

ASTRO MED INC /NEW/  
Form 10-Q  
August 31, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended July 28, 2012**

**OR**

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

**For the transition period from        to**

**Commission file number 0-13200**

**Astro-Med, Inc.**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

**Common Stock, \$.05 Par Value 7,441,490 shares**

**(excluding treasury shares) as of August 24, 2012**

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

|  | <b>July 28,<br/>2012</b> | <b>January 31,<br/>2012</b> |
|--|--------------------------|-----------------------------|
| <b>ASSETS</b>                              |                          |                             |
| <b>CURRENT ASSETS</b>                      |                          |                             |
| Cash and Cash Equivalents                  | \$ 11,149,600            | \$ 11,703,621               |
| Securities Available for Sale              | 11,366,388               | 11,335,924                  |
| Accounts Receivable, net                   | 11,577,674               | 11,800,481                  |
| Inventories                                | 13,946,054               | 14,128,599                  |
| Deferred Tax Assets                        | 2,388,132                | 2,618,578                   |
| Line of Credit Receivable                  | 300,000                  |                             |
| Prepaid Expenses and Other Current Assets  | 962,769                  | 891,047                     |
| Total Current Assets                       | 51,690,617               | 52,478,250                  |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>       |                          |                             |
| Less Accumulated Depreciation              | (27,307,352)             | (26,705,341)                |
| Property, Plant and Equipment, net         | 10,763,175               | 11,170,730                  |
| <b>OTHER ASSETS</b>                        |                          |                             |
| Goodwill                                   | 2,336,721                | 2,336,721                   |
| Notes Receivable                           | 907,200                  | 969,700                     |
| Other                                      | 106,167                  | 106,735                     |
| Total Other Assets                         | 3,350,088                | 3,413,156                   |
| <b>TOTAL ASSETS</b>                        | <b>\$ 65,803,880</b>     | <b>\$ 67,062,136</b>        |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b> |                          |                             |
| <b>CURRENT LIABILITIES</b>                 |                          |                             |
| Accounts Payable                           | \$ 2,142,600             | \$ 2,540,116                |
| Accrued Compensation                       | 2,456,958                | 3,228,728                   |
| Other Accrued Expenses                     | 1,565,168                | 1,807,675                   |
| Deferred Revenue                           | 566,525                  | 623,223                     |
| Income Taxes Payable                       | 85,235                   | 72,725                      |
| Total Current Liabilities                  | 6,816,486                | 8,272,467                   |
| Deferred Tax Liabilities                   | 1,774,568                | 1,894,104                   |
| Other Long Term Liabilities                | 858,661                  | 1,232,699                   |
| <b>TOTAL LIABILITIES</b>                   | <b>9,449,715</b>         | <b>11,399,270</b>           |
| <b>SHAREHOLDERS EQUITY</b>                 |                          |                             |
|  | 450,164                  | 447,829                     |

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Common Stock, \$.05 Par Value, Authorized 13,000,000 shares; Issued 9,003,189 and 8,956,488 shares at July 28, 2012 and January 31, 2012, respectively

|   |                      |                      |
|---|----------------------|----------------------|
| Additional Paid-In Capital  | 38,304,635           | 37,964,204           |
| Retained Earnings   | 28,701,885           | 27,919,367           |
| Treasury Stock, at Cost, 1,563,214 and 1,542,276 shares at July 28, 2012 and January 31, 2012, respectively | (10,966,237)         | (10,789,805)         |
| Accumulated Other Comprehensive Income  | (136,282)            | 121,271              |
| <b>Total Shareholders' Equity</b>   | <b>56,354,165</b>    | <b>55,662,866</b>    |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>   | <b>\$ 65,803,880</b> | <b>\$ 67,062,136</b> |

See Notes to condensed consolidated financial statements (unaudited).

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

|  | <b>Three Months Ended</b> |                          | <b>Six Months Ended</b>  |                          |
|--|---------------------------|--------------------------|--------------------------|--------------------------|
|  | <b>July 28,<br/>2012</b>  | <b>July 30,<br/>2011</b> | <b>July 28,<br/>2012</b> | <b>July 30,<br/>2011</b> |
| Net Sales                                      | \$ 19,572,354             | \$ 20,335,676            | \$ 37,997,129            | \$ 39,195,665            |
| Cost of Sales                                  | 11,273,411                | 12,434,648               | 22,327,225               | 23,793,350               |
| Gross Profit                                   | 8,298,943                 | 7,901,028                | 15,669,904               | 15,402,315               |
| Costs and Expenses:                            |                           |                          |                          |                          |
| Selling and Marketing                          | 4,298,151                 | 4,526,112                | 8,541,732                | 9,091,650                |
| General and Administrative                     | 1,115,029                 | 964,210                  | 2,151,643                | 1,875,141                |
| Research and Development                       | 1,207,832                 | 1,187,406                | 2,411,327                | 2,655,268                |
| Operating Expenses                             | 6,621,012                 | 6,677,728                | 13,104,702               | 13,622,059               |
| Operating Income                               | 1,677,931                 | 1,223,300                | 2,565,202                | 1,780,256                |
| Other Income (Expense)                         | (88,925)                  | 296,962                  | (103,028)                | 447,282                  |
| Income Before Income Taxes                     | 1,589,006                 | 1,520,262                | 2,462,174                | 2,227,538                |
| Income Tax Provision                           | 602,233                   | 474,423                  | 638,586                  | 750,260                  |
| Net Income                                     | \$ 986,773                | \$ 1,045,839             | \$ 1,823,588             | \$ 1,477,278             |
| Net Income per Common Share:                   |                           |                          |                          |                          |
| Basic  | \$ 0.13                   | \$ 0.14                  | \$ 0.25                  | \$ 0.20                  |
| Diluted  | \$ 0.13                   | \$ 0.14                  | \$ 0.24                  | \$ 0.20                  |
| Weighted Average Number of Shares Outstanding: |                           |                          |                          |                          |
| Basic  | 7,439,225                 | 7,292,986                | 7,432,158                | 7,280,211                |
| Diluted  | 7,491,160                 | 7,445,536                | 7,488,985                | 7,423,539                |
| Dividends Declared Per Common Share            | \$ 0.07                   | \$ 0.07                  | \$ 0.14                  | \$ 0.14                  |

See Notes to condensed consolidated financial statements (unaudited).

