

ASTRO MED INC /NEW/  
Form 10-Q  
September 09, 2008  
Table of Contents

**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 August 2, 2008

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)

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**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 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 7,002,847 shares**

**(excluding treasury shares) as of August 29, 2008**

**Table of Contents**

ASTRO-MED, INC.

INDEX

|   | <b>Page No.</b> |
|---|-----------------|
| Part I. <u>Financial Information</u>  |                 |
| Item 1. <u>Financial Statements</u>   |                 |
| <u>Condensed Consolidated Balance Sheets August 2, 2008 and January 31, 2008</u>                                    | 3               |
| <u>Condensed Consolidated Statements of Operations Three and Six Months Ended August 2, 2008 and August 4, 2007</u> | 4               |
| <u>Condensed Consolidated Statements of Cash Flows Six Months Ended August 2, 2008 and August 4, 2007</u>           | 5               |
| <u>Notes to the Unaudited Condensed Consolidated Financial Statements August 2, 2008</u>                            | 6-11            |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                | 12-16           |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>   | 17              |
| Item 4. <u>Disclosure Controls and Procedures</u>   | 17              |
| Part II. <u>Other Information</u>   |                 |
| Item 1. <u>Legal Proceedings</u>  | 17              |
| Item 1A. <u>Risk Factors</u>  | 17              |
| Item 2. <u>Unregistered Sales of Securities and Use of Proceeds</u>   | 17              |
| Item 4. <u>Submission of Matters to a Vote of Stockholders</u>  | 18              |
| Item 6. <u>Exhibits</u>   | 18              |
| <u>Signatures</u>   | 18              |
| <u>Management Certifications</u>  |                 |

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

|   | <b>August 2,<br/>2008<br/>(Unaudited)</b> | <b>January 31,<br/>2008<br/>(Audited)</b> |
|---|---|---|
| <b>ASSETS</b>   |   |   |
| <b>CURRENT ASSETS</b>   |   |   |
| Cash and Cash Equivalents   | \$ 12,534,481                             | \$ 5,747,937                              |
| Securities Available for Sale   | 7,402,129                                 | 11,807,670                                |
| Accounts Receivable, Net  | 11,979,754                                | 12,761,281                                |
| Inventories   | 13,597,577                                | 14,050,619                                |
| Prepaid Expenses and Other Current Assets   | 597,935                                   | 1,103,818                                 |
| Deferred Tax Assets   | 2,937,807                                 | 2,912,688                                 |
| <b>Total Current Assets</b>   | <b>49,049,683</b>                         | <b>48,384,013</b>                         |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>  | <b>33,311,569</b>                         | <b>32,380,536</b>                         |
| Less Accumulated Depreciation   | (22,395,329)                              | (21,647,701)                              |
| Property, Plant and Equipment, Net  | 10,916,240                                | 10,732,835                                |
| <b>OTHER ASSETS</b>   |   |   |
| Goodwill  | 2,336,721                                 | 2,336,721                                 |
| Security Available for Sale   | 478,180                                   |   |
| Other   | 126,142                                   | 245,843                                   |
| <b>TOTAL ASSETS</b>   | <b>\$ 62,906,966</b>                      | <b>\$ 61,699,412</b>                      |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |   |   |
| <b>CURRENT LIABILITIES</b>  |   |   |
| Accounts Payable  | \$ 2,642,290                              | \$ 3,420,015                              |
| Accrued Compensation  | 2,107,822                                 | 2,412,647                                 |
| Accrued Expenses  | 1,843,819                                 | 2,264,055                                 |
| Deferred Revenue  | 874,096                                   | 768,863                                   |
| Income Taxes Payable  | 400,174                                   | 107,674                                   |
| <b>Total Current Liabilities</b>  | <b>7,868,201</b>                          | <b>8,973,254</b>                          |
| Deferred Tax Liabilities  | 1,609,635                                 | 1,766,517                                 |
| Other Long Term Liabilities   | 1,599,363                                 | 1,604,718                                 |
| <b>Total Liabilities</b>  | <b>11,077,199</b>                         | <b>12,344,489</b>                         |
| <b>SHAREHOLDERS' EQUITY</b>   |   |   |
| Common Stock, \$.05 Par Value, Authorized 13,000,000 shares; Issued and outstanding 8,179,685 and 8,053,281 shares at August 2, 2008 and January 31, 2008, respectively | 408,989                                   | 402,668                                   |
| Additional Paid-In Capital  | 33,353,976                                | 32,363,277                                |
| Retained Earnings   | 25,278,298                                | 24,064,440                                |
| Treasury Stock, at Cost, 1,179,406 Shares   | (8,124,715)                               | (8,124,715)                               |

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|  |               |               |
|--|---------------|---------------|
| Accumulated Other Comprehensive Income     | 913,219       | 649,253       |
| Total Shareholders' Equity                 | 51,829,767    | 49,354,923    |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 62,906,966 | \$ 61,699,412 |

See Notes to unaudited condensed consolidated financial statements.

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

|  | Three Months Ended<br>(Unaudited) |                   | Six Months Ended<br>(Unaudited) |                   |
|--|-----------------------------------|-------------------|---------------------------------|-------------------|
|  | August 2,<br>2008                 | August 4,<br>2007 | August 2,<br>2008               | August 4,<br>2007 |
| Net Sales                                      | \$ 19,783,613                     | \$ 18,694,484     | \$ 38,471,462                   | \$ 35,101,374     |
| Cost of Sales                                  | 11,102,957                        | 10,863,924        | 21,603,073                      | 20,424,510        |
| Gross Profit                                   | 8,680,656                         | 7,830,560         | 16,868,389                      | 14,676,864        |
| Costs and Expenses:                            |                                   |                   |                                 |                   |
| Selling, General and Administrative            | 5,553,086                         | 5,433,462         | 11,219,903                      | 10,560,098        |
| Research and Development                       | 1,199,134                         | 1,134,848         | 2,425,341                       | 2,233,105         |
| Operating Expenses                             | 6,752,220                         | 6,568,310         | 13,645,244                      | 12,793,203        |
| Operating Income                               | 1,928,436                         | 1,262,250         | 3,223,145                       | 1,883,661         |
| Other Income (Expense):                        |                                   |                   |                                 |                   |
| Investment Income                              | 121,143                           | 149,814           | 261,901                         | 319,873           |
| Other, Net                                     | (59,913)                          | 64,236            | (24,677)                        | 142,798           |
|  | 61,230                            | 214,050           | 237,224                         | 462,671           |
| Income Before Income Taxes                     | 1,989,666                         | 1,476,300         | 3,460,369                       | 2,346,332         |
| Income Tax Provision                           | 835,454                           | 590,556           | 1,409,028                       | 938,589           |
| Net Income                                     | \$ 1,154,212                      | \$ 885,744        | \$ 2,051,341                    | \$ 1,407,743      |
| Net Income per Common Share:                   |                                   |                   |                                 |                   |
| Basic  | \$ 0.16                           | \$ 0.13           | \$ 0.29                         | \$ 0.20           |
| Diluted  | \$ 0.15                           | \$ 0.12           | \$ 0.27                         | \$ 0.19           |
| Weighted Average Number of Shares Outstanding: |                                   |                   |                                 |                   |
| Basic  | 6,999,303                         | 6,901,265         | 6,966,642                       | 6,866,104         |
| Diluted  | 7,522,713                         | 7,577,748         | 7,482,289                       | 7,573,223         |
| Dividends Declared Per Common Share            | \$ 0.06                           | \$ 0.05           | \$ 0.12                         | \$ 0.10           |

See Notes to unaudited condensed consolidated financial statements.

