber Road West, South Windsor, Connecticut

06074

(Address of principal executive offices)

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes /X/. No / /.

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

Yes /X/. No / /.

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

Yes // No /X/.

At July 31, 2005, 22,326,459 shares of common stock of the registrant were outstanding.

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GERBER SCIENTIFIC, INC.  
AND SUBSIDIARIES  
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## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

GERBER SCIENTIFIC, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS**(Unaudited)**

	Three Months Ended July 31,	
<u>In thousands, except per share data</u>	<u>2005</u>	<u>2004</u>
Revenue:		
Product sales	\$ 113,417	\$ 112,923
Service sales	<u>15,347</u>	<u>14,763</u>
	<u>128,764</u>	<u>127,686</u>
Costs and Expenses:		
Cost of products sold	79,865	78,749
Cost of services sold	9,643	9,716
Selling, general and administrative	29,575	28,098
Research and development	6,312	6,113
Restructuring charges	<u>(36)</u>	<u>1,894</u>
	<u>125,359</u>	<u>124,570</u>
Operating income	3,405	3,116
Other expense, net	(175)	(198)
Interest expense	<u>(1,431)</u>	<u>(2,077)</u>
Earnings before income taxes	1,799	841
Provision for income taxes	<u>2,882</u>	<u>144</u>
Net (loss) earnings	\$ (1,083)	\$ 697
	=====	=====
(Loss) earnings per share of common stock:		
Basic	\$ (.05)	\$ .03
Diluted	(.05)	.03
Average shares outstanding:		
Basic	22,311	22,235
Diluted	22,311	22,433

See accompanying notes to consolidated financial statements.

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GERBER SCIENTIFIC, INC. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

<u>In thousands, except share data</u>	<u>July 31,</u> <u>2005</u>	<u>April 30,</u> <u>2005</u>
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 3,383	\$ 6,148
Accounts receivable, net of allowance for doubtful accounts of \$9,470 and \$9,706, respectively	85,452	89,800
Inventories	54,247	52,363
Deferred income taxes	7,217	7,559
Prepaid expenses and other current assets	6,565	6,292
Net assets held for sale	<u>443</u>	<u>---</u>
	<u>157,307</u>	<u>162,162</u>
Property, Plant and Equipment	119,056	122,444
Less accumulated depreciation	<u>79,906</u>	<u>82,521</u>
	<u>39,150</u>	<u>39,923</u>
Intangible Assets:		
Goodwill	50,922	52,315
Prepaid pension cost	1,692	1,692
Patents and other intangible assets, net of accumulated amortization	<u>5,095</u>	<u>5,392</u>
	<u>57,709</u>	<u>59,399</u>

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Deferred Income Taxes	27,419	29,788
Other Assets	<u>5,969</u>	<u>6,014</u>
	\$287,554	\$297,286
	=====	=====

Liabilities and Shareholders' Equity

Current Liabilities:

Current portion of long-term debt	\$ 27,144	\$ 29,482
Accounts payable	49,027	47,023
Accrued compensation and benefits	17,374	16,438
Other accrued liabilities	18,647	21,651
Deferred revenue	14,947	15,467
Income taxes payable	3,183	2,822
Advances on sales contracts	<u>717</u>	<u>674</u>
	<u>131,039</u>	<u>133,557</u>

Noncurrent Liabilities:

Accrued pension benefit liability	26,013	25,264
Other liabilities	6,005	6,399
Long-term debt	<u>16,009</u>	<u>16,260</u>
	<u>48,027</u>	<u>47,923</u>

Commitments and Contingencies (Note 10):

Shareholders' Equity:

Preferred stock, \$0.01 par value; authorized 10,000,000 shares; no shares issued	---	---
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Common stock, \$0.01 par value; authorized 100,000,000 shares; issued 22,998,776 and 22,983,654 shares, respectively	230	230
Paid-in capital	65,977	66,045
Retained earnings	66,802	67,885
Treasury stock, at cost (672,317 and 680,398 shares, respectively)	(13,825)	(13,991)
Unamortized value of restricted stock grants	(113)	(130)
Accumulated other comprehensive loss	<u>(10,583)</u>	<u>(4,233)</u>
	<u>108,488</u>	<u>115,806</u>
	\$287,554	\$297,286
	=====	=====

See accompanying notes to consolidated financial statements.

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GERBER SCIENTIFIC, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	<u>Three Months Ended July 31,</u>	
<u>In thousands</u>	<u>2005</u>	<u>2004</u>
Cash Provided by (Used for):		
Operating Activities:		
Net (loss) earnings	\$(1,083)	\$ 697
Adjustments to reconcile net (loss) earnings to cash provided by operating activities:		

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Depreciation and amortization	2,190	2,790
Restructuring charges	(36)	1,894
Deferred income taxes	2,711	(1,068)
Other non-cash items	641	440
Changes in operating accounts:		
Receivables	1,200	4,506
Inventories	(3,421)	(4,678)
Prepaid expenses	(951)	(599)
Accounts payable and accrued expenses	<u>3,219</u>	<u>(1,261)</u>
Provided by Operating Activities:	<u>4,470</u>	<u>2,721</u>
Investing Activities:		
Additions to property, plant and equipment	(3,256)	(1,072)
Intangible and other assets	<u>(144)</u>	<u>(91)</u>
(Used for) Investing Activities:	<u>(3,400)</u>	<u>(1,163)</u>
Financing Activities:		
Repayments of borrowings under term loans	(251)	(10,452)
Net change in revolver	(2,337)	9,322
Net short-term financing	---	(126)
Exercise of stock options	58	91
Other common stock activity	<u>57</u>	<u>(93)</u>
(Used for) Financing Activities:	<u>(2,473)</u>	<u>(1,258)</u>
Effect of exchange rate changes on cash	(1,362)	(134)
(Decrease) Increase in Cash and Cash Equivalents	(2,765)	166
Cash and Cash Equivalents, Beginning of Period	<u>6,148</u>	<u>6,371</u>
Cash and Cash Equivalents, End of Period	\$ 3,383	\$ 6,537



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See accompanying notes to consolidated financial statements.

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GERBER SCIENTIFIC, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Gerber Scientific, Inc. and its subsidiaries (collectively, the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended July 31, 2005 are not necessarily indicative of the results that may be expected for the fiscal year ending April 30, 2006. The financial information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and notes in the Company's annual report on Form 10-K for the fiscal year ended April 30, 2005, filed with the SEC on July 14, 2005. The consolidated balance sheet at April 30, 2005 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

Certain reclassifications have been made to prior year results to conform to the current year presentation. These included all warranty, installation, and training costs that were reclassified from Selling, General and Administrative, or S,G&A, to Cost of Products Sold and an improved allocation of the Sign Making and Specialty Graphics segment's overhead costs from S,G&A to Cost of Products Sold. The prior period presented was reclassified to reflect these changes.

NOTE 2. Stock Option Plans

The Company has stock option plans authorizing grants to officers and employees. The Company applied APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock options (intrinsic value method) through July 31, 2005. No stock-based compensation cost related to stock options has been reflected in net (loss) earnings, as all options granted under these plans had an exercise price equal to the quoted market value of the underlying common stock on the date of the grant. In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, "Share-Based Payment," which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. In April 2005, the Securities and Exchange Commission delayed the required adoption date for SFAS No. 123R. SFAS 123R is now effective for all fiscal years beginning after June 15, 2005, and the Company will adopt SFAS No. 123R on May 1, 2006 using the modified prospective method. The Company is currently evaluating the impact of SFAS No. 123R on its consolidated financial position and results of operations.

The following table illustrates the effect on net (loss) earnings and (loss) earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation":

	<u>Three Months Ended</u> <u>July 31,</u>	
<u>In thousands, except per share amounts</u>	<u>2005</u>	<u>2004</u>
Net (loss) earnings, as reported	\$(1,083)	\$ 697
Less: Total stock-based employee compensation expense determined under Black-Scholes option pricing model, net of tax effects	<u>(81)</u>	<u>(246)</u>
Pro forma net (loss) earnings	\$(1,164)	\$ 451
	=====	=====
Net (loss) earnings per share		
Basic, as reported	\$ (.05)	\$ .03
Basic, pro forma	(.05)	.02
	\$ (.05)	\$ .03
Diluted, as reported	(.05)	.02

Diluted, pro forma

## NOTE 3. Inventories

The classification of inventories was as follows (in thousands):

	<u>July 31, 2005</u>	<u>April 30, 2005</u>
Raw materials and aftermarket parts	\$43,079	\$39,800
Work in process	1,149	1,326
Finished goods	<u>10,019</u>	<u>11,237</u>
	\$54,247	\$52,363
	=====	=====

## NOTE 4. Restructuring

## Fiscal 2005 Restructuring

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

The following table presents a rollforward of the accruals at April 30, 2005 to July 31, 2005 by segment (in thousands):

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	Employee Separation <u>Accrual</u>
Sign Making and Specialty Graphics	
Balance at April 30, 2005	\$ 395
Cash payments	(306)
Change in estimate	<u>(36)</u>
Balance at July 31, 2005	<u>53</u>
Ophthalmic Lens Processing	
Balance at April 30, 2005	508
Cash payments	<u>(436)</u>
Balance at July 31, 2005	<u>72</u>
Ending balance at July 31, 2005	\$ 125
	=====

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

## Fiscal Year 2004 Restructuring

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

Facility  
Consolidation  
Accrual

Sign Making and Specialty Graphics

Balance at April 30, 2005	\$ 1,775
Cash payments	<u>(83)</u>
Ending balance at July 31, 2005	<u>1,692</u>

## Ophthalmic Lens Processing

Balance at April 30, 2005	65
Cash payments	<u>(16)</u>
Ending balance at July 31, 2005	<u>49</u>
	\$ 1,741

=====

Of the remaining balance at July 31, 2005, \$0.4 million is expected to be paid in the fiscal year ending April 30, 2006, \$0.3 million in the fiscal year ending April 30, 2007, \$0.1 million in the fiscal year ending April 30, 2008, \$0.1 million in the fiscal year ending April 30, 2009, \$0.1 million in the fiscal year ending April 30, 2010, and \$0.7 million thereafter.

## Fiscal Year 2003 Restructuring Update

Of the remaining accrual of \$0.1 million at April 30, 2005 related to a fiscal 2003 facility consolidation charge, a small amount was paid in the fiscal 2006 first quarter, resulting in an ending balance at July 31, 2005 of \$0.1 million, which is expected to be paid in full in the fiscal year ending April 30, 2006.

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## Fiscal Year 2002 Restructuring Update

As of April 30, 2005, an accrual of approximately \$0.3 million for severance costs remained, all of which represented severance and other amounts payable to the former Chief Executive Officer. No cash payments were charged against this accrual during the three months ended July 31, 2005.

## NOTE 5. Goodwill and Other Intangible Assets

Goodwill and other intangible assets include (in thousands):

<u>As of July 31, 2005</u>			<u>As of April 30, 2005</u>		
<u>Gross</u> <u>Carrying</u> <u>Amount</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Net</u> <u>Intangible</u> <u>Assets</u>	<u>Gross</u> <u>Carrying</u> <u>Amount</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Net</u> <u>Intangible</u> <u>Assets</u>

Amortized

intangible  
assets:

Patents	\$ 7,822	\$ 3,139	\$ 4,683	\$ 8,010	\$ 3,095	\$ 4,915
Other	<u>657</u>	<u>245</u>	<u>412</u>	<u>703</u>	<u>226</u>	<u>477</u>
	<u>8,479</u>	<u>3,384</u>	<u>5,095</u>	<u>8,713</u>	<u>3,321</u>	<u>5,392</u>
Unamortized intangible assets:						
Goodwill	50,922	---	50,922	52,315	---	52,315
Prepaid pension cost	<u>1,692</u>	<u>---</u>	<u>1,692</u>	<u>1,692</u>	<u>---</u>	<u>1,692</u>
	<u>52,614</u>	<u>---</u>	<u>52,614</u>	<u>54,007</u>	<u>---</u>	<u>54,007</u>
	\$ 61,093	\$ 3,384	\$ 57,709	\$ 62,720	\$ 3,321	\$ 59,399
	=====	=====	=====	=====	=====	=====

Intangible amortization expense was \$0.2 million for the three months ended July 31, 2005 and 2004, and is estimated to be approximately \$0.4 million annually for fiscal years ending April 30, 2006 through 2011.

The following table presents the changes in the carrying amount of goodwill by operating segment for the three months ended July 31, 2005 (in thousands):

	Sign Making and Specialty <u>Graphics</u>	Apparel and Flexible <u>Materials</u>	Ophthalmic Lens <u>Processing</u>	<u>Total</u>
Balance as of May 1, 2005	\$ 22,583	\$ 12,736	\$ 16,996	\$ 52,315
Effects of currency translation	<u>(1,393)</u>	<u>---</u>	<u>---</u>	<u>(1,393)</u>
Balance as of July 31, 2005	\$ 21,190	\$ 12,736	\$ 16,996	\$ 50,922
	=====	=====	=====	=====

During the three months ended July 31, 2005, the Company reviewed its Ophthalmic Lens Processing segment goodwill for impairment in accordance with its annual goodwill impairment review schedule. Based on this review, the Company was not required to record any goodwill impairment.

