

AstroNova, Inc.
Form 10-Q
September 05, 2018
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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 July 28, 2018

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

AstroNova, Inc.

(Exact name of registrant as specified in its charter)

Rhode Island (State or other jurisdiction of incorporation or organization)	05-0318215 (I.R.S. Employer Identification No.)
600 East Greenwich Avenue, West Warwick, Rhode Island (Address of principal executive offices)	02893 (Zip Code)
(401) 828-4000	

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No .

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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.

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Common Stock, \$.05 Par Value 6,923,883 shares
(excluding treasury shares) as of August 30, 2018

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

	July 28, 2018	January 31, 2018
	(Unaudited)	
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 5,949	\$ 10,177
Securities Available for Sale		1,511
Accounts Receivable, net	24,048	22,400
Inventories, net	28,396	27,609
Prepaid Expenses and Other Current Assets	1,767	1,251
Total Current Assets	60,160	62,948
PROPERTY, PLANT AND EQUIPMENT		
Less Accumulated Depreciation	(34,034)	(33,125)
Property, Plant and Equipment, net	9,525	9,752
OTHER ASSETS		
Intangible Assets, net	31,788	33,633
Goodwill	12,466	13,004
Deferred Tax Assets	1,827	1,829
Other Assets	1,304	1,147
Total Other Assets	47,385	49,613
TOTAL ASSETS	\$ 117,070	\$ 122,313
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts Payable	\$ 6,082	\$ 11,808
Accrued Compensation	3,294	2,901
Other Liabilities and Accrued Expenses	3,380	2,414
Current Portion of Long-Term Debt	5,024	5,498
Current Portion of Royalty Obligation	1,625	1,625
Revolving Credit Facility	1,500	
Current Liability Excess Royalty Payment Due	1,377	615
Deferred Revenue	366	367

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Income Taxes Payable	236	684
Total Current Liabilities	22,884	25,912
NON CURRENT LIABILITIES		
Long-Term Debt, net of current portion	15,249	17,648
Royalty Obligation, net of current portion	10,901	11,760
Deferred Tax Liabilities	623	698
Other Liabilities	1,925	2,648
TOTAL LIABILITIES	51,582	58,666
SHAREHOLDERS EQUITY		
Common Stock, \$0.05 Par Value, Authorized 13,000,000 shares; Issued 10,136,497 shares and 9,996,120 shares at July 28, 2018 and January 31, 2018, respectively	507	500
Additional Paid-in Capital	51,877	50,016
Retained Earnings	46,761	45,700
Treasury Stock, at Cost, 3,259,473 and 3,227,942 shares at July 28, 2018 and January 31, 2018, respectively	(32,960)	(32,397)
Accumulated Other Comprehensive Loss, net of tax	(697)	(172)
TOTAL SHAREHOLDERS EQUITY	65,488	63,647
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 117,070	\$ 122,313

See Notes to condensed consolidated financial statements (unaudited).

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ASTRONOVA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, Except Per Share Data)

(Unaudited)

	Three Months		Six Months Ended	
	July 28, 2018	July 29, 2017	July 28, 2018	July 29, 2017
Revenue	\$ 33,807	\$ 27,483	\$ 65,294	\$ 51,941
Cost of Revenue	20,408	17,224	39,784	32,376
Gross Profit	13,399	10,259	25,510	19,565
Operating Expenses:				
Selling and Marketing	6,397	5,315	12,898	10,426
Research and Development	2,029	1,675	3,721	3,307
General and Administrative	2,808	2,327	5,462	4,183
Operating Expenses	11,234	9,317	22,081	17,916
Operating Income, net	2,165	942	3,429	1,649
Other Income (Expense)	(512)	16	(782)	(33)
Income before Income Taxes	1,653	958	2,647	1,616
Income Tax Provision	459	231	639	378
Net Income	\$ 1,194	\$ 727	\$ 2,008	\$ 1,238
Net Income per Common Share Basic:	\$ 0.17	\$ 0.11	\$ 0.29	\$ 0.17
Net Income per Common Share Diluted:	\$ 0.17	\$ 0.11	\$ 0.29	\$ 0.17
Weighted Average Number of Common Shares Outstanding:				
Basic	6,860	6,727	6,825	7,097
Diluted	7,083	6,838	6,999	7,218
Dividends Declared Per Common Share	\$ 0.07	\$ 0.07	\$ 0.14	\$ 0.14

See Notes to condensed consolidated financial statements (unaudited).

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ASTRONOVA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	July 28, 2018	July 29, 2017	July 28, 2018	July 29, 2017
Net Income	\$ 1,194	\$ 727	\$ 2,008	\$ 1,239
Other Comprehensive Income (Loss), Net of Taxes and Reclassification Adjustments:				
Foreign Currency Translation Adjustments	(349)	540	(618)	319
Change in Value of Derivatives Designated as Cash Flow Hedge	245	(501)	545	(760)
Losses (Gains) from Cash Flow Hedges Reclassified to Income Statement	(255)	492	(455)	703
Unrealized Holding Gain (Loss) on Securities Available for Sale		(5)		7
Realized Gain (Loss) on Securities Available for Sale reclassified to income statement	(3)		3	
Other Comprehensive Income (Loss)	(362)	526	(525)	269
Comprehensive Income	\$ 832	\$ 1,253	\$ 1,483	\$ 1,508

See Notes to condensed consolidated financial statements (unaudited).

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

	Six Months Ended	
	July 28, 2018	July 29, 2017
Cash Flows from Operating Activities:		
Net Income	\$ 2,008	\$ 1,238
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	3,088	1,461
Amortization of Debt Issuance Costs	26	14
Share-Based Compensation	829	580
Deferred Income Tax Provision	(67)	4
Changes in Assets and Liabilities, Net of Impact of Acquisition:		
Accounts Receivable	(2,002)	336
Inventories	(1,080)	221
Income Taxes	(201)	(255)
Accounts Payable and Accrued Expenses	(4,554)	(2,113)
Other	(671)	193
Net Cash Provided (Used) by Operating Activities	(2,624)	1,679
Cash Flows from Investing Activities:		
Proceeds from Sales/Maturities of Securities Available for Sale	1,511	1,601
Cash Paid for TrojanLabel Acquisition, net of cash acquired		(9,007)
Honeywell Asset Purchase and License Agreement TSA Agreement	(400)	
Payments Received on Line of Credit Issued to Label Line		60
Additions to Property, Plant and Equipment	(848)	(983)
Net Cash Provided (Used) by Investing Activities	263	(8,329)
Cash Flows from Financing Activities:		
Net cash proceeds from Common Shares Issued Under Employee Benefit Plans and Employee Stock Option Plans, Net of Payment of Minimum Tax Withholdings	477	424
Purchase of Treasury Stock		(11,238)
Proceeds from Issuance of Long-Term Debt		9,200
Borrowings under Revolving Credit Facility	3,000	
Repayments under Revolving Credit Facility	(1,500)	
Principal Payments of Long-Term Debt	(2,908)	(276)
Payments of Debt Issuance Costs		(155)
Dividends Paid	(960)	(997)

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Net Cash Provided (Used) by Financing Activities	(1,891)	(3,042)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	24	423
Net Increase (Decrease) in Cash and Cash Equivalents	(4,228)	(9,269)
Cash and Cash Equivalents, Beginning of Period	10,177	18,098
Cash and Cash Equivalents, End of Period	\$ 5,949	\$ 8,829
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Period for Interest	\$ 329	\$ 30
Cash Paid During the Period for Income Taxes, Net of Refunds	\$ 1,639	\$ 584
Schedule of Non-Cash Financing Activities:		
Value of Shares Received in Satisfaction of Option Exercise Price	\$ 366	\$ 231
See Notes to condensed consolidated financial statements (unaudited).		

