

ASTRO MED INC /NEW/  
Form 10-Q  
December 09, 2013  
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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 November 2, 2013**

**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**

**02893**

**(Address of principal executive offices)**

**(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 .

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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 7,512,803 shares**

**(excluding treasury shares) as of December 9, 2013**

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

	<b>November 2, 2013</b>	<b>January 31, 2013</b>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 12,974	\$ 30,999
Securities Available for Sale	19,654	8,509
Accounts Receivable, net	10,970	9,376
Inventories	11,916	11,179
Deferred Tax Assets	1,825	1,866
Line of Credit Receivable	288	300
Note Receivable	250	250
Restricted Cash	1,800	1,800
Asset Held for Sale	2,016	2,016
Prepaid Expenses and Other Current Assets	1,682	696
Current Assets of Discontinued Operations	5,208	3,131
Total Current Assets	68,583	70,122
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>34,768</b>	<b>33,886</b>
Less Accumulated Depreciation	(27,045)	(26,098)
Property, Plant and Equipment, net	7,723	7,788
<b>OTHER ASSETS</b>		
Goodwill	795	795
Note Receivable	569	756
Other	98	96
Total Other Assets	1,462	1,647
<b>TOTAL ASSETS</b>	<b>\$ 77,768</b>	<b>\$ 79,557</b>

**LIABILITIES AND SHAREHOLDERS EQUITY**

<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 2,750	\$ 1,938
Accrued Compensation	2,649	3,176
Other Accrued Expenses	3,641	3,164
Deferred Revenue	499	271
Income Taxes Payable	21	4,169
Current Liabilities of Discontinued Operations	2,139	1,501
Total Current Liabilities	11,699	14,219
Deferred Tax Liabilities	178	212
Other Long Term Liabilities	1,336	1,289
<b>TOTAL LIABILITIES</b>	<b>13,213</b>	<b>15,720</b>
<b>SHAREHOLDERS EQUITY</b>		
Common Stock, \$0.05 Par Value, Authorized 13,000,000 shares; Issued 9,228,305 shares and 9,031,756 shares at November 2, 2013 and January 31, 2013, respectively	461	452
Additional Paid-in Capital	40,429	38,786
Retained Earnings	35,878	36,092
Treasury Stock, at Cost, 1,721,098 shares and 1,663,214 shares at November 2, 2013 and January 31, 2013, respectively	(12,348)	(11,666)
Accumulated Other Comprehensive Income	135	173
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>64,555</b>	<b>63,837</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 77,768</b>	<b>\$ 79,557</b>

See Notes to condensed consolidated financial statements (unaudited).

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## ASTRO-MED, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, Except Per Share Data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Net Sales	\$ 18,179	\$ 16,039	\$ 50,858	\$ 45,038
Cost of Sales	10,816	9,555	30,796	27,497
Product Replacement Related Costs			672	
Gross Profit	7,363	6,484	19,390	17,541
Operating Expenses:				
Selling and Marketing	3,727	3,199	10,680	9,242
Research and Development	1,230	897	3,617	2,766
General and Administrative	1,223	1,187	3,745	3,339
Operating Expenses	6,180	5,283	18,042	15,347
Operating Income	1,183	1,201	1,348	2,194
Other Income (Expense), net	(2)	47	(64)	(56)
Income from Continuing Operations before Income Taxes	1,181	1,248	1,284	2,138
Income Tax Provision for Continuing Operations	436	499	446	542
Income from Continuing Operations	745	749	838	1,596
Income from Discontinued Operations, net of tax benefit of \$89 and tax expense of \$333, for the three and nine months ended November 2, 2013, respectively and tax benefit of \$2 and tax expense of \$928 for the three and nine months ended October 27, 2012, respectively	363	558	517	1,535
Net Income	\$ 1,108	\$ 1,307	\$ 1,355	\$ 3,131
Net Income per Common Share Basic:				
From Continuing Operations	\$ 0.10	\$ 0.10	\$ 0.11	\$ 0.22
From Discontinued Operations	0.05	0.08	0.07	0.20
Net Income Per Common Share Basic	\$ 0.15	\$ 0.18	\$ 0.18	\$ 0.42

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Net Income per Common Share Diluted:				
From Continuing Operations	\$ 0.10	\$ 0.10	\$ 0.11	\$ 0.21
From Discontinued Operations	0.04	0.08	0.07	0.21
Net Income Per Common Share Diluted	\$ 0.14	\$ 0.18	\$ 0.18	\$ 0.42
Weighted Average Number of Common Shares Outstanding:				
Basic	7,490	7,379	7,449	7,414
Diluted	7,716	7,462	7,650	7,487
Dividends Declared Per Common Share	\$ 0.07	\$ 0.07	\$ 0.21	\$ 0.21
See Notes to condensed consolidated financial statements (unaudited).				



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## ASTRO-MED, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Net Income	\$ 1,108	\$ 1,307	\$ 1,355	\$ 3,131
Other Comprehensive Income (Loss), Net of Taxes and Reclassification Adjustments:				
Foreign Currency Translation Adjustments	137	185	(56)	(66)
Unrealized Holding Gain (Loss) Arising During the Period	14	(2)	18	(9)
Other Comprehensive Income (Loss)	151	183	(38)	(75)
Comprehensive Income	\$ 1,259	\$ 1,490	\$ 1,317	\$ 3,056

See Notes to condensed consolidated financial statements (unaudited).

