

ASTRO MED INC /NEW/  
Form 10-Q  
December 05, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended October 27, 2012**

**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 0-13200**

**Astro-Med, Inc.**

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

**Rhode Island**  
(State or other jurisdiction of  
incorporation or organization)

**05-0318215**  
(I.R.S. Employer  
Identification No.)

**600 East Greenwich Avenue, West Warwick, Rhode Island**  
(Address of principal executive offices)

**02893**  
(Zip Code)

**(401) 828-4000**

(Registrant's telephone number, including area code)

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  No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No .

Indicate by check mark whether the registrant is a large accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

**Common Stock, \$.05 Par Value 7,337,442 shares**

**(excluding treasury shares) as of November 30, 2012**

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**Table of Contents****Part I. FINANCIAL INFORMATION****Item 1. Financial Statements****ASTRO-MED, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

|  | October 27,<br>2012  | January 31,<br>2012  |
|--|----------------------|----------------------|
| <b>ASSETS</b>                              |                      |                      |
| <b>CURRENT ASSETS</b>                      |                      |                      |
| Cash and Cash Equivalents                  | \$ 14,789,337        | \$ 11,703,621        |
| Securities Available for Sale              | 8,173,835            | 11,335,924           |
| Accounts Receivable, net                   | 11,804,104           | 11,800,481           |
| Inventories                                | 14,487,300           | 14,128,599           |
| Deferred Tax Assets                        | 2,463,523            | 2,618,578            |
| Line of Credit Receivable                  | 300,000              |                      |
| Note Receivable                            | 125,000              |                      |
| Prepaid Expenses and Other Current Assets  | 805,653              | 891,047              |
| <b>Total Current Assets</b>                | <b>52,948,752</b>    | <b>52,478,250</b>    |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>       |                      |                      |
| PROPERTY, PLANT AND EQUIPMENT              | 38,371,091           | 37,876,071           |
| Less Accumulated Depreciation              | (27,671,765)         | (26,705,341)         |
| Property, Plant and Equipment, net         | 10,699,326           | 11,170,730           |
| <b>OTHER ASSETS</b>                        |                      |                      |
| Goodwill                                   | 2,336,721            | 2,336,721            |
| Notes Receivable                           | 844,700              | 969,700              |
| Other                                      | 107,446              | 106,735              |
| <b>Total Other Assets</b>                  | <b>3,288,867</b>     | <b>3,413,156</b>     |
| <b>TOTAL ASSETS</b>                        | <b>\$ 66,936,945</b> | <b>\$ 67,062,136</b> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b> |                      |                      |
| <b>CURRENT LIABILITIES</b>                 |                      |                      |
| Accounts Payable                           | \$ 2,181,561         | \$ 2,540,116         |
| Accrued Compensation                       | 2,798,981            | 3,228,728            |
| Other Accrued Expenses                     | 1,556,367            | 1,807,675            |
| Deferred Revenue                           | 581,568              | 623,223              |
| Income Taxes Payable                       | 411,344              | 72,725               |
| <b>Total Current Liabilities</b>           | <b>7,529,821</b>     | <b>8,272,467</b>     |
| Deferred Tax Liabilities                   | 1,811,097            | 1,894,104            |
| Other Long Term Liabilities                | 838,661              | 1,232,699            |
| <b>TOTAL LIABILITIES</b>                   | <b>10,179,579</b>    | <b>11,399,270</b>    |
| <b>SHAREHOLDERS EQUITY</b>                 |                      |                      |

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|   |                      |                      |
|---|----------------------|----------------------|
| Common Stock, \$.05 Par Value, Authorized 13,000,000 shares; Issued 9,005,976 and 8,956,488 shares at October 27, 2012 and January 31, 2012, respectively | 450,303              | 447,829              |
| Additional Paid-In Capital  | 38,504,592           | 37,964,204           |
| Retained Earnings   | 29,491,905           | 27,919,367           |
| Treasury Stock, at Cost, 1,673,214 and 1,542,276 shares at October 27, 2012 and January 31, 2012, respectively  | (11,736,237)         | (10,789,805)         |
| Accumulated Other Comprehensive Income  | 46,803               | 121,271              |
| Total Shareholders' Equity  | 56,757,366           | 55,662,866           |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>   | <b>\$ 66,936,945</b> | <b>\$ 67,062,136</b> |

See Notes to condensed consolidated financial statements (unaudited).

**Table of Contents****ASTRO-MED, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

|  | <b>Three Months Ended</b>   |                             | <b>Nine Months Ended</b>    |                             |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|  | <b>October 27,<br/>2012</b> | <b>October 29,<br/>2011</b> | <b>October 27,<br/>2012</b> | <b>October 29,<br/>2011</b> |
| Net Sales                                      | \$ 20,562,076               | \$ 19,568,600               | \$ 58,559,205               | \$ 58,764,264               |
| Cost of Sales                                  | 11,724,077                  | 11,554,870                  | 34,051,302                  | 35,348,220                  |
| Gross Profit                                   | 8,837,999                   | 8,013,730                   | 24,507,903                  | 23,416,044                  |
| Costs and Expenses:                            |                             |                             |                             |                             |
| Selling and Marketing                          | 4,431,135                   | 4,554,875                   | 12,972,867                  | 13,646,526                  |
| General and Administrative                     | 1,187,354                   | 1,009,145                   | 3,338,997                   | 2,884,286                   |
| Research and Development                       | 1,126,319                   | 1,261,632                   | 3,537,646                   | 3,916,899                   |
| Operating Expenses                             | 6,744,808                   | 6,825,652                   | 19,849,510                  | 20,447,711                  |
| Operating Income                               | 2,093,191                   | 1,188,078                   | 4,658,393                   | 2,968,333                   |
| Other Income (Expense)                         | 46,651                      | (68,663)                    | (56,377)                    | 378,619                     |
| Income Before Income Taxes                     | 2,139,842                   | 1,119,415                   | 4,602,016                   | 3,346,952                   |
| Income Tax Provision                           | 832,388                     | 319,428                     | 1,470,974                   | 1,069,688                   |
| Net Income                                     | \$ 1,307,454                | \$ 799,987                  | \$ 3,131,042                | \$ 2,277,264                |
| Net Income per Common Share:                   |                             |                             |                             |                             |
| Basic  | \$ 0.18                     | \$ 0.11                     | \$ 0.42                     | \$ 0.31                     |
| Diluted  | \$ 0.18                     | \$ 0.11                     | \$ 0.42                     | \$ 0.31                     |
| Weighted Average Number of Shares Outstanding: |                             |                             |                             |                             |
| Basic  | 7,379,094                   | 7,339,639                   | 7,414,273                   | 7,300,167                   |
| Diluted  | 7,461,958                   | 7,420,835                   | 7,486,588                   | 7,422,787                   |
| Dividends Declared Per Common Share            | \$ 0.07                     | \$ 0.07                     | \$ 0.21                     | \$ 0.21                     |

See Notes to condensed consolidated financial statements (unaudited).