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

|  | <b>Three Months Ended</b> |                          | <b>Six Months Ended</b>  |                          |
|--|---------------------------|--------------------------|--------------------------|--------------------------|
|  | <b>July 28,<br/>2012</b>  | <b>July 30,<br/>2011</b> | <b>July 28,<br/>2012</b> | <b>July 30,<br/>2011</b> |
| Net Income   | \$ 986,773                | \$ 1,045,839             | \$ 1,823,588             | \$ 1,477,278             |
| Other Comprehensive Income (Loss), Net of Taxes and Reclassification<br>Adjustments: |                           |                          |                          |                          |
| Foreign Currency Translation Adjustments   | (301,643)                 | (149,686)                | (250,708)                | 233,324                  |
| Unrealized Holding Gain (Loss) Arising During the Period                             | (2,124)                   | (219)                    | (6,845)                  | 8,105                    |
| Other Comprehensive Income (Loss)  | (303,767)                 | (149,905)                | (257,553)                | 241,429                  |
| Comprehensive Income   | \$ 683,006                | \$ 895,934               | \$ 1,566,035             | \$ 1,718,707             |

See Notes to condensed consolidated financial statements (unaudited).

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

|   | <b>Six Months Ended</b>  |                          |
|---|--------------------------|--------------------------|
|   | <b>July 28,<br/>2012</b> | <b>July 30,<br/>2011</b> |
| <b>Cash Flows from Operating Activities:</b>  |                          |                          |
| Net Income  | \$ 1,823,588             | \$ 1,477,278             |
| <b>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</b>  |                          |                          |
| Depreciation and Amortization   | 687,469                  | 816,251                  |
| Share-Based Compensation  | 125,460                  | 118,246                  |
| Deferred Income Tax Provision   | 110,910                  | 20,375                   |
| Life Insurance Proceeds Receivable  |                          | (301,697)                |
| <b>Changes in Assets and Liabilities:</b>   |                          |                          |
| Accounts Receivable   | 222,807                  | (1,387,801)              |
| Inventories   | 182,545                  | 502,134                  |
| Income Taxes  | (220,772)                | 480,959                  |
| Accounts Payable and Accrued Expenses   | (1,468,491)              | (505,154)                |
| Other   | (357,888)                | (27,441)                 |
| <b>Net Cash Provided by Operating Activities</b>  | <b>1,105,628</b>         | <b>1,193,150</b>         |
| <b>Cash Flows from Investing Activities:</b>  |                          |                          |
| Proceeds from Sales/Maturities of Securities Available for Sale   | 7,635,000                | 5,880,000                |
| Purchases of Securities Available for Sale  | (7,675,834)              | (3,646,025)              |
| Line of Credit Issuance   | (300,000)                |                          |
| Additions to Property, Plant and Equipment  | (318,622)                | (631,427)                |
| <b>Net Cash Provided (Used) by Investing Activities</b>   | <b>(659,456)</b>         | <b>1,602,548</b>         |
| <b>Cash Flows from Financing Activities:</b>  |                          |                          |
| Proceeds from Common Shares Issued Under Employee Benefit Plans and Employee Stock Option Plans, Net of Payment of Minimum Tax Withholdings | 40,872                   | 44,824                   |
| Dividends Paid  | (1,041,065)              | (1,020,596)              |
| <b>Net Cash Used in Financing Activities</b>  | <b>(1,000,193)</b>       | <b>(975,772)</b>         |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>   | <b>(554,021)</b>         | <b>1,819,926</b>         |
| Cash and Cash Equivalents, Beginning of Period  | 11,703,621               | 7,720,135                |
| <b>Cash and Cash Equivalents, End of Period</b>   | <b>\$ 11,149,600</b>     | <b>\$ 9,540,061</b>      |
| <b>Supplemental Disclosures of Cash Flow Information:</b>   |                          |                          |
| Cash Paid During the Period for Income Taxes, Net of Refunds  | \$ 768,883               | \$ 255,706               |
| See Notes to condensed consolidated financial statements (unaudited).   |                          |                          |



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

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

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

**(2) Basis of Presentation**

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

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

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

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

**(3) Principles of Consolidation**

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

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

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

|  | <b>Three Months Ended</b> |                          | <b>Six Months Ended</b>  |                          |
|--|---------------------------|--------------------------|--------------------------|--------------------------|
|  | <b>July 28,<br/>2012</b>  | <b>July 30,<br/>2011</b> | <b>July 28,<br/>2012</b> | <b>July 30,<br/>2011</b> |
| Weighted Average Common Shares Outstanding - Basic                             | 7,439,225                 | 7,292,986                | 7,432,158                | 7,280,211                |
| Effect of Dilutive Options, Restricted Stock Awards and Restricted Stock Units | 51,935                    | 152,550                  | 56,827                   | 143,328                  |

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|  |         |           |           |           |           |
|--|---------|-----------|-----------|-----------|-----------|
| Weighted Average Common Shares Outstanding | Diluted | 7,491,160 | 7,445,536 | 7,488,985 | 7,423,539 |
|--|---------|-----------|-----------|-----------|-----------|

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For the three and six months ended July 28, 2012, the diluted per share amounts do not reflect common equivalent shares outstanding of 605,844 because their effect would have been anti-dilutive. For the three and six months ended July 30, 2011, the diluted per share amounts do not reflect options outstanding of 615,769 and 736,590, respectively. These outstanding options were not included due to their anti-dilutive effect, as the exercise price was greater than the average market price of the underlying stock during the period presented.