## NOTE 6. Derivative Instruments and Hedging Activities

The Company is exposed to fluctuations in foreign currency exchange rates because of its global presence and international sales and purchase activities. These foreign currency exposures are identified and managed at the operating unit level. To manage some of these risks, the Company has used forward exchange contracts. As of July

31, 2005, the Company was not party to any forward exchange contracts. When used, these contracts are viewed as risk management tools, involve little complexity, and are not used for trading or speculative purposes. Counterparties to forward exchange contracts are major international commercial banks. The Company does not anticipate non-performance by the counterparties.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. In this documentation, the Company identifies the forecasted transactions that have been designated as a hedged item and states how the hedging instrument is expected to hedge the risks related to that item. The Company formally measures effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis. The Company discontinues hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item; when the derivative expires or is sold, terminated or exercised; when it is probable that the forecasted transaction will not occur; or when management determines that designation of the derivative as a hedge instrument is not appropriate.

The Company's forward exchange contracts are designated as a hedge of the cash flow variability arising from forecasted foreign currency denominated purchases. Accordingly, changes in the cash flows of these contracts must be highly correlated with changes in the cash flows of the underlying hedged item at inception of the hedge and over the life of the hedge contract. Gains and losses on these derivatives are recorded in shareholders' equity to the extent they are effective as hedges and reclassified into Cost of Products Sold in the period in which the hedged transaction settles. To the extent that the derivatives are not effective as hedges, gains and losses on these derivatives are recorded immediately into current earnings in Other Expense, Net.

The change in shareholders' equity associated with hedging activity for the three months ended July 31, 2004 was as follows:

<u>In thousands</u>	Three Months Ended <u>July 31, 2004</u>
Balance – May 1, 2004	\$ (149)
Cash flow hedging loss	(86)
Net loss reclassified to Statements of Operations	<u>164</u>
Balance – July 31, 2004	\$ (71)
	=====

NOTE 7. Segment Information

The Company's operations are classified into three operating segments: Sign Making and Specialty Graphics; Apparel and Flexible Materials; and Ophthalmic Lens Processing. Those segments are determined based on management's evaluation of the Company's businesses. Beginning May 1, 2005, management began evaluating segments using operating income as the measure of segment profit, rather than segment earnings before interest and income taxes. Prior year segment results have been restated to conform to the new measurement of segment financial performance. Financial data for the three months ended July 31, 2005 and 2004 are shown in the following tables:

	<u>Three Months Ended</u> <u>July 31,</u>	
<u>In thousands</u>	<u>2005</u>	<u>2004</u>
Segment revenue:		
Sign Making and Specialty Graphics	\$ 69,920	\$ 68,725
Apparel and Flexible Materials	42,229	39,764
Ophthalmic Lens Processing	<u>16,615</u>	<u>19,197</u>
	\$128,764	\$127,686
	=====	=====
Segment profit (loss):		
Sign Making and Specialty Graphics	\$ 3,080	\$ 2,547
Apparel and Flexible Materials	5,068	4,603
Ophthalmic Lens Processing	<u>(682)</u>	<u>(503)</u>
	\$ 7,466	\$ 6,647
	=====	=====

A reconciliation of total segment profit to consolidated earnings before income taxes follows:

	<u>Three Months Ended</u> <u>July 31,</u>	
<u>In thousands</u>	<u>2005</u>	<u>2004</u>
Segment profit	\$ 7,466	\$ 6,647
Corporate operating expenses	<u>(4,061)</u>	<u>(3,531)</u>
Operating income	3,405	3,116

Other expense, net	(175)	(198)
Interest expense	<u>(1,431)</u>	<u>(2,077)</u>
Earnings before income taxes	\$ 1,799	\$ 841
	=====	=====

NOTE 8. Comprehensive (Loss) Income

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

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	<u>Three Months Ended</u> <u>July 31,</u>	
<u>In thousands</u>	<u>2005</u>	<u>2004</u>
Net (loss) earnings	\$ (1,083)	\$ 697
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(6,350)	686
Cash flow hedging gain, net	<u>---</u>	<u>78</u>
Total comprehensive (loss) income	\$ (7,433)	\$ 1,461
	=====	=====

NOTE 9. (Loss) Earnings Per Share

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

	<u>Three Months Ended</u> <u>July 31,</u>	
<u>In thousands, except per share amounts</u>	<u>2005</u>	<u>2004</u>
Numerator:		
Net (loss) earnings	\$ (1,083)	\$ 697
	=====	=====

Denominators:



Denominator for basic (loss) earnings per share – weighted-average shares outstanding	22,311	22,235
Effect of dilutive securities:		
Stock options	<u>---</u>	<u>198</u>
Denominator for diluted (loss) earnings per share – adjusted weighted-average shares outstanding	22,311	22,433
	=====	=====
Basic (loss) earnings per share	\$ (.05)	\$ .03
	=====	=====
Diluted (loss) earnings per share	\$ (.05)	\$ .03
	=====	=====

For the three months ended July 31, 2005 and 2004, 2.0 million and 2.9 million, respectively, of common stock equivalents were antidilutive and not included in the above calculation.

For the three months ended July 31, 2005, stock options exercisable for an additional 0.2 million shares of common stock were excluded from the calculation of diluted (loss) per share because the Company reported a net loss.

NOTE 10. Commitments and Contingencies

The Company currently has lawsuits and claims pending against it, which management believes that the ultimate resolution will not have a material effect on its consolidated financial condition or results of operations. There were no significant changes to the commitments and contingencies during the fiscal 2006 first quarter from those previously disclosed in the Company's annual report on Form 10-K for the year ended April 30, 2005, filed with the SEC on July 14, 2005.

NOTE 11. Guarantees

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

The changes in the carrying amount of product warranties for the three months ended July 31, 2005 and 2004 are as follows:

	Three Months Ended	
	<u>July 31,</u>	
<u>In thousands</u>	<u>2005</u>	<u>2004</u>

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Beginning balance	\$ 5,978	\$ 4,970
Reductions for payments made	(1,392)	(1,329)
Changes in accruals related to warranties issued in the current period	1,232	1,382
Changes in accruals related to pre-existing warranties	<u>243</u>	<u>---</u>
Ending balance	\$ 6,061	\$ 5,023
	=====	=====

NOTE 12. Employee Benefit Plans

Components of net periodic benefit cost for the three months ended July 31, 2005 and 2004 are presented below.

<u>In thousands</u>	<u>Qualified Pension Plan</u>		<u>Non-Qualified Pension Plan</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Service cost	\$ 724	\$ 654	\$ 41	\$ 40
Interest cost	1,383	1,337	101	123
Expected return on plan assets	(1,403)	(1,332)	(109)	(111)
Amortization of prior service cost	74	74	(1)	(1)
Amortization of net loss	<u>427</u>	<u>233</u>	<u>30</u>	<u>42</u>
Net periodic benefit cost	\$ 1,205	\$ 966	\$ 62	\$ 93
	=====	=====	=====	=====

Employer Contributions

For the three months ended July 31, 2005, \$0.5 million in cash contributions have been made to the Gerber Scientific, Inc. and Participating Subsidiaries Pension Plan, and the Company expects to contribute \$3.1 million to this plan in the fiscal year ending April 30, 2006.

NOTE 13. Long-Term Debt

Effective July 12, 2005, the Company entered into amendments of its current senior secured credit facilities. The amendments modified certain financial covenants, which require the Company to meet the following financial ratios, as defined in the credit facilities, for the fiscal periods shown below:

	<u>Maximum Total Funded Debt to EBITDA Ratio</u>	<u>Minimum Fixed Charge Coverage Ratio</u>	<u>Maximum Total Liabilities to Tangible Capital Base Ratio</u>
Fiscal 2006 first quarter	2.8 to 1.0	0.7 to 1.0	4.0 to 1.0
Fiscal 2006 second quarter	2.2 to 1.0	0.9 to 1.0	4.0 to 1.0
Fiscal 2006 third quarter	1.875 to 1.0	0.9 to 1.0	3.75 to 1.0
Fiscal 2006 fourth quarter	1.875 to 1.0	1.1 to 1.0	3.5 to 1.0
Fiscal 2007 first quarter	1.875 to 1.0	1.25 to 1.0	3.25 to 1.0
Fiscal 2007 second quarter	1.875 to 1.0	1.5 to 1.0	3.0 to 1.0
Fiscal 2007 third quarter	1.875 to 1.0	1.5 to 1.0	2.75 to 1.0
Fiscal 2007 fourth quarter	1.875 to 1.0	1.75 to 1.0	2.5 to 1.0

As modified by the foregoing amendments, the maximum capital expenditures covenant limits the Company's capital expenditures to no more than \$9.5 million annually.

The fees associated with these amendments totaled \$0.1 million.

#### NOTE 14. Net Asset Held for Sale

The Company relocated its Ophthalmic Lens Processing Muskogee, Oklahoma manufacturing facility during fiscal 2005. In the fiscal 2006 first quarter, the facility met the criteria for classification as Net Asset Held for Sale in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Other Expense, Net includes a \$0.1 million loss recognized in accordance with SFAS No. 144 upon reducing the net book value of the facility to its fair value less estimated selling costs. The facility was sold on August 18, 2005.

#### NOTE 15. Income Taxes

During the three months ended July 31, 2005, the Company recorded tax expense of \$2.9 million. Included in this amount was a \$2.3 million non-cash charge attributable to the reversal of a deferred tax asset associated with a tax legislation change in the United Kingdom. Excluding this tax charge, the Company's consolidated tax rate would have been 32.7 percent compared to the statutory rate of 35.0 percent. The lower consolidated tax rate was primarily attributable to benefits related to export tax incentives and research and development tax credits.

Gerber Scientific, Inc.:

We have reviewed the accompanying consolidated balance sheet of Gerber Scientific, Inc. and subsidiaries as of July 31, 2005, and the related consolidated statements of operations and cash flows for the three-month periods ended July 31, 2005 and 2004. These consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Gerber Scientific, Inc. and subsidiaries as of April 30, 2005, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended (not presented herein); and in our report dated July 12, 2005, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of April 30, 2005, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

Hartford, Connecticut  
August 24, 2005

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

The following discussion should be read in conjunction with the Consolidated Financial Statements (unaudited) for the three-month periods ended July 31, 2005 ("fiscal 2006 first quarter") and 2004 ("fiscal 2005 first quarter") and related notes to the Consolidated Financial Statements included elsewhere herein, as well as with our annual report on Form 10-K for the fiscal year ended April 30, 2005, filed with the SEC on July 14, 2005.

### OVERVIEW

For the fiscal 2006 first quarter, we reported revenue of \$128.8 million, operating income of \$3.4 million, and a net loss of \$(1.1) million. Included in the fiscal 2006 first quarter results was a tax charge of \$2.3 million attributable to a change in United Kingdom tax law. Excluding this non-recurring charge, net income would have been \$1.2 million, or \$0.05 per share. Revenue reported for the fiscal 2006 first quarter was slightly lower than revenue for the fiscal 2005 first quarter after adjusting for the favorable effect of foreign currency translation. Revenue gains within the Apparel and Flexible Materials segment were completely offset by revenue declines in the Ophthalmic Lens Processing segment. Both our Apparel and Flexible Materials and Sign Making and Specialty Graphics operating segments

reported operating profit increases over last year. Our Ophthalmic Lens Processing segment reported a higher fiscal 2006 first quarter operating loss than the fiscal 2005 first quarter, which was attributable to decreased demand in end-use markets for our lens processing products, industry consolidation, and business disruption associated with the relocation of this segment's production facility in fiscal 2005.

We reported \$4.5 million of operating cash flow in the fiscal 2006 first quarter, which represented an increase of \$1.7 million from the fiscal 2005 first quarter. This cash flow and a reduction of our cash balances enabled us to repay \$2.6 million of debt, after funding our capital expenditures. Our total debt balance was \$43.2 million at July 31, 2005 compared to \$45.7 million at April 30, 2005. We believe that our significant debt reduction over the last two fiscal years, which resulted in a decrease in our total debt balance from \$89.7 million at July 31, 2003 to \$43.2 million at July 31, 2005, will enable us to refinance the Company's debt under improved terms, which we will seek to do in fiscal 2006.

#### CRITICAL ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported. We described the critical accounting policies that require management's most difficult, subjective, or complex judgments in our annual report on Form 10-K for the fiscal year ended April 30, 2005, filed with the SEC on July 14, 2005.

#### RESULTS OF OPERATIONS

	Three Months Ended July 31,	
<u>In thousands</u>	<u>2005</u>	<u>2004</u>
Revenue	\$128,764	\$127,686
Cost of sales	<u>89,508</u>	<u>88,465</u>
Gross margin	<u>39,256</u>	<u>39,221</u>
Operating expenses	<u>35,851</u>	<u>36,105</u>
Operating income	\$ 3,405	\$ 3,116
	=====	=====
Gross margin %	30.5%	30.7%
	=====	=====

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#### Revenue.