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ASTRONOVA, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(1) Overview

Headquartered in West Warwick, Rhode Island, AstroNova, Inc. leverages its expertise in data visualization technologies to design, develop, manufacture and distribute 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 Company offices in Canada, China, Europe, Mexico and Southeast Asia as well as through independent dealers and representatives. AstroNova, Inc. products are employed around the world in a wide range of aerospace, apparel, automotive, avionics, chemical, computer peripherals, communications, distribution, food and beverage, general manufacturing, packaging and transportation applications.

The business consists of two segments, Product Identification, which includes specialty printing systems sold under the QuickLabel® and TrojanLabel® brand names, and Test & Measurement which includes test and measurement systems sold under the AstroNova® brand name.

Products sold under the QuickLabel and TrojanLabel brands are used in industrial and commercial product packaging, branding and labeling applications to digitally print custom labels and corresponding visual content in house. Products sold under the AstroNova brand enable our customers to acquire and record visual and electronic signal data from local and networked data streams and sensors. The recorded data is processed and analyzed and then stored and presented in various visual output formats. In the aerospace market, the Company has a long history of using its data visualization technologies to provide high-resolution light-weight flight deck and cabin printers.

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

(2) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared 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, 2018.

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 revenue recognition, 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, 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 the prior year 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.

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(4) Revenue Recognition

On February 1, 2018 we adopted Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Accounting Standards Codification ASC Topic 606), which superseded nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASC Topic 606 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASC Topic 606 defines a five step process to recognize revenue and requires more judgment and estimates within the revenue recognition process than required under previous U.S. GAAP, including identifying performance obligations in the contract, determining and estimating the amount of any variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

We adopted this standard using the modified retrospective method and have applied the guidance to all contracts within the scope of ASC Topic 606 as of the February 1, 2018 adoption date. Under ASC Topic 606, based on the nature of our contracts and consistent with prior practice, we recognize the large majority of our revenue upon shipment, which is when the performance obligation has been satisfied. Accordingly, the adoption of this standard did not have a material impact on our revenue recognition and there was no cumulative effective adjustment as of February 1, 2018 as a result of the adoption of ASC Topic 606.

Significant judgments primarily include the identification of performance obligation arrangements as well as the pattern of delivery for those services.

We derive revenue from the sale of (i) hardware including, digital color label printers and specialty OEM printing systems, portable data acquisition systems and airborne printers used in the flight deck and in the cabin of military, commercial and business aircraft, (ii) related supplies required in the operation of the hardware, (iii) repairs and maintenance of equipment and (iv) service agreements.

The vast majority of our revenue is generated from the sale of distinct products. Revenue is measured as the amount of consideration the Company expects to receive in exchange for such products, which is generally at the contractually stated prices, and is recognized when we satisfy a performance obligation by transferring control of a product to a customer. The transfer of control generally occurs at one point in time, upon shipment, when title and risk of loss pass to the customer. Returns and customer credits are infrequent and are recorded as a reduction to revenue. Sales taxes and value added taxes collected concurrently with revenue generating activities are excluded from revenue.

Many of the contracts entered into with customers are commonly comprised of a combination of equipment, supplies, installation and/or training services. We determine performance obligations by assessing whether the products or services are distinct from other elements of the contract. In order to be distinct, the product must perform either on its own or with readily available resources and must be separate within the context of the contract.

The majority of our hardware products contain 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 or marketed separately and its production costs are minor compared to those of the hardware system. Hardware and software elements are typically delivered at the same time and are accounted for as a single performance obligation for which revenue is recognized at the point in time when ownership is transferred to the customer.

Installation and training services vary based on certain factors such as the complexity of the equipment, staffing availability in a geographic location and customer preferences, and can range from a few days to a few months. The delivery of installation and training services are not assessed to determine whether they are separate performance

obligations, as the amounts are not material to the contract.

Shipping and handling activities that occur after control over a product has transferred to a customer are accounted for as fulfillment activities rather than performance obligations, as allowed under a practical expedient provided by ASC Topic 606. The shipping and handling fees charged to customers are recognized as revenue and the related costs are included in cost of revenue at the point in time when ownership of the product is transferred to the customer.

We may perform service at the request of the customer, generally for the repair and maintenance of products previously sold. These services are short in duration, typically less than one month, and total less than 9.0% of revenue for the six months ended July 28, 2018. Revenue is recognized as services are rendered and accepted by the customer. We also provide service agreements on certain of our Product Identification equipment. Service agreements are purchased separately from the equipment and provide for the right to obtain service and maintenance on the equipment for a period of typically one to two years. Accordingly, revenue on these agreements is recognized over the term of the agreements. The portion of service agreement contracts that are uncompleted at the end of any reporting period are included in deferred revenue.

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We generally provide warranties for our products. The standard warranty period is typically 12 months for most hardware products except for airborne printers, which typically have warranties that extend for 4-5 years, consistent with industry practice. Such assurance-type warranties are not deemed to be separate performance obligations from the hardware product and costs associated with providing the warranties are accrued in accordance with ASC 450, Contingencies, as we have the ability to ascertain the likelihood of the liability and can reasonably estimate the amount of the liability. Our estimate of costs to service the warranty obligations is based on historical experience and expectations of future conditions. To the extent that our experience in warranty claims or costs associated with servicing those claims differ from the original estimates, revisions to the estimated warranty liability are recorded at that time, with an offsetting adjustment to cost of revenue. On occasion, customers request a warranty period longer than our standard warranty. In those instances, in which extended warranty services are separately quoted to the customer, an additional performance obligation is created, and the associated revenue is deferred and recognized as service revenue ratably over the term of the extended warranty period. The portion of service contracts and extended warranty services agreements that are uncompleted at the end of any reporting period are included in deferred revenue.