**(5) Share-Based Compensation**

Astro-Med has one equity incentive plan (the Plan) under which incentive stock options, non-qualified stock options, restricted stock units (RSUs), restricted stock awards (RSAs) and other equity based awards may be granted to officers and certain employees. An aggregate of 1,000,000 shares were authorized for awards under the Plan. Options granted to employees vest over four years. The exercise price of each stock option will be established at the discretion of the Compensation Committee; however, any incentive stock options granted must be at an exercise price of not less than fair market value at the date of grant. Beginning in fiscal year 2013, a portion of the Company's long-term incentive compensation will be awarded in the form of RSUs. The RSUs vest fifty-percent on the first anniversary of the grant date and fifty-percent on the second anniversary of the grant date provided that the grantee is employed on each vesting date by Astro-Med or an affiliate company and provided the Company achieves specific thresholds of net sales and annual operating income as established under the Management Bonus Domestic Plan. At July 28, 2012, 559,594 shares were available for grant under the Plan.

The Plan provides for an automatic annual grant of ten-year options to purchase 5,000 shares of stock to each non-employee director upon the adjournment of each annual shareholders meeting. Each such option is exercisable at the fair market value as of the grant date and vests immediately prior to the next succeeding annual shareholders meeting. During the second quarter of fiscal 2013, 20,000 options were awarded to non-employee directors pursuant to the Plan. In addition to the automatic option grant under Plan, the Company adopted a Non-Employee Director Annual Compensation Program (the Program) effective as of February 1, 2012. The Program provides that each non-employee director is entitled to an annual cash retainer of \$7,000 (the Cash Retainer), plus \$500 for each Board and committee meeting attended, provided that if more than one meeting occurs on the same day, no more than \$500 shall be paid for such day. The non-employee director may elect for any fiscal year to receive all or a portion of the Cash Retainer in the form of common stock of the Company, which will be issued under the Plan. If a non-employee director elects to receive all or a portion of the Cash Retainer in the form of common stock, such shares shall be issued in four quarterly installments on the first day of each fiscal quarter, and the number of shares of common stock to be issued shall be based on the fair market value of such common stock on the date such installment is payable. The common stock received in lieu of such Cash Retainer will be fully vested. However, a non-employee director who receives common stock in lieu of all or a portion of the Cash Retainer may not sell, transfer, assign, pledge or otherwise encumber the common stock prior to the first anniversary of the date on which such shares were issuable. In the event of the death or disability of a nonemployee director, or a change in control of the Company, any shares of common stock issued in lieu of such Cash Retainer, shall no longer be subject to such restrictions on transfer.

In addition, under the Program, commencing with the 2012 annual meeting, each non-employee director will receive RSAs with a value equal to \$20,000 (the Equity Retainer). If a non-employee director is first appointed or elected to the Board of Directors effective on a date other than at the annual shareholders meeting, on the date of such appointment or election, the director shall receive a pro rata award of restricted common stock having a value based on the number of days remaining until the next annual meeting. The Equity Retainer will vest on the earlier of 12 months after the grant date or the date immediately prior to the next annual meeting of the shareholders following the meeting at which such RSAs were granted. However, a non-employee director may not sell, transfer, assign, pledge or otherwise encumber the vested common stock prior to the second anniversary of the vesting date. In the event of the death or disability of a non-employee director, or a change in control of the Company, the RSAs shall immediately vest and shall no longer be subject to such restrictions on transfer. During the second quarter of fiscal 2013, 9,900 RSAs were awarded to non-employee directors pursuant to the Program.

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

Share-based compensation expense was recognized as follows:

|  | Three Months Ended |                  | Six Months Ended  |                   |
|--|--------------------|------------------|-------------------|-------------------|
|  | July 28, 2012      | July 30, 2011    | July 28, 2012     | July 30, 2011     |
| Stock Options                                      | \$ 39,107          | \$ 40,608        | \$ 78,330         | \$ 118,246        |
| Restricted Stock Awards and Restricted Stock Units | 39,320             |                  | 47,130            |                   |
| <b>Total</b>                                       | <b>\$ 78,427</b>   | <b>\$ 40,608</b> | <b>\$ 125,460</b> | <b>\$ 118,246</b> |

*Stock Options*

The fair value of stock options granted during the six months ended July 28, 2012 and July 30, 2011 was estimated using the following assumptions:

|                          | Six Months Ended |               |
|--------------------------|------------------|---------------|
|                          | July 28, 2012    | July 30, 2011 |
| Risk Free Interest Rate  | 1.0%             | 1.8% - 2.0%   |
| Expected Volatility      | 39.4%            | 39.1% - 39.4% |
| Expected Life (in years) | 5.0              | 5.0           |
| Dividend Yield           | 3.5%             | 3.6% - 3.9%   |

The weighted average fair value per share for options granted was \$2.09 during the first quarter of fiscal 2013 and \$2.01 during the second quarter of fiscal 2013 compared to \$2.03 and \$2.05 during the first and second quarters of fiscal 2012.

Aggregated information regarding stock options granted under the Plan for the six months ended July 28, 2012 is summarized below:

|                                     | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in Years) | Aggregate Intrinsic Value |
|-------------------------------------|-------------------|---------------------------------|--|---------------------------|
| Outstanding at January 31, 2012     | 888,097           | \$ 8.27                         | 4.7  | \$ 547,874                |
| Granted                             | 94,000            | 8.19                            |  |                           |
| Exercised                           | (42,438)          | 4.37                            |  |                           |
| Expired or canceled                 | (40,056)          | 8.45                            |  |                           |
| <b>Outstanding at July 28, 2012</b> | <b>899,603</b>    | <b>\$ 8.44</b>                  | <b>4.7</b>   | <b>\$ 355,190</b>         |

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|                              |         |    |      |     |    |         |
|------------------------------|---------|----|------|-----|----|---------|
| Exercisable at July 28, 2012 | 736,203 | \$ | 8.58 | 3.8 | \$ | 305,966 |
|------------------------------|---------|----|------|-----|----|---------|

As of July 28, 2012 there was \$285,920 of unrecognized compensation expense related to unvested options.