Consolidated fiscal 2006 first quarter revenue was \$128.8 million compared to fiscal 2005 first quarter revenue of \$127.7 million. Foreign currency translation had the effect of increasing revenue in the fiscal 2006 first quarter by approximately \$2.1 million from the fiscal 2005 first quarter. Adjusting for the effect of foreign currency translation, revenue increased in our Apparel and Flexible Materials segment and decreased in the Sign Making and Specialty

## Graphics and Ophthalmic Lens Processing segments.

The following table shows equipment and aftermarket supplies and service revenue as a percentage of total revenue during the fiscal 2006 first quarter compared to the fiscal 2005 first quarter:

	<u>Three Months Ended July 31,</u>	
	<u>2005</u>	<u>2004</u>
Equipment revenue	30%	29%
Aftermarket supplies and service revenue	70%	71%

On a geographic basis and adjusted for foreign currency translation, our fiscal 2006 first quarter business volume was lower in the North American and Rest of World regions and higher in the European region compared to the fiscal 2005 first quarter.

The European business increase was primarily the result of higher sales of the Apparel and Flexible Materials segment's single-ply cutting equipment to non-apparel markets, particularly in Eastern Europe. The sales increase principally reflected the migration of the manufacture of automotive and furniture soft-goods products from the United States, which also contributed to the lower business volume in the North American region.

The Ophthalmic Lens Processing segment business levels decreased in the fiscal 2006 first quarter compared to the fiscal 2005 first quarter in each geographic segment. The decreases were primarily attributable to overall market softness, industry consolidation, and business disruption associated with our efforts to improve the efficiency of segment operations, which also affected business levels in Australia and New Zealand in the Sign Making and Specialty Graphics segment.

## Gross Profit Margins.

Fiscal 2006 first quarter gross margin of 30.5 percent decreased 0.2 percentage points from the fiscal 2005 first quarter. The favorable effect on the gross profit margin attributable to higher sales volume in the Apparel and Flexible Materials segment was offset by the unfavorable effect of the lower sales volume in the Ophthalmic Lens Processing segment.

## Selling, General and Administrative Expenses.

Selling, general and administrative, or S,G&A, expenses as a percentage of revenue were 23.0 percent in the fiscal 2006 first quarter compared to 22.0 percent in the fiscal 2005 first quarter. Adjusting for the effect of foreign currency translation, S,G&A expenses increased \$1.1 million in the fiscal 2006 first quarter from the fiscal 2005 first quarter. The increase was primarily attributable to higher employee bonus accrual requirements of \$1.1 million in the fiscal 2006 first quarter associated with the shareholder approved incentive compensation plan.

## Research and Development.

Research and development, or R&D, expenses as a percentage of revenue were 4.9 percent in the fiscal 2006 first quarter and 4.8 percent in the fiscal 2005 first quarter. Our consistent investment in R&D reflects our commitment to

new product development.

#### Restructuring Charges

. Fiscal 2005 first quarter earnings included restructuring charges of \$1.9 million. The charges included costs to relocate the Ophthalmic Lens Processing segment's Muskogee, Oklahoma facility and related employee separation costs of \$1.4 million. In addition, in the fiscal 2005 first quarter, we entered into a sublease agreement for a facility vacated in fiscal 2004. The terms of that sublease required us to increase our original facility cease-use accrual by \$0.4 million. We also recorded a fiscal 2005 first quarter charge of \$0.1 million related to other employee separation costs within both our Sign Making and Specialty Graphics and Apparel and Flexible Materials operating segments.

#### Other Expense, Net.

Other expense, net of \$0.2 million in the fiscal 2006 first quarter was lower than in the fiscal 2005 first quarter primarily because of favorable foreign currency transaction gains of \$0.6 million. The U.S. dollar strengthened more significantly against currencies in foreign countries in which we operate in the fiscal 2006 first quarter than in the fiscal 2005 first quarter. We recognize foreign currency transaction gains and losses on the translation of accounts receivable and payable balances that are reported in one currency and paid in another. Bank amendment and waiver fees of \$0.4 million incurred in the fiscal 2006 first quarter partially offset the favorable foreign currency gains.

#### Interest Expense.

Interest expense decreased \$0.6 million in the fiscal 2006 first quarter from the fiscal 2005 first quarter. The decrease was primarily attributable to lower debt balances. Average debt balances under our senior secured credit facilities were \$40.4 million in the fiscal 2006 first quarter compared to \$54.2 million in the fiscal 2005 first quarter. The weighted average interest rate of our credit facility debt, inclusive of deferred debt issue costs amortized, was 13.3 percent in the fiscal 2006 first quarter and 14.8 percent in the fiscal 2005 first quarter.

#### Income Tax Expense.

In the fiscal 2006 first quarter, we recorded a tax charge of \$2.3 million as a result of a change in United Kingdom tax law. Excluding this tax charge, our consolidated tax rate from continuing operations would have been 32.7 percent compared to the statutory rate of 35.0 percent. The lower consolidated tax rate was primarily attributable to benefits related to export tax incentives and research and development tax credits.

#### Net (Loss) Earnings.

As a result of the foregoing operating results, net loss in the fiscal 2006 first quarter was \$1.1 million (\$0.05 per diluted share) compared to net earnings of \$0.7 million (\$0.03 per diluted share) in the fiscal 2005 first quarter.

## SEGMENT REVIEW

### Sign Making and Specialty Graphics

	Three Months Ended July 31,	
<u>In thousands</u>	<u>2005</u>	<u>2004</u>

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Revenue	\$ 69,920	\$ 68,725
Segment profit	\$ 3,080	\$ 2,547

The fiscal 2006 first quarter segment revenue increased \$1.2 million from the fiscal 2005 first quarter. Adjusting for the effect of foreign currency translation, segment revenue in the fiscal 2006 first quarter was \$68.4 million, which was substantially the same revenue level achieved for the fiscal 2005 first quarter. Higher equipment sales of \$1.2 million resulting primarily from the recent introduction of a new thermal imaging product, Edge FX, were offset by the effect of business disruption associated with the implementations of the Company's enterprise resource planning system, SAP, in Australia and New Zealand effective May 1, 2005. Management intends to complete the implementation of SAP throughout the entire Company during the fiscal 2006 second quarter. As of the date of this report, SAP remained to be implemented in two businesses located in Eastern Europe, with operating results that are not significant to the Company's financial statements taken as a whole. Although management seeks to minimize business disruption caused by its efforts to implement SAP throughout the Company, there is no assurance that this segment's business will not continue to be adversely affected.

Fiscal 2006 first quarter segment profit was \$0.5 million higher than segment profit for the fiscal 2005 first quarter. Segment profit for the fiscal 2005 first quarter included a restructuring charge of \$0.4 million related to a dormant facility. Adjusting for this charge, segment profit for the fiscal 2006 first quarter was substantially the same as for the fiscal 2005 first quarter.

Apparel and Flexible Materials

	<u>Three Months Ended</u> <u>July 31,</u>	
<u>In thousands</u>	<u>2005</u>	<u>2004</u>
Revenue	\$ 42,229	\$ 39,764
Segment profit	\$ 5,068	\$ 4,603

Segment revenue for the fiscal 2006 first quarter increased \$2.5 million, or 6.2 percent, from the fiscal 2005 first quarter. Foreign currency translation had the effect of increasing segment revenue approximately \$0.3 million in the fiscal 2006 first quarter compared to the fiscal 2005 first quarter. The higher revenue was primarily attributable to higher sales of single-ply cutting equipment to non-apparel automotive and furniture markets, which reflected strength in those markets, particularly in Eastern Euests in a global security, except in the event that use of the book-entry system for those debt securities is discontinued.

To facilitate subsequent transfers, all global securities representing debt securities deposited by direct participants with DTC are registered in the name of DTC's nominee, Cede & Co. ("Cede"), or such other name



as may be requested by an authorized representative of DTC. The deposit of global securities with DTC and their registration in the name of Cede or such other nominee of DTC do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the global securities representing the debt securities; DTC's records reflect only the identity of the direct participants to whose accounts such debt securities are credited, which may or may not be the beneficial owners. The direct and indirect participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

If applicable, redemption notices will be sent to Cede. If less than all of the debt securities within a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each direct participant in that issue to be redeemed.

Neither DTC nor Cede (nor any other nominee of DTC) will consent or vote with respect to the global securities representing debt securities unless authorized by a direct participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an omnibus proxy to us as soon as possible after the applicable record date. The omnibus proxy assigns Cede's consenting or voting rights to those direct participants to whose accounts book-entry securities are credited on the applicable record date (identified in a listing attached to the omnibus proxy).

Redemption proceeds, distributions and dividend payments on the global securities representing the debt securities will be made to Cede, or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit direct participants' accounts, upon DTC's receipt of funds and corresponding detailed information from us or the applicable Trustee, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such participant and not of DTC, the applicable Trustee or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of us or the applicable Trustee, disbursement of such payments to direct participants will be the responsibility of DTC, and disbursement of such payments to the beneficial owners will be the responsibility of direct and indirect participants.

A beneficial owner will give notice of any option to elect to have its debt securities purchased or tendered, through its participant, to the applicable Trustee, and will effect delivery of such debt securities by causing the direct participant to transfer the participant's interest in the global security representing those debt securities, on DTC's records, to such Trustee. The requirement for physical delivery of debt securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the global security representing those debt securities are transferred by direct participants on DTC's records and followed by a book-entry credit of tendered debt securities to the applicable Trustee's account with DTC.

DTC may discontinue providing its services as depository with respect to debt securities at any time by giving reasonable notice to us or the applicable Trustee. Under those circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

We may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

Unless stated otherwise in the prospectus supplement, the underwriters or agents with respect to a series of debt securities issued as global securities will be direct participants in DTC.

None of any underwriter or agent, the Trustees, any applicable paying agent or us will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial interests in a global security, or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## **Resignation of Trustee**

Each Trustee may resign or be removed with respect to one or more series of indenture securities and a successor Trustee may be appointed to act with respect to the series. In the event that two or more persons are acting as Trustee with respect to different series of indenture securities under one of the Indentures, each such Trustee shall be a Trustee of a trust thereunder separate and apart from the trust administered by any other Trustee, and any action described herein to be taken by the Trustee may then be taken by each Trustee with respect to, and only with respect to, the one or more series of indenture securities for which it is Trustee.

## **Subordinated Debt Indenture Provisions**

Upon any distribution of our assets upon any dissolution, winding up, liquidation or reorganization, the payment of the principal of and premium and interest, if any, on subordinated debt securities is to be subordinated to the extent provided in the Subordinated Debt Indenture in right of payment to the prior payment in full of all Senior Indebtedness, but our obligation to make payment of the principal of and premium and interest, if any, on the subordinated debt securities will not otherwise be affected. In addition, no payment on account of the principal of or premium or interest, if any, on the subordinated debt securities may be made at any time unless full payment of all amounts due in respect of the principal of and premium and interest, if any, on Senior Indebtedness has been made or duly provided for in money.

In the event that, notwithstanding the foregoing, any payment by us is received by the Subordinated Trustee or the holders of any of the subordinated debt securities before all Senior Indebtedness is paid in full, the payment or distribution shall be paid over to the holders of the Senior Indebtedness or on their behalf for application to the payment of all the Senior Indebtedness remaining unpaid until all the Senior Indebtedness has been paid in full, after giving effect to any concurrent payment or distribution to the holders of the Senior Indebtedness. Subject to the payment in full of all Senior Indebtedness upon this distribution, the holders of the subordinated debt securities will be subrogated to the rights of the holders of the Senior Indebtedness to the extent of payments made to the holders of the Senior Indebtedness out of the distributive share of the subordinated debt securities.

By reason of the subordination, in the event of a distribution of assets upon insolvency, certain of our general creditors may recover more, ratably, than holders of the subordinated securities. The Subordinated Indenture provides that the subordination provisions thereof will not apply to money and securities held in trust pursuant to the defeasance provisions of the Subordinated Indenture.

If this prospectus is being delivered in connection with a series of subordinated debt securities, the accompanying prospectus supplement or the information incorporated by reference therein will set forth the definition of Senior Indebtedness and the approximate amount of Senior Indebtedness outstanding as of a recent date.

## **Governing Law**

The Indentures and the debt securities will be governed by, and construed in accordance with, the laws of the State of New Jersey.

## **The Trustee under the Senior Debt Indenture and the Subordinated Debt Indenture**

US Bank National Association, the Trustee under our Senior Debt Indenture dated as of November 1, 1998 with respect to our senior debt securities, will also be trustee under the Subordinated Debt Indenture to be entered into with respect to our subordinated debt securities. In the event that the Trustee's position as trustee under the Senior Debt Indenture and the Subordinated Debt Indenture creates a conflict for the Trustee, under certain circumstances, the

Trustee will resign as trustee under either the Senior Debt Indenture or the Subordinated Debt Indenture.

US Bank National Association is trustee under various indentures relating to our subsidiaries and affiliates. Our subsidiaries, our affiliates and we maintain other normal banking relationships, including credit facilities and lines of credit, with US Bank National Association.

## DESCRIPTION OF THE CAPITAL STOCK

The following description summarizes the material terms of our capital stock. Because this section is a summary, it does not describe every aspect of our capital stock. For additional information, you should refer to the applicable provisions of the New Jersey Business Corporation Act and our Certificate of Incorporation, as amended (the “Charter”), and By-Laws, as amended. Our Charter and By-Laws are exhibits to the registration statement of which this prospectus is a part.

### Authorized Capital

Our authorized capital stock consists of 1,000,000,000 shares of common stock, without par value, and 50,000,000 shares of preferred stock, without par value.

### Common Stock

*General.* As of October 31, 2014, 506,043,534 shares of our common stock were issued and outstanding. The outstanding shares of our common stock are, and any shares of common stock offered by a future prospectus supplement when issued and paid for will be, fully paid and non-assessable.