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

	<b>Nine Months Ended</b>	
	<b>November 2, 2013</b>	<b>October 27, 2012</b>
<b>Cash Flows from Operating Activities:</b>		
Net Income	\$ 1,355	\$ 3,131
<b>Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:</b>		
Depreciation and Amortization	951	993
Share-Based Compensation	406	305
Deferred Income Tax Provision	192	72
<b>Changes in Assets and Liabilities:</b>		
Accounts Receivable	(3,368)	(4)
Inventories	(1,039)	(359)
Income Taxes	(4,940)	174
Accounts Payable and Accrued Expenses	1,087	(1,081)
Other	362	(200)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(4,994)</b>	<b>3,031</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sales/Maturities of Securities Available for Sale	7,940	14,965
Purchases of Securities Available for Sale	(19,056)	(11,816)
Line of Credit Issuance		(300)
Additions to Property, Plant and Equipment	(910)	(527)
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>(12,026)</b>	<b>2,322</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from Common Shares Issued Under Employee Benefit Plans and Employee Stock Option Plans, Net of Payment of Minimum Tax Withholdings	564	61
Purchase of Treasury Stock		(770)
Dividends Paid	(1,569)	(1,559)
<b>Net Cash Used in Financing Activities</b>	<b>(1,005)</b>	<b>(2,268)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(18,025)</b>	<b>3,085</b>
Cash and Cash Equivalents, Beginning of Period	30,999	11,704
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 12,974</b>	<b>\$ 14,789</b>

Supplemental Disclosures of Cash Flow Information:

Cash Paid During the Period for Income Taxes, Net of Refunds	\$ 4,881	\$ 1,354
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See Notes to condensed consolidated financial statements (unaudited).

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**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 through our branch offices in Canada and Europe as well as with independent dealers and representatives. Astro-Med, Inc. products are sold under the brand names Astro-Med<sup>®</sup> Test & Measurement and QuickLabel<sup>®</sup> Systems and are employed around the world in a wide range of aerospace, automotive, communications, chemical, food and beverage, 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, 2013.

On January 31, 2013, we completed the sale of substantially all of the assets of our Grass Technologies Product Group. Consequently, we have classified the results of operations of the Grass Technologies Product Group as discontinued operations for all periods presented. Refer to Note 14, Discontinued Operations, for further discussion.

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 condensed 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, accrued expenses 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>November 2, 2013</b>	<b>October 27, 2012</b>	<b>November 2, 2013</b>	<b>October 27, 2012</b>
Weighted Average Common Shares Outstanding Basic	7,489,690	7,379,094	7,449,251	7,414,273
Effect of Dilutive Options, Restricted Stock Awards and Restricted Stock Units	226,130	82,864	200,763	72,315
Weighted Average Common Shares Outstanding Diluted	7,715,820	7,461,958	7,650,014	7,486,588

For the three and nine months ended November 2, 2013, the diluted per share amounts do not reflect common equivalent shares outstanding of 131,600 and 172,100, respectively, because their effect would have been anti-dilutive, as the exercise price was greater than the average market price of the underlying stock during the period presented. 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, as the exercise price was greater than the average market price of the underlying stock during the period presented.

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**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. At November 2, 2013, 356,350 shares were available for grant 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. In fiscal year 2013, a portion of the Company's long-term incentive compensation was awarded in the form of RSUs. The 2013 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 fiscal 2013 Domestic Management Bonus Plan. All such RSUs were earned in fiscal 2013 and fifty percent vested in March 2013; the balance will vest in March 2014, subject to the grantee's continued employment. In April 2013, the Company granted options and RSUs to officers (2014 RSUs). Each 2014 RSU will be earned and vest as follows: twenty-five percent of the 2014 RSU vests on the third anniversary of the grant date, fifty percent of the 2014 RSU vests upon the Company achieving its cumulative budgeted net sales target for fiscal years 2014 through 2016 (the Measurement Period), and twenty-five percent of the total 2014 RSU vests upon the Company's achieving a target average annual ORONA (operating income return on net assets as calculated under the Domestic Management Bonus Plan) for the Measurement Period. The grantee may not sell, transfer or otherwise dispose of more than fifty percent of the common stock issued upon vesting of the RSU until the first anniversary of the vesting date.

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 has a Non-Employee Director Annual Compensation Program (the Program) which 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, each non-employee director receives RSAs with a value equal to \$20,000 (the Equity Retainer) upon adjournment of each annual shareholders meeting. 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. The dividend assumption is based upon the prior year's average dividend yield. Reductions in compensation expense associated with the forfeited options are estimated at the date of grant, and this estimated forfeiture rate is adjusted periodically based on actual forfeiture experience. 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.