**Table of Contents****ASTRO-MED, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

|  | <b>Three Months Ended</b>   |                             | <b>Nine Months Ended</b>    |                             |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|  | <b>October 27,<br/>2012</b> | <b>October 29,<br/>2011</b> | <b>October 27,<br/>2012</b> | <b>October 29,<br/>2011</b> |
| Net Income   | \$ 1,307,454                | \$ 799,987                  | \$ 3,131,042                | \$ 2,277,264                |
| Other Comprehensive Income (Loss), Net of Taxes and Reclassification<br>Adjustments: |                             |                             |                             |                             |
| Foreign Currency Translation Adjustments   | 184,758                     | (92,983)                    | (65,951)                    | 140,341                     |
| Unrealized Holding Gain (Loss) Arising During the Period                             | (1,673)                     | (4,882)                     | (8,518)                     | 3,223                       |
| Other Comprehensive Income (Loss)  | 183,085                     | (97,865)                    | (74,469)                    | 143,564                     |
| Comprehensive Income   | \$ 1,490,539                | \$ 702,122                  | \$ 3,056,573                | \$ 2,420,828                |

See Notes to condensed consolidated financial statements (unaudited).

**Table of Contents****ASTRO-MED, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

|  | <b>Nine Months Ended</b>    |                             |
|--|-----------------------------|-----------------------------|
|  | <b>October 27,<br/>2012</b> | <b>October 29,<br/>2011</b> |
| <b>Cash Flows from Operating Activities:</b>   |                             |                             |
| Net Income   | \$ 3,131,042                | \$ 2,277,264                |
| <b>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</b>   |                             |                             |
| Depreciation and Amortization  | 993,495                     | 1,192,466                   |
| Share-Based Compensation   | 305,551                     | 161,242                     |
| Deferred Income Tax Provision  | 72,048                      | (211,483)                   |
| <b>Changes in Assets and Liabilities:</b>  |                             |                             |
| Accounts Receivable  | (3,623)                     | (238,174)                   |
| Inventories  | (358,701)                   | 797,922                     |
| Income Taxes   | 174,204                     | 676,916                     |
| Accounts Payable and Accrued Expenses  | (1,081,265)                 | (442,110)                   |
| Other  | (201,123)                   | (138,675)                   |
| <b>Net Cash Provided by Operating Activities</b>   | <b>3,031,628</b>            | <b>4,075,368</b>            |
| <b>Cash Flows from Investing Activities:</b>   |                             |                             |
| Proceeds from Sales/Maturities of Securities Available for Sale  | 14,965,000                  | 8,905,000                   |
| Purchases of Securities Available for Sale   | (11,815,817)                | (7,366,676)                 |
| Line of Credit Issuance  | (300,000)                   |                             |
| Additions to Property, Plant and Equipment   | (527,472)                   | (970,867)                   |
| <b>Net Cash Provided by Investing Activities</b>   | <b>2,321,711</b>            | <b>567,457</b>              |
| <b>Cash Flows from Financing Activities:</b>   |                             |                             |
| Proceeds from Common Shares Issued Under Employee Benefit Plans and Employee Stock Option Plans,<br>Net of Payment of Minimum Tax Withholdings | 60,881                      | (170,604)                   |
| Purchase of Treasury Stock   | (770,000)                   |                             |
| Dividends Paid   | (1,558,504)                 | (1,537,299)                 |
| <b>Net Cash Used in Financing Activities</b>   | <b>(2,267,623)</b>          | <b>(1,707,903)</b>          |
| <b>Net Increase in Cash and Cash Equivalents</b>   | <b>3,085,716</b>            | <b>2,934,922</b>            |
| Cash and Cash Equivalents, Beginning of Period   | 11,703,621                  | 7,720,135                   |
| <b>Cash and Cash Equivalents, End of Period</b>  | <b>\$ 14,789,337</b>        | <b>\$ 10,655,057</b>        |
| <b>Supplemental Disclosures of Cash Flow Information:</b>  |                             |                             |
| Cash Paid During the Period for Income Taxes, Net of Refunds   | \$ 1,354,432                | \$ 553,599                  |
| See Notes to condensed consolidated financial statements (unaudited).  |                             |                             |



**Table of Contents****ASTRO-MED, INC.****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****(1) Overview**

Headquartered in West Warwick, Rhode Island, Astro-Med Inc. designs, develops, manufactures and distributes a broad range of specialty printers and data acquisition and analysis systems. Our products are distributed through our own sales force and authorized dealers in the United States. We also sell to customers outside of the United States primarily by using authorized dealers and international sales representatives, who are managed from our foreign sales offices. Astro-Med, Inc. products are sold under the brand names Astro-Med<sup>®</sup> Test & Measurement, Grass<sup>®</sup> Technologies and QuickLabel<sup>®</sup> Systems and are employed around the world in a wide range of aerospace, automotive, communications, chemical, food and beverage, medical, military, industrial, and packaging applications.

Unless otherwise indicated, references to Astro-Med, the Company, we, our, and us in this Quarterly Report on Form 10-Q refer to Astro-Med Inc. and its consolidated subsidiaries.

**(2) Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared by Astro-Med pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods included herein. These financial statements do not include all disclosures associated with annual financial statements and, accordingly, should be read in conjunction with footnotes contained in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2012.

Results of operations for the interim periods presented herein are not necessarily indicative of the results that may be expected for the full year.

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. Some of the more significant estimates relate to the allowances for doubtful accounts and credits, inventory valuation, impairment of long-lived assets and goodwill, income taxes, share-based compensation and warranty reserves. Management's estimates are based on the facts and circumstances available at the time estimates are made, past historical experience, risk of loss, general economic conditions and trends, and management's assessments of the probable future outcome of these matters. Consequently, actual results could differ from those estimates.

Certain amounts in prior year's financial statements have been reclassified to conform to the current year's presentation.

**(3) Principles of Consolidation**

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

**(4) Net Income Per Common Share**

Basic net income per share is calculated by dividing net income by the weighted average number of shares outstanding during the period. Diluted net income per share is calculated by dividing net income by the weighted average number of shares and, if dilutive, common equivalent shares for stock options, restricted stock awards and restricted stock units outstanding during the period. A reconciliation of the shares used in calculating basic and diluted net income per share is as follows:

|  | <b>Three Months Ended</b>   |                             | <b>Nine Months Ended</b>    |                             |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|  | <b>October 27,<br/>2012</b> | <b>October 29,<br/>2011</b> | <b>October 27,<br/>2012</b> | <b>October 29,<br/>2011</b> |
| Weighted Average Common Shares Outstanding - Basic                             | 7,379,094                   | 7,339,639                   | 7,414,273                   | 7,300,167                   |
| Effect of Dilutive Options, Restricted Stock Awards and Restricted Stock Units | 82,864                      | 81,196                      | 72,315                      | 122,620                     |

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|  |         |           |           |           |           |
|--|---------|-----------|-----------|-----------|-----------|
| Weighted Average Common Shares Outstanding | Diluted | 7,461,958 | 7,420,835 | 7,486,588 | 7,422,787 |
|--|---------|-----------|-----------|-----------|-----------|

For the three and nine months ended October 27, 2012, the diluted per share amounts do not reflect common equivalent shares outstanding of 595,394 and 654,194, respectively, because their effect would have been anti-dilutive. For the three and nine months ended October 29, 2011, the diluted per share amounts do not reflect options outstanding of 679,890 and 664,690, respectively. These outstanding options were not included due to their anti-dilutive effect, as the exercise price was greater than the average market price of the underlying stock during the period presented.