Revenues disaggregated by primary geographic markets and major product type are as follows:

Primary geographical markets:

(In thousands)	Three Months		Six Months Ended	
	Ended		July 28,	July 29,
	July 28,	July 29,	July 28,	July 29,
	2018	2017	2018	2017
United States	\$ 19,977	\$ 17,249	\$ 39,210	\$ 32,932
Europe	7,885	7,391	15,719	13,774
Canada	1,648	1,250	3,094	2,426
Asia	2,537	797	3,976	1,087
Central and South America	1,102	652	2,156	1,484
Other	658	144	1,139	238
Total Revenue	\$ 33,807	\$ 27,483	\$ 65,294	\$ 51,941

Major product type:

(In thousands)	Three Months		Six Months Ended	
	Ended		July 28,	July 29,
	July 28,	July 29,	July 28,	July 29,
	2018	2017	2018	2017
Hardware	\$ 12,904	\$ 8,601	\$ 24,881	\$ 15,890
Supplies	17,883	16,282	34,584	31,127
Service and Other	3,020	2,600	5,829	4,924
Total Revenue	\$ 33,807	\$ 27,483	\$ 65,294	\$ 51,941

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Credit is extended based upon an evaluation of the customer's financial condition. Accounts receivable are stated at their estimated net realizable value. The allowance for doubtful accounts is based on a variety of factors, including the age of amounts outstanding relative to their contractual due date, specific customer factors, historical write-off experience and current market assessments. Standard payment terms are typically 30 days after shipment, but vary by type and geographic location of our customers.

Contract Assets and Liabilities

We normally do not have contract assets, which are primarily unbilled accounts receivable that are conditional on something other than the passage of time. Our contract liabilities, which represent billings in excess of revenue recognized, are related to advanced billings for purchased service agreements and extended warranties and were \$366,000 and \$367,000 at July 28, 2018 and January 31, 2018, respectively, and are recorded as deferred revenue in the condensed consolidated balance sheet. The slight decrease in the deferred revenue at July 28, 2018 is primarily due to approximately \$403,000 of revenue recognized during the period that was included in the deferred revenue balance at January 31, 2018, offset by cash payments received in advance of satisfying performance obligations.

Contract Costs

We recognize an asset for the incremental direct costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. We have determined that certain costs related to obtaining sales contracts for our aerospace printer products meet the requirement to be capitalized. These costs are deferred and amortized based on the forecasted number of units sold over the estimated benefit term, which is currently estimated to be approximately 10 years. There has been no change in the Company's accounting for these contracts as a result of the adoption of ASC Topic 606. The balance of these contract assets at January 31, 2018 was \$832,000 and was reported in other assets in the consolidated balance sheet. In the first quarter of fiscal 2019, the Company incurred an additional \$150,000 in incremental direct costs which were deferred. The amortization of incremental direct costs was \$9,000 and \$18,000 for the three and six months periods ended July 28, 2018. The balance of the deferred incremental direct contract costs net of accumulated amortization at July 28, 2018 is \$967,000 and is reported in other assets in the condensed consolidated balance sheet. This amount is expected to be amortized over its estimated remaining period of benefit, which we currently estimate to be approximately 8 years.

We apply the practical expedient to expense costs incurred for costs to obtain a contract when the amortization period would have been less than a year. These costs include sales commissions paid to the internal direct sales team as well as to third-party representatives and distributors. Contractual agreements with each of these parties outline commission structures and rates to be paid. Generally speaking, the contracts are all individual procurement decisions by the customers and do not include renewal provisions and as such the majority of the contracts have an economic life of significantly less than a year.

(5) Acquisitions

On September 28, 2017, AstroNova, Inc. entered into an Asset Purchase and License Agreement (the "Honeywell Agreement") with Honeywell International, Inc. to acquire an exclusive perpetual world-wide license to manufacture Honeywell's narrow-format flight deck printers for two aircraft families along with certain inventory used in the manufacturing of the licensed printers. The purchase price consisted of an initial upfront payment of \$14.6 million in cash. The Honeywell Agreement also provided for guaranteed minimum royalty payments of \$15.0 million, to be paid to Honeywell over the next ten years, based on gross revenues from the sales of the printers, paper and repair services

of the licensed products. The royalty rates vary based on the year in which they are paid or earned and product sold or service provided, and range from single-digit to mid double-digit percentages of gross revenue.

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This transaction was evaluated under Accounting Standard Update 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, and was accounted for as an asset acquisition.

The initial upfront payment of \$14.6 million was paid at the closing of this transaction using borrowings from the Company's revolving credit facility under its amended Credit Agreement with Bank of America, N.A.

The minimum royalty payment obligation of \$15.0 million was recorded at the present value of the annual minimum royalty payments using a present value factor of 2.8%, which is based on the estimated after tax cost of debt for similar companies. At July 28, 2018, the current portion of the minimum royalty obligation to be paid over the next twelve months is \$1.6 million and is reported as a current liability; and the remainder of \$10.9 million is reported as a long-term liability on the Company's condensed consolidated balance sheet. For the three and six months ended July 28, 2018, the Company incurred \$0.5 million and \$0.8 million, respectively, in excess royalty expense, which is included in cost of revenue in the Company's condensed consolidated statement of income for the period ended July 28, 2018. A total of \$1.4 million of excess royalty is payable at July 28, 2018 and reported as a current liability on the Company's condensed consolidated balance sheet.

In connection with the Honeywell Agreement, the Company also entered into a Transition Services Agreement (TSA) with Honeywell related to the transfer of the manufacturing and repair of the licensed printers from their current locations to AstroNova's plant in West Warwick, Rhode Island. During the current year, the Company paid \$0.4 million to acquire an additional repair facility revenue stream in accordance with the terms of the TSA. The additional \$0.4 million TSA obligation payment was included as part of the Honeywell Agreement purchase price and recorded as an increase to the related intangible asset.

Under the terms of the TSA, the Company is required to pay for certain expenses incurred by Honeywell during the period in which product manufacturing is transferred to the Company's facilities. In the first quarter of fiscal 2019, a change in accounting estimates for product costs and operating expenses related to the TSA resulted in an increase of \$1.0 million in operating income (\$0.8 million net of tax or \$0.12 per diluted share). In addition, in the first quarter of fiscal 2019, a change in accounting estimates for revenue subject to customer rebates under the Honeywell Agreement increased operating income by \$0.4 million (\$0.3 million net of tax or \$0.05 per diluted share). These changes in accounting estimates were the result of actual amounts billed and received differing from initial estimates.

Transaction costs incurred for this acquisition were \$0.3 million and were included as part of the purchase price.

The assets acquired in connection with the acquisition were recorded by the Company at their estimated relative fair values as follows:

(In thousands)	
Inventory	\$ 1,411
Identifiable Intangible Assets	27,243
Total Purchase Price	\$ 28,654

The purchase price, including the initial payment, the minimum royalty payment obligation, transaction costs, and the subsequent TSA \$0.4 million obligation payment, were allocated based on the relative fair value of the assets acquired. The fair value of the intangible assets acquired was estimated by applying the income approach. These fair value measurements are based on significant inputs that are not observable in the market and therefore represent a

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Level 3 measurement as defined in ASC 820, Fair Value Measurement and Disclosure. Key assumptions in estimating the fair value of the intangibles include (1) the remaining life of the intangibles based on the term of the Honeywell Asset Purchase and License Agreement of 10 years, (2) a range of annual earnings projections from \$3.9 million to \$5.4 million and (3) the Company's internal rate of return of 21.0%.