*Dividend Rights.* Holders of our common stock are entitled to such dividends as may be declared from time to time by our board of directors from legally available funds after payment of all amounts owed on any preferred stock that may be outstanding.

*Voting Rights.* Holders of our common stock are entitled to one vote for each share held by them on all matters presented to shareholders.

*Liquidation Rights.* After satisfaction of our creditors and the preferential liquidation rights of any preferred stock, the holders of our common stock are entitled to share, ratably, in the distribution of all remaining net assets.

*Redemption Rights.* The shares of our common stock are not subject to redemption or to any further calls or assessments and are not entitled to the benefit of any sinking fund provisions.

### Transfer Agents and Registrars

The transfer agent and registrar for our common stock is Wells Fargo Shareowner Services, a division of Wells Fargo Bank, N.A.

### Preferred Stock

Our board of directors is authorized, without further shareholder action, to divide the preferred stock into one or more classes or series and to determine the designations, preferences, limitations and special rights of any class or series including, but not limited to, the following:

- the rate (or manner of calculation of the rate) of dividends, if any, payable and whether such dividends are payable on a cumulative basis, and the frequency of any such payments;
- the rights, if any, of the holders of shares of the series upon our voluntary or involuntary liquidation, dissolution or winding-up;
- the terms and conditions upon which shares may be converted into shares of other series or other capital stock, if issued with the privilege of conversion;

the price at and the terms and conditions upon which shares may be redeemed; and  
the voting rights, if any.

As of the date of this prospectus, no shares of preferred stock are outstanding.

## DESCRIPTION OF THE STOCK PURCHASE CONTRACTS AND STOCK PURCHASE UNITS

We may issue stock purchase contracts representing contracts obligating holders to purchase from us, and us to sell to the holders, a specified number of shares of our common stock (or a range of numbers of shares pursuant to a predetermined formula) at a future date or dates. The price per share of our common stock and number of shares of our common stock may be fixed at the time the stock purchase contracts are issued or may be determined by reference to a specific formula set forth in the stock purchase contracts.

The stock purchase contracts may be issued separately or as a part of units, known as stock purchase units, consisting of a stock purchase contract and our debt securities or debt obligations of third parties (including United States Treasury securities), that would secure the holders' obligations to purchase our common stock under the stock purchase contracts. The stock purchase contracts may require us to make periodic payments to the holders of the stock purchase units or vice-versa. These payments may be unsecured or prefunded on some basis.

The applicable prospectus supplement will describe the terms of any stock purchase contracts or stock purchase units and, if applicable, debt securities and will contain a discussion of the material United States federal income tax considerations applicable to the stock purchase contracts and stock purchase units. The description in the applicable prospectus supplement will not contain all of the information you may find useful, and reference will be made to the stock purchase contracts, and, if applicable, the debt securities securing the holders' obligations thereunder and the related collateral or depositary arrangements relating to the stock purchase contracts or stock purchase units.

## PLAN OF DISTRIBUTION

We may sell the securities directly to purchasers or indirectly through underwriters, dealers or agents. The names of any such underwriters, dealers or agents will be set forth in the relevant prospectus supplement. We will also set forth in the relevant prospectus supplement:

- the terms of the offering of the securities;
- the proceeds we will receive from the offering;
- any underwriting discounts and other items constituting underwriters' compensation;
- any initial public offering price;
- any discounts or concessions allowed or reallocated or paid to dealers; and
- any securities exchanges on which we may list the securities.

We may distribute the securities from time to time in one or more transactions at:

- a fixed price;
- prices that may be changed;
- market prices at the time of sale;
- prices related to prevailing market prices; or
- negotiated prices.

We will describe the method of distribution in the relevant prospectus supplement.

If we use underwriters with respect to an offering of the securities, we will set forth in the relevant prospectus supplement:

- the name of the managing underwriter, if any;
- the names of any other underwriters; and
- the terms of the transaction, including any underwriting discounts and other items constituting compensation of the underwriters and dealers, if any.





The underwriters will acquire any securities for their own accounts and they may resell the securities from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price and at varying prices determined at the time of sale.

Any initial public offering price and any discounts or concessions allowed or reallocated or paid to dealers may be changed from time to time. We anticipate that any underwriting agreement pertaining to any securities will:

entitle the underwriters to indemnification by us against certain civil liabilities, including liabilities under the Securities Act, or to contribution with respect to payments that the underwriters may be required to make related to any such civil liability;

subject the obligations of the underwriters to certain conditions precedent; and

obligate the underwriters to purchase all securities offered in a particular offering if any such securities are purchased.

If we use a dealer in an offering of the securities, we will sell such securities to the dealer, as principal. The dealer may then resell the securities to the public at varying prices to be determined by such dealer at the time of resale. We will set forth the name of the dealer and the terms of the transaction in the prospectus supplement.

If we use an agent in an offering of the securities, we will name the agent and describe the terms of the agency in the relevant prospectus supplement. Unless we indicate otherwise in the prospectus supplement, we will require an agent to act on a best efforts basis for the period of its appointment.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of stock. The third party in such sale transactions will be an underwriter and, if not identified in this prospectus, will be identified in the applicable prospectus supplement.

Dealers and agents named in a prospectus supplement may be considered underwriters of the securities described in the prospectus supplement under the Securities Act. We may indemnify them against certain civil liabilities under the Securities Act.

If underwriters are used in the sale, to facilitate the offering of securities, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of such securities. Specifically, the underwriters may over-allot in connection with the offering, creating a short position in such securities for their own accounts. In addition, to cover over-allotments or to stabilize the price of such securities, the underwriters may bid for, and purchase, such securities in the open market. Finally, in any offering of securities through a syndicate of underwriters, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing such securities in the offering, if the syndicate repurchases previously distributed securities in transactions to cover syndicate short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of such securities above independent market levels. The underwriters are not required to engage in these activities, and may end any of these activities at any time.

In the ordinary course of business, we may engage in transactions with underwriters, dealers, agents and their affiliates and they may perform services for us.

We may solicit offers to purchase the securities and make sales directly to institutional investors or others who may be considered underwriters under the Securities Act with respect to such sales. We will describe the terms of any such

offer in the relevant prospectus supplement. We may also sell the securities through competitive bidding procedures described in the relevant prospectus supplement.

If we authorize underwriters or other agents to solicit offers to purchase the securities from institutional investors pursuant to contracts providing for payment and delivery at a future date, we will indicate that we are doing so in the relevant prospectus supplement.

Each series of securities will be a new issue and, except for the common stock, which is listed on the New York Stock Exchange, will have no established trading market. We may elect to list any series of new securities on an exchange, or in the case of the common stock, on any additional exchange, but unless we advise you differently in the prospectus supplement, we have no obligation to cause any securities to be so listed. Any underwriters that purchase securities for public offering and sale may make a market in the securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. We make no assurance as to the liquidity of, or the development or maintenance of, any trading markets for any securities.

We will estimate our expenses associated with any offering of the securities in the relevant prospectus supplement.

## **LEGAL MATTERS**

The validity of the securities, including the binding nature of debt securities, to be issued by us will be passed upon for us by M. Courtney McCormick, Esquire, our Deputy General Counsel, or Tamara L. Linde, Esquire, our Executive Vice President and General Counsel, and for any underwriters, dealers or agents by Sidley Austin LLP, New York, New York, who may rely on the opinion of Ms. McCormick or Ms. Linde as to matters of New Jersey law. Mses. McCormick and Linde own shares of our common stock. Sidley Austin LLP has from time to time represented and continues to represent us and our affiliates in connection with certain unrelated legal matters.

## **EXPERTS**

The consolidated financial statements and the related consolidated financial statement schedule incorporated in this prospectus by reference from our Annual Report on Form 10-K and the effectiveness of our internal control over financial reporting have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports which are incorporated herein by reference. Such consolidated financial statements and consolidated financial statement schedule have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

PROSPECTUS

**PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED**  
**2,513,578 shares of Common Stock without Par Value**

**Enterprise Direct<sup>SM</sup> Plan**  
**(Dividend Reinvestment and Stock Purchase Plan)**

We hereby offer participation in the Enterprise Direct Plan (“Enterprise Direct” or “Plan”). Enterprise Direct is a direct stock purchase plan designed to promote long-term ownership among investors in our common stock, without par value (“Common Stock”).

Under Enterprise Direct:

Shareholders who own shares of Common Stock or any series of preferred stock of our subsidiary, Public Service Electric and Gas Company (“PSE&G”) (“Preferred Stock”), directly in their name may enroll.

Non-shareholders may enroll in the Plan by making an initial investment (“Initial Investment”) of at least \$250. The maximum Initial Investment is \$10,000. An enrollment fee (“Enrollment Fee”) will be deducted from the Initial Investment.

All or a portion of dividends from Common Stock or Preferred Stock may automatically be reinvested in additional shares of Common Stock.

Once enrolled, Participants may make additional investments (“Voluntary Contributions”) of \$50 or more. The maximum Voluntary Contribution for any single investment date will be \$10,000. The maximum annual investment (including the Initial Investment and Voluntary Contributions, but excluding reinvested dividends and shares deposited with Enterprise Direct for safekeeping only) is \$125,000.

Shareholders who hold Common Stock certificates may deposit them with the Administrator for safekeeping, whether or not they reinvest their dividends.

No trading fees will be charged for purchases or reinvestments through the Plan. Participants will be required to pay certain fees in connection with the Plan. See “Service Fees”.

Any shareholders enrolled or deemed to be enrolled (“Participants”) may sell shares of Common Stock credited to their accounts through Enterprise Direct. Trading fees, related service charges and any applicable taxes will be deducted from the proceeds of such sales.

Participants may have any non-reinvested dividends on shares of Common Stock held in their Enterprise Direct accounts paid by electronic deposit.

Shares of Common Stock will be purchased under the Plan, at our option, from newly issued shares, shares held in our treasury or shares purchased on the open market by a broker-dealer registered under the Securities Exchange Act of 1934 (“Exchange Act”) who may be affiliated with the Plan’s Administrator, which is acting as an “agent independent” of us and our affiliates, as that term is defined in rules and regulations under the Exchange Act (“Independent Agent”). However, Common Stock purchased with the Initial Investment by a non-shareholder will be acquired in the open market. All sales of Common Stock under the Plan will be made by an Independent Agent.

The Common Stock is listed on the New York Stock Exchange under the ticker symbol “PEG.” The closing price of the Common Stock on November 17, 2014 was \$40.46.

We have appointed Wells Fargo Shareowner Services, a division of Wells Fargo Bank, N.A., as the Administrator of the Plan.

**Investing in the Common Stock involves risks. You should carefully consider the information in the section entitled “Risk Factors” on page 4 of this prospectus, as well as the risk factors contained in our most recently filed Annual Report on Form 10-K and our other periodic reports filed with the Securities and Exchange Commission and incorporated by reference into this prospectus before you invest in the Common Stock.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is November 18, 2014.

## ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (the “SEC”) using a “shelf” registration process. Under this shelf process, we may, from time to time, sell the securities described in this prospectus or combinations thereof in one or more offerings. You should read both this prospectus together with additional information described under “Where You Can Find More Information.”

In this prospectus, unless the context indicates otherwise, the words and terms “PSEG,” “we,” “our,” “ours” and “us” refer to Public Service Enterprise Group Incorporated and its consolidated subsidiaries.

We believe that we have included or incorporated by reference all information material to investors in this prospectus, but certain details that may be important for specific investment purposes have not been included. For more detailed information about the securities, you should also review the exhibits to the registration statement, which were either filed with the registration statement or incorporated by reference to other SEC filings.

## WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports and other information with the SEC. Our filings are available to the public over the Internet on the SEC’s web site at <http://www.sec.gov>, as well as on our web site at <http://www.pseg.com>. None of the information contained at any time on our web site is incorporated by reference into this prospectus. You may read and copy any material on file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room.

You may also inspect these documents at the New York Stock Exchange, Inc. (“New York Stock Exchange”), where certain of our securities are listed.

The SEC allows us to “incorporate by reference” documents that we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference or deemed incorporated by reference is an important part of this prospectus, and information that we file later with the SEC will be deemed to automatically update and supersede this incorporated information. We incorporate by reference the documents listed below that have been filed with the SEC.

• Our Annual Report on Form 10-K for the year ended December 31, 2013.

• Our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014, June 30, 2014 and September 30, 2014.

• Information in our Definitive Proxy Statement on Schedule 14A filed on March 10, 2014 that is incorporated by reference into our Annual Report on Form 10-K.

• Our Current Reports on Form 8-K filed on February 21, 2014, April 2, 2014 (second filing), April 17, 2014 and July 17, 2014.

• The description of Common Stock in our registration statement filed pursuant to Section 12 of the Exchange Act, and any amendment or report filed for the purpose of amending such description.

We also incorporate by reference any future filings made with the SEC under Section 13(a), 13(c), 14, or 15(d) of the Exchange Act on or after the date of this prospectus and prior to the termination of this offering of Common Stock, except for Current Reports on Form 8-K containing only disclosure furnished under Item 2.02 or 7.01 of Form 8-K, unless otherwise specifically stated in the Form 8-K.