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Share-based compensation expense was recognized as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>November 2, 2013</b>	<b>October 27, 2012</b>	<b>November 2, 2013</b>	<b>October 27, 2012</b>
(In thousands)				
Stock Options	\$ 46	\$ 42	\$ 140	\$ 120
Restricted Stock Awards and Restricted Stock Units	81	138	266	185
<b>Total</b>	<b>\$ 127</b>	<b>\$ 180</b>	<b>\$ 406</b>	<b>\$ 305</b>

*Stock Options*

The fair value of stock options granted during the nine months ended November 2, 2013 and October 27, 2012 was estimated using the following assumptions:

	<b>Nine Months Ended</b>	
	<b>November 2, 2013</b>	<b>October 27, 2012</b>
Risk Free Interest Rate	0.8%	0.9%
Expected Volatility	38.3%	39.2%
Expected Life (in years)	5.0	5.0
Dividend Yield	2.6%	3.4%

The weighted average fair value per share for options granted was \$2.79 during the first and second quarters of fiscal 2014. No options were granted during the third quarter of fiscal 2014. This compares the weighted average fair value per share for options granted of \$2.09, \$2.01 and \$1.93 during the first, second and third quarters of fiscal 2013, respectively.

Aggregated information regarding stock options granted under the Plan for the nine months ended November 2, 2013 is summarized below:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average</b>	<b>Aggregate Intrinsic Value</b>
			<b>Remaining Contractual Life (in Years)</b>	
Outstanding at January 31, 2013	916,612	\$ 8.46	4.4	\$ 1,624,000
Granted	56,800	10.54		
Exercised	(156,273)	8.16		
Expired or canceled	(22,624)	9.53		



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Outstanding at November 2, 2013	794,515	\$	8.64	4.7	\$	3,185,525
Exercisable at November 2, 2013	619,867	\$	8.59	3.6	\$	2,514,405

As of November 2, 2013, there was \$305,646 of unrecognized compensation expense related to unvested options, which will be recognized through March 2017.

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

Aggregated information regarding RSUs and RSAs granted under the Plan for the nine months ended November 2, 2013 is summarized below:

	<b>RSAs &amp; RSUs</b>		<b>Weighted Average Grant Date Fair Value</b>
Unvested at January 31, 2013	96,900	\$	8.10
Granted	57,544		10.14
Vested	(40,898)		8.15
Forfeited			
Unvested at November 2, 2013	113,546	\$	9.11

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As of November 2, 2013, there was \$457,878 of unrecognized compensation expense related to unvested RSUs and RSAs which will be recognized through April 2016.

*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 November 2, 2013 and October 27, 2012, there were 886 and 1,535 shares respectively, purchased under this plan. During the nine months ended November 2, 2013 and October 27, 2012, there were 3,152 and 4,082 shares respectively, purchased under this plan. As of November 2, 2013, 61,709 shares remain available.

**(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:

	November 2, 2013	January 31, 2013
(In thousands)		
Materials and Supplies	\$ 6,383	\$ 6,654
Work-In-Process	1,128	591
Finished Goods	4,405	3,934
	\$ 11,916	\$ 11,179

**(7) Income Taxes**

The Company's effective tax rates for income from continuing operations based on the projected effective tax rate for the full year, are as follows:

	Three Months Ended	Nine Months Ended
Fiscal 2014	36.9%	34.7%
Fiscal 2013	40.0%	25.4%

During the three months ended November 2, 2013, the Company recognized a benefit of \$187,000 recorded as a result of a favorable adjustment in the filing of the prior year's tax returns. Of the \$187,000 benefit, \$18,000 relates to taxes on income from continuing operations.

During the nine months ended November 2, 2013, the Company recognized income tax expense on income from continuing operations of approximately \$446,000 which included an expense of \$464,000 on nine months pretax income from continuing operations and a benefit of \$18,000 related to the favorable adjustment in the filing of the prior year's tax returns.

During the nine months ended October 27, 2012, the Company recognized income tax expense on income from continuing operations of approximately \$542,000 which included an expense of \$844,000 on the nine month's pretax

income from continuing operations and a benefit of \$302,000 related to the favorable resolution of a previously uncertain tax position.

As of November 2, 2013, the Company's cumulative unrecognized tax benefits totaled \$931,000 compared to \$941,000 as of January 31, 2013. There were no developments affecting unrecognized tax benefits during the quarter ended November 2, 2013.

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

On January 30, 2012, the Company completed the sale of its 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 sheets.

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 a 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 had 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. On March 27, 2013, Astro-Med signed an agreement to extend this line of credit through January 30, 2014. As of November 2, 2013, \$288,000 remains outstanding on this revolving line of credit.

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

Astro-Med reports two segments consistent with its sales product groups: Test & Measurement (T&M) and QuickLabel Systems (QuickLabel). On January 31, 2013, the Company completed the sale of substantially all of the assets of its Grass Technologies Product Group (Grass) in order to focus on its existing core businesses. Consequently, the Company has classified the results of operations of Grass as discontinued operations for all periods presented. Refer to Note 14, Discontinued Operations for a further discussion.