The acquired identifiable intangible assets are as follows:

(In thousands)	Fair Value	Useful Life (Years)
Customer Contract Relationships	\$ 27,243	10

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On February 1, 2017, our wholly-owned Danish subsidiary, ANI ApS, completed the acquisition of the issued and outstanding equity interests of TrojanLabel ApS (TrojanLabel). The purchase price of this acquisition was 62.9 million Danish Krone (approximately \$9.1 million), net of cash acquired of 976,000 Danish Krone (approximately \$0.1 million), of which 6.4 million Danish Krone (approximately \$0.9 million) was placed in escrow to secure certain post-closing working capital adjustments and indemnification obligations of the sellers. In the first quarter of fiscal 2019, the Company settled the post-closing adjustments with TrojanLabel and recovered approximately 891,000 Danish Krone (approximately \$145,000) of the amount held in escrow account, which was recognized as an adjustment to the allowance account for TrojanLabel receivables. The remaining escrow balance was retained by TrojanLabel.

(6) 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, determined using the treasury stock method 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:

	Three Months Ended		Six Months Ended	
	July 28, 2018	July 29, 2017	July 28, 2018	July 29, 2017
Weighted Average Common Shares Outstanding - Basic	6,859,532	6,726,623	6,824,532	7,097,183
Effect of Dilutive Options, Restricted Stock Awards and Restricted Stock Units	222,976	111,213	174,946	121,238
Weighted Average Common Shares Outstanding - Diluted	7,082,508	6,837,836	6,999,478	7,218,421

For the three and six months ended July 28, 2018, the diluted per share amounts do not reflect common equivalent shares outstanding of 273,275 and 340,575, respectively. For the three and six months ended July 29, 2017, the diluted per share amounts do not reflect common equivalent shares outstanding of 591,359 and 591,309, respectively. These outstanding common equivalent shares were not included due to their anti-dilutive effect. Anti-dilutive shares consist of those common stock equivalents that have an exercise price above the average stock price for the period or for which the common stock equivalent's related average unrecognized stock compensation expense is sufficient to buy back the entire amount of shares. Restricted stock units which vest based upon achievement of performance targets are excluded from the diluted shares outstanding unless the performance targets have been met as of the end of the reporting period, regardless of whether such performance targets are probable of achievement as of the end of the measurement period.

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Intangible assets are as follows:

(In thousands)	July 28, 2018			January 31, 2018				
	Gross Carrying Amount	Accumulated Amortization	Currency Translation Adjustment	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Currency Translation Adjustment	Net Carrying Amount
Miltope:								
Customer Contract Relationships	\$ 3,100	\$ (1,566)	\$	\$ 1,534	\$ 3,100	\$ (1,438)	\$	\$ 1,662
RITEC:								
Customer Contract Relationships	2,830	(608)		2,222	2,830	(461)		2,369
Non-Competition Agreement	950	(586)		364	950	(491)		459
TrojanLabel:								
Existing Technology	2,327	(535)	174	1,966	2,327	(350)	313	2,290
Distributor Relations	937	(151)	70	856	937	(99)	130	968
Honeywell:								
Customer Contract Relationships	27,243*	(2,397)		24,846	26,843	(958)		25,885
Intangible Assets, net	\$ 37,387	\$ (5,843)	\$ 244	\$ 31,788	\$ 36,987	\$ (3,797)	\$ 443	\$ 33,633

* Includes additional \$0.4 million related to the payment in fiscal 2019 in accordance with the terms of the TSA. There were no impairments to intangible assets during the periods ended July 28, 2018 and July 29, 2017. With respect to the acquired intangibles included in the table above, amortization expense of \$1,022,000 and \$304,000 related to the above acquired intangibles has been included in the condensed consolidated statement of income for the three months ended July 28, 2018 and July 29, 2017, respectively. Amortization expense of \$2,046,000 and \$603,000 related to the above acquired intangibles has been included in the condensed consolidated statement of income for the six months ended July 28, 2018 and July 29, 2017, respectively.

Estimated amortization expense for the next five fiscal years is as follows:

(In thousands)	Remaining				
	2019	2020	2021	2022	2023
Estimated amortization expense	\$ 2,073	\$ 4,234	\$ 4,104	\$ 4,017	\$ 4,012

(8) Share-Based Compensation

At the Company's annual meeting of shareholders held on June 4, 2018, the Company's shareholders approved the AstroNova, Inc. 2018 Equity Incentive Plan (the "2018 Plan"). The 2018 Plan provides for, among other things, the

issuance of awards with respect to up to 650,000 shares of the Company's common stock, plus an additional number of shares equal to the number of shares subject to awards granted under the 2018 Plan or the Company's 2015 Equity Incentive Plan (the 2015 Plan and, together with the 2018 Plan, the Plans) that are, following the effectiveness of the 2018 Plan, forfeited, cancelled, satisfied without the issuance of stock, otherwise terminated (other than by exercise), or, for shares of stock issued pursuant to any unvested award, reacquired by the Company at not more than the grantee's purchase price (other than by exercise). Following the approval of the 2018 Plan at the Company's annual meeting of shareholders, the Company ceased granting new equity awards pursuant to the 2015 Plan.

The Company has a Non-Employee Director Annual Compensation Program (the Program) under which each non-employee director receives an automatic grant of restricted stock awards (RSAs) on the first business day of each fiscal quarter. Under the Program, the number of whole shares to be granted each quarter is equal to 25% of the number calculated by dividing the director compensation amount by the fair market value of the Company's stock on such day. The director annual compensation amount was \$65,000 in fiscal year 2018 and is \$75,000 in fiscal year 2019. In addition, the Chairman of the Board receives RSAs with an aggregate value of \$6,000, and the Chairs of the Audit and Compensation Committees each receive RSAs with an aggregate value of \$4,000, also issued in quarterly installments and calculated in the same manner as the directors' RSA grants. RSAs granted prior to March 30, 2017 became fully vested on the first anniversary of the date of grant. RSAs granted subsequent to March 30, 2017 become vested three months after the date of grant. A total of 5,370 and 7,314 shares were awarded to the non-employee directors as compensation under the Program in the second quarter of fiscal 2019 and 2018, respectively.

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In April 2013 (fiscal year 2014), the Company granted options and RSUs to officers (2014 RSUs). The 2014 RSUs vested as follows: twenty-five percent vested on the third anniversary of the grant date, fifty percent vested upon the Company achieving its cumulative budgeted net revenue target for fiscal years 2014 through 2016 (the Measurement Period), and twenty-five percent vested upon the Company 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 2014 RSUs until the first anniversary of the vesting date. In April 2016, 9,300 of the 2014 RSUs vested, as the Company achieved the targeted average annual ORONA, as defined in the plan, for the Measurement Period and another 9,300 vested as a result of the third year anniversary date of the grant. Additionally, on February 1, 2014, the Company accelerated the vesting of 4,166 of the 2014 RSUs held by Everett Pizzuti in connection with his retirement.