You can get a free copy of any of the documents incorporated by reference in this prospectus by making an oral or written request directed to:

Vice President, Investor Relations  
PSEG Services Corporation  
80 Park Plaza, 6<sup>th</sup> Floor  
Newark, NJ 07102  
Telephone (973) 430-6565

You should rely only on the information contained or incorporated by reference or deemed to be incorporated by reference in this prospectus or in any prospectus supplement or documents to which we otherwise refer you. We have not authorized anyone else to provide you with different or additional information. You should not rely on any other information or representations. Our business, prospects, financial conditions and results of operations may change after this prospectus and the prospectus supplement are distributed to you. You should not assume that the information in this prospectus and any prospectus supplement is accurate as of any date other than the dates on the front of those documents. You should read all information supplementing this prospectus.

**THIS PROSPECTUS CONTAINS THE TEXT OF ENTERPRISE DIRECT IN ITS ENTIRETY AND, THEREFORE, SHOULD BE RETAINED BY PARTICIPANTS FOR FUTURE REFERENCE.**

## FORWARD-LOOKING STATEMENTS

This prospectus and any prospectus supplement, including the documents incorporated by reference or deemed to be incorporated by reference, include “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this prospectus and any prospectus supplement and the documents incorporated by reference or deemed to be incorporated by reference that address activities, events or developments that we expect or anticipate will or may occur in the future, including such matters as our future performance, future capital expenditures and growth, revenues, earnings, business strategy, market and industry developments and prospects, are forward-looking statements. When used in this prospectus, any prospectus supplement or in documents incorporated by reference or deemed to be incorporated by reference, the words “will,” “anticipate,” “intend,” “estimate,” “believe,” “expect,” “plan,” “should,” “hypothetical,” “potential,” “project,” and variations of such words and similar expressions are intended to identify forward-looking statements. These statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. Certain factors that could cause actual results to differ materially from those contemplated in any forward-looking statements are discussed in the Risk Factors and Management’s Discussion and Analysis of Financial Condition and Results of Operations sections of our most recently filed Annual Report on Form 10-K and any subsequently filed Quarterly Reports on Form 10-Q and in the notes to our financial statements and other information filed with the SEC. These factors include, but are not limited to:

- adverse changes in the demand for or the price of the capacity and energy that we sell into wholesale electricity markets;
- adverse changes in energy industry law, policies and regulation, including market structures and a potential shift away from competitive markets toward subsidized market mechanisms, capacity market design, transmission planning and cost allocation rules, including how transmission projects are planned and who is permitted to build transmission in the future, and reliability standards;
- any inability of our transmission and distribution businesses to obtain adequate and timely rate relief and regulatory approvals from federal and state regulators;
- changes in federal and state environmental regulations and enforcement that could increase our costs or limit our operations;
- changes in nuclear regulation and/or general developments in the nuclear power industry, including various impacts from any accidents or incidents experienced at our facilities or by others in the industry, that could limit operations of our nuclear generating units;
- actions or activities at one of our nuclear units located on a multi-unit site that might adversely affect our ability to continue to operate that unit or other units located at the same site;
- any inability to manage our energy obligations, available supply and risks;
- adverse outcomes of any legal, regulatory or other proceeding, settlement, investigation or claim applicable to us and/or the energy industry;
- any deterioration in our credit quality or the credit quality of our counterparties;
- availability of capital and credit at commercially reasonable terms and conditions and our ability to meet cash needs;
- changes in the cost of, or interruption in the supply of, fuel and other commodities necessary to the operation of our generating units;
- delays in receipt of necessary permits and approvals for our construction and development activities;
- delays or unforeseen cost escalations in our construction and development activities;
- any inability to achieve, or continue to sustain, our expected levels of operating performance;
- any equipment failures, accidents, severe weather events or other incidents that impact our ability to provide safe and reliable service to our customers, and any inability to obtain sufficient insurance coverage or recover proceeds of



insurance with respect to such events;

- acts of terrorism, cybersecurity attacks or intrusions that could adversely impact our businesses;

• increases in competition in energy supply markets as well as competition for certain transmission projects;

• any inability to realize anticipated tax benefits or retain tax credits;

• challenges associated with recruitment and/or retention of a qualified workforce;

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adverse performance of our decommissioning and defined benefit plan trust fund investments and changes in funding requirements;

- changes in technology, such as distributed generation and micro grids, and greater reliance on these technologies; and
- changes in customer behaviors, including increases in energy efficiency, net-metering and demand response.

Additional information concerning these factors is set forth or referred to under “Risk Factors.”

All of the forward-looking statements made in this prospectus and any prospectus supplement or in the documents incorporated by reference or deemed to be incorporated by reference are qualified by these cautionary statements and we cannot assure you that the results or developments anticipated by us will be realized or, even if realized, will have the expected consequences to, or effects on, us or our business, prospects, financial condition or results of operations. You should not place undue reliance on these forward-looking statements in making your investment decision to purchase the Common Stock. Except as may be required by federal securities laws, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to these forward-looking statements to reflect events or circumstances that occur or arise or are anticipated to occur or arise after the date hereof. In making an investment decision regarding the Common Stock, we are not making, and you should not infer, any representation about the likely existence of any particular future set of facts or circumstances.

The forward-looking statements contained in this prospectus, any prospectus supplement and the documents incorporated by reference or deemed to be incorporated by reference herein or therein are intended to qualify for the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Exchange Act.

## **PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED**

We are an energy company with a diversified business mix. Our operations are located primarily in the Northeastern and Mid-Atlantic United States. Our business approach focuses on operational excellence, financial strength and disciplined investment. As a holding company, our profitability depends on our subsidiaries’ operating results. We have two principal direct, wholly-owned subsidiaries:

- PSE&G, which is an operating public utility company engaged principally in the transmission and distribution of electric energy and gas service in New Jersey; and
- PSEG Power LLC (“Power”), which is a multi-regional independent electric generation and wholesale energy marketing and trading company.

Our other direct, wholly-owned subsidiaries are:

- PSEG Energy Holdings L.L.C. (“Energy Holdings”), which earns revenues primarily from its portfolio of lease investments;
- PSEG Long Island LLC (“PSEG LI”), which operates the Long Island Power Authority’s transmission and distribution system under a contractual agreement; and
- PSEG Services Corporation (“Services”), which provides corporate support and managerial and administrative services to us and our subsidiaries.

We are a New Jersey corporation with our principal offices located at 80 Park Plaza, Newark, New Jersey 07101. Our telephone number is (973) 430-7000.

## **RISK FACTORS**

In addition to the risk factors contained in our most recently filed Annual Report on Form 10-K and our other periodic reports filed with the SEC and incorporated by reference into this prospectus, as well as those risk factors that may be included in the applicable prospectus supplement and other information contained in the documents

incorporated by reference or elsewhere in this prospectus, prospective investors should carefully consider the risks described below before making a decision to purchase the securities. Such factors could affect actual results and cause our results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, us. Some or all of these factors may apply to us and our subsidiaries. See “Forward-Looking Statements.”

**Because We Are a Holding Company, Our Ability to Service Our Debt Could be Limited**

We are a holding company with no material assets other than the stock or membership interests of our subsidiaries and project affiliates. Accordingly, all of our operations are conducted by our subsidiaries and project affiliates which are separate and distinct legal entities that have no obligation, contingent or otherwise, to pay any amounts when due on our debt or to make any funds available to us to pay such amounts and satisfy our other corporate funding needs, including payment of dividends on our capital stock. As a result, our debt will effectively be subordinated to all existing and future preferred equity

and liabilities of our subsidiaries and project affiliates, including holders of their debt, trade creditors, secured creditors, taxing authorities and guarantee holders, and our rights and hence the rights of our creditors to participate in any distribution of assets of any subsidiary or project affiliate upon its liquidation or reorganization or otherwise would be subject to the prior claims of that subsidiary's or project affiliate's creditors and preferred equity holders, except to the extent that our claims as a creditor of such subsidiary or project affiliate may be recognized.

We depend on our subsidiaries' and project affiliates' cash flows and our access to capital in order to service our indebtedness and satisfy our other corporate funding needs, including payment of dividends on our capital stock. The debt agreements of subsidiaries and project affiliates generally restrict their ability to pay dividends, make cash distributions or otherwise transfer funds to us. These restrictions may include achieving and maintaining financial performance or debt coverage ratios, absence of events of default, or priority in payment of other current or prospective obligations. As a result, we can give no assurances that our subsidiaries and project affiliates will be able to transfer funds to us to meet all of our needs.

Our subsidiaries have financed some investments using non-recourse project level financing. Each non-recourse project level financing is structured to be repaid out of cash flows provided by the investment. In the event of a default under a financing agreement which is not cured, the lenders would generally have rights to the related assets. In the event of foreclosure after a default, our subsidiary may lose its equity in the asset or may not be entitled to any cash that the asset may generate. Although a default under a project financing agreement is not expected to cause a default with respect to our debt, other debt of the applicable subsidiary, if any, or debt of our other subsidiaries, it may materially affect our ability to service our outstanding indebtedness and satisfy our other corporate funding needs, including payment of dividends on our capital stock.

We can give no assurances that our current and future capital structure, operating performance or financial condition will permit us to access the capital markets or to obtain other financing at the times, in the amounts and on the terms necessary or advisable for us to successfully carry out our business strategy and to service our indebtedness and satisfy our other corporate funding needs, including payment of dividends on our capital stock.

## **DESCRIPTION OF THE COMMON STOCK**

The following description summarizes the material terms of our Common Stock. Because this section is a summary, it does not describe every aspect of our Common Stock. For additional information, you should refer to the applicable provisions of the New Jersey Business Corporation Act and our Certificate of Incorporation, as amended (the "Charter"), and By-Laws, as amended. Our Charter and By-Laws are exhibits to the registration statement of which this prospectus is a part.

### **Authorized Capital Stock**

Our authorized capital stock consists of 1,000,000,000 shares of Common Stock, without par value, and 50,000,000 shares of preferred stock, without par value.

### **Common Stock**

*General.* As of October 31, 2014, 506,043,534 shares of our Common Stock were issued and outstanding. The outstanding shares of our Common Stock are, and any shares of Common Stock offered hereby when issued and paid for will be, fully paid and non-assessable.

*Dividend Rights.* Holders of our Common Stock are entitled to such dividends as may be declared from time to time by our board of directors from legally available funds after payment of all amounts owed on any preferred stock

that may be outstanding.

*Voting Rights.* Holders of our Common Stock are entitled to one vote for each share held by them on all matters presented to shareholders.

*Liquidation Rights.* After satisfaction of our creditors and the preferential liquidation rights of any preferred stock, the holders of our Common Stock are entitled to share, ratably, in the distribution of all remaining net assets.

*Redemption Rights.* The shares of our Common Stock are not subject to redemption or to any further calls or assessments and are not entitled to the benefit of any sinking fund provisions.

### **Transfer Agent and Registrar**

The transfer agent and registrar for our Common Stock is Wells Fargo Shareowner Services, a division of Wells Fargo Bank, N.A.

## THE ENTERPRISE DIRECT PLAN

**The following constitutes the full text of Enterprise Direct:**

### **Purpose**

Enterprise Direct is a direct stock purchase plan designed to promote long-term ownership among investors in our Common Stock. Participants may purchase shares of Common Stock and reinvest all or a portion of the dividends paid on Common Stock and/or Preferred Stock in shares of Common Stock, without the payment of any trading fees. To the extent, if any, that such shares are purchased directly from us, the Plan will provide us with additional equity capital.

### **Administration**

Enterprise Direct is administered by the individual (who may be our employee or an employee of any of our subsidiaries), bank, trust company or other entity (including us or any of our subsidiaries) appointed from time to time by us to act as administrator of the Plan (the "Administrator").

The Administrator is responsible for administering the Plan, receiving all cash investments made by Participants, forwarding funds to be used to purchase Common Stock in the open market and sales instructions to the Independent Agent, holding shares of stock acquired under the Plan, maintaining records, sending statements of account to Participants and performing other duties related to the Plan. Under certain circumstances, the Administrator may be an Independent Agent.

We have appointed Wells Fargo Shareowner Services, a division of Wells Fargo Bank, N.A. as the Administrator of Enterprise Direct.

### **Inquiries**

*Participants may contact the Administrator at the following:*

*By Writing To:*

Wells Fargo Shareowner Services  
P.O. Box 64856  
St. Paul, MN 55164-0856

Certified/Overnight Mail:  
Wells Fargo Shareowner Services  
1110 Centre Pointe Curve, Suite 101  
Mendota Heights, MN 55120-4100

*By Telephone, Toll Free:*

1-800-242-0813 between 8:00 a.m. and 8:00 p.m. Monday through Friday, Eastern Time

*– International Calls:*

1-651-450-4064

– *For the hearing impaired:*

Please call 1-800-242-0813 and utilize our relay service

*By Website:*

shareowneronline.com

To obtain information and perform certain transactions on your account online, including investments via electronic funds transfer (“EFT”), share withdrawals and sale of shares, you may use the Administrator’s website at: shareowneronline.com.

For current shareholders of record: Go to [shareowneronline.com](http://shareowneronline.com) and click on “Sign Up Now!” under “I am a Current Shareowner.” You will need your 10-digit account number, your 12-digit Authentication ID and a valid email address. Your account number can be found on your dividend check, dividend deposit notice or account statement. If you do not have your Authorization ID, you may request one online or by phone. Your Authorization ID will be sent to your mailing address on file.