**Table of Contents****(5) Share-Based Compensation**

Astro-Med has one equity incentive plan (the Plan) under which incentive stock options, non-qualified stock options, restricted stock units (RSUs), restricted stock awards (RSAs) and other equity based awards may be granted to officers and certain employees. An aggregate of 1,000,000 shares were authorized for awards under the Plan. Options granted to employees vest over four years. The exercise price of each stock option will be established at the discretion of the Compensation Committee; however, any incentive stock options granted must be at an exercise price of not less than fair market value at the date of grant. Beginning in fiscal year 2013, a portion of the Company's long-term incentive compensation will be awarded in the form of RSUs. The RSUs vest fifty-percent on the first anniversary of the grant date and fifty-percent on the second anniversary of the grant date provided that the grantee is employed on each vesting date by Astro-Med or an affiliate company and provided the Company achieves specific thresholds of net sales and annual operating income as established under the Management Bonus Domestic Plan. At October 27, 2012, 460,444 shares were available for grant under the Plan.

On September 6, 2012, Astro-Med, Inc. announced the appointment of Gregory A. Woods, as Executive Vice President and Chief Operating Officer. Upon this appointment, Mr. Woods was granted 50,000 shares of restricted stock and options to purchase 50,000 shares of the Registrant's common stock, all of which vest in four equal, annual installments commencing on the first anniversary of his appointment. Mr. Woods will be eligible to participate in the incentive compensation and bonus plans applicable to executive officers of the Company.

The Plan provides for an automatic annual grant of ten-year options to purchase 5,000 shares of stock to each non-employee director upon the adjournment of each annual shareholders' meeting. Each such option is exercisable at the fair market value as of the grant date and vests immediately prior to the next succeeding annual shareholders' meeting. In addition to the automatic option grant under Plan, the Company adopted a Non-Employee Director Annual Compensation Program (the Program) effective as of February 1, 2012. The Program provides that each non-employee director is entitled to an annual cash retainer of \$7,000 (the Cash Retainer), plus \$500 for each Board and committee meeting attended, provided that if more than one meeting occurs on the same day, no more than \$500 shall be paid for such day. The non-employee director may elect for any fiscal year to receive all or a portion of the Cash Retainer in the form of common stock of the Company, which will be issued under the Plan. If a non-employee director elects to receive all or a portion of the Cash Retainer in the form of common stock, such shares shall be issued in four quarterly installments on the first day of each fiscal quarter, and the number of shares of common stock to be issued shall be based on the fair market value of such common stock on the date such installment is payable. The common stock received in lieu of such Cash Retainer will be fully vested. However, a non-employee director who receives common stock in lieu of all or a portion of the Cash Retainer may not sell, transfer, assign, pledge or otherwise encumber the common stock prior to the first anniversary of the date on which such shares were issuable. In the event of the death or disability of a nonemployee director, or a change in control of the Company, any shares of common stock issued in lieu of such Cash Retainer, shall no longer be subject to such restrictions on transfer.

In addition, under the Program, commencing with the 2012 annual meeting, each non-employee director will receive RSAs with a value equal to \$20,000 (the Equity Retainer). If a non-employee director is first appointed or elected to the Board of Directors effective on a date other than at the annual shareholders meeting, on the date of such appointment or election, the director shall receive a pro rata award of restricted common stock having a value based on the number of days remaining until the next annual meeting. The Equity Retainer will vest on the earlier of 12 months after the grant date or the date immediately prior to the next annual meeting of the shareholders following the meeting at which such RSAs were granted. However, a non-employee director may not sell, transfer, assign, pledge or otherwise encumber the vested common stock prior to the second anniversary of the vesting date. In the event of the death or disability of a non-employee director, or a change in control of the Company, the RSAs shall immediately vest and shall no longer be subject to such restrictions on transfer.

We account for compensation cost related to share-based payments based on fair value of the stock options, RSUs and RSAs when awarded to an employee or director. We have estimated the fair value of each option on the date of grant using the Black-Scholes option-pricing model. Our estimate requires a number of complex and subjective assumptions including our stock price volatility, employee exercise patterns (expected life of the options), the risk-free interest rate and the Company's dividend yield. The stock price volatility assumption is based on the historical weekly price data of our common stock over a period equivalent to the weighted average expected life of our options. Management evaluated whether there were factors during that period which were unusual and would distort the volatility figure if used to estimate future volatility and concluded that there were no such factors. In determining the expected life of the option grants, the Company has observed the actual terms of prior grants with similar characteristics and the actual vesting schedule of the grant and has assessed the expected risk tolerance of different option groups. The risk-free interest rate is based on the actual U.S. Treasury zero coupon rates for bonds matching the expected term of the option as of the option grant date. Our accounting for share-based compensation for RSUs and RSAs is also based on the fair value method. The fair value of the RSUs and RSAs is based on the closing market price of the Company's common stock on the grant date of the RSU or RSA.

Share-based compensation expense was recognized as follows:

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|  | Three Months Ended  |                     | Nine Months Ended   |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | October 27,<br>2012 | October 29,<br>2011 | October 27,<br>2012 | October 29,<br>2011 |
| Stock Options                                      | \$ 42,167           | \$ 42,996           | \$ 120,497          | \$ 161,242          |
| Restricted Stock Awards and Restricted Stock Units | 137,924             |                     | 185,054             |                     |
| <b>Total</b>                                       | <b>\$ 180,091</b>   | <b>\$ 42,996</b>    | <b>\$ 305,551</b>   | <b>\$ 161,242</b>   |

**Table of Contents***Stock Options*

The fair value of stock options granted during the nine months ended October 27, 2012 and October 29, 2011 was estimated using the following assumptions:

|                          | Nine Months Ended   |                     |
|--------------------------|---------------------|---------------------|
|                          | October 27,<br>2012 | October 29,<br>2011 |
| Risk Free Interest Rate  | 0.9%                | 1.9%                |
| Expected Volatility      | 39.2%               | 39.3%               |
| Expected Life (in years) | 5.0                 | 5.0                 |
| Dividend Yield           | 3.4%                | 3.8%                |

The weighted average fair value per share for options granted was \$2.09, \$2.01 and \$1.93 during the first, second and third quarter of fiscal 2013, respectively. On a comparative basis, the weighted average fair value per share for options granted was \$2.03, \$2.05 and \$1.86 during the first, second and third quarter of fiscal 2012, respectively.

Aggregated information regarding stock options granted under the Plan for the nine months ended October 27, 2012 is summarized below:

|                                 | Number of Options | Weighted Average<br>Exercise<br>Price | Weighted Average<br>Remaining<br>Contractual<br>Life<br>(in Years) | Aggregate Intrinsic<br>Value |
|---------------------------------|-------------------|---------------------------------------|--|------------------------------|
| Outstanding at January 31, 2012 | 888,097           | \$ 8.27                               | 4.7  | \$ 547,874                   |
| Granted                         | 144,000           | 8.09                                  |  |                              |
| Exercised                       | (43,048)          | 4.40                                  |  |                              |
| Expired or canceled             | (42,022)          | 8.51                                  |  |                              |
| Outstanding at October 27, 2012 | 947,027           | \$ 8.41                               | 4.8  | \$ 554,850                   |
| Exercisable at October 27, 2012 | 733,627           | \$ 8.58                               | 3.6  | \$ 430,720                   |

As of October 27, 2012 there was \$342,314 of unrecognized compensation expense related to unvested options.