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:

(In thousands)	Three Months Ended				Nine Months Ended			
	Net Sales		Segment Operating Profit		Net Sales		Segment Operating Profit	
	November 2013	October 2012	November 2013	October 2012	November 2013	October 2012	November 2013	October 2012
T&M	\$ 5,670	\$ 5,359	\$ 912	\$ 1,252	\$ 14,756	\$ 13,188	\$ 1,803	\$ 2,393
QuickLabel	12,509	10,680	1,494	1,136	36,102	31,850	3,962	3,140
<b>Total</b>	<b>\$ 18,179</b>	<b>\$ 16,039</b>	<b>2,406</b>	<b>2,388</b>	<b>\$ 50,858</b>	<b>\$ 45,038</b>	<b>5,765</b>	<b>5,533</b>
Product Replacement Related Costs							672	
Corporate Expenses			1,223	1,187			3,745	3,339
Operating Income			1,183	1,201			1,348	2,194
Other Income (Expense) Net			(2)	47			(64)	(56)
Income From Continuing Operations Before Income Taxes			1,181	1,248			1,284	2,138
Income Tax Provision			436	499			446	542
			745	749			838	1,596
Income From Discontinued Operations, Net of Income Taxes			363	558			517	1,535
<b>Net Income</b>			<b>\$ 1,108</b>	<b>\$ 1,307</b>			<b>\$ 1,355</b>	<b>\$ 3,131</b>

**(10) Recent Accounting Pronouncements**

*Comprehensive Income*

In February 2013, the Financial Standards Accounting Board issued Accounting Standard Update 2013-02, ( ASU-2013-02 ) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures that provide additional detail on these amounts. ASU 2013-02 was effective prospectively for reporting periods beginning after December 15, 2012. We adopted this guidance in our first quarter ending May 4, 2013 and have provided the disclosure required in Note 13. Since ASU 2013-02 only impacts presentation and disclosure requirements, the adoption of this guidance did not have a material impact on the Company's financial position or results of operations.

No other new accounting pronouncements, issued or effective during the first nine months of the current year, have had or are expected to have a material impact on our consolidated financial statements.

**Table of Contents****(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 1 to 33 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:

(In thousands)	<b>Gross Unrealized</b>			
<b>November 2, 2013</b>	<b>Amortized Cost</b>	<b>Gains</b>	<b>Losses</b>	<b>Fair Value</b>
State and Municipal Obligations	\$ 19,615	\$ 39	\$	\$ 19,654

(In thousands)	<b>Gross Unrealized</b>			
<b>January 31, 2013</b>	<b>Amortized Cost</b>	<b>Gains</b>	<b>Losses</b>	<b>Fair Value</b>
State and Municipal Obligations	\$ 8,499	\$ 10	\$	\$ 8,509

**(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

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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; notes 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 the these instruments.

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

(In thousands)

<b>November 2, 2013</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)	\$ 7,557	\$	\$	\$ 7,557
State and Municipal Obligations (included in Securities Available for Sale)	19,654			19,654
<b>Total</b>	<b>\$ 27,211</b>	<b>\$</b>	<b>\$</b>	<b>\$ 27,211</b>

<b>January 31, 2013</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)	\$ 8,784	\$	\$	\$ 8,784
State and Municipal Obligations (included in Securities Available for Sale)	8,509			8,509
<b>Total</b>	<b>\$ 17,293</b>	<b>\$</b>	<b>\$</b>	<b>\$ 17,293</b>

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.

**Table of Contents****(13) Accumulated Other Comprehensive Income (Loss)**

The changes in the balance of accumulated other comprehensive income (loss) by component are as follows:

(In thousands)	<b>Foreign Currency Translation Adjustments</b>	<b>Unrealized Holding Gain on Available for Sale Securities</b>	<b>Total</b>
Balance at January 31, 2013	\$ 166	\$ 7	\$ 173
Other Comprehensive Income (Loss)	(56)	18	(38)
Amounts reclassified to Net Income			
Net Other Comprehensive Income (Loss)	(56)	18	(38)
Balance at November 2, 2013	\$ 110	\$ 25	\$ 135

The amounts presented above in other comprehensive income are net of taxes.

**(14) Discontinued Operations**

On January 31, 2013, the Company completed the sale of substantially all of the assets of its Grass Technologies Product Group (Grass) which manufactured polysomnography and electroencephalography systems and related accessories and propriety electrodes for use in both research and clinical settings. The assets sold consisted primarily of working capital (exclusive of inventory and accounts payable related to manufacturing), the engineering, sales and support workforce, intellectual property and certain other related assets. The proceeds from the sale consisted of \$18.6 million in cash, of which \$1.8 million is being held in escrow as restricted cash, for twelve months following the closing date of the transaction in order to provide indemnity to the purchaser in the event of any breach in the representations, warranties and covenants of Astro-Med. The Company has fully reserved the \$1.8 million in Other Accrued Expenses in the accompanying condensed consolidated balance sheets.

As part of this transaction, Astro-Med entered into a Transition Service Agreement (TSA) with the purchaser pursuant to which the Company will provide transition services and continue to manufacture Grass products for the purchaser. The TSA will expire January 31, 2014 at which time the purchaser will acquire any remaining inventory. On September 20, 2013, the Company entered into a new contract manufacturing agreement with the purchaser to become an exclusive manufacturer of certain medical devices. The effective date of this agreement is February 1, 2014 and the agreement is for a period two years from the effective date. The Company has determined that cash flows from this activity will not be significant and therefore Grass has been presented as a discontinued operation for all periods presented.