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

Aggregated information regarding RSUs and RSAs granted under the Plan for the six months ended July 28, 2012 is summarized below:

|                                 | RSAs & RSUs | Weighted Average<br>Grant Date Fair Value |
|---------------------------------|-------------|---|
| Outstanding at January 31, 2012 |             | \$  |
| Granted                         | 46,900      | 8.29                                      |
| Exercised                       |             |   |
| Expired or canceled             |             |   |
| Outstanding at July 28, 2012    | 46,900      | \$ 8.29                                   |

As of July 28, 2012 there was \$252,952 of unrecognized compensation expense related to unvested RSUs and RSAs.

*Employee Stock Purchase Plan*

Astro-Med has an Employee Stock Purchase Plan allowing eligible employees to purchase shares of common stock at a 15% discount from fair value on the date of purchase. A total of 247,500 shares were reserved for issuance under this plan. During the quarters ended July 28, 2012 and July 30, 2011, 1,550 and 1,559 shares respectively, were purchased under this plan. During the six months ended July 28, 2012 and July 30, 2011, 2,547 and 3,277 shares respectively, were purchased under this plan. As of July 28, 2012, 67,660 shares remain available.

**(6) Inventories**

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

|                        | July 28, 2012 | January 31, 2012 |
|------------------------|---------------|------------------|
| Materials and Supplies | \$ 8,708,767  | \$ 9,204,853     |
| Work-In-Process        | 1,247,758     | 1,274,397        |
| Finished Goods         | 3,989,529     | 3,649,349        |
|                        | \$ 13,946,054 | \$ 14,128,599    |

**(7) Income Taxes**

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

|             | Three Months Ended | Six Months Ended |
|-------------|--------------------|------------------|
| Fiscal 2013 | 37.9%              | 25.9%            |
| Fiscal 2012 | 31.2%              | 33.7%            |

During fiscal 2013, the Company recognized an income tax expense of approximately \$638,000 which included an expense of \$907,000 on the six months pretax income and a benefit \$269,000 primarily related to the favorable resolution of a previously uncertain tax positions.

As of July 28, 2012, the Company's cumulative unrecognized tax benefits totaled \$570,354 compared to \$779,543 as of January 31, 2012. There were no developments affecting unrecognized tax benefits during the quarter ended July 28, 2012.



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

On January 30, 2012, we completed the sale of our label manufacturing operations in Asheboro, North Carolina to Label Line Ltd. The net sales price of \$1,000,000 was received in the form of a promissory note issued by Label Line Ltd. and is fully secured by a first lien on various collateral, including the Asheboro plant and plant assets. The note bears interest at a rate equal to the lesser of (i) the United States prime rate as of January 30, 2013 plus 50 basis points or (ii) six percent per annum and is payable in sixteen quarterly installments of principal and interest commencing on January 30, 2013. The Note Receivable is disclosed at its present value on the accompanying condensed consolidated balance sheet for the periods ended July 28, 2012 and January 31, 2012. The current portion of the Note Receivable of \$62,500 is included in prepaid and other current assets on the accompanying condensed consolidated balance sheet for the period ended July 28, 2012.

The terms of the Asheboro sale also included an agreement for Astro-Med to provide Label Line Ltd. with additional financing in the form of a revolving line of credit in the amount of \$600,000. This line of credit is fully secured by first lien on various collateral of Label Line Ltd., including the Asheboro plant and plant assets and bears interest at a rate equal to the United States prime rate plus an additional margin of two percent of the outstanding credit balance. The line of credit has an initial term of one-year from the date of the sale which may be extended for consecutive one-year terms on mutual agreement of both parties. There were no outstanding borrowings due as of January 31, 2012. As of July 28, 2012, Astro-Med has extended \$300,000 on this revolving line of credit.

**(9) Segment Information**

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

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

| <i>(In thousands)</i>      | Three Months Ended |                  |                          |                  | Six Months Ended |                  |                          |                  |
|----------------------------|--------------------|------------------|--------------------------|------------------|------------------|------------------|--------------------------|------------------|
|                            | Net Sales          |                  | Segment Operating Profit |                  | Net Sales        |                  | Segment Operating Profit |                  |
|                            | July 28,<br>2012   | July 30,<br>2011 | July 28,<br>2012         | July 30,<br>2011 | July 28,<br>2012 | July 30,<br>2011 | July 28,<br>2012         | July 30,<br>2011 |
| T&M                        | \$ 3,856           | \$ 4,477         | \$ 569                   | \$ 861           | \$ 7,829         | \$ 8,226         | \$ 1,112                 | \$ 873           |
| QuickLabel                 | 10,807             | 11,238           | 1,073                    | 627              | 21,171           | 22,012           | 1,976                    | 1,408            |
| Grass                      | 4,909              | 4,621            | 1,098                    | 745              | 8,997            | 8,958            | 1,546                    | 1,410            |
| Total                      | \$ 19,572          | \$ 20,336        | 2,740                    | 2,233            | \$ 37,997        | \$ 39,196        | 4,634                    | 3,691            |
| Corporate Expenses         |                    |                  | 1,062                    | 1,010            |                  |                  | 2,069                    | 1,911            |
| Operating Income           |                    |                  | 1,678                    | 1,223            |                  |                  | 2,565                    | 1,780            |
| Other Income (Expense) Net |                    |                  | (89)                     | 297              |                  |                  | (103)                    | 448              |
| Income Before Income Taxes |                    |                  | 1,589                    | 1,520            |                  |                  | 2,462                    | 2,228            |
| Income Tax Provision       |                    |                  | 602                      | 474              |                  |                  | 638                      | 751              |
| Net Income                 |                    |                  | \$ 987                   | \$ 1,046         |                  |                  | \$ 1,824                 | \$ 1,477         |



**Table of Contents****(10) Recent Accounting Pronouncements***Comprehensive Income*

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income, which requires entities to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. While ASU 2011-05 changes the presentation of comprehensive income, it does not change the components that are recognized in net income or comprehensive income under current accounting guidance. ASU 2011-05 also requires entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. In December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting Standard Update No. 2011-05, which indefinitely defers the guidance related to the presentation of reclassification adjustments. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011, and must be applied retrospectively. We adopted this guidance in the first quarter of fiscal 2013 and have provided the disclosures required for the three and six months ended July 28, 2012 and July 30, 2011, in the accompanying Condensed Consolidated Statements of Comprehensive Income.