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

|  | <b>Six Months Ended</b>   |                           |
|--|---------------------------|---------------------------|
|  | <b>August 2,<br/>2008</b> | <b>August 4,<br/>2007</b> |
|  | <b>(Unaudited)</b>        |                           |
| <b>Cash Flows from Operating Activities:</b>   |                           |                           |
| Net Income   | \$ 2,051,341              | \$ 1,407,743              |
| <b>Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:</b> |                           |                           |
| Depreciation and Amortization  | 741,591                   | 806,101                   |
| Share-Based Compensation   | 280,381                   | 271,076                   |
| Deferred Income Taxes  | (182,001)                 | 303,971                   |
| Excess Tax Benefit from Share-Based Compensation   |                           | (107,920)                 |
| <b>Changes in Assets and Liabilities:</b>  |                           |                           |
| Accounts Receivable  | 781,527                   | (719,481)                 |
| Inventories  | 453,042                   | (893,470)                 |
| Other  | 949,275                   | 185,094                   |
| Income Taxes Payable   | 287,145                   | (285,877)                 |
| Accounts Payable and Accrued Expenses  | (1,397,553)               | (1,637,584)               |
| Total Adjustments  | 1,913,407                 | (2,078,090)               |
| <b>Net Cash Provided by (Used in) Operating Activities</b>   | <b>3,964,748</b>          | <b>(670,347)</b>          |
| <b>Cash Flows from Investing Activities:</b>   |                           |                           |
| Proceeds from Maturities of Securities Available for Sale  | 5,461,215                 | 2,464,828                 |
| Purchases of Securities Available for Sale   | (1,580,000)               | (2,185,000)               |
| Additions to Property, Plant and Equipment   | (938,575)                 | (3,729,467)               |
| <b>Net Cash Provided by (Used in) Investing Activities</b>   | <b>2,942,640</b>          | <b>(3,449,639)</b>        |
| <b>Cash Flows from Financing Activities:</b>   |                           |                           |
| Proceeds from Common Shares Issued Under Employee Benefit Plans and Exercises of Stock Options     | 716,639                   | 729,381                   |
| Excess Tax Benefit from Share-Based Compensation   |                           | 107,920                   |
| Dividends Paid   | (837,483)                 | (688,836)                 |
| <b>Net Cash Provided by (Used in) Financing Activities</b>   | <b>(120,844)</b>          | <b>148,465</b>            |
| Long Term Investments Designated for Real Estate Purchase Transferred to Cash                      |                           | 3,200,000                 |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>  | <b>6,786,544</b>          | <b>(771,521)</b>          |
| Cash and Cash Equivalents, Beginning of Period   | 5,747,937                 | 4,595,570                 |
| <b>Cash and Cash Equivalents, End of Period</b>  | <b>\$ 12,534,481</b>      | <b>\$ 3,824,049</b>       |
| <b>Supplemental Disclosures of Cash Flow Information:</b>  |                           |                           |
| Cash Paid During the Period for Income Taxes, Net of Refunds                                       | \$ 858,647                | \$ 986,415                |
| Non-Cash Transfer of Demonstration Equipment from Fixed Assets to Inventories                      | \$                        | \$ 249,514                |
| Reclassification of Investment Security to Non-Current Assets                                      | \$ 478,180                | \$                        |
| See Notes to unaudited condensed consolidated financial statements.                                |                           |                           |





**Table of Contents****ASTRO-MED, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****August 2, 2008****(1) Basis of Presentation**

The accompanying financial statements have been prepared by Astro-Med, Inc. (the Company), without audit, 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. Results of operations for the interim periods presented herein are not necessarily indicative of the results that may be expected for the full year. 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 year ended January 31, 2008.

**(2) Principles of Consolidation**

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

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

Net income per common share has been computed and presented pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 128, Earnings Per Share. Net income per share is based on the weighted average number of shares outstanding during the period. Net income per share assuming dilution is based on the weighted average number of shares and, if dilutive, common equivalent shares for stock options outstanding during the period.

|  | Three Months Ended |                | Six Months Ended |                |
|--|--------------------|----------------|------------------|----------------|
|  | August 2, 2008     | August 4, 2007 | August 2, 2008   | August 4, 2007 |
| Weighted Average Common Shares Outstanding - Basic   | 6,999,303          | 6,901,265      | 6,966,642        | 6,866,104      |
| Effect of Dilutive Options                           | 523,410            | 676,483        | 515,647          | 707,119        |
| Weighted Average Common Shares Outstanding - Diluted | 7,522,713          | 7,577,748      | 7,482,289        | 7,573,223      |

For the three months and six months ended August 2, 2008, the diluted per share amounts do not reflect options outstanding of 179,600 and 170,763, respectively. For the three months and six months ended August 4, 2007, the diluted per share amounts do not reflect options outstanding of 150,200 and 157,300, respectively. These outstanding options were not included because the exercise price of the options was greater than the average market price of the underlying stock during the periods presented.

**(4) Revenue Recognition**

The majority of the Company's product sales are recorded at the time of shipment, when legal title has transferred and risk of loss passes to the customer, when persuasive evidence of an arrangement exists, the seller's price to the buyer is fixed or determinable and collectibility is reasonably assured in accordance with the requirements in Staff Accounting Bulletin (SAB) 104, Revenue Recognition in Financial Statements. When a sale arrangement involves training or installation, the deliverables in the arrangement are evaluated to determine whether they represent separate units of accounting in accordance with SAB 104 and EITF 00-21, Revenue Arrangements With Multiple Deliverables. This evaluation occurs at inception of the arrangement and as each item in the arrangement is delivered. The total fee from the arrangement is allocated to each unit of accounting based on its relative fair value. Fair value for each element is established generally based on the sales price charged when the same or similar element is sold separately. Revenue is recognized when revenue recognition criteria for each unit of accounting are met. When other significant obligations remain after products are delivered, revenue is recognized only after such obligations are fulfilled. All of the Company's equipment contains embedded operating systems and data management software which is included in the purchase price of the equipment. The software is deemed incidental to the systems as a whole as it is not sold separately or marketed separately and its production

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costs are minor as compared to those of the hardware system. Returns and customer credits are infrequent and are recorded as a reduction to sales. Rights of return are not included in sales arrangements. Revenue associated with products that contain specific customer acceptance criteria is not recognized before the customer acceptance criteria are satisfied. Discounts from list prices are recorded as a reduction to sales. Amounts billed to customers for shipping and handling fees are included in sales while related shipping and handling costs are included in cost of sales.