Results for discontinued operations are as follows:

<b>Three Months Ended</b>	<b>Nine Months Ended</b>
-------------------------------	------------------------------



**November 2, 2013    October 27, 2012    November 2, 2013    October 27, 2012**

(In thousands)

	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Net Sales	\$ 2,485	\$ 4,523	\$ 6,201	\$ 13,520
Gross Profit	\$ 290	\$ 2,354	\$ 668	\$ 6,969
Net Income from Discontinued Operations	\$ 363	\$ 558	\$ 517	\$ 1,535

During the three months ended November 2, 2013, the Company recognized a tax benefit of \$89,000 on income from discontinued operations, which included an expense of \$80,000 on three months pretax income from discontinued operations and a benefit of \$169,000 recorded as a result of a favorable adjustment in the filing of the prior year's tax returns. During the nine months ended November 2, 2013, the Company recognized a tax benefit of \$2,000 on income from discontinued operations, which included an expense of \$167,000 and a benefit of \$169,000 recorded as a result of a favorable adjustment in the filing of the prior years tax returns.

As a result of the sale of the Grass assets, the Company is in the process of selling its facility located in Rockland, Massachusetts, which was the former location of Grass production. This property is being actively marketed with sale considered probable within the next twelve months and as such, the property is classified as an Asset Held for Sale in the accompanying condensed consolidated balance sheets.

### **(15) Commitments and Contingencies**

#### *Product Replacement Program*

In April 2013, tests conducted by the Company revealed that one of its suppliers had been using non-conforming material in the cover of the power supply used in certain models of Astro-Med's Test & Measurement printers. No malfunctions have been reported by customers as a result of the non-conforming material.

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Upon identifying this issue, Astro-Med immediately suspended production of the printers, notified all customers and contacted the supplier who confirmed the problem. Astro-Med is working with its customers to replace the non-conforming material on existing printers with conforming material and will do this on a gradual basis over several months. The estimated costs associated with the replacement program are \$672,000, which was based upon the number of printers shipped during the period the non-conforming material was used. Those costs have been recognized and recorded in the first quarter and are included in the accompanying condensed consolidated statement of operations for the nine months ended November 2, 2013. The related remaining reserve amount of \$520,000 is included in Other Accrued Expenses in the accompanying condensed consolidated balance sheet dated November 2, 2013.

Astro-Med is currently receiving power supplies with compliant materials and has resumed printer production and shipments to customers.

Since Astro-Med's supplier deviated from the agreed upon specifications for the power supply while providing certificates of conformance to the original specifications, the Company is currently in negotiations with the supplier and is seeking recovery for the costs and associated with this issue.

## **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, 2013.

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 two 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 manufactures and markets 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.

On January 31, 2013, the Company completed the sale of substantially all of the assets of its Grass Technologies Product Group (Grass) in order to focus on its existing core businesses. Grass manufactured polysomnography and electroencephalography systems for both clinical and research use along with the related accessories and proprietary electrodes. Consequently, the Company has classified the results of operations of its Grass segment as discontinued operations for all periods presented.

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

**Table of Contents****Results of Operations****Three Months Ended November 2, 2013 vs. Three Months Ended October 27, 2012**

Net sales by product group and current quarter percentage change over prior year for the three months ended November 2, 2013 and October 27, 2012 were:

<i>(Dollars in thousands)</i>	<b>November 2, 2013</b>	<b>As a % of Net Sales</b>	<b>October 27, 2012</b>	<b>As a % of Net Sales</b>	<b>% Change Over Prior Year</b>
T&M	5,670	31.2%	\$ 5,359	33.4%	5.8%
QuickLabel	12,509	68.8%	10,680	66.6%	17.1%
<b>Total</b>	<b>\$ 18,179</b>	<b>100.0%</b>	<b>\$ 16,039</b>	<b>100.0%</b>	<b>13.3%</b>

Net sales for the third quarter of the current year were \$18,179,000, representing a 13.3% increase as compared to the previous year's third quarter sales of \$16,039,000 as well as a 5.7% increase as compared to current year second quarter sales of \$17,194,000. Sales through the domestic channels for the current quarter were \$13,198,000, an increase of 11.3% over the prior year's third quarter. International shipments for the third quarter of the current year were \$4,981,000, representing a 19.2% increase from the previous year. Current year's third quarter international sales include favorable foreign exchange rate impact of \$111,000.

Hardware sales in the current quarter were \$7,762,000, an increase compared to both prior year's third quarter sales of \$7,243,000 and current year's second quarter sales of \$7,701,000. Both segments contributed to the current quarter increase, as hardware sales were up 7.5% in the T&M product group and 6.4% in the Quick Labels product group compared to prior year third quarter sales. Consumables sales in the current quarter were \$9,419,000, representing a 19.0% increase over prior year's third quarter consumable sales of \$7,913,000 and a slight increase over current year's second quarter sales of \$9,205,000. The current quarter increase in consumable sales as compared to the third quarter of the prior year is primarily due to the double-digit increase in sales of label and tag products and digital color printer supplies in the QuickLabel segment.

Service and other revenues of \$998,000 in the current quarter were up 13.1% from prior year's third quarter service and other revenues of \$882,000, primarily due to the increase in service revenue during the quarter.