*Fair Value Measurements*

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which is intended to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. ASU 2011-04 does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards within U.S. GAAP or IFRSs. ASU 2011-04 changes the wording used to describe many requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, ASU 2011-04 clarifies the FASB's intent about the application of existing fair value measurement. We adopted ASU 2011-04 effective February 1, 2012. The provisions of this guidance did not have a material effect on our consolidated financial position or results of operations.

Except for the ASUs discussed above, all other ASUs issued by the FASB as of the filing date of this Quarterly Report on Form 10-Q are not expected to have a material effect on our consolidated financial statements.

**(11) Securities Available for Sale**

Pursuant to our investment policy, securities available for sale include state and municipal securities with various contractual or anticipated maturity dates ranging from one to 17 months. Securities available for sale are carried at fair value, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss) in shareholders' equity until realized. Realized gains and losses from the sale of available for sale securities, if any, are determined on a specific identification basis. A decline in the fair value of any available for sale security below cost that is determined to be other than temporary will result in a write-down of its carrying amount to fair value. No such impairment charges were recorded for any period presented. All short-term investment securities have original maturities greater than 90 days. The fair value, amortized cost and gross unrealized gains and losses of the securities are as follows:

|                                 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value    |
|---------------------------------|----------------|------------------------|-------------------------|---------------|
| <b>July 28, 2012</b>            |                |                        |                         |               |
| State and Municipal Obligations | \$ 11,353,847  | \$ 13,262              | \$ (721)                | \$ 11,366,388 |
| <b>January 31, 2012</b>         |                |                        |                         |               |
| State and Municipal Obligations | \$ 11,313,013  | \$ 22,933              | \$ (22)                 | \$ 11,335,924 |

**Table of Contents****(12) Fair Value**

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

The fair value hierarchy is summarized as follows:

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

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

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

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

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

| July 28, 2012   | Level 1              | Level 2   | Level 3   | Total                |
|---|----------------------|-----------|-----------|----------------------|
| Money Market Funds (included in Cash and Cash Equivalents)                  | \$ 5,901,983         | \$        | \$        | \$ 5,901,983         |
| State and Municipal Obligations (included in Securities Available for Sale) | 11,366,388           |           |           | 11,366,388           |
| <b>Total</b>  | <b>\$ 17,268,371</b> | <b>\$</b> | <b>\$</b> | <b>\$ 17,268,371</b> |

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

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

**(13) Life Insurance Proceeds**

During the second quarter of fiscal 2012, we recognized income on key-man life insurance proceeds of \$300,000. This income is included in other income in the accompanying consolidated statement of operations for the six month period ended July 30, 2011.



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

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

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

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

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

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

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

**Results of Operations****Three Months Ended July 28, 2012 vs. Three Months Ended July 30, 2011**

Net sales by product group and current quarter percentage change over prior year for the three months ended July 28, 2012 and July 30, 2011 were:

| <i>(Dollars in thousands)</i> | <b>July 28,<br/>2012</b> | <b>As a<br/>% of<br/>Net Sales</b> | <b>July 30,<br/>2011</b> | <b>As a<br/>% of<br/>Net Sales</b> | <b>% Change<br/>Over<br/>Prior Year</b> |
|-------------------------------|--------------------------|------------------------------------|--------------------------|------------------------------------|---|
| T&M                           | \$ 3,856                 | 19.7%                              | \$ 4,477                 | 22.0%                              | (13.9)%                                 |
| QuickLabel                    | 10,807                   | 55.2%                              | 11,238                   | 55.3%                              | (3.8)%                                  |
| Grass                         | 4,909                    | 25.1%                              | 4,621                    | 22.7%                              | 6.2%                                    |
| Total                         | \$ 19,572                | 100.0%                             | \$ 20,336                | 100.0%                             | (3.8)%                                  |

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Net sales for the second quarter of the current year were \$19,572,000, representing a 3.8% decrease as compared to the previous year's second quarter sales of \$20,336,000 but a 6.2% improvement over current year first quarter sales of \$18,425,000. Sales through the domestic channels for the current quarter were \$14,012,000, a decrease of 1.8% over the prior year. International shipments for the second quarter of the current year were \$5,560,000, representing an 8.3% decrease from the previous year. Current year's second quarter international sales includes an unfavorable foreign exchange rate impact of \$459,000.

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Hardware sales in the current quarter were \$8,875,000, a decrease of 5.3% as compared to prior year's second quarter sales of \$9,370,000, but a 12.1% improvement over the current year first quarter sales of \$7,920,000. The current quarter decrease is primarily due to the decline in T&M and QuickLabel product group hardware sales and as compared to the prior year. The overall hardware sales decline is tempered by increases in Grass's clinical and research line of products, which have increased 8.3% and 20.6%, respectively.

Consumables sales in the current quarter were \$9,589,000, representing a 1.3% decrease over prior year's second quarter consumable sales of \$9,713,000, but a 3.0% increase as compared to current year first quarter consumable sales of \$9,312,000. The current quarter decrease in consumable sales as compared to the prior year is an outgrowth of the January 2012 divestiture of the Asheboro, North Carolina label business, which contributed sales of \$985,000 in the second quarter of the prior year. This overall decrease was slightly tempered by QuickLabel's 20.4% increase in sales of digital color printer supplies and a 2.6% increase in sales of the Thermal Transfer Ribbon product line as compared to prior year's second quarter.

Service and other revenues of \$1,108,000 in the current quarter were down from prior year's second quarter service and other revenues of \$1,253,000, primarily due to the decrease in service and freight revenue during the quarter.