Infrequently, the Company recognizes revenue for non-recurring engineering (NRE) fees for product modification orders upon completion of agreed-upon milestones. Revenue is deferred for any amounts received prior to completion of milestones. Certain of our NRE arrangements include formal customer acceptance provisions. In such cases, the Company determines whether they have obtained customer acceptance for the specific milestone before recognizing revenue.

Infrequently, the Company receives requests from customers to hold product being purchased from the Company for the customers' convenience. The Company recognizes revenue for such bill and hold arrangements in accordance with the requirements of SAB No. 104 which requires, among other things, the existence of a valid business purpose for the arrangement, the transfer of ownership of the purchased product, the readiness of the product for shipment, the use of customary payment terms, no continuing performance obligation by the Company and segregation of the product from the Company's inventories.

**Table of Contents****ASTRO-MED, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****August 2, 2008****(5) Share-Based Compensation**

The Company has one equity incentive plan (the Plan) under which incentive stock options, non-qualified stock options, restricted stock and other equity based awards may be granted to officers and key employees. To date, only options have been granted under this Plan. Options granted to employees vest over four years. An aggregate of 1,000,000 shares were authorized for awards under the Plan. 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. 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 shareholder 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. During the second quarter of fiscal 2009, 15,000 options were awarded to non-employee directors pursuant to the Plan. At August 2, 2008, 895,025 shares under the Plan were available for grant.

The Company has estimated the fair value of each option on the date of grant using the Black-Scholes option-pricing model. The volatility assumption is based on the historical weekly price data of the Company's common stock over a period equivalent to the weighted average expected life of the Company's 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, the actual vesting schedule of the grant, and 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 risk-free interest rate was 3.13% for all options granted in the second quarter of fiscal 2009.

The fair value of stock options granted during the six months ended August 2, 2008 and August 4, 2007 was estimated on the date of grant using the following assumptions:

|                          | Six Months Ended  |                   |
|--------------------------|-------------------|-------------------|
|                          | August 2,<br>2008 | August 4,<br>2007 |
| Risk Free Interest Rate  | 3.13 % - 3.95%    | 4.5%              |
| Expected Volatility      | 46.5%             | 48.1%             |
| Expected Life (in years) | 5.0               | 5.0               |
| Dividend Yield           | 2.0%              | 1.9%              |

The fair value per share for options granted were \$3.43 and \$3.19 during the first quarter of fiscal 2009 and \$3.65 during the second quarter of fiscal 2009 compared to \$4.81 and \$4.79 during the first and second quarter of fiscal 2008.

Aggregated information regarding the Company's stock option plans as of August 2, 2008 is summarized below:

|                                 | Number of Options | Weighted Average<br>Exercise<br>Price | Weighted Average<br>Remaining<br>Contractual Life<br>(in Years) | Aggregate Intrinsic<br>Value |
|---------------------------------|-------------------|---------------------------------------|---|------------------------------|
| Outstanding at January 31, 2008 | 1,832,686         | \$ 5.89                               | 4.0   | \$ 7,294,366                 |
| Granted                         | 89,975            | 9.16                                  |   |                              |
| Exercised                       | (123,935)         | 5.63                                  |   |                              |
| Expired or canceled             | (26,957)          | 8.27                                  |   |                              |

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|                               |           |    |      |     |    |           |
|-------------------------------|-----------|----|------|-----|----|-----------|
| Outstanding at August 2, 2008 | 1,771,769 | \$ | 6.04 | 4.3 | \$ | 4,996,567 |
| Exercisable at August 2, 2008 | 1,483,179 | \$ | 5.32 | 3.5 | \$ | 4,920,447 |

Share-based compensation expense was recognized as follows:

|                                     | Three Months Ended |                | Six Months Ended |                |
|-------------------------------------|--------------------|----------------|------------------|----------------|
|                                     | August 2, 2008     | August 4, 2007 | August 2, 2008   | August 4, 2007 |
| Cost of Sales                       | \$ 16,139          | \$ 25,304      | \$ 47,412        | \$ 46,526      |
| Selling, General and Administrative | 56,869             | 103,635        | 196,254          | 177,907        |
| Research & Development              | 12,499             | 25,367         | 36,715           | 46,643         |
| Reduction in Pretax Income          | 85,507             | 154,306        | 280,381          | 271,076        |
| Income Tax Benefit                  | 18,039             | 23,702         | 61,167           | 37,889         |
| Reduction in Net Income             | \$ 67,468          | \$ 130,604     | \$ 219,214       | \$ 233,187     |

As of August 2, 2008 there was \$843,561 of unrecognized compensation expense related to unvested options.

The Company 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 initially reserved for issuance under the Plan. During the quarters ended August 2, 2008 and August 4, 2007, 1,555 and 747 shares were purchased under the Plan. During the six months ended August 2, 2008 and August 4, 2007, 2,469 and 1,456 shares were purchased under the Plan. As of August 2, 2008, 97,723 shares remain available.

**Table of Contents****ASTRO-MED, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****August 2, 2008****(6) Comprehensive Income**

The Company's comprehensive income is as follows:

|  | <b>Three Months Ended</b> |                           | <b>Six Months Ended</b>   |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | <b>August 2,<br/>2008</b> | <b>August 4,<br/>2007</b> | <b>August 2,<br/>2008</b> | <b>August 4,<br/>2007</b> |
| Net Income   | \$ 1,154,212              | \$ 885,744                | \$ 2,051,341              | \$ 1,407,743              |
| Other Comprehensive Income:  |                           |                           |                           |                           |
| Foreign currency translation adjustments, net of tax                 | 213,911                   | 38,008                    | 314,659                   | 129,920                   |
| Unrealized holding gain (loss) arising during the period, net of tax | 2,755                     | (5,128)                   | (50,693)                  | 9,509                     |
| Other Comprehensive Income   | 216,666                   | 32,880                    | 263,966                   | 139,429                   |
| Comprehensive Income   | \$ 1,370,878              | \$ 918,624                | \$ 2,315,307              | \$ 1,547,172              |

**(7) 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 were as follows:

|                        | <b>August 2,<br/>2008</b> | <b>January 31,<br/>2008</b> |
|------------------------|---------------------------|-----------------------------|
| Materials and Supplies | \$ 8,331,228              | \$ 8,661,345                |
| Work-In-Process        | 1,647,528                 | 1,735,972                   |
| Finished Goods         | 3,618,821                 | 3,653,302                   |
|                        | \$ 13,597,577             | \$ 14,050,619               |

**(8) Income Taxes**

The Company's effective tax rates for the periods presented herein are as follows:

|             | <b>Three Months Ended</b> | <b>Six Months Ended</b> |
|-------------|---------------------------|-------------------------|
| Fiscal 2009 | 42.0%                     | 40.7%                   |
| Fiscal 2008 | 40.0%                     | 40.0%                   |

The increase in the effective tax rate to 42.0% for the three months ended August 2, 2008 was due to a discrete charge of \$59,484 related to the payment of additional state franchise taxes.