*Restricted Stock Units (RSUs) and Restricted Stock Awards (RSAs)*

Aggregated information regarding RSUs and RSAs granted under the Plan for the nine months ended October 27, 2012 is summarized below:

|                                 | RSAs & RSUs | Weighted Average<br>Grant Date Fair Value |
|---------------------------------|-------------|---|
| Outstanding at January 31, 2012 |             | \$  |
| Granted                         | 96,900      | 8.10                                      |
| Exercised                       |             |   |
| Expired or canceled             |             |   |
| Outstanding at October 27, 2012 | 96,900      | \$ 8.10                                   |

As of October 27, 2012 there was \$599,388 of unrecognized compensation expense related to unvested RSUs and RSAs.



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*Employee Stock Purchase Plan*

Astro-Med has an Employee Stock Purchase Plan allowing eligible employees to purchase shares of common stock at a 15% discount from fair value on the date of purchase. A total of 247,500 shares were reserved for issuance under this plan. During the quarters ended October 27, 2012 and October 29, 2011, 1,535 and 1,210 shares respectively, were purchased under this plan. During the nine months ended October 27, 2012 and October 29, 2011, 4,082 and 4,487 shares respectively, were purchased under this plan. As of October 27, 2012, 66,125 shares remain available.

**Table of Contents****(6) Inventories**

Inventories are stated at the lower of cost (first-in, first-out) or market and include material, labor and manufacturing overhead. The components of inventories are as follows:

|                        | <b>October 27, 2012</b> | <b>January 31, 2012</b> |
|------------------------|-------------------------|-------------------------|
| Materials and Supplies | \$ 8,664,879            | \$ 9,204,853            |
| Work-In-Process        | 1,531,561               | 1,274,397               |
| Finished Goods         | 4,290,860               | 3,649,349               |
|                        | \$ 14,487,300           | \$ 14,128,599           |

**(7) Income Taxes**

The Company's effective tax rates for the periods, which are based on the projected effective tax rate for the full year, are as follows:

|             | <b>Three Months Ended</b> | <b>Nine Months Ended</b> |
|-------------|---------------------------|--------------------------|
| Fiscal 2013 | 38.9%                     | 32.0%                    |
| Fiscal 2012 | 28.5%                     | 32.0%                    |

During the nine months ended October 27, 2012, the Company recognized an income tax expense of approximately \$1,471,000 which included an expense of \$1,773,000 on the nine months pretax income and a benefit \$302,000 primarily related to the favorable resolution of a previously uncertain tax positions. During the nine months ended October 29, 2011, the Company recognized income tax expense of approximately \$1,070,000 which included an expense of \$1,183,000 on the nine months pretax income and a benefit \$113,000 related to the difference between the prior year's tax provision and the actual returns as filed.

As of October 27, 2012, the Company's cumulative unrecognized tax benefits totaled \$533,354 compared to \$779,543 as of January 31, 2012. There were no developments affecting unrecognized tax benefits during the quarter ended October 27, 2012.

**(8) Line of Credit and Note Receivable**

On January 30, 2012, we completed the sale of our label manufacturing operations in Asheboro, North Carolina to Label Line Ltd. The net sales price of \$1,000,000 was received in the form of a promissory note issued by Label Line Ltd. and is fully secured by a first lien on various collateral, including the Asheboro plant and plant assets. The note bears interest at a rate equal to the lesser of (i) the United States prime rate as of January 30, 2013 plus 50 basis points or (ii) six percent per annum and is payable in sixteen quarterly installments of principal and interest commencing on January 30, 2013. The Note Receivable is disclosed at its present value on the accompanying condensed consolidated balance sheet for the periods ended October 27, 2012 and January 31, 2012.

The terms of the Asheboro sale also included an agreement for Astro-Med to provide Label Line Ltd. with additional financing in the form of a revolving line of credit in the amount of \$600,000. This line of credit is fully secured by first lien on various collateral of Label Line Ltd., including the Asheboro plant and plant assets and bears interest at a rate equal to the United States prime rate plus an additional margin of two percent of the outstanding credit balance. The line of credit has an initial term of one-year from the date of the sale which may be extended for consecutive one-year terms on mutual agreement of both parties. There were no outstanding borrowings due as of January 31, 2012. As of October 27, 2012, Astro-Med has extended \$300,000 on this revolving line of credit.



**Table of Contents****(9) Segment Information**

The Company reports three segments consistent with its sales product groups: Test & Measurement (T&M); QuickLabel Systems (QuickLabel) and Grass Technologies (Grass). The Company evaluates segment performance based on the segment profit before corporate expenses.

Summarized below are the Net Sales and Segment Operating Profit for each reporting segment:

| <i>(In thousands)</i>      | Three Months Ended  |                     |                          |                     | Nine Months Ended   |                     |                          |                     |
|----------------------------|---------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|--------------------------|---------------------|
|                            | Net Sales           |                     | Segment Operating Profit |                     | Net Sales           |                     | Segment Operating Profit |                     |
|                            | October 27,<br>2012 | October 29,<br>2011 | October 27,<br>2012      | October 29,<br>2011 | October 27,<br>2012 | October 29,<br>2011 | October 27,<br>2012      | October 29,<br>2011 |
| T&M                        | \$ 5,359            | \$ 4,325            | \$ 1,280                 | \$ 595              | \$ 13,187           | \$ 12,550           | \$ 2,391                 | \$ 1,469            |
| QuickLabel                 | 10,680              | 10,352              | 1,164                    | 392                 | 31,851              | 32,364              | 3,142                    | 1,798               |
| Grass                      | 4,523               | 4,892               | 919                      | 1,176               | 13,521              | 13,850              | 2,464                    | 2,587               |
| Total                      | \$ 20,562           | \$ 19,569           | 3,363                    | 2,163               | \$ 58,559           | \$ 58,764           | 7,997                    | 5,854               |
| Corporate Expenses         |                     |                     | 1,270                    | 975                 |                     |                     | 3,339                    | 2,886               |
| Operating Income           |                     |                     | 2,093                    | 1,188               |                     |                     | 4,658                    | 2,968               |
| Other Income (Expense) Net |                     |                     | 47                       | (69)                |                     |                     | (56)                     | 379                 |
| Income Before Income Taxes |                     |                     | 2,140                    | 1,119               |                     |                     | 4,602                    | 3,347               |
| Income Tax Provision       |                     |                     | 832                      | 319                 |                     |                     | 1,471                    | 1,070               |
| Net Income                 |                     |                     | \$ 1,308                 | \$ 800              |                     |                     | \$ 3,131                 | \$ 2,277            |

**(10) Recent Accounting Pronouncements***Intangibles*

In July 2012, the Financial Accounting Standards Board (FASB) issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment, which allows entities to use a qualitative approach to test indefinite-lived intangible assets for impairment. ASU 2012-02 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed quantitative impairment test. Otherwise, the quantitative impairment test is not required. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of the provisions of ASU 2012-02 will not have a material impact on the Company's financial position or results of operations.

*Comprehensive Income*

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income, which requires entities to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. While ASU 2011-05 changes the presentation of comprehensive income, it does not change the components that are recognized in net income or comprehensive income under current accounting guidance. ASU 2011-05 also requires entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. In December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting Standard Update No. 2011-05, which indefinitely defers the guidance related to the presentation of reclassification adjustments. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011, and must be applied retrospectively. We adopted this guidance in the first quarter of fiscal 2013 and have provided the disclosures required for the three and nine months ended October 27, 2012 and October 29, 2011, in the accompanying Condensed Consolidated Statements of Comprehensive Income.