For non-shareholders of record (new investors): Go to [shareowneronline.com](http://shareowneronline.com) and click on “Direct Purchase Plan,” under the column titled “Invest in a Plan.” Next, simply click on “Invest Now!” under the column “New Investors for PSEG.” Then follow the instructions on the “Buy Shares” page.

For optional cash investments, sales, transfers, deposits or withdrawals, mail the tear-off portion of your transaction advice or account statement to:

Wells Fargo Shareowner Services  
P.O. Box 64856  
St. Paul, MN 55164-0856

For certificate deposits, mail the tear-off portion of your transaction advice or account statement along with your certificates to:

Certified/Overnight Mail:  
Wells Fargo Shareowner Services  
1110 Center Pointe Curve, Suite 101  
Mendota Heights, MN 55120-4100

### **Eligibility**

Any person or entity is eligible to participate in Enterprise Direct provided that (i) such person or entity fulfills the requirements described below under “Enrollment Procedures” and (ii) in the case of foreign investors, participation is limited to shareholders whose participation would not violate local laws and regulations or subject the Plan, the Administrator or us to taxation by or in such jurisdictions.

Regulations in certain countries may limit or prohibit participation in this type of plan. Therefore, persons residing outside the U.S. who wish to participate in Enterprise Direct should first determine whether they are subject to any governmental regulations prohibiting their participation. Enterprise Direct is not offered to any person in any country where such participation is prohibited or where registration of us, the Administrator or the Common Stock would be required as a condition of such person’s participation.

### **Enrollment Procedures**

Requests for copies of an Account Authorization Form (the “AAF”) and this prospectus should be made to the Administrator at the addresses and telephone numbers listed in “Inquiries,” above.

#### *Shareholders*

Shareholders who hold shares of Common Stock or shares of any series of Preferred Stock directly in their name may join Enterprise Direct by logging into their account on-line, by telephone or by completing the AAF. See “Methods of Investment.”

#### *Non-Shareholders*

Investors may join Enterprise Direct by enrolling on-line or by returning a completed AAF to the Administrator. To enroll, investors must make an Initial Investment of at least \$250. The maximum Initial Investment is \$10,000. See “Methods of Investment,” Non-shareholders will pay a one-time enrollment fee. See “Service Fees.” Common Stock purchased with the Initial Investment by a non-shareholder will be purchased in the open market. See “Purchases of Common Stock.”

#### *“Street Name” Holders/Transfer of Shares From a Broker*



Beneficial owners whose shares are registered in the name of a bank, a broker, a trustee or other agent may transfer these shares to an Enterprise Direct account by instructing their agent to register these shares directly in their name. Upon such registration, the shareholder may enroll in Enterprise Direct on-line or by returning a completed AAF to the Administrator.

### **Methods of Investment**

A Participant's total investment cannot exceed \$125,000 per calendar year and must be made in U.S. dollars. For the purpose of applying the annual limit, all investments during any calendar year (including the Initial Investment and all Voluntary Contributions, but excluding reinvested dividends and shares deposited with Enterprise Direct for safekeeping only) are aggregated. **No interest will be paid on amounts held by the Administrator pending investment.**

#### *Direct Investment*

Participants may make investments in Common Stock through Enterprise Direct of at least \$250 for an Initial Investment and at least \$50 per investment for any Voluntary Contributions (each, a "Direct Investment") by mailing a new AAF together with a check as directed on the form. **The check must be in U.S. dollars and drawn on a U.S. or Canadian financial institution. Do not send cash. Money orders, traveler's checks or third party checks will not be accepted.** Funds received by the Administrator at least two business days prior to an Investment Date (as defined in "Investment Dates," below) will be invested on such Investment Date. Funds received less than two business days prior to an Investment Date will be invested on the following Investment Date. Any individual or entity may make Direct Investments on behalf of any Participant or eligible investor as a gift or award.

A Direct Investment received by the Administrator and not yet used to purchase Common Stock through the Plan will be returned to the Participant as soon as practicable if a written request is received by the Administrator at least five business days prior to the applicable Investment Date. However, no refund of a check will be made until the check has cleared. Accordingly, such refunds may be delayed up to three weeks. **No interest will be paid on a Direct Investment that is refunded to the Participant.**

#### *Automatic Investments*

Participants may make Voluntary Contributions through electronic withdrawals of at least \$50 from a predesignated account with a U.S. Financial institution (“Automatic Investments”). To initiate Automatic Investments, Participants may enroll on-line or complete and return the Automatic Cash Withdrawal and Investment section of the AAF. Automatic Investments will be initiated as promptly as practicable. Once initiated, funds will be drawn on the 25th day of each month, or if such date is not a business day, the deduction will be made on the preceding business day.

#### *Dividends*

Participants may elect to acquire Common Stock through the Plan by reinvesting all or a portion of dividends paid on Common Stock or Preferred Stock registered in their names by completing an AAF. Participants electing partial reinvestment of dividends must designate the specific number of shares and series of securities (i.e., Common Stock and/or the one or more series of Preferred Stock) on which dividends will be paid in cash or reinvested. Once a Participant elects reinvestment, dividends paid on the specific securities so designated will be reinvested in shares of Common Stock until a different AAF is received. An AAF must be received by the Administrator no later than the first business day of a month in which a dividend is to be paid to be effective with respect to that dividend. **The amount reinvested will be reduced by any amount which is required to be withheld under applicable tax law or other statutes.** See “Income Tax Information.”

If a Participant does not elect to reinvest dividends, or elects partial reinvestment, that portion of the dividends not being reinvested will be sent to the Participant by check or, if the Participant has elected, by electronic direct deposit. See “Direct Deposit of Dividends Not Reinvested.” **The amount of any such dividends paid will be reduced by any amount which is required to be withheld under applicable tax law or other statutes.** See “Income Tax Information.”

#### **Investment Dates**

Enterprise Direct’s “Investment Dates” are as follows:

(a) For Direct Investments, (i) the 15th day of each calendar month and the last calendar day of the month, or, if such day is not a day on which the financial markets in New York City are open for business, the immediately preceding day on which they are open. **No interest will be paid on amounts held by the Administrator pending investment.**

(b) For Automatic Investments, the last calendar day of each month, or, if such day is not a day on which the financial markets in New York City are open for business, the immediately preceding day on which they are open.

(c) For dividends paid on Common Stock or Preferred Stock which are designated for investment through Enterprise Direct, on each respective dividend payment date.

#### **Purchases of Common Stock**

Common Stock will be purchased by the Independent Agent in the open market or directly from us, at our sole discretion. However, Common Stock purchased with Initial Investment funds for non-shareholders will be acquired only in the open market. Shares purchased from us may be either newly issued shares or shares held in our treasury.

We may not change our determination regarding the source of the shares (i.e., from us or in the open market) more than once in any 3-month period. At any time that shares of Common Stock are purchased in the open market for Participants, we will not exercise our right to change the source of purchases of Common Stock absent a determination by our board of directors or the finance committee of our board of directors that we have a need to increase equity capital or there is another compelling reason for such change.

Open market purchases by the Independent Agent may be made on any stock exchange in the United States where the Common Stock is traded, in the over-the-counter market, from Participants who are selling through the Plan or by negotiated transactions on such terms as the Independent Agent, in its sole discretion, may reasonably determine at the time of purchase. Any shares purchased by the Independent Agent from us will be made in accordance with applicable requirements. None of us, the Administrator (unless the Administrator is also the Independent Agent) nor any Participant shall have any authority or power to direct the time or price at which shares of Common Stock may be purchased. We will pay all trading fees, related service charges and any applicable taxes incurred by the Independent Agent in connection with the purchase of shares of Common Stock in the open market. For information concerning the potential income tax consequences to the Participant of open market purchases see "Income Tax Information."

For shares purchased in the open market, the Independent Agent may, at its sole discretion, purchase such shares at any time beginning on the Investment Date and ending on the business day before the next Investment Date. The number of

shares (including any fraction of a share) of Common Stock credited to the account of a Participant for a particular Investment Date will be determined by dividing the total amount of dividends, Direct Investments and/or Automatic Investments to be invested for such Participant on such Investment Date by the weighted average price per share of such purchases made for all Participants for such Investment Date.

Purchases of shares of Common Stock from us, whether newly issued or treasury shares, will be made on the relevant Investment Date at the average of the high and low sales prices of the Common Stock reported on the New York Stock Exchange Composite Tape as published for the Investment Date. No trading fees will be incurred on shares acquired directly from us.

**Under Enterprise Direct, a Participant does not have the ability to order the purchase of a specific number of shares, the purchase of shares at a specified price or a particular date of purchase, as may be done with purchases through a broker.**

The Independent Agent may commingle each Participant's funds with those of other Participants for the purpose of executing purchase and sale transactions.

### **Sales of Common Stock**

A Participant may sell any or all full shares of Common Stock in the Participant's account without terminating participation in Enterprise Direct by delivering a request acceptable to the Administrator. See "Administration." Any remaining full shares and fraction of a share will remain in the Participant's account. **Under Enterprise Direct, a Participant does not have the ability to sell shares at a specific price or on a particular date, as may be done with sales through a broker.**

A request to have the check for the proceeds of the sale of Plan shares issued in a name other than the account name of record will be honored only after the requirements for the transfer of stock have been met. See "Gift/Transfer of Shares."

### **HOW CAN I SELL MY SHARES?**

You may instruct the Administrator to sell some or all of Your Plan shares by placing a sale order via the Internet. To place a sale order, visit the Administrator's website at [shareowneronline.com](http://shareowneronline.com) (see "Inquiries").

#### ***Sale Orders via IVR System***

You may instruct the Administrator to sell some or all of your Plan shares by placing a sale order via the Interactive Voice Response ("IVR") system. To place a sale order, contact the Administrator, toll-free, at 1-800-242-0813. Simply select the menu option for sales and follow the instructions provided. For security purposes, you will be asked to enter your PIN ID (see "Inquiries").

#### ***Sale Orders via Internet***

You may instruct the Administrator to sell some or all of your Plan shares by placing a sale order via the Internet. To place a sale order, visit the Administrator's website at [shareowneronline.com](http://shareowneronline.com) (see "Inquiries").

#### ***Sale Orders via Mail***

You may instruct the Administrator to sell some or all of your Plan shares by completing and signing the tear-off portion of your account statement and mailing the instructions to the Administrator. If there is more than one name or owner on the Plan account, all Participants must sign the tear-off portion of the account statement.

#### **HOW ARE SHARES SOLD?**

As with purchases, the Administrator aggregates all requests to sell shares and then sells the total shares on the open market. Sales are made through an Independent Agent who will receive trading fees. Normally, the shares will be sold on the New York Stock Exchange, where our Common Stock trades.

Sales are made at least once a week. Depending on the number of shares being sold and current trading volume in the shares, sales may be executed in multiple transactions and may be traded on more than one day. The fee in connection with the sale of shares is \$10.00 plus trading fees. The selling price will not be known until the sale is complete. The price per share sold will reflect the per share fee, and will always be the average weighted price for all shares sold for the Plan on the trade date or dates less the per share transaction fee.

A check for the proceeds of the sale of shares, less applicable taxes and transaction fees, will normally be mailed to you by first class mail within two (2) business days after the final trade settlement date.

Sales will be made by the Independent Agent as soon as practicable after receipt of such request by the Administrator. Subject to applicable regulations, the Independent Agent shall have sole discretion as to all matters relating to such sales, including determining the number of shares, if any, to be sold on any day or at any time of that day, the prices received for such shares, the markets on which such sales are made and the person (including other brokers and dealers) from or through

whom such sales are made. The proceeds from the sale, less any fees charged by us and trading fees, related service charges and any applicable taxes paid by the Independent Agent, will be remitted to the Participant by the Administrator. A service fee will be charged for such sales. See "Service Fees."

**A request to sell shares of Common Stock in a Participant's account is irrevocable when made. The price received by the Independent Agent for the account of the Participant will necessarily be dependent on market conditions in effect at the time of the sale. The market price of shares of Common Stock may fluctuate up or down between the time the Participant requests such sale and the time such shares are actually sold by the Independent Agent. No liability for any such change in market price in connection with any such sale is or has been assumed by us, the Administrator or the Independent Agent.**

### **Changing Plan Options**

Participants may change their Enterprise Direct options at any time on-line, by telephone or by delivering a new AAF or other instructions to that effect to the Administrator. Any such instructions must be **received** by the Administrator no later than the first business day of a month in which a dividend is to be paid to be effective for that dividend. In addition, for changes involving Automatic Investments, an AAF indicating such change must be **received** by the Administrator no later than ten business days prior to the Investment Date upon which the change is to become effective.

### **Withdrawal from Enterprise Direct**

Participants may withdraw from Enterprise Direct by giving notice to the Administrator. Upon withdrawal, the Administrator will maintain all shares of Common Stock held in the Participant's account in book-entry form, unless the Participant requests that the Administrator either (i) send a certificate for the number of whole shares held in the Enterprise Direct account and a check for the value of any fractional shares (based on 100% of the then current market price of the Common Stock at the time such shares are sold, less applicable fees, related service charges and any applicable taxes); or (ii) sell all shares in the Enterprise Direct account as described under "Sales of Common Stock." Thereafter, dividends will be paid in cash unless the shareholder rejoins Enterprise Direct.