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Effective February 1, 2007, the Company adopted Financial Accounting Standards Board ( FASB ) Interpretation No. 48 Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109 ( FIN 48 ). FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return, including a decision whether to file or not to file in a particular jurisdiction. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

As of August 2, 2008, the Company had cumulative unrecognized tax benefits of \$1,367,985 compared to \$1,372,767 as of January 31, 2008. The Company continues to recognize accrued interest and penalties related to unrecognized tax benefits in the income tax provision. As of August 2, 2008 approximately \$40,000 of interest was accrued.

**Table of Contents****ASTRO-MED, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****August 2, 2008****(9) Segment Information**

The Company reports three reporting segments consistent with its sales product groups: Test & Measurement (T&M); QuickLabel Systems (QuickLabel) and Grass Technologies (GT). 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 for three months ended August 2, 2008 and August 4, 2007:

|                            | Net Sales         |                   | Segment Operating Profit |                   |
|----------------------------|-------------------|-------------------|--------------------------|-------------------|
|                            | August 2,<br>2008 | August 4,<br>2007 | August 2,<br>2008        | August 4,<br>2007 |
| T&M                        | \$ 4,490,000      | \$ 4,500,000      | \$ 882,000               | \$ 888,000        |
| QuickLabel                 | 10,633,000        | 9,661,000         | 1,522,000                | 1,075,000         |
| GT                         | 4,661,000         | 4,533,000         | 587,000                  | 340,000           |
| Total                      | \$ 19,784,000     | \$ 18,694,000     | 2,991,000                | 2,303,000         |
| Corporate Expenses         |                   |                   | 1,063,000                | 1,040,000         |
| Operating Income           |                   |                   | 1,928,000                | 1,263,000         |
| Other Income, Net          |                   |                   | 61,000                   | 213,000           |
| Income Before Income Taxes |                   |                   | 1,989,000                | 1,476,000         |
| Income Tax Provision       |                   |                   | 835,000                  | 590,000           |
| Net Income                 |                   |                   | \$ 1,154,000             | \$ 886,000        |

Summarized below are the Net Sales and Segment Operating Profit for each reporting segment for the six months ended August 2, 2008 and August 4, 2007:

|                    | Net Sales         |                   | Segment Operating Profit |                   |
|--------------------|-------------------|-------------------|--------------------------|-------------------|
|                    | August 2,<br>2008 | August 4,<br>2007 | August 2,<br>2008        | August 4,<br>2007 |
| T&M                | \$ 8,450,000      | \$ 7,965,000      | \$ 1,510,000             | \$ 1,300,000      |
| QuickLabel         | 20,382,000        | 18,577,000        | 2,532,000                | 1,987,000         |
| GT                 | 9,640,000         | 8,559,000         | 1,334,000                | 575,000           |
| Total              | \$ 38,472,000     | \$ 35,101,000     | 5,376,000                | 3,862,000         |
| Corporate Expenses |                   |                   | 2,153,000                | 1,978,000         |

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|                            |              |              |
|----------------------------|--------------|--------------|
| Operating Income           | 3,223,000    | 1,884,000    |
| Other Income, Net          | 237,000      | 462,000      |
| Income Before Income Taxes | 3,460,000    | 2,346,000    |
| Income Tax Provision       | 1,409,000    | 938,000      |
| Net Income                 | \$ 2,051,000 | \$ 1,408,000 |

**(10) New Accounting Pronouncements**

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB No. 133 . ( SFAS No. 161 ). This statement amends SFAS No. 133 by requiring enhanced qualitative, quantitative and credit-risk disclosures about an entity s derivative instruments and hedging activities, but does not change SFAS No. 133 s scope or accounting. SFAS 161 is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008, with earlier adoption permitted. As we do not currently engage in activities accounted for under the provision of SFAS No. 133, the adoption of SFAS No. 161 is not expected to have any impact on our financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115 , ( SFAS No. 159 ). This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 had no impact on our financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations ( SFAS No. 141(R) ). This statement improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. It establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement is effective for fiscal years beginning after December 15, 2008. This statement is not expected to have any effect on our financial statements until such time as we acquire another entity.



**Table of Contents****ASTRO-MED, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****August 2, 2008****(11) Securities Available for Sale**

Pursuant to our investment policy, securities available for sale may include corporate debt securities, governmental obligations and state and municipal securities with various contractual or anticipated maturity dates, including Auction Rate Securities. Governmental obligations include U.S. Government and Federal Agency securities. Auction rate securities are a type of long-term state and municipal securities issued in the form of variable rate bonds having interest rate resets through a modified Dutch auction, at predetermined short-term intervals, usually every 7, 28 or 35 days.

At August 2, 2008 the Company had approximately \$2,845,175 invested in AAA-rated municipal auction rate securities of which \$478,180 is invested in a state-sponsored entity engaged in the business of investing in student loans. Beginning in February 2008, a decrease in liquidity in the global credit markets caused auctions to fail for substantially all of the remaining municipal auction rate securities we held. When these auctions failed to clear, higher interest rates for many of those securities went into effect. However, the principal amounts of those securities have not been considered accessible until a successful auction occurs, a buyer is found outside of the auction process, the issuer calls the security, the issuer repays principal over time from cash flows prior to final maturity, or the security matures according to contractual terms ranging from one to 30 years. The Company's auction rate securities were acquired through the brokerage service of UBS Financial Services Inc., a subsidiary of UBS AG. On August 8, 2008, UBS Financial Services Inc. agreed to a settlement in principle with the Securities and Exchange Commission and other state regulatory agencies including Massachusetts, New York, Texas and other states, to restore liquidity to all clients who hold auction rate securities. All UBS clients who hold auction rate securities will be able to redeem their securities at par value plus interest over a scheduled timeframe. With the exception of the student loan security for \$478,180 referred to above, all of the other auction rate securities are scheduled to be refunded by UBS over the next year. The student loan security is scheduled to be refunded within a two-year timeframe.

We continue to classify our auction rate securities, except for the one security for \$478,180 noted above, as a current asset based on the market information available.

**(12) Fair Value**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under SFAS No. 157, fair value measurements would be separately disclosed by level within the fair value hierarchy. The provisions of SFAS No. 157 are effective for the fiscal years beginning after November 15, 2007. However, in February 2008, the FASB issued FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2) that amended SFAS No. 157 to delay the effective date for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). FSP 157-2 defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope. We are currently evaluating the effect, if any, that the adoption of items deferred under FSP 157-2 may have on our financial statements.

Effective February 1, 2008, the Company adopted certain provisions of SFAS No. 157 for its financial assets and liabilities. SFAS No. 157 describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. 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

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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.