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No new accounting pronouncements, issued or effective during the third quarter of the current year, have had or are expected to have a material effect on our consolidated financial statements.

**(11) Securities Available for Sale**

Pursuant to our investment policy, securities available for sale include state and municipal securities with various contractual or anticipated maturity dates ranging from one to 34 months. Securities available for sale are carried at fair value, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss) in shareholders' equity until realized. Realized gains and losses from the sale of available for sale securities, if any, are determined on a specific identification basis. A decline in the fair value of any available for sale security below cost that is determined to be other than temporary will result in a write-down of its carrying amount to fair value. No such impairment charges were recorded for any period presented. All short-term investment securities have original maturities greater than 90 days. The fair value, amortized cost and gross unrealized gains and losses of the securities are as follows:

| October 27, 2012                | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value   |
|---------------------------------|----------------|------------------------|-------------------------|--------------|
| State and Municipal Obligations | \$ 8,163,830   | \$ 10,090              | \$ (85)                 | \$ 8,173,835 |

| January 31, 2012                | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value    |
|---------------------------------|----------------|------------------------|-------------------------|---------------|
| State and Municipal Obligations | \$ 11,313,013  | \$ 22,933              | \$ (22)                 | \$ 11,335,924 |

**(12) Fair Value**

We measure our financial assets at fair value on a recurring basis in accordance with the guidance provided in ASC 820, Fair Value Measurement and Disclosures which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). In addition, ASC 820 establishes a three-tiered hierarchy for inputs used in management's determination of fair value of financial instruments that emphasizes the use of observable inputs over the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that reflect management's belief about the assumptions market participants would use in pricing a financial instrument based on the best information available in the circumstances.

The fair value hierarchy is summarized as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities;

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Cash and cash equivalents; accounts receivables; line of credit receivable; accounts payable, accrued compensation and other expenses; and income tax payable are reflected in the condensed consolidated balance sheet at carrying value, which approximates fair value due to the short term nature of these instruments.

Assets measured at fair value on a recurring basis are summarized below:

| October 27, 2012 | Level 1 | Level 2 | Level 3 | Total |
|------------------|---------|---------|---------|-------|
|------------------|---------|---------|---------|-------|

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|   |                      |           |           |                      |
|---|----------------------|-----------|-----------|----------------------|
| Money Market Funds (included in Cash and Cash Equivalents)                  | \$ 9,104,455         | \$        | \$        | \$ 9,104,455         |
| State and Municipal Obligations (included in Securities Available for Sale) | 8,173,835            |           |           | 8,173,835            |
| <b>Total</b>  | <b>\$ 17,278,290</b> | <b>\$</b> | <b>\$</b> | <b>\$ 17,278,290</b> |

| <b>January 31, 2012</b>   | <b>Level 1</b>       | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>         |
|---|----------------------|----------------|----------------|----------------------|
| Money Market Funds (included in Cash and Cash Equivalents)                  | \$ 5,922,179         | \$             | \$             | \$ 5,922,179         |
| State and Municipal Obligations (included in Securities Available for Sale) | 11,335,924           |                |                | 11,335,924           |
| <b>Total</b>  | <b>\$ 17,258,103</b> | <b>\$</b>      | <b>\$</b>      | <b>\$ 17,258,103</b> |

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For our money market funds and state and municipal obligations, we utilize the market approach to measure fair value. The market approach is based on using quoted market prices for identical assets.

**(13) Life Insurance Proceeds**

During the second quarter of fiscal 2012, we recognized income on key-man life insurance proceeds of \$300,000. This income is included in other income in the accompanying consolidated statement of operations for the nine month period ended October 29, 2011.

**Table of Contents****Item 2.****ASTRO-MED, INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION****AND RESULTS OF OPERATIONS****Business Overview**

This section should be read in conjunction with Astro-Med's Condensed Consolidated Financial Statements included elsewhere herein and our Annual Report on Form 10-K for the fiscal year ended January 31, 2012.

Astro-Med is a multi-national enterprise, which designs, develops, manufactures, distributes and services a broad range of products that acquire, store, analyze and present data in multiple formats. The Company organizes its structure around a core set of competencies, including research and development, manufacturing, service, marketing and distribution. We market and sell our products and services through the following three sales product groups:

Test and Measurement Product Group (T&M) offers a suite of Ruggedized Printer products designed for military and commercial applications to be used in the avionics industry to print weather maps, communications and other critical flight information. T&M also comprises a suite of telemetry recorder products sold to the aerospace and defense industries, as well as portable data acquisition recorders, which offer diagnostic and test functions to a wide range of manufacturers including automotive, energy, paper and steel fabrication.

QuickLabel Systems Product Group (QuickLabel) offers label printer hardware, labeling software, service contracts and label and ink consumable products that digitally print color labels on a broad range of label and tag substrates.

Grass Technologies Product Group (Grass) offers diagnostic and monitoring instrumentation that serve the clinical and research neurophysiology markets and the life science markets, as well as a range of consumable supplies.

Astro-Med markets and sells its products and services globally through a diverse distribution structure of sales personnel, manufacturing representatives and authorized dealers that deliver a full complement of branded products and services to customers in our respective markets.

**Results of Operations****Three Months Ended October 27, 2012 vs. Three Months Ended October 29, 2011**

Net sales by product group and current quarter percentage change over prior year for the three months ended October 27, 2012 and October 29, 2011 were:

| <i>(Dollars in thousands)</i> | <b>October 27,<br/>2012</b> | <b>As a<br/>% of<br/>Net Sales</b> | <b>October 29,<br/>2011</b> | <b>As a<br/>% of<br/>Net Sales</b> | <b>% Change<br/>Over<br/>Prior Year</b> |
|-------------------------------|-----------------------------|------------------------------------|-----------------------------|------------------------------------|---|
| T&M                           | \$ 5,359                    | 26.1%                              | \$ 4,325                    | 22.1%                              | 23.9%                                   |
| QuickLabel                    | 10,680                      | 51.9%                              | 10,352                      | 52.9%                              | 3.2%                                    |
| Grass                         | 4,523                       | 22.0%                              | 4,892                       | 25.0%                              | (7.5)%                                  |
| Total                         | \$ 20,562                   | 100.0%                             | \$ 19,569                   | 100.0%                             | 5.1%                                    |

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Net sales for the third quarter of the current year were \$20,562,000, representing a 5.1% increase as compared to both the previous year's third quarter sales of \$19,569,000 and current year second quarter sales of \$19,572,000. Sales through the domestic channels for the current quarter were \$14,642,000, an increase of 3.7% over the prior year. International shipments for the third quarter of the current year were \$5,920,000, representing an 8.8% increase from the previous year. Current year's third quarter international sales include an unfavorable foreign exchange rate impact of \$204,000.

Hardware sales in the current quarter were \$9,750,000, an increase of 17.1% as compared to prior year's third quarter sales of \$8,329,000, and a 9.9% improvement over the current year second quarter sales of \$8,875,000. The current quarter increase is primarily due to the increase in demand for T&M's Ruggedized products, as sales have increased 55.8% as compared to the prior year. Also contributing to the current quarter increase in hardware sales are sales of QuickLabel's color printer product line, which has more than doubled as compared to prior year third quarter sales. The overall hardware sales increase is somewhat tempered by a decline in Grass's hardware products.