Certificates will be issued upon withdrawal in the name or names in which the account is maintained, unless otherwise instructed. See "Gift/Transfer of Shares." No certificates will be issued for a fractional share.

All notices of withdrawal will be processed by the Administrator and any uninvested funds will be returned to the withdrawing Participant as soon as practicable, without interest. If a notice of withdrawal is received on or after an ex-dividend date but before the related dividend payment date, the withdrawal will be processed as described above and a separate dividend check will be mailed to the Participant as soon as practicable following the dividend payment date.

### **Safekeeping**

Both Participants and non-Participants may deposit some or all of their Common Stock certificates with the Administrator for safekeeping. Shares deposited will be credited to the shareholder's account as maintained by the Administrator. By using Enterprise Direct's safekeeping service, shareholders no longer bear the risk and cost associated with the loss, theft or destruction of stock certificates. Shareholders using this service who are not Enterprise Direct Participants will receive dividends in cash until they enroll in Enterprise Direct. Shares held in safekeeping may be sold or transferred as described in "Sales of Common Stock" and "Gift/Transfer of Shares."

To deposit certificates with Enterprise Direct's safekeeping service, shareholders should send their certificates by registered and insured mail to the Administrator with written instructions to deposit such shares. **The certificates should not be endorsed and the assignment section should not be completed.** All certificates deposited for safekeeping will be cancelled and a book-entry account established for the shareholder.

#### **Direct Deposit of Dividends Not Reinvested**

Participants and non-Participants who elect not to reinvest all dividends on shares of Common Stock and Preferred Stock may receive non-reinvested dividends by electronic deposit to their accounts at predesignated U.S. financial institutions on the applicable dividend payment date. To receive direct deposit of funds, Participants and non-Participants must obtain from the Administrator a Direct Deposit of Dividends Authorization Form and complete, sign and return it to the Administrator. Direct deposit of funds will become effective as promptly as practicable after receipt of a completed Direct Deposit of Dividends Authorization Form. Changes in designated direct deposit accounts may be made by logging into your account on-line or delivering a new Direct Deposit of Dividends Authorization Form to the Administrator.

Dividends on shares of Common Stock and Preferred Stock not designated for reinvestment and not directly deposited will be paid by check on the applicable dividend payment date.

## Gift/Transfer of Shares

Shareholders may transfer the ownership of some or all of their Enterprise Direct shares or shares of Common Stock held in safekeeping by contacting the Administrator and complying with its requirements for the transfer of stock then in effect. See “Inquiries.” Shares may be transferred to new or existing shareholders.

## Service Fees

<b>Enrollment Fee for Non-Shareholders</b>	\$10.00
(Deducted from the Initial Investment)	

<b>Sales and Termination Fee Per Transaction</b>	\$10.00
(Plus trading fees, related service charges and any applicable taxes incurred by the Independent Agent in connection with such sale)	

<b>Fee for Each Returned Check or Rejected Automatic Investment</b>	\$25.00
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In the event that a Participant’s optional cash investment check or EFT is returned unpaid for any reason, the Participant will be charged a \$25.00 return fee. Further, the Administrator will immediately remove from the Participant’s account shares that were purchased in anticipation of the collection of such funds plus the return fee. These shares will be sold to recover any uncollected funds and the return fee. If the net proceeds of the sale of such shares are insufficient to recover in full the uncollected amounts plus the return fee, the Administrator reserves the right to sell such additional shares from any of the Participant’s accounts maintained by the Administrator as may be necessary to recover in full the uncollected balance plus the return fee. The sale of such shares may, in some cases, yield an amount greater than that required to recover in full the uncollected balance plus the return fee. If this occurs, only amounts in excess of \$1.00 will be remitted to the Participant.

<b>Fee for Account Research</b>	\$25.00
(Per hour; one hour minimum)	

We reserve the right at any time to change these fees or to charge Participants (including those who do not reinvest dividends) other fees, including but not limited to administrative, set-up and handling fees. Notices of such future changes or additional fees will be sent to Participants at least 30 days prior to their effective date.

The Administrator will deduct the applicable fees and any other charges from proceeds due from a sale, funds received for investment or the payment of dividends. Any trading fees paid by us on behalf of a Participant to purchase shares of Common Stock under Enterprise Direct will be reported to the Internal Revenue Service (“IRS”) as income to the Participant. See “Income Tax Information.” At present, we estimate that trading fees will not exceed \$0.10 per share. We do not control the amount or the timing of changes to trading fees. Therefore, no notice of increases in trading fees will be provided.

## Reports to Participants

Participants will be provided quarterly statements listing all transactions in the Participant’s account for the calendar year through that quarter at their last known address as shown on the Administrator’s records. In addition, Participants will be provided a monthly confirmation statement for each month in which a Voluntary Contribution is made.

**Quarterly statements provide cost basis information which is necessary for tax reporting after the sale of Common Stock and should be retained by the Participant.**

## Stock Splits; Stock Dividends; Rights Offerings



Only dividends payable in cash may be reinvested under the Plan. In the event dividends are paid in shares of Common Stock, or if shares of Common Stock are distributed in connection with any stock split or similar transaction, each Participant's account will be adjusted to reflect the receipt of shares of Common Stock so paid or distributed. In the event of a rights offering, rights will be issued and mailed directly to the Participant for the number of whole shares only and rights based on a fraction of a share held in the Participant's account will be sold and the net proceeds will be applied as a Direct Investment to purchase shares of Common Stock under the Plan on the next Investment Date.

### **Rights of Participants**

All Common Stock purchased and/or held in a Participant's account will be held in a nominee name and administered by the Administrator, as custodian. Cash held for a Participant's account pending investment will be held in a segregated account and will not be commingled with our or the Administrator's funds (although funds held for Participants will be commingled with funds held for other Participants). Participants will be provided all reports distributed to our shareholders, as well as proxy materials, including a proxy covering all Common Stock held in the Participant's account, relating to any annual or special meeting of our shareholders at the last address for the Participant shown on the Administrator's records. Common Stock held in a Participant's account will be voted as and to the extent specified by the Participant. If a proxy with

respect to the Common Stock held in a Participant's account is not received by the Administrator prior to the fifth day before a shareholder meeting, the Administrator will vote the shares held in the Participant's account in accordance with the recommendations of our management.

### **Responsibility of the Administrator and Us; Indemnification**

**Neither we nor the Administrator can assure a profit or protect against a loss on shares purchased under Enterprise Direct.** The establishment and maintenance of Enterprise Direct by us does not constitute an assurance with respect to either the value of Common Stock or whether we will continue to pay dividends on Common Stock or at what rate.

Neither we nor the Administrator will be liable for any losses or liability howsoever incurred by Participants arising from, related to or in connection with the administration of the Plan or the Administrator's actions or non-actions with respect to the Plan (including by way of example and not by way of limitation any losses or claim of liability arising from (i) the failure to terminate a Participant's account, sell shares in the Plan or invest optional cash investments or dividends without prior receipt of proper documentation and instructions; (ii) the prices at which shares are purchased or sold for the Participant's account, the timing of such purchases and sales, and the fluctuation of prices of the shares (a) between the receipt of cash or dividends for investment and such investment, (b) between the receipt of instructions to sell and such sale and (c) after the purchase and sale of shares, and (iii) the transfer of shares from Participant's account to a broker pursuant to the Profile Program of The Depository Trust Company) except for such losses and liabilities caused by the Administrator's negligence or willful misconduct. In no event shall the Administrator be liable for special, consequential or punitive damages or losses due to forces beyond its control (including by way of example and not by way of limitation strikes, work stoppages, acts of war or terrorism, insurrection, revolution, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware services)).

### **MODIFICATION OR TERMINATION OF ENTERPRISE DIRECT**

We may modify or terminate Enterprise Direct at any time with or without prior notice and, in such event, Participants will be so notified. The Administrator also reserves the right to change any administrative procedures of Enterprise Direct.

### **Interpretation of Enterprise Direct**

We and the Administrator may, in our absolute discretion, interpret and regulate Enterprise Direct as deemed necessary or desirable in connection with the operation of Enterprise Direct and resolve questions or ambiguities concerning the various provisions of Enterprise Direct.

### **Governing Law**

Enterprise Direct shall be governed by and construed in accordance with the laws of the State of New Jersey.

### **Termination of Participation**

If a Participant does not have at least one whole share of Common Stock credited to the Participant's account under Enterprise Direct, or does not own any Common Stock or Preferred Stock for which dividends are designated for reinvestment pursuant to Enterprise Direct, the Participant's participation in Enterprise Direct may be terminated by us upon written notice to the Participant. Additionally, we may terminate any Participant's participation in Enterprise Direct after sending written notice to such Participant at the address appearing on the Administrator's records. A

Participant whose participation has been terminated will receive (i) a certificate for all of the whole shares of Common Stock credited to the Participant's account in Enterprise Direct, (ii) any dividends and cash investments credited to the Participant's account and (iii) a check for the cash value of any fraction of a share of Common Stock credited to the Participant's account. Such fraction of a share shall be valued at the weighted average price per share of the aggregate number of shares sold by the Independent Agent on the day such fraction of a share is sold.

## INCOME TAX INFORMATION

We believe that the following is an accurate summary (as of the date of this prospectus) of the U.S. federal income tax consequences generally applicable to Participants in Enterprise Direct who are taxed on their dividend income.

For U.S. federal income tax purposes, dividends invested in our Common Stock under Enterprise Direct are taxable to the same extent and in the same manner as the dividends received from us in cash. Therefore, taxable Participants cannot avoid U.S. federal income taxes by participating in Enterprise Direct. **Further, trading fees paid by us for open market purchase of shares on a Participant's behalf are also treated as taxable dividends for this purpose.** Annual informational returns sent to the IRS and to Participants, where required, will reflect all dividends declared on their Common Stock or Preferred Stock, whether or not invested under Enterprise Direct, and any related trading fees.

A Participant's income tax basis in shares acquired under Enterprise Direct will equal the price at which the shares are credited to the Participant's account by the Administrator and will be increased by any trading fees incurred by us in purchasing the shares on the open market.

This Plan assumes that each Participant will use the first-in, first-out (FIFO) method when determining the tax basis of any shares sold. Participants may designate their preference for a different method of determining the tax basis of shares by identifying this preference in writing to the Plan Administrator. Participants may designate their preference for specific identification cost basis at any time.

This discussion does not address the tax considerations arising under the laws of any foreign, state or local jurisdictions, nor does it address all tax considerations applicable to a Participant's particular circumstances. Further, certain Participants, such as tax-exempt entities (e.g., pension plans and IRAs) and foreign shareholders, may be exempt from U.S. federal income tax on their dividend income. **Accordingly, Participants are urged to discuss participation in Enterprise Direct with their tax advisors before enrolling.**

In the case of Participants in Enterprise Direct whose dividends are subject to U.S. back-up withholding, the Administrator will reinvest dividends less the amount of tax required to be withheld.

In the case of foreign shareholders whose dividends are subject to U.S. tax withholding, the Administrator will reinvest dividends less the amount of tax required to be withheld. The filing of any documentation required obtaining a reduction in the U.S. withholding tax will be the responsibility of the foreign shareholder.

Legislation commonly referred to as "FATCA" generally imposes a withholding tax of 30% on payments of U.S.-source dividends and the proceeds from the sale or other disposition of U.S. stock to certain non-U.S. entities (including financial intermediaries), unless various U.S. information reporting and due diligence requirements have been satisfied. An intergovernmental agreement between the United States and the non-U.S. entity's jurisdiction may modify these requirements. Withholding (if applicable) currently applies to any payment of amounts treated as dividends and will apply to any payment made after December 31, 2016 of gross proceeds of the sale, exchange or other disposition of the shares. If withholding applies, we will not be required to pay any additional amounts with respect to amounts withheld. Participants should consult their tax advisers regarding the potential application of FATCA.

## **USE OF PROCEEDS**

We will receive proceeds from the purchase of Common Stock pursuant to Enterprise Direct only to the extent that any such purchases are made directly from us and not in open market purchases by the Administrator. Proceeds received by us from such purchases will be used for general corporate purposes.

## **PLAN OF DISTRIBUTION**

Common Stock offered pursuant to Enterprise Direct will be purchased in the open market or, at our option, directly from us. Participants will be required to pay certain fees in connection with Enterprise Direct. See "Service Fees" for a description of the fees charged by Enterprise Direct. All other costs related to the administration of Enterprise Direct will be paid by us.

## **LEGAL MATTERS**

The legality of the Common Stock covered hereby has been passed upon for us by M. Courtney McCormick, Esq., our Deputy General Counsel. Ms. McCormick owns shares of Common Stock.

## **EXPERTS**

The consolidated financial statements and the related consolidated financial statement schedule incorporated in this prospectus by reference from our Annual Report on Form 10-K and the effectiveness of our internal control over financial reporting have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports which are incorporated herein by reference. Such consolidated financial statements and consolidated financial statement schedule have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

No person has been authorized to give any information or to make any representations other than those contained in this prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information herein is correct as of any time subsequent to its date.

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**Public Service  
Enterprise Group  
Incorporated**

**Enterprise Direct<sup>SM</sup>**

**(Dividend Reinvestment And  
Stock Purchase Plan)**

**November 18, 2014**

**Prospectus**



**PART II. INFORMATION NOT REQUIRED IN PROSPECTUS****Item 14. *Other Expenses of Issuance and Distribution.***

The following table sets forth the expenses in connection with the issuance and distribution of the securities being registered, other than underwriting discounts and commissions. All of the amounts shown are estimates.

