

ASTRO MED INC /NEW/
Form 10-Q
September 09, 2014
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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 August 2, 2014

OR

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

For the transition period from _____ to _____

Commission file number 0-13200

Astro-Med, Inc.

(Exact name of registrant as specified in its charter)

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

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

600 East Greenwich Avenue, West Warwick, Rhode
Island
(Address of principal executive offices)
(401) 828-4000

02893
(Zip Code)

(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, an accelerated filer, a non-accelerated filer or a smaller reporting company. 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 7,720,285 shares
(excluding treasury shares) as of August 29, 2014

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

| | August 2, 2014 | January 31, 2014 |
|---|---------------------------|-----------------------------|
| | (Unaudited) | |
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 13,199 | \$ 8,341 |
| Securities Available for Sale | 14,808 | 18,766 |
| Accounts Receivable, net | 14,075 | 11,366 |
| Inventories | 16,023 | 15,178 |
| Deferred Tax Assets | 1,677 | 1,673 |
| Restricted Cash | | 1,800 |
| Line of Credit Receivable | 200 | 240 |
| Note Receivable | 250 | 250 |
| Asset Held for Sale | 2,120 | 2,120 |
| Prepaid Expenses and Other Current Assets | 4,205 | 1,383 |
| Current Assets of Discontinued Operations | | 3,917 |
| Total Current Assets | 66,557 | 65,034 |
| PROPERTY, PLANT AND EQUIPMENT | 35,840 | 34,960 |
| Less Accumulated Depreciation | (28,057) | (27,368) |
| Property, Plant and Equipment, net | 7,783 | 7,592 |
| OTHER ASSETS | | |
| Note Receivable | 315 | 440 |
| Deferred Tax Asset | 270 | 313 |
| Intangible Assets | 3,049 | 3,400 |
| Goodwill | 991 | 991 |
| Other | 93 | 194 |
| Total Other Assets | 4,718 | 5,338 |
| TOTAL ASSETS | \$ 79,058 | \$ 77,964 |

LIABILITIES AND SHAREHOLDERS' EQUITY**CURRENT LIABILITIES**

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| | | |
|---|------------------|------------------|
| Accounts Payable | \$ 2,754 | \$ 2,374 |
| Accrued Compensation | 2,784 | 3,130 |
| Other Liabilities and Accrued Expenses | 2,481 | 2,310 |
| Deferred Revenue | 469 | 454 |
| Income Taxes Payable | 129 | 788 |
| Current Liabilities of Discontinued Operations | | 836 |
| Total Current Liabilities | 8,617 | 9,892 |
| Long Term Obligations | 104 | 250 |
| Deferred Tax Liabilities | 88 | 77 |
| Other Long Term Liabilities | 1,028 | 1,131 |
| TOTAL LIABILITIES | 9,837 | 11,350 |
| SHAREHOLDERS EQUITY | | |
| Common Stock, \$0.05 Par Value, Authorized 13,000,000 shares; Issued 9,494,748 shares and 9,291,225 shares at August 2, 2014 and January 31, 2014, respectively | 475 | 465 |
| Additional Paid-in Capital | 43,015 | 41,235 |
| Retained Earnings | 38,689 | 37,201 |
| Treasury Stock, at Cost, 1,776,121 shares and 1,730,042 shares at August 2, 2014 and January 31, 2014, respectively | (13,091) | (12,463) |
| Accumulated Other Comprehensive Income | 133 | 176 |
| TOTAL SHAREHOLDERS EQUITY | 69,221 | 66,614 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 79,058 | \$ 77,964 |

See Notes to condensed consolidated financial statements (unaudited).