Current year third quarter gross profit was \$7,363,000, representing a 6.4% improvement over current year's second quarter gross profit of \$6,923,000 and a 13.6% improvement as compared to prior year's third quarter gross profit of \$6,484,000. The Company's gross profit margin of 40.5% in the current quarter also reflects a nominal increase from the prior year's third quarter gross profit margin of 40.4%. The higher gross profit and related margin for the current quarter as compared to prior year is primarily attributable a favorable product mix.

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Operating expenses for the current quarter were \$6,180,000, which increased as compared to prior year's third quarter operating expenses of \$5,283,000. The Company increased its spending in selling and market activities due to additional personnel and related costs; expanded its R&D investments with new product programs; and incurred higher G&A costs from healthcare and professional service fees. The current quarter spending in R&D represents 6.8% of sales, an increase as compared to prior year's third quarter level of 5.6%.

Third quarter operating income of \$1,183,000, resulted in operating profit margin of 6.5%, a decrease compared to the prior year's third quarter operating income of \$1,201,000 and related operating margin of 7.5%. The decrease in operating income and related margin is primarily attributable to increased operating expenses.

Other expense during the third quarter was \$2,000 compared to other income of \$47,000 in the third quarter of the previous year. The higher expense was primarily due to the decrease in foreign exchange gain recognized in the third quarter of the current year as compared to the prior year.

The provision for federal, state and foreign taxes on continuing operations for the third quarter of the current year were \$436,000, reflecting an effective tax rate of 36.9%. Included in the current year income tax expense for continuing operations is a tax benefit of \$18,000 related to the favorable adjustment in the filing of the prior year's tax returns. This compares to the prior year's third quarter tax expense for continued operations of \$499,000, reflecting an effective tax rate of 40.0%.

The Company reported \$745,000 of income from continuing operations for the third quarter of the current year, reflecting a return on sales of 4.1% and generating EPS of \$0.10 per diluted share, comparable to the prior year's third quarter income from continuing operations of \$749,000, reflecting a return on sales of 4.7% and an EPS of \$0.10 per diluted share.

**Discontinued Operation**

On January 31, 2013, the Company completed the sale of substantially all of the assets of its Grass Technologies Product Group (Grass) for a purchase price of \$18,600,000. Consequently, the Company has classified the results of operations of its Grass segment as discontinued operations for all periods presented.

Results for discontinued operations are as follows:

(In thousands)	<b>Three Months Ended</b>	
	<b>November 2, 2013</b>	<b>October 27, 2012</b>
Net Sales	\$ 2,485	\$ 4,523
Gross Profit	\$ 290	\$ 2,354
Net Income from Discontinued Operations	\$ 363	\$ 558

**Table of Contents****Nine Months Ended November 2, 2013 vs. Nine Months Ended October 27, 2012**

Net sales by product group and current quarter percentage change over prior year for the nine months ended November 2, 2013 and October 27, 2012 were:

<i>(Dollars in thousands)</i>	<b>November 2, 2013</b>	<b>As a % of Net Sales</b>	<b>October 27, 2012</b>	<b>As a % of Net Sales</b>	<b>% Change Over Prior Year</b>
T&M	\$ 14,756	29.0%	\$ 13,188	29.3%	11.9%
QuickLabel	36,102	71.0%	31,850	70.7%	13.3%
<b>Total</b>	<b>\$ 50,858</b>	<b>100.0%</b>	<b>\$ 45,038</b>	<b>100.0%</b>	<b>12.9%</b>

Net sales for the first nine months of the current year were \$50,858,000, representing a 12.9% increase as compared to the previous year's sales of \$45,038,000. Sales through the domestic channels for the first half of the current year were \$35,965,000, an increase of 8.6% over the prior year. International shipments for the first nine months of the current year were \$14,893,000, representing a 24.9% increase from the previous year. The current year's first nine months international sales include a favorable foreign exchange rate impact of \$144,000.

Hardware sales in the first nine months of the current year were \$20,471,000, a 10.8% increase compared to prior year sales of \$18,478,000. Both product groups experienced growth in the current year, with T&M hardware sales at \$13,524,000, a 14.1% increase as compared to prior year sales of \$11,857,000 and QuickLabel hardware sales at \$6,947,000 in the current year, a 4.9% increase from prior year sales of \$6,621,000.

Consumables sales in first half of the current year were \$27,525,000, representing a 14.7% increase over prior year's first nine months sales of \$23,994,000. The current year increase in consumable sales is primarily due to the double-digit increase in both digital color printer supplies and label and tag product sales in the QuickLabel segment.

Service and other revenues of \$2,862,000 in the first nine months of the current year were up 11.5% from prior year's first nine months service and other revenues of \$2,566,000, primarily due to the increase in parts and service revenue during the current year.

Current year first nine months gross profit was \$19,390,000, reflecting an 10.5% improvement as compared to prior year's first nine months gross profit of \$17,541,000; however, the Company's gross profit margin of 38.1% in the current year is slightly lower than the prior year's first nine months gross profit margin of 38.9%. The lower gross profit margin for the current year as compared to prior year is primarily attributable to \$672,000 in product replacement program costs recognized in the first quarter related to replacing materials on certain of T&M's Ruggedized printers after the Company discovered that one of its suppliers was using non-conforming material in the cover of the power supply used in certain models. Astro-Med intends to seek recovery from the supplier for all costs associated with this issue since the supplier deviated from the agreed upon specifications for the power supply while providing certificates of conformance to the original specifications.