In March 2015 (fiscal year 2016), the Company granted 50,000 options and 537 RSAs to its Chief Executive Officer pursuant to an Equity Incentive Award Agreement dated as of November 24, 2014 (CEO Equity Incentive Agreement), and 35,000 options to other key employees.

In May 2015 (fiscal year 2016), the Company granted an aggregate of 80,000 time-based and 155,000 performance-based RSUs (2016 RSUs) to certain officers of the Company. The time-based 2016 RSUs vest in four equal annual installments commencing on the first anniversary of the grant date. The performance-based 2016 RSUs vest over three years based upon the increase in revenue, if any, achieved each fiscal year relative to a three-year revenue increase goal. Performance-based 2016 RSUs that are earned based on organic revenue growth are fully vested when earned, while those earned based on revenue growth via acquisitions vest annually over a three-year period following the fiscal year in which the revenue growth occurs. Any performance-based 2016 RSUs that were not earned at the end of fiscal 2018 were forfeited. The expense for such shares was recognized in the fiscal year in which the results were achieved, however, the shares were not fully earned until approved by the Compensation Committee in the first quarter of the following fiscal year. Based upon revenue in fiscal 2018, 2017 and 2016, 33,638, 9,025 and 15,810 shares of the performance based RSUs were earned in the first quarter of fiscal 2019, 2018 and 2017, respectively.

In March 2016 (fiscal year 2017), the Company granted 50,000 options and 4,030 RSAs to its Chief Executive Officer pursuant to the CEO Equity Incentive Agreement.

In May 2016 (fiscal year 2017) the Company granted 37,000 options to certain key employees. On August 1, 2016 (fiscal year 2017) the Company granted 5,000 options to its Chief Financial Officer.

In March 2017 (fiscal year 2018), the Company granted 50,000 options to the Chief Executive Officer pursuant to the CEO Equity Incentive Agreement. In February and April 2017 the Company granted 52,189 options to certain other key employees. In December 2017, upon election to the Board, the Company granted 5,000 non-qualified options and 675 RSUs to a Board member. In January 2018, the Company granted 50,000 non-qualified options and 15,000 RSUs to the newly appointed Chief Financial Officer.

In April 2018 (fiscal year 2019), the Company granted 5,000 non-qualified options and 341 RSUs to a newly elected member of the Board of Directors.

In May 2018, the Company granted 40,000 options to certain key employees.

In June 2018, the Company granted an aggregate of 25,000 non-qualified options to the members of the Board of Directors. Also in June 2018, the Company granted an aggregate of 126,000 options, 44,275 time-based RSUs and

38,000 performance-based RSUs to certain officers of the Company, all of which vest over three years. The number of performance-based RSUs that are eligible to vest will be determined based upon achievement of fiscal 2019 revenue and operating income targets.

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Share-based compensation expense was recognized as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	July 28, 2018	July 29, 2017	July 28, 2018	July 29, 2017
Stock Options	\$ 200	\$ 117	\$ 356	\$ 211
Restricted Stock Awards and Restricted Stock Units	263	289	467	363
Employee Stock Purchase Plan	3	3	6	6
Total	\$ 466	\$ 409	\$ 829	\$ 580

Stock Options

The fair value of stock options granted during the six months ended July 28, 2018 and July 29, 2017 was estimated using the following assumptions:

	Six Months Ended	
	July 28, 2018	July 29, 2017
Risk Free Interest Rate	2.6%	1.7%
Expected Volatility	39.4%	37.9%
Expected Life (in years)	9.0	8.0
Dividend Yield	1.5%	2.0%

The weighted average fair value per share for options granted was \$7.42 and \$7.41 during the three and six month periods ended July 28, 2018, compared to \$5.62 and \$4.46 during the three and six month periods ended July 29, 2017.

Aggregated information regarding stock options granted under the Plans for the six months ended July 28, 2018, is summarized below:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 31, 2018	745,270	\$ 12.52
Granted	196,000	18.21
Exercised	(91,375)	11.00
Forfeited	(850)	13.98
Canceled	(3,700)	8.95
Outstanding at July 28, 2018	845,345	\$ 14.02

Set forth below is a summary of options outstanding at July 28, 2018:

Range of Exercise prices	Outstanding			Exercisable		
	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Number of Shares	Weighted- Average Exercise Price	Weighted Average Remaining Contractual Life
\$ 5.00-10.00	106,331	\$ 7.63	2.87	106,331	\$ 7.63	2.87
\$ 10.01-15.00	493,014	\$ 13.63	7.26	326,747	\$ 13.60	6.62
\$ 15.01-20.00	246,000	\$ 17.56	9.39	30,000	\$ 15.17	7.98
	845,345	\$ 14.02	7.33	463,078	\$ 12.33	5.84

As of July 28, 2018, there was approximately \$2.0 million of unrecognized compensation expense related to stock options which is expected to be recognized over a weighted average period of approximately 2.7 years.

Table of Contents*Restricted Stock Units (RSUs) and Restricted Stock Awards (RSAs)*

Aggregated information regarding RSUs and RSAs granted under the Plans for the six months ended July 28, 2018 is summarized below:

	RSAs & RSUs	Weighted Average Grant Date Fair Value
Unvested at January 31, 2018	\$ 177,347	\$ 13.99
Granted	96,464	17.79
Vested	(47,065)	13.96
Forfeited	(82,682)	14.05
Unvested at July 28, 2018	\$ 144,064	\$ 16.52

As of July 28, 2018, there was approximately \$1.4 million of unrecognized compensation expense related to RSUs and RSAs which is expected to be recognized over a weighted average period of 1.3 years.

Employee Stock Purchase Plan

AstroNova has an Employee Stock Purchase Plan allowing eligible employees to purchase shares of common stock at a 15% discount from fair value on the first or last day of an offering period, whichever is less. A total of 247,500 shares were reserved for issuance under this plan. During the six months ended July 28, 2018 and July 29, 2017, there were 2,342 and 2,897 shares, respectively, purchased under this plan. As of July 28, 2018, 36,865 shares remain available.

(9) Inventories

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

(In thousands)	July 28, 2018	January 31, 2018
Materials and Supplies	\$ 15,466	\$ 13,715
Work-In-Process	1,425	1,404
Finished Goods	15,982	17,210
	32,873	32,329
Inventory Reserve	(4,477)	(4,720)
	\$ 28,396	\$ 27,609

(10) Income Taxes

The Company's effective tax rates for the period are as follows:

	Three Months Ended	Six Months Ended
Fiscal 2019	27.8%	24.1%
Fiscal 2018	24.1%	23.4%

The Company determines its estimated annual effective tax rate at the end of each interim period based on full-year forecasted pre-tax income and facts known at that time. The estimated annual effective tax rate is applied to the year-to-date pre-tax income at the end of each interim period with the cumulative effect of any changes in the estimated annual effective tax rate being recorded in the fiscal quarter in which the change is determined. The tax effect of significant unusual items is reflected in the period in which they occur.