SEC registration fee	\$ *
Printing	**
Legal fees and expenses	**
Fees of accountants	**
Fees of trustees	**
Blue sky fees and expenses	**
Rating agency fees	**
Miscellaneous	**
Total	\$ **

Deferred in accordance with Rules 456(b) and 457(r) under the Securities Act of 1933, as amended, except for \*\$9,411, which was previously paid with respect to 2,513,578 shares of Common Stock registered under Registration Statement No. 333-178143, which shares remain unsold and have been included in this Registration Statement pursuant to Rule 415(a)(6) under the Securities Act of 1933, as amended.

\*\* These fees and expenses depend on the securities offered and the number of issuances, and accordingly cannot be estimated at this time.

**Item 15. *Indemnification of Directors and Officers.***

Under Section 14A:3-5 of the New Jersey Business Corporation Act, we:

(1) have power to indemnify each director and officer (as well as our employees and agents) against expenses and liabilities in connection with any proceeding involving him by reason of his being or having been such director or officer, other than a proceeding by or in our own right, if (a) such director or officer acted in good faith and in a manner he reasonably believed to be in or not opposed to our best interests, and (b) with respect to any criminal proceeding, such director or officer had no reasonable cause to believe his conduct was unlawful;

(2) have power to indemnify each director and officer against expenses in connection with any proceeding by or in our own right to procure a judgment in our favor which involves such director or officer by reason of his being or having been such director or officer, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to our best interests; however, in such proceeding no indemnification may be provided in respect to any claim, issue or matter as to which such director or officer shall have been adjudged to be liable to us, unless and only to the extent that the court determines that the director or officer is fairly reasonably entitled to indemnity for such expenses as the court shall deem proper;

(3) must indemnify each director and officer against expenses to the extent that he has been successful on the merits or otherwise in any proceeding referred to in (1) and (2) above or in defense of any claim, issue or matter therein; and

(4) have power to purchase and maintain insurance on behalf of a director or officer against any expenses incurred in any proceeding and any liabilities asserted against him by reason of his being or having been a director or officer, whether or not we would have the power to indemnify him against such expenses and liabilities under the statute.

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As used in the statute, expenses means reasonable costs, disbursements and counsel fees; liabilities means amounts paid or incurred in satisfaction of settlements, judgments, fines and penalties; and proceeding means any pending, threatened or completed civil, criminal, administrative or arbitrative action, suit or proceeding, and any appeal therein and any inquiry or investigation which could lead to such action, suit or proceeding.

Indemnification may be awarded by a court under (1) or (2) as well as under (3) above, notwithstanding a prior determination by us that the director or officer has not met the applicable standard of conduct.

Indemnification under the statute does not exclude any other rights to which a director or officer may be entitled under a certificate of incorporation, by-law, or otherwise.

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Article 8, Section 1 of our Certificate of Amendment of Certificate of Incorporation provides as follows:

1. Indemnification:

The corporation shall indemnify to the full extent from time to time permitted by law any person made, or threatened to be made, a party to any pending, threatened or completed civil, criminal, administrative or arbitral action, suit, or proceeding and any appeal therein (and any inquiry or investigation which could lead to such action, suit or proceeding) by reason of the fact that he is or was a director, officer or employee of the corporation or serves or served any other enterprise as a director, officer or employee at the request of the corporation. Such right of indemnification shall inure to the benefit of the legal representative of any such person.

Article 8, Section 2 of our Certificate of Amendment of Certificate of Incorporation provides as follows:

2. Limitation of Liability:

To the full extent from time to time permitted by law, directors and officers of the corporation shall not be personally liable to the corporation or its shareholders for damages for breach of any duty owed to the corporation or its shareholders. No amendment or repeal of this provision shall adversely affect any right or protection of a director or officer of the corporation existing at the time of such amendment or repeal.

Each form of underwriting agreement between us and any underwriters contains a provision under which each underwriter agrees to indemnify our directors and each of our officers who signed the registration statement against certain liabilities which might arise under the Securities Act of 1933 from information furnished to us in writing by or on behalf of such underwriter.

Our directors and officers are insured under policies of insurance, within the limits and subject to the limitations of the policies, against claims made against them for acts in the discharge of their duties, and we are insured to the extent that we are required or permitted by law to indemnify the directors and officers for such loss. We pay premiums for such insurance.

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**Item 16. Exhibits.**

**Exhibit**

- 1-1 Form of Underwriting Agreement for Debt Securities.<sup>1</sup>
- 1-2 Form of Underwriting Agreement for Common Stock and Preferred Stock.<sup>1</sup>  
 Indenture dated as of November 1, 1998 between Public Service Enterprise Group Incorporated and US Bank National Association (as successor to First Union National Bank), as Trustee, providing for Senior Debt Securities.<sup>2</sup>
- 4-1 Debt Securities.<sup>2</sup>
- 4-2 Form of Subordinated Debt Indenture.<sup>3</sup>
- 4-3 Form of Senior Debt Security.<sup>1</sup>
- 4-4 Form of Subordinated Debt Security<sup>1</sup>
- 4-5 Certificate of Incorporation.<sup>4</sup>
- 4-6 Certificate of Amendment of Certificate of Incorporation, effective April 23, 1987.<sup>5</sup>
- 4-7 Certificate of Amendment of Certificate of Incorporation, effective April 20, 2007.<sup>6</sup>
- 4-8 By-Laws effective November 17, 2009.<sup>7</sup>
- 4-9 Form of Stock Purchase Contract Agreement.<sup>1</sup>
- 4-10 Form of Pledge Agreement.<sup>1</sup>  
 Opinion of M. Courtney McCormick, Esquire, relating to the validity of the Common Stock, Preferred Stock, Stock Purchase Contracts, Stock Purchase Units, Senior Debt Securities and Subordinated Debt Securities, including consent.
- 5
- 12-1 Statement regarding computations of ratios of earnings to fixed charges.<sup>8</sup>  
 Statement regarding computations of ratios of earnings to combined fixed charges and preference dividends.<sup>9</sup>
- 12-2
- 23-1 Consent of Independent Registered Public Accounting Firm.
- 23-2 Consent of M. Courtney McCormick, Esquire (included in Exhibit 5).
- 24 Power of Attorney.  
 Statement of Eligibility under the Trust Indenture Act of 1939 of US Bank National Association, as Trustee under the Senior Indenture for Public Service Enterprise Group Incorporated.
- 25-1
- 25-2 Statement of Eligibility under the Trust Indenture Act of 1939 of US Bank National Association, as Trustee under the Subordinated Indenture for Public Service Enterprise Group Incorporated.

<sup>1</sup>To be filed by amendment or pursuant to a Current Report on Form 8-K, if applicable.

<sup>2</sup>Previously filed as Exhibit 4(f) to Annual Report on Form 10-K for the year ended December 31, 1998, File No. 1-9120, and incorporated herein by reference.

<sup>3</sup>Previously filed as Exhibit 4-5 to Registration Statement on Form S-3, No. 333-86372, and incorporated herein by reference.

<sup>4</sup>Previously filed as Exhibit 3.1(a) to Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, File No. 1-9120, and incorporated herein by reference.

<sup>5</sup>Previously filed as Exhibit 3.1(b) to Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, File No. 1-9120, and incorporated herein by reference.

<sup>6</sup>Previously filed as Exhibit 3.1(c) to Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, File No. 1-9120, and incorporated herein by reference.

<sup>7</sup>Previously filed as Exhibit 3.1 to Current Report on Form 8-K, File No. 1-9120, on November 18, 2009, and incorporated herein by reference.

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8 Previously filed as Exhibit 12 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, File No. 1-9120, and incorporated herein by reference.

9 Because the registrant currently has no preferred stock outstanding, the registrant's ratios of earnings to combined fixed charges and preference dividends for each of the periods indicated herein are the same as the registrant's ratios of earnings to fixed charges. The statement regarding computations of ratios of earnings to fixed charges was previously filed as Exhibit 12 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, File No. 1-9120, and incorporated herein by reference.

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**Item 17. Undertakings.**

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(ii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

*Provided, however, that:*

Paragraphs (a)(1)(i), (a)(1)(ii) and (a)(1)(iii) above do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.

That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(2) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(3) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(A) Each prospectus filed by the registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. *Provided, however,* that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

(B) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities, the undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to

sell the securities to the purchaser, if the securities are offered or sold to such  
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purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

- (i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;
  - (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
  - (iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
  - (iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.
- The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
- Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officer and controlling persons of such registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.



## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant, Public Service Enterprise Group Incorporated, certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Newark, State of New Jersey, on this 18<sup>th</sup> day of November 2014.

**Public Service Enterprise  
Group  
Incorporated**

By: /s/ Bradford D. Huntington  
**Bradford D. Huntington**  
**Treasurer**

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has also been signed by Bradford D. Huntington Attorney-in-Fact, on behalf of the following persons in the capacities indicated on November 18, 2014.

<u>Name</u>	<u>Capacity</u>
Ralph Izzo	Principal Executive Officer and Director
Caroline Dorsa	Principal Financial Officer
Stuart J. Black	Principal Accounting Officer
Albert R. Gamper, Jr.	Director
William V. Hickey	Director
Shirley Ann Jackson	Director
David Lilley	Director
Thomas A. Renyi	Director
Hak Cheol Shin	Director
Richard J. Swift	Director
Alfred W. Zollar	Director

By: /s/ Bradford D. Huntington  
**Bradford D. Huntington**  
**Attorney-In-Fact**

## EXHIBIT INDEX

### Exhibit

- 1-1 Form of Underwriting Agreement for Debt Securities.<sup>1</sup>
- 1-2 Form of Underwriting Agreement for Common Stock and Preferred Stock.<sup>1</sup>  
 Indenture dated as of November 1, 1998 between Public Service Enterprise Group Incorporated and US Bank National Association (as successor to First Union National Bank), as Trustee, providing for Senior Debt Securities.<sup>2</sup>
- 4-1 Debt Securities.<sup>2</sup>
- 4-2 Form of Subordinated Debt Indenture.<sup>3</sup>
- 4-3 Form of Senior Debt Security.<sup>1</sup>
- 4-4 Form of Subordinated Debt Security.<sup>1</sup>
- 4-5 Certificate of Incorporation.<sup>4</sup>
- 4-6 Certificate of Amendment of Certificate of Incorporation, effective April 23, 1987.<sup>5</sup>
- 4-7 Certificate of Amendment of Certificate of Incorporation, effective April 20, 2007.<sup>6</sup>
- 4-8 By-Laws effective November 17, 2009.<sup>7</sup>
- 4-9 Form of Stock Purchase Contract Agreement.<sup>1</sup>
- 4-10 Form of Pledge Agreement.<sup>1</sup>  
 Opinion of M. Courtney McCormick, Esquire relating to the validity of the Common Stock, Preferred Stock, Stock Purchase Contracts, Stock Purchase Units, Senior Debt Securities, and Subordinated Debt Securities, including consent.
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- 12-1 Statement regarding computations of ratios of earnings to fixed charges.<sup>8</sup>  
 Statement regarding computations of ratios of earnings to combined fixed charges and preference dividends.<sup>9</sup>
- 12-2
- 23-1 Consent of Independent Registered Public Accounting Firm.
- 23-2 Consent of M. Courtney McCormick, Esquire (included in Exhibit 5).
- 24 Power of Attorney.  
 Statement of Eligibility under the Trust Indenture Act of 1939 of US Bank National Association, as Trustee under the Senior Indenture for Public Service Enterprise Group Incorporated.
- 25-1
- 25-2 Statement of Eligibility under the Trust Indenture Act of 1939 of US Bank National Association, as Trustee under the Subordinated Indenture for Public Service Enterprise Group Incorporated.

<sup>1</sup>To be filed by amendment or pursuant to a Current Report on Form 8-K, if applicable.

<sup>2</sup>Previously filed as Exhibit 4(f) to Annual Report on Form 10-K for the year ended December 31, 1998, File No. 1-9120, and incorporated herein by reference.

<sup>3</sup>Previously filed as Exhibit 4.5 to Registration Statement on Form S-3, No. 333-86372, and incorporated herein by reference.

<sup>4</sup>Previously filed as Exhibit 3.1(a) to Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, File No. 1-9120, and incorporated herein by reference.

<sup>5</sup>Previously filed as Exhibit 3.1(b) to Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, File No. 1-9120, and incorporated herein by reference.

<sup>6</sup>Previously filed as Exhibit 3.1(c) to Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, File No. 1-9120, and incorporated herein by reference.

<sup>7</sup>Previously filed as Exhibit 3.1 to Current Report on Form 8-K, File No. 1-9120, on November 18, 2009, and incorporated herein by reference.

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8 Previously filed as Exhibit 12 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, File No. 1-9120, and incorporated herein by reference.

9 Because the registrant currently has no preferred stock outstanding, the registrant's ratios of earnings to combined fixed charges and preference dividends for each of the periods indicated herein are the same as the registrant's ratios of earnings to fixed charges. The statement regarding computations of ratios of earnings to fixed charges was previously filed as Exhibit 12 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, File No. 1-9120, and incorporated herein by reference.