The following table represents the fair value hierarchy for our financial assets (cash equivalents and investments in marketable securities) measured at fair value on a recurring basis as of August 2, 2008:

|                         | Level 1       | Level 2 | Level 3      | Total         |
|-------------------------|---------------|---------|--------------|---------------|
| Money market funds      | 6,150,713     | \$      | \$           | 6,150,713     |
| Governmental            | 2,190,688     |         |              | 2,190,688     |
| State and municipal     | 4,537,694     |         |              | 4,537,694     |
| Auction rate securities |               |         | 2,845,175    | 2,845,175     |
| Total                   | \$ 12,879,095 | \$      | \$ 2,845,175 | \$ 15,724,270 |

-10-

**Table of Contents****ASTRO-MED, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****August 2, 2008**

Level 3 assets consist of auction rate securities whose underlying assets are backed by either municipal assets or state-issued student and educational loans. Interest received during a given period is based upon the interest rate determined through the auction process. While we continue to earn interest on our auction rate securities at maximum contractual rates, these investments are not currently trading and therefore do not currently have a readily determinable market value which historically has been their par value. Therefore, the estimated fair value of auction rate securities no longer approximates par value. Accordingly, we recorded an unrealized loss of approximately \$54,825 related to our auction rate securities as of August 2, 2008 using a discounted cash flow method. We believe this unrealized loss is primarily attributable to the limited liquidity of these investments and have no reason to believe that any of the underlying issuers are presently at risk of default. Management has the intent and the ability to hold these securities for an indefinite period of time and, accordingly, believes that the unrealized loss on its auction rate securities holdings is temporary in nature. The following table provides a summary of changes in fair value of the Company's auction rate securities as of August 2, 2008:

|   | <b>Three Months Ended<br/>August 2, 2008</b> | <b>Six Months Ended<br/>August 2, 2008</b> |
|---|--|--|
| Beginning Balance   | \$ 4,605,016                                 | \$ 6,250,000                               |
| Transferred to variable rate demand notes                     |  | (700,000)                                  |
| Sales   | (1,775,000)                                  | (3,125,000)                                |
| Purchases   |  | 475,000                                    |
| Unrealized gain (loss) included in other comprehensive income | 15,159                                       | (54,825)                                   |
| Balance at August 2, 2008                                     | \$ 2,845,175                                 | \$ 2,845,175                               |

During the first quarter of fiscal 2009 the Company's investment advisor redefined variable rate demand notes as fixed income municipal securities as these investments continue to trade in a liquid market.

**(13) Restructuring**

The following table summarizes the activity and balances of the reserve established for the Italy and Netherlands restructuring:

|                             | <b>Severance</b> | <b>Lease</b> | <b>Other</b> | <b>Total</b> |
|-----------------------------|------------------|--------------|--------------|--------------|
| Balance at January 31, 2008 | \$ 207,230       | \$ 33,701    | \$ 58,830    | \$ 299,761   |
| Reserve transfer            | (52,000)         |              | 52,000       |              |
| Utilization of reserve      | (155,230)        | (28,925)     | (110,830)    | (294,985)    |
| Balance at August 2, 2008   | \$               | \$ 4,776     | \$           | \$ 4,776     |

The Company expects to complete the utilization of the reserve related to this restructuring by the end of fiscal 2009.

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**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 the Condensed Consolidated Financial Statements of the Company included elsewhere herein and the Company's Form 10-K for the fiscal year ended January 31, 2008.

The Company develops and manufactures systems that have the ability to acquire, process, analyze, store and present electronic data in a variety of useable forms. The Company sells its product under brand names including Astro-Med Test & Measurement (T&M), QuickLabel Systems (QuickLabel) and Grass Technologies (GT). Products sold under the Astro-Med brand acquire and record data and print the output onto charts or electronic media. Products sold under the QuickLabel Systems brand create product and packaging labels and tags in one or many colors. Products sold under the Grass Technologies brand electronically capture and record neurological data that is used to diagnose epilepsy or to study sleep disorders. The Company supplies a range of products that include hardware, software and consumables to customers who are in a variety of industries.

The Company competes worldwide in many markets including clinical and research medicine, aerospace, automotive and general manufacturing. The Company retains a competitive position in its respective markets by virtue of proprietary technology, product reputation, delivery, technical assistance and service to customers. The Company markets its products worldwide by advertising and promotion using major national and international trade journals, scientific meetings and trade shows, direct mailing campaigns and the internet. The products are sold by direct field sales persons as well as independent dealers and representatives. In the United States, the Company has direct field sales people located in major cities from coast to coast specializing in either T&M Recorders and Data Acquisitions systems, QuickLabel Color Label printers and media systems, or Grass Technologies Neurological Instrumentation products. Additionally, the Company has direct field sales and service centers in Canada, England, France and Germany. In the remaining parts of the world, the Company utilizes approximately 80 independent dealers and representatives selling and marketing its products in 40 countries.

Products sold under the Astro-Med brand include ToughWriter page printers and ToughSwitches for use in passenger and military aircraft. ToughWriter page printers are used in both the cockpit and the cabins of aircraft. ToughSwitches are also used in military vehicles. These and other similar products are ruggedized and comply with rigorous military standards specifications for operation under extreme environmental conditions. The Company is currently furnishing ToughWriters for the Airbus A380, the Boeing C-17, B-787, B-777, B-747, B-767, and the Lockheed C-130. Other products sold under the Astro-Med brand include the Everest, a telemetry workstation used widely in the aerospace industry to monitor and track space vehicles, aircraft and missiles under test. The Everest ranges in price from \$18,000 to \$35,000 depending on features and options selected. The Astro-Med brand Dash Series constitute a family of portable electronic data acquisition systems which are used as maintenance and troubleshooting instruments for pulp, paper, metal mills, power plants, automotive R & D centers and manufacturing plants. Included in the Dash Series are the Dash 2EZ, Dash 8X, Dash 8HF, Dash 8XPM, Dash 32HF and the Dash 18 and they range in price from \$3,500 to \$20,000 depending on model and features and options selected.

Products sold under the QuickLabel System brand include a family of digital color label printers including the Vivo!, the first electrophotographic roll-to-roll printer, the QLS-4100 XE, QLS-8100 XE, QLS-2000 and QLS-3000 thermal transfer label printers, the ZEO inkjet printer which was introduced in fiscal 2008, as well as a line of monochrome thermal transfer digital label printers including the Pronto! Series. This Series includes four models used in printing bar code labels. QuickLabel digital color label printers are sold via a direct sales force throughout the US, Canada and Western Europe, and serviced by a factory-trained, direct technical support staff. In the rest of the world, QuickLabel uses a broad network of dealers to sell and support its products. QuickLabel's unique labeling solutions are aimed at label printing applications in which product packaging requires frequent content changes. QuickLabel digital color label printers fill a critical need in environments that require on-demand flexibility to package multiple product variations, and to add value to the product itself, as in private labeling, to produce OEM packaging, and to customize virtually any product. Industries that require instant label production flexibility include food and beverage, foodservice distribution, grocery retailing, chemical and sanitary supplies, pharmaceutical and medical products, personal care products, advertising specialties, tire manufacturing and apparel. Custom QuickLabel, a custom label creation software package, is an integral part of the QuickLabel printing system, and was designed by the same team of engineers who designed the digital label printers. The latest generation of QuickLabel's proprietary user-friendly label creation software offers significant new tools for simplifying label creation and for controlling and enhancing label output. The Company's patented MicroCell® half-toning algorithms have been improved in this latest version of the software, so that printers driven by Custom QuickLabel now render process-color print quality that closely approximates digital artwork. QuickLabel digital label printers generate revenue through label, tag, thermal transfer ribbon and toner cartridge consumables sales. The

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Company engineers and manufactures unique printing supplies especially for use in optimizing the performance of the QuickLabel brand of digital label printers.