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Operating expenses for the first nine months of the fiscal year were \$18,042,000, an increase as compared to prior year's first nine months operating expenses of \$15,347,000. Specifically, selling and marketing expenses for the current year increased as compared to the previous year's first nine months of selling and marketing expenses due to increases in personnel costs as well as promotional expenditures. G&A expenses increased to \$3,745,000 in the first nine months of the current year as compared to prior year's first nine months G&A expenses, specifically due to an increase in personnel costs, professional fees and promotional spending. Investment in R&D in the first nine months of the current year of \$3,617,000 represents 7.1% of sales, an increase as compared to prior year's first nine months R&D investment of \$2,766,000 representing 6.1% of sales. The current year increase in R&D is related to new product programs.

Operating income for the first nine months of the current year of \$1,348,000, resulted in a operating profit margin of 2.7%, lower as compared to the prior year's first nine months' operating income of \$2,194,000 and related operating margin of 4.9%. The decrease in operating income and related margin is primarily attributable to the \$672,000 of product replacement program costs recognized in the first quarter as discussed above, as well as higher operating expenses in the current fiscal year.

Other expense during the first nine months of the current year was \$64,000 compared to \$56,000 in the first nine months of the previous year. The higher expense was primarily due to the decline in foreign exchange loss recognized in the first nine months of the current year as compared to the prior year.

The Company recognized a \$446,000 tax expense on income from continuing operations for the first nine months of the current fiscal year which includes an expense of \$464,000 on the nine months' pretax income from continuing operations and a benefit of \$18,000 related to the favorable adjustment in the filing of the prior year's tax returns. This compares to the prior year's first nine months' income tax expense on income from continued operations of \$542,000, which included an expense of \$844,000 on the nine months' pretax income from continuing operations and a benefit \$302,000 related to the favorable resolution of a previously uncertain tax position.

The Company reported income from continuing operations of \$838,000 for the first nine months of the current year, reflecting a return on sales of 1.6% and generating a EPS of \$0.11 per diluted share. On a comparative basis, in the prior year's first nine months, the Company recognized income from continuing operations of \$1,596,000, reflecting a return on sales of 3.5% and an EPS of \$0.21 per diluted share.

## **Discontinued Operation**

On January 31, 2013, the Company completed the sale of substantially all of the assets of its Grass Technologies Product Group (Grass) for a purchase price of \$18,600,000. Consequently, the Company has classified the results of operations of its Grass segment as discontinued operations for all periods presented.

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Results for discontinued operations are as follows:

(In thousands)	Nine Months Ended	
	November 2, 2013	October 27, 2012
Net Sales	\$ 6,201	\$ 13,520
Gross Profit	\$ 668	\$ 6,969
Net Income from Discontinued Operations	\$ 517	\$ 1,535

**Segment Analysis**

The Company reports two segments consistent with its product groups: Test & Measurement (T&M) and QuickLabel Systems (QuickLabel). 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:

(In thousands)	Three Months Ended				Nine Months Ended			
	Net Sales		Segment Operating Profit		Net Sales		Segment Operating Profit	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
T&M	\$ 5,670	\$ 5,359	\$ 912	\$ 1,252	\$ 14,756	\$ 13,188	\$ 1,803	\$ 2,393
QuickLabel	12,509	10,680	1,494	1,136	36,102	31,850	3,962	3,140
Total	\$ 18,179	\$ 16,039	2,406	2,388	\$ 50,858	\$ 45,038	5,765	5,533
Product Replacement Related Costs							672	
Corporate Expenses			1,223	1,187			3,745	3,339
Operating Income			1,183	1,201			1,348	2,194
Other Income (Expense) Net			(2)	47			(64)	(56)
Income From Continuing Operations Before Income Taxes			1,181	1,248			1,284	2,138
Income Tax Provision			436	499			446	542
			745	749			838	1,596
Income From Discontinued			363	558			517	1,535



Operations, Net of  
Income Taxes

Net Income	\$ 1,108	\$ 1,307	\$ 1,355	\$ 3,131
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**Table of Contents****Test & Measurement T&M**

Sales revenues from the T&M product group were \$5,670,000 for the third quarter of the current fiscal year, representing a 5.8% increase as compared to sales of \$5,359,000 for the same period in the prior year. The increase is primarily attributable to the sales growth in the third quarter in both the traditional recorder and Ruggedized product lines as compared to the prior year. T&M's third quarter segment operating profit of \$912,000 resulted in a 16.1% profit margin as compared to the prior year's segment operating profit of \$1,252,000 and related operating margin of 23.4%. The lower segment operating profit and related margin was due to product mix and higher R&D expenses.