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ASTRO-MED, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, Except Per Share Data)

(Unaudited)

| | Three Months | | Six Months Ended | |
|---|----------------------------|-------------------|-------------------|-------------------|
| | Ended August 2, 2014 | August 3, 2013 | August 2, 2014 | August 3, 2013 |
| Net Sales | \$ 22,366 | \$ 17,194 | \$ 43,140 | \$ 32,679 |
| Cost of Sales | 12,777 | 10,271 | 24,915 | 19,980 |
| Product Replacement Related Costs | | | | 672 |
| Gross Profit | 9,589 | 6,923 | 18,225 | 12,027 |
| Operating Expenses: | | | | |
| Selling and Marketing | 4,503 | 3,382 | 8,878 | 6,954 |
| Research and Development | 1,479 | 1,274 | 2,850 | 2,387 |
| General and Administrative | 1,443 | 1,380 | 2,634 | 2,521 |
| Operating Expenses | 7,425 | 6,036 | 14,362 | 11,862 |
| Operating Income, net | 2,164 | 887 | 3,863 | 165 |
| Other Income (Expense) | 83 | (25) | (38) | (62) |
| Income from Continuing Operations before Income Taxes | 2,247 | 862 | 3,825 | 103 |
| Income Tax Provision for Continuing Operations | 812 | 331 | 1,261 | 11 |
| Income from Continuing Operations | 1,435 | 531 | 2,564 | 92 |
| Income from Discontinued Operations, net of taxes of \$94 and \$87, for the three and six months ended August 3, 2013, respectively | | 165 | | 155 |
| Net Income | \$ 1,435 | \$ 696 | \$ 2,564 | \$ 247 |
| Net Income per Common Share Basic: | | | | |
| From Continuing Operations | \$ 0.19 | \$ 0.07 | \$ 0.34 | \$ 0.01 |
| From Discontinued Operations | | 0.02 | | 0.02 |
| Net Income Per Common Share Basic | \$ 0.19 | \$ 0.09 | \$ 0.34 | \$ 0.03 |
| Net Income per Common Share Diluted: | | | | |

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| | | | | |
|--|---------|---------|---------|---------|
| From Continuing Operations | \$ 0.18 | \$ 0.07 | \$ 0.33 | \$ 0.01 |
| From Discontinued Operations | | 0.02 | | 0.02 |
| Net Income Per Common Share Diluted | \$ 0.18 | \$ 0.09 | \$ 0.33 | \$ 0.03 |
| Weighted Average Number of Common Shares Outstanding: | | | | |
| Basic | 7,704 | 7,458 | 7,652 | 7,429 |
| Diluted | 7,916 | 7,655 | 7,883 | 7,617 |
| 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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ASTRO-MED, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | August 2, 2014 | August 3, 2013 | August 2, 2014 | August 3, 2013 |
| Net Income | \$ 1,435 | \$ 696 | \$ 2,564 | \$ 247 |
| Other Comprehensive Income (Loss), Net of Taxes and Reclassification Adjustments: | | | | |
| Foreign Currency Translation Adjustments | (133) | (39) | (41) | (193) |
| Unrealized Holding Gain (Loss) on Securities Available for Sale | 1 | 5 | (2) | 4 |
| Other Comprehensive Income (Loss) | (132) | (34) | (43) | (189) |
| Comprehensive Income | \$ 1,303 | \$ 662 | \$ 2,521 | \$ 58 |

See Notes to condensed consolidated financial statements (unaudited).

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

| | Six Months Ended | |
|---|---------------------------|---------------------------|
| | August 2, 2014 | August 3, 2013 |
| Cash Flows from Operating Activities: | | |
| Net Income | \$ 2,564 | \$ 247 |
| Adjustments to Reconcile Net Income to Net Cash Used by Operating Activities: | | |
| Depreciation and Amortization | 1,038 | 636 |
| Share-Based Compensation | 259 | 273 |
| Deferred Income Tax Provision | 51 | 59 |
| Changes in Assets and Liabilities: | | |
| Accounts Receivable | (2,709) | (535) |
| Inventories | (845) | (2,118) |
| Income Taxes | (1,555) | (4,649) |
| Accounts Payable and Accrued Expenses | (191) | 188 |
| Other | (982) | (288) |
| Net Cash Used by Operating Activities | (2,370) | (6,187) |
| Cash Flows from Investing Activities: | | |
| Proceeds from Sales/Maturities of Securities Available for Sale | 7,900 | 5,950 |
| Purchases of Securities Available for Sale | (3,945) | (17,835) |
| Release of Funds Held in Escrow From Sale of Grass | 1,800 | |
| Proceeds Received on Disposition of Grass Inventory | 2,355 | |
| Payments received on Line of Credit and Note Receivable | 165 | 188 |
| Additions to Property, Plant and Equipment | (874) | (374) |
| Net Cash Provided (Used) by Investing Activities | 7,401 | (12,071) |
| Cash Flows from Financing Activities: | | |
| Proceeds from Common Shares Issued Under Employee Benefit Plans and Employee Stock Option Plans, Net of Payment of Minimum Tax Withholdings | 903 | 489 |
| Dividends Paid | (1,076) | (1,047) |
| Net Cash Used by Financing Activities | (173) | (558) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 4,858 | (18,816) |
| Cash and Cash Equivalents, Beginning of Period | 8,341 | 30,999 |
| Cash and Cash Equivalents, End of Period | \$ 13,199 | \$ 12,183 |