Current year second quarter gross profit was \$8,299,000, reflecting a 12.6% improvement over current year first quarter gross profit of \$7,371,000 and a 5.0% improvement over prior year's second quarter gross profit of \$7,901,000. The Company's gross profit margin of 42.4% in the current quarter reflects an increase from the prior year's second quarter gross profit margin of 38.9%. The higher gross profit and related margin for the current quarter as compared to prior year is primarily attributable to lower material and manufacturing costs and favorable product mix.

Operating expenses for the current quarter were \$6,621,000, a slight decrease as compared to prior year's second quarter operating expenses of \$6,678,000. Specifically, selling and marketing expenses for the current quarter decreased 5.0% to \$4,298,000 as compared to the previous year's second quarter selling and marketing expenses of \$4,526,000. The decrease in selling and marketing for the current quarter was primarily due to decreases in commissions and trade show spending. The overall decrease in second quarter operating expenses was tempered by the increase in General and administrative (G&A) and research & development (R&D) expenses. G&A expenses increased 15.7% to \$1,115,000 in the second quarter of the current year as compared to prior year's second quarter G&A expenses of \$964,000. The increase in G&A was primarily due to an increase in benefits and outside service spending. Investment in R&D in the second quarter of the current year of \$1,208,000 represents a 1.8% increase compared to prior year's second quarter investment of \$1,187,000. The current quarter spending in R&D represents 6.2% of sales, an increase as compared to prior year's second quarter level of 5.8%.

Second quarter operating income of \$1,678,000 increased 37.2% as compared to the prior year's second quarter operating income of \$1,223,000. Operating margin for the second quarter of the current year of 8.6% is also up as compared to the prior year's second quarter margin of 6.0%. The increase in operating income and related margin is primarily attributable to lower manufacturing cost and reduced selling and marketing spend during the current quarter.

Other expense during the second quarter was \$89,000 compared to other income of \$297,000 in the second quarter of the previous year. The decrease was primarily due to \$300,000 of income recognized in the second quarter of the prior year related to the disposition of a key-man life insurance policy, as well as the increase in foreign exchange loss recognized in the second quarter of the current year.

The provision for federal, state and foreign income taxes for the second quarter of the current year was \$602,000 reflecting an effective tax rate of 37.9%. This result compares to the prior year's second quarter income tax expense of \$474,000 reflecting an effective tax rate of 31.2%. The increased effective tax rate for the second quarter of the current year as compared to the prior year is primarily due to a discrete benefit related to tax exempt key-man life insurance proceeds recognized in the second quarter of the prior year.

The Company reported \$987,000 in net income for the second quarter of the current year, reflecting a return on sales of 5.0% and generating EPS of \$0.13 per diluted share. On a comparative basis, prior year's second quarter recognized net income of \$1,046,000 reflecting a return on sales of 5.1% and an EPS of \$0.14 per diluted share which includes \$0.04 per diluted share related to income of \$300,000 from life insurance proceeds recognized in the second quarter of the prior year.

**Table of Contents****Six Months Ended July 28, 2012 vs. Six Months Ended July 30, 2011**

Net sales by product group and current quarter percentage change over prior year for the six months ended July 28, 2012 and July 30, 2011 were:

| <i>(Dollars in thousands)</i> | July 28,<br>2012 | As a<br>% of<br>Net Sales | July 30,<br>2011 | As a<br>% of<br>Net Sales | % Change<br>Over<br>Prior Year |
|-------------------------------|------------------|---------------------------|------------------|---------------------------|--------------------------------|
| T&M                           | \$ 7,829         | 20.6%                     | \$ 8,226         | 21.0%                     | (4.8)%                         |
| QuickLabel                    | 21,171           | 55.7%                     | 22,012           | 56.2%                     | (3.8)%                         |
| Grass                         | 8,997            | 23.7%                     | 8,958            | 22.8%                     | 0.4%                           |
| Total                         | \$ 37,997        | 100.0%                    | \$ 39,196        | 100.0%                    | (3.1)%                         |

Net sales for the six month period of the current fiscal year were \$37,997,000, a 3.1% decrease as compared to sales of \$39,196,000 as reported for the first six months of the prior fiscal year. Sales through the domestic channels for the first six months of the current year were \$26,751,000, a slight decrease from prior year's domestic sales of \$26,848,000. International sales for the first six months of the current year of \$11,246,000 includes an unfavorable impact of \$668,000 due to foreign exchange rates and reflects an 8.9% decrease as compared to the prior year.

The Company's hardware sales were \$16,796,000 in the first six months of fiscal 2013, a 2.7% decrease as compared to the same period in the prior year. All three product groups experienced a decline in hardware growth in the current year, with T&M hardware sales for the first six months of the current year of \$6,978,000, a 4.7% decrease compared to prior year's sales of \$7,325,000; QuickLabel hardware sales for the first six months of the current year of \$4,256,000, approximately flat as compared to prior year's sales of \$4,266,000 and Grass Technologies hardware sales for the first six months of the current year of \$5,562,000, a 2.0% decrease compared to prior year's sales of \$5,673,000.

Consumables sales for the first six months of the current year were \$18,901,000, representing a decrease of 2.9% as compared to the prior year's consumable sales of \$19,461,000. The overall decrease in consumable sales for the first six months of the current year was primarily attributable to lower label and tag sales in the QuickLabel product group due to the January 2012 divestiture of the Asheboro, North Carolina facilities, which contributed sales of approximately \$2,116,000 in the first six months of the prior year. This overall decrease in consumable sales in the current year was somewhat tempered by the increase in sales of digital color printer supplies within the QuickLabel product group, which were up 23.4% as compared to the prior year.

Service and other revenues of \$2,300,000 in the first six months of fiscal 2013 were down 6.9% from prior year's service and other revenues of \$2,471,000, primarily due to the decrease in service revenue, as well as a decrease in parts revenue.