Sales revenues from the T&M product group were \$14,756,000 for the first nine months of the current fiscal year, representing a 11.9% increase as compared to sales of \$13,188,000 for the same period in the prior year. The increase is primarily attributable to the hardware product line, as both the Ruggedized and TMX product lines experienced growth over the prior year. T&M's operating profit for the first nine months of the current fiscal year segment was \$1,803,000 which resulted in a 12.2% profit margin as compared to the prior year's segment operating profit of \$2,393,000 and related operating margin of 18.1%. The lower segment operating profit and related margin was due to product mix.

**QuickLabel Systems QuickLabel**

Sales revenues from the QuickLabel product group increased 17.1% with sales of \$12,509,000 in the third quarter of the current year as compared to \$10,680,000 in the same period of the prior year. The current quarter increase in sales is primarily due to the consumables product line which increased 19.0% from the same period in the prior year, primarily attributable to the increased demand for digital color printer supplies as well as label and tag products, both which have experienced double-digit growth as compared to the prior year. Also contributing to the current quarter increase was the new Kario! product line. QuickLabel's current quarter segment operating profit was \$1,494,000, reflecting a profit margin of 11.9%, an increase from prior year's third quarter segment profit of \$1,136,000 and related profit margin of 10.6%. The increase in QuickLabel's current year's segment operating profit and related margin is primarily due to favorable product mix.

Sales revenues from the QuickLabel product group were \$36,102,000 for the first nine months of the current fiscal year as compared to \$31,850,000 in the same period of the prior year. The increase in sales is primarily due to the consumables product line which increased 14.8% from the prior year, attributable to the increased demand for digital color printer supplies, as well as for the label and tag products. Also contributing to the current quarter increase was the new Kario! product line. QuickLabel's current year's segment operating profit was \$3,962,000, reflecting a profit margin of 11.0%, an increase from prior year's segment profit of \$3,140,000 related profit margin of 9.9%. The increase in QuickLabel's current year's segment operating profit and related margin is primarily due to favorable product mix.

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**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 November 2, 2013 and October 27, 2012 are included on page 6. Net cash flows used by operating activities was \$4,994,000 in the current year compared to net cash provided by operating activities of \$3,031,000 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 income tax payments made in connection with the gain on the sale of Grass Technologies, as well as higher accounts receivable and inventory balances. Accounts receivables increased to \$10,970,000 at the end of the third quarter as compared to \$9,376,000 at year-end and the accounts receivable collection cycle increased to 53 days sales outstanding at the end of the current quarter as compared to 51 days outstanding at year end. Inventory increased to \$11,916,000 at the end of the third quarter compared to \$11,179,000 at year end and inventory days on hand also decreased to 99 days on hand at the end of the current quarter from 109 days at year end.

The Company's cash, cash equivalents and investments at the end of the third quarter totaled \$32,628,000 compared to \$39,508,000 at year end. The lower cash and investment position at November 2, 2013 resulted from the increase in inventory and the decrease in income taxes payable, as noted above, as well as cash used to acquire property, plant and equipment of \$910,000 and to pay cash dividends of \$1,569,000.

The Company's backlog increased 23.3% from year-end to \$7,586,000 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, 2013, 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.

**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) the impact of changes in foreign currency exchange rates on the results of operations; (g) the ability to successfully integrate acquisitions and realize benefits from divestitures; (h) the business abilities and judgment of personnel and changes in business strategy; (i) the efficacy of research and development investments to develop new products; (j) the launching of significant new products which could result in unanticipated expenses; (k) 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; (l) and other risks included under Item 1A-Risk Factors in our Annual Report on Form 10-K for the fiscal year ended January 31, 2013. 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.

**Table of Contents****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.

**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, 2013, 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 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, 2013.

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

During the third quarter of fiscal 2014, the Company made the following repurchases of its common stock:

Total Number of Shares	Average Price paid	Total Number Shares Purchased	Maximum Number as of Shares
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	<b>Repurchased</b>	<b>Per Share</b>	<b>Part of Publicly Announced Plans or Programs</b>	<b>That May Be Purchased Under The Plans or Programs</b>
August 4 - August 31		\$		390,000
September 1 - September 28	52,873(a)(b)	\$ 11.87		390,000
September 27 - November 2		\$		390,000

- (a) On September 5, 2013, the Company's Chief Executive Officer delivered 33,970 shares of the Company's common stock to satisfy the exercise price for 41,250 stock options exercised and the Company's Chief Financial Officer delivered 16,985 shares of the Company's common stock to satisfy the exercise price for 20,625 stock options exercised. The shares delivered were valued at \$11.87 per share and are included with treasury stock in the consolidated balance sheet. This transaction did not impact the number of shares authorized for repurchase under the Company's current repurchase program.
- (b) On September 6, 2013, a Vice President of the Company delivered 1,918 shares of the Company's common stock to satisfy the exercise price for 3,013 stock options exercised. The shares delivered were valued at \$11.80 per share and are included with treasury stock in the consolidated balance sheet. This transaction did not impact the number of shares authorized for repurchase under the Company's current repurchase program.

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**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
- (101) The following materials from Registrant's Annual Report on Form 10-Q for the period ended November 2, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, and (vi) the Notes to the Condensed Consolidated Financial Statements. Filed electronically herein.

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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 9, 2013

By /s/ Everett V. Pizzuti  
Everett V. Pizzuti,  
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)