Consumables sales in the current quarter were \$9,504,000, representing a 4.0% decrease over prior year's third quarter consumable sales of \$9,899,000, and an almost 1.0% decrease as compared to current year second quarter consumable sales of \$9,589,000. The current quarter decrease in consumable sales as compared to the prior year is an outgrowth of the January 2012 divestiture of the Asheboro, North Carolina label business, which contributed sales of \$938,000 in the third quarter of the prior year. The overall decrease in third quarter consumable sales was tempered by Grass's double-digit increase in sales of the electrodes and cream product lines and the single digit increase in sales of QuickLabel's digital color printer supplies as compared to prior year's third quarter.

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Service and other revenues of \$1,308,000 in the current quarter were down from prior year's third quarter service and other revenues of \$1,341,000, primarily due to the decrease in repair revenue during the quarter.

Current year third quarter gross profit was \$8,838,000, reflecting a 6.5% improvement over current year second quarter gross profit of \$8,299,000 and a 10.3% improvement over prior year's third quarter gross profit of \$8,014,000. The Company's gross profit margin of 43.0% in the current quarter reflects an increase from the prior year's third quarter gross profit margin of 41.0%. The higher gross profit and related margin for the current quarter as compared to prior year is primarily attributable to higher sales volume, favorable product mix and lower manufacturing costs.

Operating expenses for the current quarter were \$6,745,000, a slight decrease as compared to prior year's third quarter operating expenses of \$6,826,000. Specifically, selling and marketing expenses for the current quarter decreased 2.7% to \$4,431,000 as compared to the previous year's third quarter selling and marketing expenses of \$4,555,000. The decrease in selling and marketing for the current quarter was primarily due to decreases in wages and benefits, as well as advertising spend. The overall decrease in third quarter operating expenses was tempered by the increase in General and administrative (G&A) expenses. G&A expenses increased 17.6% to \$1,187,000 in the third quarter of the current year as compared to prior year's third quarter G&A expenses of \$1,009,000. The increase in G&A was primarily due to a increase in wages and benefits and professional service costs. Investment in R&D in the third quarter of the current year of \$1,126,000 represents a 10.8% decrease compared to prior year's third quarter investment of \$1,262,000. The current quarter spending in R&D represents 5.5% of sales, an increase as compared to prior year's third quarter level of 6.4%.

Third quarter operating income of \$2,093,000 increased 76.2% as compared to the prior year's third quarter operating income of \$1,188,000. Operating margin for the third quarter of the current year of 10.2% is also up as compared to the prior year's third quarter margin of 6.1%. The increase in operating income and related margin is primarily attributable to higher sales volume and reduced selling and marketing expenses during the current quarter.

Other income during the third quarter was \$47,000 compared to other expense of \$69,000 in the third quarter of the previous year. The increase was primarily due to the increase in foreign exchange gain recognized in the third quarter of the current year.

The provision for federal, state and foreign income taxes for the third quarter of the current year was \$832,000 reflecting an effective tax rate of 38.9%. This result compares to the prior year's third quarter income tax expense of \$319,000 reflecting an effective tax rate of 28.5%. The increased effective tax rate for the third quarter of the current year as compared to the prior year is primarily due to a \$113,000 tax benefit related to the difference between the prior year's tax provision and the actual returns as filed recognized in the third quarter of the prior year.

The Company reported \$1,308,000 in net income for the third quarter of the current year, reflecting a return on sales of 6.4% and generating EPS of \$0.18 per diluted share. On a comparative basis, in the prior year's third quarter the Company recognized net income of \$800,000 reflecting a return on sales of 4.1% and an EPS of \$0.11 per diluted share, which includes \$0.02 per diluted share attributable to a \$113,000 tax benefit related to the difference between the prior year's tax provision and the actual returns as filed.

**Nine Months Ended October 27, 2012 vs. Nine Months Ended October 29, 2011**

Net sales by product group and current quarter percentage change over prior year for the nine months ended October 27, 2012 and October 29, 2011 were:

| <i>(Dollars in thousands)</i> | October 27,<br>2012 | As a<br>% of<br>Net Sales | October 29,<br>2011 | As a<br>% of<br>Net Sales | % Change<br>Over<br>Prior Year |
|-------------------------------|---------------------|---------------------------|---------------------|---------------------------|--------------------------------|
| T&M                           | \$ 13,187           | 22.5%                     | \$ 12,550           | 21.3%                     | 5.1%                           |
| QuickLabel                    | 31,851              | 54.4%                     | 32,364              | 55.1%                     | (1.6)%                         |
| Grass                         | 13,521              | 23.1%                     | 13,850              | 23.6%                     | (2.4)%                         |
| Total                         | \$ 58,559           | 100.0%                    | \$ 58,764           | 100.0%                    | (0.3)%                         |

Net sales for the nine month period of the current fiscal year were \$58,559,000, slight decrease as compared to sales of \$58,764,000 as reported for the first nine months of the prior fiscal year. Sales through the domestic channels for the first nine months of the current year were \$41,394,000, a slight increase from prior year's domestic sales of \$40,975,000. International sales for the first nine months of the current year of



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\$17,165,000 includes an unfavorable impact of \$872,000 due to foreign exchange rates and reflects a 3.5% decrease as compared to the prior year.

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The Company's hardware sales were \$26,546,000 in the first nine months of fiscal 2013, a 3.7% increase as compared to the same period in the prior year. Contributing to the increase in hardware growth in the current year was T&M hardware sales for the first nine months of the current year of \$11,857,000, a 7.4% increase compared to prior year's sales of \$11,043,000 and QuickLabel's hardware sales for the first nine months of the current year of \$6,621,000, a 15.8% increase as compared to prior year's sales of \$5,719,000. The increase was partially offset by the 8.6% decrease in Grass Technologies hardware sales for the first nine months of the current year with sales of \$8,069,000 compared to prior year's sales of \$8,830,000.

Consumables sales for the first nine months of the current year were \$28,405,000, representing a decrease of 3.3% as compared to the prior year's consumable sales of \$29,361,000. The overall decrease in consumable sales for the first nine months of the current year was primarily attributable to lower label and tag sales in the QuickLabel product group due to the January 2012 divestiture of the Asheboro, North Carolina facilities, which contributed sales of approximately \$3,000,000 in the first nine months of the prior year. This overall decrease in consumable sales in the current year was somewhat tempered by the increase in sales of digital color printer supplies within the QuickLabel product group, which were up 17.8% as compared to the prior year.

Service and other revenues of \$3,608,000 in the first nine months of fiscal 2013 were down 5.3% from prior year's service and other revenues of \$3,811,000, primarily due to the decrease in repair revenue.

The Company achieved \$24,508,000 in gross profit for the first nine months of fiscal 2013 and generated a gross profit margin of 41.9% as compared to prior year's gross profit of \$23,416,000 and related gross profit margin of 39.8%. The increase in gross profit and related margin for the first nine months of the current year is due to lower manufacturing costs and favorable product mix.

Operating expenses in the first nine months of the current year were \$19,850,000, representing a 2.9% decrease from the prior year. Selling and marketing expenses for the first nine months of the current year decreased 4.9% from the prior year to \$12,973,000, with the decrease traceable primarily to lower trade shows, commissions and advertising spending. R&D spending for the current nine months is \$3,538,000, representing a 9.7% decrease as compared with prior year R&D spending of \$3,917,000. Spending in R&D represents 6.0% of sales for the first nine months of the current year as compared to 6.7% in the prior year. General and administrative (G&A) expenses for the first nine months of the current year were \$3,339,000, a 15.8% increase from the prior year. The increased spending level for G&A in the current year is mainly attributed to the increase in benefits and higher professional services costs.