The Company achieved \$15,670,000 in gross profit for the first six months of fiscal 2013 and generated a gross profit margin of 41.2% as compared to prior year's gross profit of \$15,402,000 and related gross profit margin of 39.3%. The increase in gross profit and related margin for the first six months of the current year is due to lower manufacturing costs and favorable product mix.

Operating expenses in the first six months of the current year were \$13,105,000, representing a 3.8% decrease from the prior year. Selling and marketing expenses for the first six months of the current year decreased 6.0% from the prior year to \$8,542,000, with the decrease traceable primarily to lower commissions, trade show, travel and advertising spending. R&D spending for the current six months is \$2,411,000, representing a 9.2% decrease as compared with prior year R&D spending of \$2,655,000. Spending in R&D represents 6.3% of sales for the first six months of the current year as compared to 6.8% in the prior year. General and administrative (G&A) expenses for the first six months of the current year were \$2,152,000, a 14.8% increase from the prior year. The increased spending level for G&A in the current year is mainly attributed to the increase in benefits and higher professional services spending.

The Company earned \$2,565,000 in operating income during the first six months of fiscal year 2013, a 44.1% increase as compared to \$1,780,000 for the same period in the prior year. On a margin basis, this year's operating income reflects an operating margin of 6.8% on sales compared to prior year's operating margin of 4.5%.

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Other expense realized during the first six months of the current fiscal year is \$103,000 as compared to the other income of \$447,000 reported in the same period of the previous year. This decrease in the current year is a result of income recognized of \$300,000 related to the disposition of a key-man life insurance policy in the prior year. Also contributing to the current period decline is the recognition of a foreign exchange loss of \$154,000 in the current year as compared to a foreign exchange gain of \$77,000 in the prior year.

The Company has provided federal, state and foreign income tax expense of \$638,000 for the six month period ended July 28, 2012. This year's provision reflects an effective tax rate of 25.9%, down from the prior year's effective tax rate of 33.7%. The lower effective tax rate in fiscal 2013 as compared to the prior year is due to a benefit of \$269,000 primarily related to the resolution of a previously uncertain tax position recognized in the first quarter of the current year.

Net income earned during the first six months of the current fiscal year was \$1,824,000, a 23.5% increase as compared to prior year's first six months of net income of \$1,477,000, and reflects a return on sales of 4.8%. This year's net income resulted in an EPS of \$0.24 per diluted share. On a comparative basis, prior year's first six months net income reflected a return on sales of 3.8% and generated an EPS of \$0.20 per diluted share which includes \$0.04 per diluted share related to \$300,000 of income from key-man life insurance proceeds recognized in the prior year.

**Segment Analysis**

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

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

| <i>(In thousands)</i>      | Three Months Ended |                  |                          |                  | Six Months Ended |                  |                          |                  |
|----------------------------|--------------------|------------------|--------------------------|------------------|------------------|------------------|--------------------------|------------------|
|                            | Net Sales          |                  | Segment Operating Profit |                  | Net Sales        |                  | Segment Operating Profit |                  |
|                            | July 28,<br>2012   | July 30,<br>2011 | July 28,<br>2012         | July 30,<br>2011 | July 28,<br>2012 | July 30,<br>2011 | July 28,<br>2012         | July 30,<br>2011 |
| T&M                        | \$ 3,856           | \$ 4,477         | \$ 569                   | \$ 861           | \$ 7,829         | \$ 8,226         | \$ 1,112                 | \$ 873           |
| QuickLabel                 | 10,807             | 11,238           | 1,073                    | 627              | 21,171           | 22,012           | 1,976                    | 1,408            |
| Grass                      | 4,909              | 4,621            | 1,098                    | 745              | 8,997            | 8,958            | 1,546                    | 1,410            |
| Total                      | \$ 19,572          | \$ 20,336        | 2,740                    | 2,233            | \$ 37,997        | \$ 39,196        | 4,634                    | 3,691            |
| Corporate Expenses         |                    |                  | 1,062                    | 1,010            |                  |                  | 2,069                    | 1,911            |
| Operating Income           |                    |                  | 1,678                    | 1,223            |                  |                  | 2,565                    | 1,780            |
| Other Income (Expense) Net |                    |                  | (89)                     | 297              |                  |                  | (103)                    | 448              |
| Income Before Income Taxes |                    |                  | 1,589                    | 1,520            |                  |                  | 2,462                    | 2,228            |
| Income Tax Provision       |                    |                  | 602                      | 474              |                  |                  | 638                      | 751              |
| Net Income                 |                    |                  | \$ 987                   | \$ 1,046         |                  |                  | \$ 1,824                 | \$ 1,477         |

**Test & Measurement T&M**

Sales revenues from the Test & Measurement product group were \$3,856,000 for the second quarter of the current fiscal year, representing a 13.9% decrease as compared to sales of \$4,477,000 for the same period in the prior year. The decrease is primarily attributable to the hardware product line, as traditional Recorder and Ruggedized product line sales ran below the prior year's sales volume. T&M's second quarter segment operating profit of \$569,000 resulted in a 14.8% profit margin as compared to the prior year's segment operating profit of \$861,000 and related operating margin of 19.2%. The decline in both segment operating profit and related margin was due to lower sales and unfavorable product mix.





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For the first six months of the current fiscal year, sales revenues of the T&M product group were \$7,829,000, a 4.8% decrease as compared to sales of \$8,226,000 for the same period of the previous year. The decrease in sales is primarily attributable to the decrease in hardware product line sales, as sales in the traditional Recorder hardware product line decreased 13.9% from the prior year. However, the overall decrease in sales of T&M's hardware business was slightly tempered by the increase in sales of the TMX product line, as well as the increase in the Ruggedized product line as compared to the prior year. Despite the overall decline in current year sales, T&M current year's segment operating profit of \$1,112,000 represents a 27.4% increase from the prior year's segment operating profit of \$873,000 and provided an operating profit margin of 14.2%, an increase from the prior year's margin of 10.6%. The increase in T&M current year's segment operating profit and related margin is traceable to lower manufacturing and operating expenses.