Products sold under the Grass Technologies (GT) brand include systems, instruments and software products to detect, amplify and display the electrical activity of the human brain commonly called electroencephalography (EEG). EEG data is used by clinicians to diagnose epilepsy and other neurological conditions including sleep apnea. Included in the GT line of products are the Comet, the Aura, the wireless Aura PSG, and the Beehive. These systems are all operated under the Twin software system, a Windows-based multi-module software program developed by the Company over the past six years. Included also is a line of amplifiers, electrodes, transducers and stimulators used by clinicians and researchers. Products sold under the Grass Technologies brand are sold to hospitals, sleep centers, clinics and doctors offices. All GT clinical products which are connected to the human body are approved by the Food and Drug Administration (FDA).

-12-

Table of Contents

## ASTRO-MED, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

## AND RESULTS OF OPERATIONS

## Results of Operations

## Three Months Ended August 2, 2008 vs. Three Months Ended August 4, 2007

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

Net Sales by product group, percentage change and percent of Net Sales for the three months ended August 2, 2008 and August 4, 2007 were:

|            | August 2, 2008 | As a<br>% of<br>Net Sales | August 4, 2007 | As a<br>% of<br>Net Sales | % Change<br>Over<br>Prior Year |
|------------|----------------|---------------------------|----------------|---------------------------|--------------------------------|
| T&M        | \$ 4,490,000   | 22.7%                     | \$ 4,500,000   | 24.1%                     | (0.2)%                         |
| QuickLabel | 10,633,000     | 53.7%                     | 9,661,000      | 51.7%                     | 10.1%                          |
| GT         | 4,661,000      | 23.6%                     | 4,533,000      | 24.2%                     | 2.8%                           |
| Total      | \$ 19,784,000  | 100.0%                    | \$ 18,694,000  | 100.0%                    | 5.8%                           |

The Company's sales revenues were \$19,784,000 in the second quarter, reaching a record level of quarterly sales and improving on the previous year's sales in the second quarter of \$18,694,000 by 5.8%. Sales through the domestic channels were \$13,486,000, up 6.8% over the prior year, whereas international shipments at \$6,298,000 grew by 3.8% from the previous year. Favorable impact from foreign exchange rates contributed \$443,000 to the second quarter's sales growth.

Hardware sales in the quarter were \$9,863,000, up 3.9% over the prior year's hardware sales of \$9,491,000. Growth in hardware sales was evident in two product groups, QuickLabel Systems and Grass Technologies, while the Test & Measurement hardware sales were flat with the prior year.

Consumables sales in the quarter were \$8,561,000, an increase of 8.0% from the prior year's sales of \$7,925,000, with each product group reporting healthy growth in their respective consumable product lines as the hardware installed base continues to grow.

Service and other revenues at \$1,360,000 in the quarter achieved a 6.3% improvement over the prior year's service and other revenues of \$1,278,000. All three product groups reported growth in their respective service and other sales product lines.

Relative to the Company's three product groups, the QuickLabel Systems product group of color and monochrome printing systems dominated the second quarter's sales with revenues of \$10,633,000, up 10.1% from the previous year's sales of \$9,661,000. Also contributing to the quarter's growth were sales in the Grass Technologies product group, where revenues of \$4,661,000 rose 2.8% from the prior year's sales of \$4,533,000. Sales revenues from the Company's Test & Measurement product group were virtually flat at \$4,490,000 with the prior year's sales of \$4,500,000.

The Company continued its improvement in gross profit during the second quarter. Gross profit was \$8,681,000 in the quarter, a 10.9% increase from the prior year's gross profit in the second quarter and a 6.0% increase over the first quarter's gross profit of \$8,188,000. The results also reflect a gross profit margin improvement during the quarter. The Company achieved a gross profit margin of 43.9% in the quarter, a 200 basis point improvement from the prior year's gross profit margin of 41.9% and a nominal improvement over the first quarter's margin of 43.8% due to better factory absorption and productivity improvements.

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The Company's spending in the operating accounts of selling, research & development and general and administrative rose 2.8% from the prior year to \$6,752,000. Specifically, selling & marketing expenses increased 1.6% from the previous year due to increments in compensation expense and marketing programs. Research & Development (R&D) expenses in the quarter were \$1,199,000, a 5.6% increase from the prior year's second quarter's spending, but down 2.2% from the first quarter's expense level. The increased spending in R & D is confined to purchases of outside professional engineering services. R&D expenses consumed 6.1% of the second quarter's sales, being consistent with the previous year. General & administrative spending rose 4.5% from prior year to \$1,210,000. The increased expense is due to professional service fees and insurance costs.

The Company achieved income from operations of \$1,928,000 in the quarter. This level of profitability improved on the prior year's second quarter's operating income by 52.8% and reflects an operating margin of 9.7% as compared to the prior year's 6.8% margin.

Other income during the second quarter declined to \$61,000 from our prior year level of \$214,000. The lower level of other income stems from lower investment income, higher foreign currency losses and miscellaneous charges.

The provision for federal and state income taxes in the second quarter was \$835,000, reflecting an effective tax rate of 42.0% as compared to the prior year's effective tax rate of 40.0%. This quarter's expense includes a discrete item related to the payment of additional state franchise taxes.

The Company earned \$1,154,000 in net income for the second quarter reflecting a return on sales of 5.8% and generating an EPS of \$0.15 per diluted share. On a comparative basis with the previous year's second quarter, net income was \$886,000 providing a return of 4.7% on sales and reporting an EPS of \$0.12 per diluted share.

**Table of Contents****ASTRO-MED, INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION****AND RESULTS OF OPERATIONS****Results of Operations (Continued)**

Summarized below are the Net Sales and Segment Operating Profit for each reporting segment for the three months ended August 2, 2008 and August 4, 2007:

|                            | Net Sales         |                   | Segment Operating Profit |                   |
|----------------------------|-------------------|-------------------|--------------------------|-------------------|
|                            | August 2,<br>2008 | August 4,<br>2007 | August 2,<br>2008        | August 4,<br>2007 |
| T&M                        | \$ 4,490,000      | \$ 4,500,000      | \$ 882,000               | \$ 888,000        |
| QuickLabel                 | 10,633,000        | 9,661,000         | 1,522,000                | 1,075,000         |
| GT                         | 4,661,000         | 4,533,000         | 587,000                  | 340,000           |
| Total                      | \$ 19,784,000     | \$ 18,694,000     | 2,991,000                | 2,303,000         |
| Corporate Expenses         |                   |                   | 1,063,000                | 1,040,000         |
| Operating Income           |                   |                   | 1,928,000                | 1,263,000         |
| Other Income, Net          |                   |                   | 61,000                   | 213,000           |
| Income Before Income Taxes |                   |                   | 1,989,000                | 1,476,000         |
| Income Tax Provision       |                   |                   | 835,000                  | 590,000           |
| Net Income                 |                   |                   | \$ 1,154,000             | \$ 886,000        |

**Test & Measurement - T&M**

Sales revenues from the Test & Measurement product group were \$4,490,000 for the second quarter, essentially flat with the sales of \$4,500,000 for the same period in the prior year. Within the product group, Dash recorder sales were comparable to the prior year and ruggedized products were down due to timing on the avionic printer orders year over year. However, sales of the Everest product line were up significantly from the prior year. Gross Profit margins were up from last year while operating expenses rose 1.8% from the prior year spending level. Segment operating profits were approximately flat with the prior year, while the segment operating profit margins of 19.6% were comparable to the prior year's margin of 19.7%.