During the three months ended July 28, 2018, the Company recognized an income tax expense of approximately \$459,000. The effective tax rate in this period was directly impacted by an \$82,000 benefit arising from windfall tax benefits related to the Company's stock. During the three months ended July 29, 2017, the Company recognized an income tax expense of approximately \$231,000. The effective tax rate in this period was impacted by updated projected forecasted income and updated lower foreign tax rates for the Company's foreign subsidiaries, as well as a \$12,000 benefit arising from windfall tax benefits related to the Company's stock.

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During the six months ended July 28, 2018, the Company recognized an income tax expense of approximately \$639,000. The effective tax rate in this period was directly impacted by a \$112,000 tax benefit arising from windfall tax benefits related to the Company's stock and a \$78,000 tax benefit related to the expiration of the statute of limitations on a previously uncertain tax position. During the six months ended July 29, 2017, the Company recognized an income tax expense of approximately \$378,000. The effective tax rate in this period was impacted by updated projected forecasted income and updated lower foreign tax rates for the Company's foreign subsidiaries, as well as a \$71,000 tax benefit related to the expiration of the statute of limitations on a previously uncertain tax position and a \$27,000 benefit arising from windfall tax benefits related to the Company's stock.

The Company maintains a valuation allowance on some of its deferred tax assets in certain jurisdictions. A valuation allowance is required when, based upon an assessment of various factors, including recent operating loss history, anticipated future earnings, and prudent and reasonable tax planning strategies, it is more likely than not that some portion of the deferred tax assets will not be realized.

Unrecognized tax benefits represent the difference between tax positions taken or expected to be taken in a tax return and the benefits recognized for financial reporting purposes. As of July 28, 2018, the Company's cumulative unrecognized tax benefits totaled \$626,000 compared to \$665,000 as of January 31, 2018. During the first quarter, the Company was notified by the IRS that the fiscal 2015 and 2017 income tax returns were selected for audit. No adjustments have been raised at this time. There were no other developments affecting unrecognized tax benefits during the quarter ended July 28, 2018.

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act (the Tax Act). The Tax Act significantly changes U.S. tax law by, among other things, lowering the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018. As a result of the Tax Act, we wrote down our net deferred tax assets as of January 31, 2018 by \$1.0 million to reflect the estimated impact of the Tax Act. Accordingly, we recorded a corresponding provisional net one-time non-cash charge of \$1.0 million, related to re-measurement of certain net deferred tax assets using the lower U.S. corporate income tax rate. We were capable of reasonably estimating the impact of the reduction to the U.S. Corporate tax rate on the deferred tax balances. However, the estimate may be affected by other aspects of the Tax Act.

The Tax Act taxes certain unrepatriated earnings and profits (E&P) of our foreign subsidiaries (the Transition Tax). In order to determine the Transition Tax, we must determine, along with other information, the amount of our accumulated post-1986 E&P for our foreign subsidiaries, as well as the non-U.S. income tax paid by those subsidiaries on such E&P. We were capable of reasonably estimating the one-time deemed repatriation tax and recorded a provisional expense of \$0.1 million at January 31, 2018.

ASC 740, Income Taxes, requires a company to record the effects of a tax law change in the period of enactment. ASU 2018-05 allows a company to record a provisional amount when it does not have the necessary information available, prepared, or analyzed in reasonable detail to complete its accounting for the changes in the Tax Reform Act. The measurement period ends when the company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year from the date of enactment of the Tax Reform Act.

During the six months ended July 28, 2018, there were no changes made to the provisional amounts recognized in fiscal 2018. While we have substantially completed our provisional analysis of the income tax effects of the Tax Act and recorded a reasonable estimate of such effects, the net one-time charge related to the Tax Act may differ, possibly materially, due to, among other things, further refinement of our calculations, changes in interpretations and assumptions that we have made, additional guidance that may be issued by the U.S. Government, and actions and related accounting policy decisions we may take as a result of the Tax Act. We will complete our analysis over a

one-year measurement period ending December 22, 2018, and any adjustments during this measurement period will be included in net earnings from continuing operations as an adjustment to income tax expense in the reporting period when such adjustments are determined.

The Tax Act also established a new law that affects fiscal 2019 and beyond, which includes, but is not limited to, (1) a reduction of the U.S. corporate income tax rate from 35% to 21%; (2) general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (3) a new limitation on the deduction of interest expense; (4) repeal of the domestic production activity deduction; (5) additional limitations on deduction of compensation for certain executives; (6) a new provision designed to tax global intangible low-taxed income (GILTI) which allows for the possibility of utilizing foreign tax credits (FTCs) and a deduction of up to 50% to offset the income tax liability (subject to certain limitations); (7) the

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introduction of the base erosion anti-abuse tax which represents a new minimum tax; (8) limitations on utilization of FTCs to reduce U.S. income tax liability; (9) a new provision designed to provide a preferential tax rate for income derived by domestic corporations from servicing foreign markets (FDII) and (10) limitations on net operating losses (NOLs) generated after December 31, 2017 to 80% of taxable income.

(11) Credit Agreement

On February 28, 2017, the Company and its wholly owned Danish subsidiaries, ANI ApS and TrojanLabel ApS (together, the Parties), entered into a Credit Agreement with Bank of America, N.A. (the Lender). The Credit Agreement provided for a term loan to ANI ApS in the principal amount of \$9.2 million. The Credit Agreement also provided for a \$10.0 million revolving credit facility available to the Company for general corporate purposes.

In connection with the Honeywell Purchase and License Agreement, on September 28, 2017, the Parties entered into a First Amendment to the Credit Agreement with the Lender. The First Amendment amended the existing Credit Agreement to permit the Honeywell Asset Purchase and License Agreement and temporarily increased the amount available for borrowing under the revolving credit facility from \$10.0 million to \$15.0 million. The initial upfront payment of \$14.6 million for the Honeywell Agreement was paid using borrowings under the Company s revolving credit facility.

On November 30, 2017, the Parties entered into a Second Amendment to the Credit Agreement with the Lender. The Second Amendment provided for a term loan to the Company in the principal amount of \$15.0 million, in addition to the revolving credit facility for the Company and the term loan previously borrowed by ANI ApS at the original closing under the Credit Agreement. The proceeds from the term loan were used to repay the entire \$14.6 million principal balance of the revolving loans outstanding under the revolving credit facility. The principal amount of the revolving credit facility which had been temporarily increased to \$15.0 million was reduced to \$10.0 million effective upon the closing of the Second Amendment and the maturity date for the revolving credit facility was extended to November 30, 2022.

On April 17, 2018, the Parties entered into a Third Amendment to the Credit Agreement with the Lender. The Third Amendment provides that no Immaterial Subsidiary will be required to become a guarantor or securing party under (unless requested by the Lender during default) or have its equity pledged pursuant to the Credit Agreement. The Third Amendment defines Immaterial Subsidiary as any subsidiary of the Company with (a) consolidated total assets that do not exceed 5.0% of the consolidated total assets of the Company and its subsidiaries and (b) revenues that do not exceed 5.0% of the consolidated revenues of the Company and its subsidiaries, as of the last day of the most recent fiscal quarter; provided that Immaterial Subsidiaries shall not account for, in the aggregate, more than 10% the of consolidated total assets or consolidated revenues of the Company and its subsidiaries.