The Company earned \$4,658,000 in operating income during the first nine months of fiscal year 2013, a 56.9% increase as compared to \$2,968,000 for the same period in the prior year. On a margin basis, this year's operating income reflects an operating margin of 8.0% on sales compared to prior year's operating margin of 5.1%.

Other expense realized during the first nine months of the current fiscal year is \$56,000 as compared to the other income of \$379,000 reported in the same period of the previous year. This decrease in the current year is a result of income recognized of \$300,000 related to the disposition of a key-man life insurance policy in the prior year. Also contributing to the current period decline is the recognition of a foreign exchange loss of \$148,000 in the current year as compared to a foreign exchange gain of \$50,000 in the prior year.

The Company has provided federal, state and foreign income tax expense of \$1,471,000 for the nine month period ended October 27, 2012. This year's provision reflects an effective tax rate of 32.0%, no change from the prior year's effective tax rate of 32.0%. Included in the current year income tax expense is a benefit of \$302,000 related to the favorable resolution of a previously uncertain tax position. This compares to a \$113,000 benefit recognized in the prior year related to prior year's tax provision and the actual returns as filed.

Net income earned during the first nine months of the current fiscal year was \$3,131,000, a 37.5% increase as compared to prior year's first nine months of net income of \$2,277,000, and reflects a return on sales of 5.3%. This year's net income resulted in an EPS of \$0.42 per diluted share which includes a favorable tax benefit of \$0.04 per share which was recognized in the first quarter. On a comparative basis, prior year's first nine months net income reflected a return on sales of 3.9% and generated an EPS of \$0.31 per diluted share which includes \$0.04 per diluted share related to \$300,000 of income from key-man life insurance proceeds recognized in the prior year as well as \$0.02 per diluted share related to a \$113,000 tax benefit for the difference in the prior year's tax provision and the actual returns as filed.

**Table of Contents****Segment Analysis**

The Company reports three segments consistent with its sales product groups: Test & Measurement (T&M); QuickLabel Systems (QuickLabel) and Grass Technologies (Grass). The Company evaluates segment performance based on the segment profit before corporate and financial administration expenses.

Summarized below are the Net Sales and Segment Operating Profit for each reporting segment:

| <i>(In thousands)</i>      | Three Months Ended  |                     |                          |                     | Nine Months Ended   |                     |                          |                     |
|----------------------------|---------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|--------------------------|---------------------|
|                            | Net Sales           |                     | Segment Operating Profit |                     | Net Sales           |                     | Segment Operating Profit |                     |
|                            | October 27,<br>2012 | October 29,<br>2011 | October 27,<br>2012      | October 29,<br>2011 | October 27,<br>2012 | October 29,<br>2011 | October 27,<br>2012      | October 29,<br>2011 |
| T&M                        | \$ 5,359            | \$ 4,325            | \$ 1,280                 | \$ 595              | \$ 13,187           | \$ 12,550           | \$ 2,391                 | \$ 1,469            |
| QuickLabel                 | 10,680              | 10,352              | 1,164                    | 392                 | 31,851              | 32,364              | 3,142                    | 1,798               |
| Grass                      | 4,523               | 4,892               | 919                      | 1,176               | 13,521              | 13,850              | 2,464                    | 2,587               |
| Total                      | \$ 20,562           | \$ 19,569           | 3,363                    | 2,163               | \$ 58,559           | \$ 58,764           | 7,997                    | 5,854               |
| Corporate Expenses         |                     |                     | 1,270                    | 975                 |                     |                     | 3,339                    | 2,886               |
| Operating Income           |                     |                     | 2,093                    | 1,188               |                     |                     | 4,658                    | 2,968               |
| Other Income (Expense) Net |                     |                     | 47                       | (69)                |                     |                     | (56)                     | 379                 |
| Income Before Income Taxes |                     |                     | 2,140                    | 1,119               |                     |                     | 4,602                    | 3,347               |
| Income Tax Provision       |                     |                     | 832                      | 319                 |                     |                     | 1,471                    | 1,070               |
| Net Income                 |                     |                     | \$ 1,308                 | \$ 800              |                     |                     | \$ 3,131                 | \$ 2,277            |

**Test & Measurement T&M**

Sales revenues from the T&M product group were \$5,359,000 for the third quarter of the current fiscal year, representing a 23.9% increase as compared to sales of \$4,325,000 for the same period in the prior year. The increase is primarily attributable to the hardware product line, as Ruggedized and TMX product line sales recognized double-digit growth as compared to prior year's sales volume. T&M's third quarter segment operating profit of \$1,280,000 resulted in a 23.9% profit margin as compared to the prior year's segment operating profit of \$595,000 and related operating margin of 13.7%. The increase in both segment operating profit and related margin was due to higher sales and favorable product mix.

For the first nine months of the current fiscal year, sales revenues of the T&M product group were \$13,187,000, a 5.1% increase as compared to sales of \$12,550,000 for the same period of the previous year. The increase in sales is primarily attributable to the double digit increase in hardware product line sales, as both Ruggedized and TMX hardware product lines sales have increased from the prior year. However, the overall increase in sales of T&M's hardware business was slightly tempered by the decline in sales of traditional recorder hardware. T&M current year's segment operating profit of \$2,391,000 represents a 62.8% increase from the prior year's segment operating profit of \$1,469,000 and provided an operating profit margin of 18.1%, an increase from the prior year's margin of 11.7%. The increase in T&M current year's segment operating profit and related margin is traceable to higher sales and favorable.

**QuickLabel Systems QuickLabel**

Sales revenues from the QuickLabel product group were \$10,680,000 in the third quarter of the current year as compared to \$10,352,000 in the same quarter of the prior year. The increase in sales is primarily due to the hardware product line which increased 62.6% from the prior year primarily attributed to the demand for the Vivo! Touch and the new Kiaro! product line. Also contributing to the current quarter increase was the 8.1% increase in the digital color printer supplies. The year-over-year increase in sales was somewhat tempered by lower consumable product sales of labels and tags, an outgrowth of the January 2012 divestiture of the Asheboro, North Carolina business. QuickLabel's current quarter segment operating profit was \$1,164,000, reflecting a profit margin of 10.9% and an increase from prior year's third quarter segment profit of \$392,000 and with a related profit margin of 3.8%. The increase in QuickLabel's current year's segment operating profit and related margin is due to higher sales, favorable product mix and lower manufacturing costs and operating expenses.

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The QuickLabel product group had sales revenue of \$31,851,000 for the first nine months of the current fiscal year, a 1.6% decline as compared with \$32,364,000 in sales revenues reported for the same period in the prior year. The key driver of the decrease was the

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decline in label and tag sales in the QuickLabel product group due to the January 2012 divestiture of the Asheboro, North Carolina facilities, which contributed sales of approximately \$3,000,000 in the first nine months of the prior year. This decline was slightly tempered by the 17.8% increase in the consumable sales of digital color printer supplies and sales of the new Kiaro! product line, which was introduced in July 2012, as well as the double-digit increase in sales of monochromatic printers as compared to the prior year. The segment operating profit margin of 9.9% for the first nine months of the current year has improved relative to a 5.6% profit margin for the same period of the previous year. The current year increase in QuickLabel's profit margin is due to lower manufacturing costs, favorable product mix and lower operating expenses.