**QuickLabel Systems - QLS**

Sales revenues from the QuickLabel Systems product group were \$10,633,000 in the quarter as compared to \$9,661,000 in the prior year's same quarter. The sales growth of 10.1% over the prior year was distributed among hardware products, up 16.5%, consumable products, up 8.1% and service and other sales, up 4.4%. Gross profit increased over the prior year, while the gross profit margin improved by 230 basis points. Operating expenses rose 6.4% from the previous year as higher personnel costs and compensation related commission expense drove the increased spending. The QLS segment operating profits were up 41.6% over the prior year and reflect a profit margin of 14.3% against the prior year's segment profit margin of 11.1%.

**Grass Technologies - GT**



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Sales in the quarter were \$4,661,000 against \$4,533,000 in the prior year's second quarter. The growth rate of 2.8% was shared among hardware systems up 1.2%, consumable products up 8.5% and service and other revenues up 0.5%. Gross profit was 10.0% while gross profit margins improved as well. Operating expenses were down 1.7% from the previous year's second quarter spending due to savings realized from the restructuring initiative implemented in the prior year. Segment operating profits were up significantly in the quarter with the segment achieving an operating profit margin of 12.6% as compared to a segment operating profit margin of 7.5% reported in the prior year.

### Six Months Ended August 2, 2008 vs. Six Months Ended August 4, 2007

Net Sales by product group, percent change, and percent of Net Sales for the six months ended August 2, 2008 and August 4, 2007 were:

|              | August 2,<br>2008    | As a<br>% of<br>Net Sales | August 4,<br>2007    | As a<br>% of<br>Net Sales | % Change<br>Over<br>Prior Year |
|--------------|----------------------|---------------------------|----------------------|---------------------------|--------------------------------|
| T&M          | \$ 8,450,000         | 22.0%                     | \$ 7,965,000         | 22.7%                     | 6.1%                           |
| QuickLabel   | 20,382,000           | 53.0%                     | 18,577,000           | 52.9%                     | 9.7%                           |
| GT           | 9,640,000            | 25.0%                     | 8,559,000            | 24.4%                     | 12.6%                          |
| <b>Total</b> | <b>\$ 38,472,000</b> | <b>100.0%</b>             | <b>\$ 35,101,000</b> | <b>100.0%</b>             | <b>9.6%</b>                    |

Net sales for the six month period of the current fiscal year were \$38,472,000, a 9.6% improvement over the \$35,101,000 reported for the first six months of the prior fiscal year. T&M sales revenues were \$8,450,000, reflecting an increase of 6.1% over the previous year and representing 22.0% of the Company's total sales for six months. QuickLabel Systems with sales revenues of \$20,382,000 for six months grew 9.7% over the prior year's sales and represent 53.0% of the Company's total sales for the current six months. Grass Technologies sales revenues were \$9,640,000 for the first half of fiscal 2009 representing a 12.6% increase over the prior year's sales for six months and reflecting 25.0% of the Company's total sales for the first six months of the current fiscal year.

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**Table of Contents**

**ASTRO-MED, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS**

**Results of Operations (Continued)**

The Company's hardware sales grew 13.0% in the first half to \$18,819,000 with the Dash, Everest, QuickLabel printer lines and Grass Technologies clinical products responsible for this year's growth. Consumable sales of \$16,919,000 rose 6.9% from the six month period with QuickLabel media and Grass Technologies' electrodes and creams products accounting for the increase. Service and other sales revenues for the six months were \$2,734,000, an increase of 4.4% from the prior year with the sales growth traceable to an increase in parts and repair invoicing.

Relative to Astro-Med's various channels of distribution, the Company reported domestic sales of \$26,524,000, an increase of 7.9% from the previous year's sales of \$24,576,000 and representing 69.0% of the Company's total sales revenues. International shipments for the six month period increased by 13.5% to \$11,948,000 and represent 31.0% of the Company's total sales revenues. Foreign currency exchange rates had a favorable impact on international sales of \$916,000 or 8.7%.

The Company realized \$16,868,000 in gross profit for the first six months and generated a gross profit margin of 43.8% on sales. This result reflects a 200 basis point improvement over the prior year's gross profit margin of 41.8% and is due to better factory absorption, product mix and productivity improvements.

Operating expenses in the six months were \$13,645,000, a 6.7% increase in spending in selling, R&D and general and administrative expenses from the prior year. Selling and marketing expenses rose 5.0% from last year to \$8,764,000 with the increase traceable to personnel costs related to compensation from higher commission expense. R&D spending grew by 8.6% to \$2,425,000 from the prior year's six months spending. The increase in expenses is confined to an increase in the procurement of outside software engineering services. R&D spending is 6.3% of the current year's sales and comparable to the spending of 6.4% of sales reported in the prior year. General and administrative expense rose 11.0% from the prior year to \$2,456,000 for the first six months. The higher spending level is traceable to an increase in professional service fees.

The Company has earned \$3,223,000 in operating income during the first six months of fiscal year 2009. This achievement reflects a 71.1% improvement in operating income over the prior year's first half operating income. On a margin basis, this year's operating income reflects an operating margin of 8.4% on sales, a 300 basis point increase from the prior year's operating margin of 5.4%.

Other income realized during the first six months of the current fiscal year was \$237,000 as compared to the other income of \$463,000 reported in the previous year. This lower level of other income stems from lower interest income (municipal bonds), lower foreign currency gains and lower miscellaneous income than reported in the prior year.

The Company has provided federal and state income tax expense of \$1,409,000 for the six month period ended August 2, 2008. This year's provision reflects an effective tax rate of 40.7%, up slightly from the prior year's effective tax rate of 40.0%. The increase is the result of the payment of additional discrete state franchise taxes incurred in the current fiscal year.

Net income earned during the first six months of the current fiscal year was \$2,051,000, a 45.7% increase over the prior year's net income of \$1,408,000 and reflects a return on sales of 5.3% against 4.0% reported for the previous year. This year's net income translates into an EPS of \$0.27 per diluted share against an EPS of \$0.19 per diluted share reported for the prior year's first six months.