In connection with the Credit Agreement, AstroNova and ANI ApS entered into certain hedging arrangements with the Lender to manage the variable interest rate risk and currency risk associated with its payments in respect of the term loans. Refer to Note 13, Derivative Financial Instruments and Risk Management for further information about these arrangements.

Revolving credit loans may be borrowed, at the Company s option, in U.S. Dollars or, subject to certain conditions, Euros, British Pounds, Canadian Dollars or Danish Krone. Amounts borrowed under the revolving credit facility bear interest at a rate *per annum* equal to, at the Company s option, either (a) the LIBOR rate (or in the case of revolving credit loans denominated in a currency other than U.S. Dollars, the applicable quoted rate), plus a margin that varies within a range of 1.0% to 1.5% based on the Company s consolidated leverage ratio, or (b) a fluctuating reference rate equal to the highest of (i) the federal funds rate plus 0.50%, (ii) Bank of America s publicly announced prime rate or

(iii) the LIBOR rate plus 1.00%, plus a margin that varies within a range of 0.0% to 0.5% based on the Company's consolidated leverage ratio. The Company is required to pay a commitment fee on the undrawn portion of the revolving credit facility at the rate of 0.25% *per annum*.

The Parties must comply with various customary financial and non-financial covenants under the Credit Agreement. The financial covenants consist of a maximum consolidated leverage ratio and a minimum consolidated fixed charge coverage ratio. The Credit Agreement contains limitations, in each case subject to various exceptions and thresholds, on the Company's and its subsidiaries' ability to incur future indebtedness, to place liens on assets, to conduct mergers or acquisitions, to sell assets, to alter their capital structure, to make investments and loans, to change the nature of their business, and to prepay subordinated indebtedness. The Credit Agreement permits the Company to pay cash dividends on and repurchase shares of its common stock, subject to certain limitations. The Company believes it is in compliance with all of the covenants in the Credit Agreement as of July 28, 2018.

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The Lender is entitled to accelerate repayment of the loans and to terminate its revolving credit commitment under the Credit Agreement upon the occurrence of any of various customary events of default, which include, among other events, the following: failure to pay when due any principal, interest or other amounts in respect of the loans, breach of any of the Company's covenants or representations under the loan documents, default under any other of the Company's or its subsidiaries' significant indebtedness agreements, a bankruptcy, insolvency or similar event with respect to the Company or any of its subsidiaries, a significant unsatisfied judgment against the Company or any of its subsidiaries, or a change of control of the Company.

The obligations of ANI ApS in respect of the \$9.2 million term loan are guaranteed by the Company and TrojanLabel. The Company's obligations in respect of the \$15.0 million term loan, revolving credit facility and its guarantee in respect of the ANI ApS term loan are secured by substantially all of the assets of the Company (including a pledge of a portion of the equity interests held by the Company in ANI ApS and the Company's wholly-owned German subsidiary Astro-Med GmbH), subject to certain exceptions.

In the second quarter of the current year, \$3.0 million was drawn on the revolving credit facility, of which \$1.5 million was repaid during the quarter and \$1.5 million remained outstanding as of July 28, 2018. The outstanding balance bears interest at an annual rate of 5.5% and \$17.5 thousand of interest has been accrued on this obligation and included in other expense in the accompanying condensed consolidated income statement for the three and six months ended July 28, 2018. As of July 28, 2018, there is \$8.5 million available for borrowing under the revolving credit facility.

(12) Debt

Long-term debt in the accompanying condensed consolidated balance sheets is as follows:

(In thousands)	July 28, 2018	January 31, 2018
USD Term Loan with a rate equal to LIBOR plus a margin of 1.0% to 1.5%, (3.38% as of July 28, 2018 and 2.85% as of January 31, 2018), and maturity date of November 30, 2022	\$ 12,750	\$ 15,000
USD Term Loan with a rate equal to LIBOR plus a margin of 1.0% to 1.5%, (3.38% as of July 28, 2018 and 3.06% as of January 31, 2018), and maturity date of January 31, 2022	7,714	8,372
	20,464	23,372
Debt Issuance Costs, net of accumulated amortization	(191)	(226)
Current Portion of Term Loan	(5,024)	(5,498)
Long-Term Debt	\$ 15,249	\$ 17,648

The schedule of required principal payments remaining during the next five years on long-term debt outstanding as of July 28, 2018 is as follows:

(In thousands)	
Fiscal 2019 (remaining)	\$ 2,590
Fiscal 2020	4,840
Fiscal 2021	5,208
Fiscal 2022	5,576
Fiscal 2023	2,250
	\$ 20,464

(13) Derivative Financial Instruments and Risk Management

The Company has entered into a cross-currency interest rate swap to manage the interest rate risk and foreign currency exchange risk associated with the floating-rate foreign currency-denominated term loan borrowing by our Danish Subsidiary and an interest rate swap to manage the interest rate risk associated with the variable rate \$15.0 million term loan borrowing by the Company. In accordance with the guidance in ASC 815 Derivatives and Hedging, both swaps have been designated as cash flow hedges of floating-rate borrowings.

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The cross-currency interest rate swap agreement utilized by the Company effectively modifies the Company's exposure to interest rate risk and foreign currency exchange rate risk by converting approximately \$8.9 million of the Company's floating-rate debt denominated in U.S. Dollars on our Danish subsidiary's books to a fixed-rate debt denominated in Danish Krone for the term of the loan, thus reducing the impact of interest-rate and foreign currency exchange rate changes on future interest expense and principal repayments. This swap involves the receipt of floating rate amounts in U.S. Dollars in exchange for fixed-rate interest payments in Danish Krone, as well as exchanges of principal at the inception spot rate, over the life of the term loan. As of July 28, 2018, the total notional amount of the Company's cross-currency interest rate swap was \$7.1 million and is included in other long term liabilities in the Company's condensed consolidated balance sheet at its fair value amount of \$0.8 million.

The interest rate swap agreement utilized by the Company on the \$15.0 million term loan effectively modifies the Company's exposure to interest rate risk by converting the Company's floating-rate debt to fixed-rate debt for the next five years, thus reducing the impact of interest-rate changes on future interest expense. This swap involves the receipt of floating rate amounts in U.S. Dollars in exchange for fixed rate payments in U.S. dollars over the life of the term loan. As of July 28, 2018, the total notional amount of the Company's interest rate swap was \$12.8 million and is included in other assets in the Company's condensed consolidated balance at its fair value amount of \$0.2 million.