**QuickLabel Systems QuickLabel**

Sales revenues from the QuickLabel Systems product group were \$10,807,000 in the second quarter of the current year as compared to \$11,238,000 in the same quarter of the prior year. The decrease in sales is primarily due to the hardware product line which decreased 8.5% from the prior year. The overall decline in second quarter hardware sales was slightly tempered by sales from the new Kario! product line which was introduced in July 2012. The consumable product line also reported a decrease in sales due to the decline in sales of label and tags related to the January 2012 divestiture of the Asheboro, North Carolina facility. However, these results were slightly tempered by the 20.4% increase in the digital color printer supplies. QuickLabel's current quarter segment operating profit was \$1,073,000, reflecting a profit margin of 9.9% and an increase from prior year's second quarter segment profit of \$627,000 and related profit margin of 5.6%. The increase in QuickLabel's current year's segment operating profit and related margin is due to favorable product mix and lower manufacturing costs and operating expenses.

The QuickLabel product group had sales revenue of \$21,171,000 for the first six months of the current fiscal year, a 3.8% decline as compared with \$22,012,000 in sales revenues reported for the same period in the prior year. The key driver of the decrease was to the decline in label and tag sales in the QuickLabel product group due to the January 2012 divestiture of the Asheboro, North Carolina facilities, which contributed sales of approximately \$2,116,000 in the first six months of the prior year. Also contributing to the current year decrease was the decline in the sales of the Vivo! product line as compared to the prior year. This decline was slightly tempered by the 23.4% increase in the consumable sales of digital color printer supplies and the sales of the new Kiaro! product line. Segment operating profit margin of 9.3% for the first six months of the current year has increased as compared to a 6.4% profit margin for the same period of the previous year. The current year increase in QuickLabel's profit margin is due to lower manufacturing costs, favorable product mix and lower operating expenses.

**Grass Technologies Grass**

Sales revenues in the second quarter of the current year for the Grass group were \$4,909,000 representing a 6.2% increase as compared to prior year's second quarter sales of \$4,621,000. The increase in sales is primarily attributable to sales in the Clinical hardware line, as current quarter sales were up 8.3% over prior year's second quarter sales. The increase is particularly evident in the EEG and Long-Term Monitoring product lines. Also contributing to the increase for the current quarter are sales of the Research product line and the consumable products of electrodes and creams, which have increased 20.6% and 3.9%, respectively, as compared to the prior year. Segment operating profits increased 47.3% in the current quarter to \$1,098,000, with the segment achieving an operating profit margin of 22.4% as compared to a segment operating profit margin of 16.1% as reported in the second quarter of the prior year. The significant increase in segment operating profit and related margin is primarily due to higher sales, favorable product mix and lower manufacturing costs.

Grass sales were \$8,997,000 for the six months of the current year, a slight increase as compared to sales of \$8,958,000 for the same period of the prior year. The year over year increase is primarily attributed to the 6.1% increase in consumable sales of electrodes and creams and an 8.0% increase in Research product line sales. The nominal increase was tempered by the decrease in current year sales of the Clinical product line. Segment operating profit increased 9.6% to \$1,546,000, resulting in a 17.2% operating profit margin as compared to prior year's segment operating profit margin of 15.7%. The increase in segment profit and related margin is primarily due to lower manufacturing costs and favorable product mix.

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### **Financial Condition and Liquidity**

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

The Company's statements of cash flows for the six months ended July 28, 2012 and July 30, 2011 are included on page 6. Net cash flows provided by operating activities was \$1,106,000 in the current year compared to net cash provided by operating activities of \$1,193,000 in the previous year. The slight decline in operating cash flow provided in the first six months of the current year as compared to the previous year is related to lower accounts payable, accrued compensation and other expenses, and taxes payable balances. This decline in the current year was slightly offset by the increase in current year's net income, as well as the decrease in accounts receivable. Accounts receivables decreased to \$11,578,000 at the end of the second quarter as compared to \$11,800,000 at year-end and the accounts receivable collection cycle decreased to 50 days sales outstanding at the end of the quarter as compared to 51 days outstanding at year end. Inventory decreased to \$13,946,000 at the end of the second quarter compared to \$14,129,000 at year end and inventory days on hand increased to 112 days on hand at the end of the current quarter from 105 days at year end.

The Company's cash, cash equivalents and investments at the end of the second quarter totaled \$22,516,000 compared to \$23,040,000 at year end. The lower cash and investment position resulted from the increase in accounts payable, accrued compensation and other expense and taxes payable balances, as noted above, as well as cash used to acquire property, plant and equipment of \$319,000 and to pay cash dividends of \$1,041,000.

The Company's backlog increased 18.9% from year-end to \$7,397,000 at the end of the second quarter.

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

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

### **Forward-Looking Statements**

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

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

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

**Table of Contents****Item 4. Controls and Procedures*****Evaluation of Disclosure Controls and Procedures***

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

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

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

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

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

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

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

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

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

|          |         | Total Number of Shares Repurchased | Average Price paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs |
|----------|---------|------------------------------------|------------------------------|--|
|          |         |                                    |                              | Maximum Number of Shares That May Be Purchased Under The Plans or Programs       |
| April 29 | May 26  |                                    | \$                           | 500,000  |
| May 27   | June 23 |                                    | \$                           | 500,000  |
| June 24  | July 28 |                                    | \$                           | 500,000  |



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**Item 6. Exhibits**

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

|         |   |
|---------|---|
| 31.1    | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2    | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 32.1    | Certification of Chief Executive Officer Pursuant 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002    |
| 32.2    | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document  |
| 101.SCH | XBRL Taxonomy Extension Schema Document   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF | XBRL Taxonomy Extension Definition Database   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document  |

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SIGNATURES

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

**ASTRO-MED, INC.**

**(Registrant)**

Date: August 31, 2012

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

(Principal Executive Officer)

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

(Principal Financial Officer)