Summarized below are the Net Sales and Segment Operating Profit for each reporting segment for the six months ended August 2, 2008 and August 4, 2007:

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|                            | Net Sales         |                   | Segment Operating Profit |                   |
|----------------------------|-------------------|-------------------|--------------------------|-------------------|
|                            | August 2,<br>2008 | August 4,<br>2007 | August 2,<br>2008        | August 4,<br>2007 |
| T&M                        | \$ 8,450,000      | \$ 7,965,000      | \$ 1,510,000             | \$ 1,300,000      |
| QuickLabel                 | 20,382,000        | 18,577,000        | 2,532,000                | 1,987,000         |
| GT                         | 9,640,000         | 8,559,000         | 1,334,000                | 575,000           |
| Total                      | \$ 38,472,000     | \$ 35,101,000     | 5,376,000                | 3,862,000         |
| Corporate Expenses         |                   |                   | 2,153,000                | 1,978,000         |
| Operating Income           |                   |                   | 3,223,000                | 1,884,000         |
| Other Income, Net          |                   |                   | 237,000                  | 462,000           |
| Income Before Income Taxes |                   |                   | 3,460,000                | 2,346,000         |
| Income Tax Provision       |                   |                   | 1,409,000                | 938,000           |
| Net Income                 |                   |                   | \$ 2,051,000             | \$ 1,408,000      |

-15-

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**Table of Contents**

**ASTRO-MED, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS**

**Results of Operations (Continued)**

*Test & Measurement - T&M*

This year's sales revenue of the T&M product group was \$8,450,000 for the first six months as compared to \$7,965,000 for the same period of the previous year. The improved sales volume of 6.1% stems from growth in the Dash, Everest and parts product lines. This year's segment operating profit increased 16.2% from the prior year's segment operating profit and provided an operating profit margin of 17.9%, up from the prior year's margin of 16.3%. The improvement is traceable to higher gross profit margins in the current fiscal year.

*QuickLabel System - OLS*

The QuickLabel product group has sales revenue of \$20,382,000 for the first six months as compared with \$18,577,000 in sales revenues reported for the same period in the prior year. The current year's sales growth of 9.7% results from sales increases in the hardware (printers), up 18.7% and consumables (labels & Vivo & Zeo supplies) up 7.3%. The QuickLabel segment operating profit increased significantly in the current year, reporting profit improvement of 27.4% from last year, with an operating profit margin of 12.4% as compared to a 10.7% operating profit margin for the same period of the previous year. The improvement is due to higher gross profit margins from sales volume and product mix.

*Grass Technologies - GT*

Sales revenues of the Grass Technologies product group have been especially strong in the current fiscal year. GT sales were \$9,640,000 for the six months compared to \$8,559,000 for the same period of the prior year. The year over year increase of 12.6% was achieved through growth of the clinical products (sleep and long term monitoring diagnostic products) up 15.1%, and research instruments up 22.9%, as well as the consumable products of electrodes and creams up 8.5%. The segment's operating profit of the GT product group has improved dramatically from last year, more than doubling its segment operating profit margin to 13.8% from 6.7% reported in the previous year. The increased profitability is an outgrowth of sales volume, factory absorption and product mix.

**Financial Condition and Liquidity**

The Company expects to finance its future working capital needs, capital expenditures and acquisition requirements through internal funds. To the extent the Company's capital and liquidity requirements are not satisfied internally, the Company may utilize a \$3.5 million unsecured bank line of credit, all of which is currently available. Borrowings under this line of credit bear interest at the bank's prime rate. The expiration date of this line of credit is July 31, 2009.

The Company's statement of cash flows for the six months ended August 2, 2008 and August 4, 2007 are included on page 5. Net cash flows provided by operating activities were \$3,965,000 in the current year compared to net cash used by operating activities of \$670,000 in the previous year. The cash provided in the current year is an outgrowth of lower accounts receivable and inventory balances and strong net income. Accounts receivable decreased to \$11,980,000 at the end of the second quarter compared to \$12,761,000 at year end. The accounts receivable collection cycle decreased to 53 days sales outstanding at the end of the quarter, down from 58 days sales outstanding at year end. Inventory balances also declined 3.2% to \$13,598,000 at the end of the second quarter compared to \$14,051,000 at year end. Inventory days on hand also declined to 110 days on hand at the end of the quarter from 126 days at year end.

Cash and Cash equivalents and investments at the end of the second quarter totaled \$20,415,000 compared to \$17,556,000 at year end. The higher cash and investments position resulted from higher net income and proceeds from employees exercising stock options. Cash flows were utilized to acquire property, plant and equipment of \$939,000 and to pay cash dividends of \$837,000.

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The Company's backlog declined 2.2% to \$6,745,000 at the end of the second quarter from a backlog of \$6,900,000 at year-end.

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

In the Company's Form 10-K for the fiscal year ended January 31, 2008, 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 debt, inventories and long-lived assets. 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.

### **Safe Harbor Statement**

This document contains forward-looking statements based on current expectations that involve a number of risks and uncertainties. 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 the QuickLabel color printer 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; and (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.

## **Table of Contents**

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

Astro-Med, Inc.'s exposure to market risk has not changed materially from its exposure at January 31, 2008 as set forth in Item 7A of our Form 10-K for the fiscal year ended January 31, 2008.

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

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act), the Company conducted an evaluation under the supervision and with the participation of the Company's management, including the Chairman of the Board (serving as the principal executive officer) and the Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chairman of the Board and the Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all information required to be disclosed in reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. There was no significant change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

In April 2008, following a trial in the U.S. District Court of Rhode Island, the jury found a former employee to have violated his non-compete agreement and awarded the Company damages of \$375,800 against both the former employee and the former employee's new employer. The Company was also awarded exemplary damages and attorneys fees (all of which have been previously expensed), resulting in a total award of over \$1.1 million. The defendants have asked the Court to order a new trial or to reduce the judgment. That motion is pending before the trial court. The defendants also have represented that they intend to appeal if their motion is denied.

There are no other 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**

There is no change to the Risk Factors disclosed in Item 1A to the Company's Form 10-K for the fiscal year ended January 31, 2008.

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

On August 16, 2004, the Company announced that its Board of Directors had approved the repurchase of 600,000 shares of common stock. This is an ongoing authorization without any expiration date. The Company made no purchases of its common stock pursuant to this authority during the second quarter of fiscal 2009. Currently, the Company can repurchase an additional 392,289 shares under the current program.

**Table of Contents****Item 4. Submission of Matters to a Vote of Stockholders**

The Company's Annual Meeting of Shareholders was held May 13, 2008.

In an uncontested election, nominees for directors were elected by the following votes:

| Name of Nominee for Director | Votes<br>For | Votes<br>Withheld |
|------------------------------|--------------|-------------------|
| Albert W. Ondis              | 6,097,800    | 179,538           |
| Everett V. Pizzuti           | 6,084,037    | 193,301           |
| Jacques V. Hopkins           | 6,141,242    | 136,096           |
| Hermann Viets                | 6,157,703    | 119,635           |
| Graeme MacLetchie            | 6,135,264    | 142,074           |

**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 Rule 13a-14(a) SOX 302
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) SOX 302
- 32.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(b) and 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(b) and 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**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: September 9, 2008

By /s/ A.W. Ondis  
A.W. Ondis, Chairman 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)