**Grass Technologies Grass**

Sales revenues in the third quarter of the current year for the Grass product group were \$4,523,000 representing a 7.5% decrease as compared to prior year's third quarter sales of \$4,892,000. The decrease in sales is primarily attributable to sales in the Clinical hardware line, as current quarter sales were lower as compared to prior year's third quarter sales. Also contributing to the decrease for the current quarter are sales of the Research product line which was down 12.1% as compared to prior year. The lower hardware sales are slightly tempered by an increase in the consumable products of electrodes and creams, which have increased 15.4% as compared to the prior year. The segment operating profit in the current quarter of \$919,000 generated a segment operating profit margin of 20.3% and compares to a segment operating profit margin of 24.0% as reported in the third quarter of the prior year. The lower segment operating profit and related margin is primarily due to lower sales and unfavorable product mix.

Grass sales were \$13,521,000 for the first nine months of the current year, a 2.4% decrease as compared to sales of \$13,850,000 for the same period of the prior year. The year over year decrease is primarily attributed to the 11.2% decrease in current year sales of the clinical hardware product line. This decrease was slightly tempered by the 9.3% increase in consumable sales of electrodes and creams. The segment operating profit of \$2,464,000 produced an 18.2% operating profit margin and compares to prior year's segment operating profit margin of 18.7%. The decrease in segment profit and related margin is primarily due to lower sales and unfavorable product mix.

**Financial Condition and Liquidity**

The Company believes that cash provided by operations will continue to be sufficient to meet operating and capital needs for at least the next twelve months. However, in the event that cash from operations is not sufficient, the Company has a substantial cash and short term marketable securities balance, as well as a \$5.0 million revolving bank line of credit, all of which is currently available. Borrowings under this line of credit bear interest at either a fluctuating rate equal to 75 basis points below the base rate, as defined in the agreement, or at a fixed rate equal to 150 basis points above LIBOR.

The Company's statements of cash flows for the nine months ended October 27, 2012 and October 29, 2011 are included on page 6. Net cash flows provided by operating activities was \$3,032,000 in the current year compared to net cash provided by operating activities of \$4,075,000 in the previous year. The decline in operating cash flow provided in the first nine months of the current year as compared to the previous year is related to higher inventory and lower accounts payable, accrued compensation and other expenses. This decline in the current year was slightly offset by the increase in current year's net income. Accounts receivables remained flat at \$11,804,000 at the end of the third quarter as compared to \$11,800,000 at year-end, but the accounts receivable collection cycle decreased to 46 days sales outstanding at the end of the current quarter as compared to 51 days outstanding at year end. Inventory increased to \$14,487,000 at the end of the third quarter compared to \$14,129,000 at year end and inventory days on hand also increased to 111 days on hand at the end of the current quarter from 105 days at year end.

The Company's cash, cash equivalents and investments at the end of the third quarter totaled \$22,963,000 compared to \$23,040,000 at year end. The lower cash and investment position at October 27, 2012 resulted from the increase in inventory and the decrease in accounts payable, accrued compensation and other expense, as noted above, as well as cash used to acquire property, plant and equipment of \$527,000 and to pay cash dividends of \$1,558,000. Cash of \$770,000 was also used during the period to purchase treasury shares.

The Company's backlog increased 27.9% from year-end to \$7,954,000 at the end of the third quarter.

**Critical Accounting Policies, Commitments and Certain Other Matters**

In the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2012, the Company's most critical accounting policies and estimates upon which our financial status depends were identified as those relating to revenue recognition, warranty claims, bad debts, inventories, income taxes, long-lived assets, goodwill and share-based compensation. We considered the disclosure requirements of Financial Release (FR) 60 (FR-60) regarding critical accounting policies and FR-61 regarding liquidity and capital resources, certain trading activities and related party/certain other disclosures, and concluded that nothing materially changed during the quarter that would warrant further disclosure under these releases.



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### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not statements of historical fact, but rather reflect our current expectations concerning future events and results. We generally use the words believes, expects, intends, plans, anticipates, likely, continues, may, will, and similar expressions to identify forward-looking statements. Such forward-looking statements, including those concerning our expectations, involve risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors which could cause actual results to differ materially from those anticipated include, but are not limited to (a) general economic, financial and business conditions; (b) declining demand in the test and measurement markets, especially defense and aerospace; (c) competition in the specialty printer industry; (d) ability to develop market acceptance of our products and effective design of customer required features; (e) competition in the data acquisition industry; (f) competition in the neurophysiology industry; (g) the impact of changes in foreign currency exchange rates on the results of operations; (h) the ability to successfully integrate acquisitions; (i) the business abilities and judgment of personnel and changes in business strategy; (j) the efficacy of research and development investments to develop new products; (k) the launching of significant new products which could result in unanticipated expenses; (l) bankruptcy or other financial problems at major suppliers or customers that could cause disruptions in the Company's supply chain or difficulty in collecting amounts owed by such customers; (m) and other risks included under Item 1A-Risk Factors in our Annual Report on Form 10-K for the fiscal year ended January 31, 2012. We assume no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The registrant is a smaller reporting company and is not required to provide this information.

### **Item 4. Controls and Procedures**

#### ***Evaluation of Disclosure Controls and Procedures***

Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (Exchange Act). Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

#### ***Changes in Internal Control over Financial Reporting***

There have been no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to have materially affected, our internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

There are no pending or threatened legal proceedings against the Company believed to be material to the financial position or results of operations of the Company.

**Item 1A. Risk Factors**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors in our Annual Report on Form 10-K for the fiscal year ended January 31, 2012, which could materially affect our business, financial condition or future operating results. The risks described in our Annual Report on 10-K are not the only risks that we face, as additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating result as well as adversely affect the value of our investments in our common stock.

There have been no material updates to the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2012.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On August 22, 2011, the Company's Board of Directors approved an increase in the number of shares authorized for repurchase from 254,089 to 500,000 shares of common stock. This is an ongoing authorization without any expiration date.

During the third quarter of fiscal 2013, the Company made the following repurchases of its common stock:

|              |              | Total Number of Shares Repurchased | Average Price paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares That May Be Purchased Under The Plans or Programs |
|--------------|--------------|------------------------------------|------------------------------|--|--|
| July 29      | August 25    |                                    | \$                           |  | 500,000  |
| August 26    | September 22 | 110,000                            | \$ 7.00                      | 110,000  | 390,000  |
| September 22 | October 27   |                                    | \$                           |  | 390,000  |

**Item 6. Exhibits**

The following exhibits are filed as part of this report on Form 10-Q:

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002



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|         |  |
|---------|--|
| 101.INS | XBRL Instance Document                                 |
| 101.SCH | XBRL Taxonomy Extension Schema Document                |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF | XBRL Taxonomy Extension Definition Database            |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document        |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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SIGNATURES

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

**ASTRO-MED, INC.**

**(Registrant)**

Date: December 5, 2012

By /s/ Everett V. Pizzuti  
Everett V. Pizzuti,  
President and Chief Executive Officer

(Principal Executive Officer)

By /s/ Joseph P. O Connell  
Joseph P. O Connell  
Senior Vice President, Treasurer and Chief Financial Officer

(Principal Financial Officer)