The following tables present the impact of the derivative instruments in our condensed consolidated financial statements for the three and six months ended July 28, 2018 and July 29, 2017:

	Three Months Ended				
	Amount of Gain (Loss)		Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income	
	Recognized in OCI on Derivative	July 28, 2018		July 29, 2017	July 28, 2018
Cash Flow Hedge					
(In thousands)	July 28, 2018	July 29, 2017	OCI into Income	July 28, 2018	July 29, 2017
Swap contracts	\$ 315	\$ (643)	Other Income (Expense)	\$ 327	\$ (633)

	Six Months Ended				
	Amount of Gain (Loss)		Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income	
	Recognized in OCI on Derivative	July 28, 2018		July 29, 2017	July 28, 2018
Cash Flow Hedge					
(In thousands)	July 28, 2018	July 29, 2017	OCI into Income (Effective Portion)	July 28, 2018	July 29, 2017
Swap contracts	\$ 698	\$ (1,035)	Other Income (Expense)	\$ 583	\$ (953)

At July 28, 2018, the Company expects to reclassify approximately \$0.3 million of net gains on the swap contracts from accumulated other comprehensive income (loss) to earnings during the next 12 months due to changes in foreign

exchange rates and the payment of variable interest associated with the floating-rate debt.

(14) Accumulated Other Comprehensive Loss

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

(In thousands)	Foreign Currency Translation Adjustments	Unrealized Holding Gain/(Loss) on Available for Sale Securities	Net Unrealized Gain/(Loss) on Cash Flow Hedges	Total
Balance at January 31, 2018	\$ (178)	\$ (6)	\$ 12	\$ (172)
Other Comprehensive Income (Loss) before reclassification	(618)		545	(73)
Amounts reclassified from AOCI to Earnings		3	(455)	(452)
Other Comprehensive Income (Loss)	(618)	3	90	(525)
Balance at July 28, 2018	\$ (796)	\$ (3)	\$ 102	\$ (697)

The amounts presented above in other comprehensive loss are net of taxes except for translation adjustments associated with our German and Danish subsidiaries.

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AstroNova reports two segments: Product Identification and Test & Measurement (T&M). The Company evaluates segment performance based on the segment profit before corporate expenses.

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

(In thousands)	Three Months Ended				Six Months Ended			
	Revenue		Segment Operating Profit		Revenue		Segment Operating Profit	
	July 28, 2018	July 29, 2017	July 28, 2018	July 29, 2017	July 28, 2018	July 29, 2017	July 28, 2018	July 29, 2017
Product Identification	\$ 21,769	\$ 20,841	\$ 2,159	\$ 2,612	\$ 41,722	\$ 39,487	\$ 3,820	\$ 5,104
T&M	12,038	6,642	2,814	657	23,572	12,454	5,071	728
Total	\$ 33,807	\$ 27,483	4,973	3,269	\$ 65,294	\$ 51,941	8,891	5,832
Corporate Expenses			2,808	2,327			5,462	4,183
Operating Income			2,165	942			3,429	1,649
Other Income (Expense), Net			(512)	16			(782)	(33)
Income Before Income Taxes			1,653	958			2,647	1,616
Income Tax Provision			459	231			639	378
Net Income			\$ 1,194	\$ 727			\$ 2,008	\$ 1,238

(16) Recent Accounting Pronouncements***Recently Adopted Accounting Pronouncements******Share-Based Compensation***

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-07 Compensation Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. ASU 2018-07 reduces the cost and complexity and improves financial reporting by expanding the scope of Topic 718 to include share-based payment transactions to nonemployees. ASU 2018-07 is effective for public companies for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted. We adopted the provisions of this guidance effective beginning in the second quarter of the current year. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Income Taxes

In March 2018, the FASB issued ASU 2018-05 Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. ASU 2018-05 provides guidance for companies related to the U.S. government-enacted comprehensive tax legislation commonly referred to as the Tax Act. ASU 2018-05 allows for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. This ASU is effective immediately as new information is available to adjust provisional amounts that were previously recorded. The Company adopted this standard in the first quarter of fiscal 2019 and expects the accounting for the tax effects of the Tax Act to be completed during the measurement period.

Comprehensive Income

In February 2018, the FASB issued ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 amends ASU Topic 220 and allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act, to eliminate the stranded tax effects resulting from the Tax Act. This ASU is effective for fiscal years beginning after December 15, 2018 with early adoption permitted. The amendments in this update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company early adopted this amendment in the second quarter of fiscal 2019 and reclassified \$14,000 from accumulated other comprehensive income to retained earnings.

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Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 completes the joint effort by the FASB and International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. ASU 2014-09 applies to all companies that enter into contracts with customers to transfer goods or services. Under this guidance, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted this guidance effective February 1, 2018 using the modified retrospective method. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements. Refer to Note 4, Revenue Recognition for further details.

Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities. The objective of this new guidance is to improve the financial reporting of hedging relationships by, among other things, eliminating the requirement to separately measure and record hedge ineffectiveness. ASU 2017-12 is effective for public companies for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted. We adopted the provisions of this guidance effective for the first quarter of fiscal 2019. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Share-Based Compensation

In May 2017, the FASB issued ASU 2017-09 Stock Compensation: Scope of Modification Accounting. ASU 2017-09 provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. The Company adopted this guidance effective February 1, 2018. The adoption of this guidance did not have a material impact on its consolidated financial statements.

Statement of Cash Flows

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (Topic 230). ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice for certain cash receipts and cash payments. The Company adopted this guidance effective February 1, 2018. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 supersedes current guidance related to accounting for leases and is intended to increase transparency and comparability among organizations by requiring lessees to recognize assets and liabilities in the balance sheet for operating leases with lease terms greater than twelve months. The update also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) Targeted Improvements, which amends ASU 2016-02 to provide an additional (and

optional) transition method to adopt the new lease standard. These ASUs will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (Q1 fiscal 2020 for AstroNova), with early adoption permitted. The Company is currently evaluating the effect of this new guidance and expects this guidance to result in recognizing leased assets and lease liabilities on our consolidated balance sheets.

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

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Fair value is applied to our financial assets and liabilities including money market funds, available for sale securities, derivative instruments and a contingent consideration liability relating to an earnout payment on future TrojanLabel operating results.

The following tables provide a summary of the financial assets and liabilities that are measured at fair value as of July 28, 2018 and January 31, 2018:

<i>Assets measured at fair value:</i> (in thousands)	Fair value measurement at July 28, 2018				Fair value measurement at January 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	Money Market Funds (included in Cash and Cash Equivalents)	\$ 4	\$	\$	\$ 4	\$ 1,798	\$	\$
State and Municipal Obligations (included in Securities Available for Sale)						1,511		1,511
Swap Contracts (included in Other Assets)		198		198		101		101
Total assets	\$ 4	\$ 198	\$	\$ 202	\$ 1,798	\$ 1,612	\$	\$ 3,410

<i>Liabilities measured at fair value:</i> (in thousands)	Fair value measurement at July 28, 2018				Fair value measurement at January 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	Swap Contracts (included in Other Liabilities)	\$	\$ 828	\$	\$ 828	\$	\$ 1,513	\$
Earnout liability (included in Other Liabilities)			15	15			15	15