Supplemental Disclosures of Cash Flow Information:

| | | |
|---|----------|----------|
| Cash Paid During the Period for Income Taxes, Net of Refunds | \$ 2,776 | \$ 4,751 |
| See Notes to condensed consolidated financial statements (unaudited). | | |

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ASTRO-MED, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(1) Overview

Headquartered in West Warwick, Rhode Island, Astro-Med Inc. designs, develops, manufactures and distributes a broad range of specialty printers and data acquisition and analysis systems. Our products are distributed through our own sales force and authorized dealers in the United States. We also sell to customers outside of the United States primarily through our Company offices in Canada and Europe as well as with independent dealers and representatives. Astro-Med, Inc. products are sold under the brand names Astro-Med[®] Test & Measurement and QuickLabel[®] Systems and 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.

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, 2014.

On January 31, 2013, the Company completed the sale of substantially all of the assets of its Grass Technologies Product Group (Grass). Consequently, the Company has classified the results of operations of its Grass segment as discontinued operations for the three and six months periods ended August 3, 2013. Refer to Note 15, Discontinued Operations, for further details.

On January 22, 2014, Astro-Med completed the acquisition of the ruggedized printer product line from Miltope Corporation, a company of VT Systems (Miltope). Astro-Med's ruggedized printer product line is part of the Test & Measurement (T&M) product group and is reported as part of the T&M segment. The results of the Miltope's ruggedized printer product line operations have been included in the condensed consolidated financial statements of the Company for the three and six months periods ended August 2, 2014. Refer to Note 4, Acquisition, for further details.

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

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported and disclosed in the condensed consolidated financial statements and accompanying notes. Some of the more significant estimates relate to the allowances for doubtful accounts and credits, inventory valuation, impairment of long-lived assets and goodwill, income taxes, share-based compensation, accrued expenses and warranty reserves. Management's estimates are based on the facts and circumstances available at the time estimates are made, past historical experience, risk of loss, general

economic conditions and trends, and management's assessments of the probable future outcome of these matters. Consequently, actual results could differ from those estimates.

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

(3) Principles of Consolidation

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

(4) Acquisition

On January 22, 2014, Astro-Med completed the acquisition of the ruggedized printer product line from Miltope, which is engaged in the design, development, manufacture and testing of ruggedized computers and computer peripheral equipment for military, industry and commercial applications. Astro-Med's ruggedized printer product line is part of the Test & Measurement (T&M) product group and is reported as part of the T&M segment. The results of the Miltope's ruggedized printer product line operations have been included in the condensed consolidated financial statements for the three and six months periods ended August 2, 2014 as presented.

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The purchase price of the acquisition was \$6,732,000 which was funded using existing cash on hand. Of the \$6,732,000 purchase price, \$500,000 is being held in escrow for twelve months following the acquisition date to provide an indemnity to the Company in the event of any breach in the representations, warranties and covenants of Miltope. The assets acquired consist of all of the assets of the Miltope ruggedized printer product line excluding plant and equipment and personnel. The acquisition was accounted for under the acquisition method in accordance with the guidance provided by FASB ASC 805, Business Combinations.

As part of the acquisition, Miltope and Astro-Med entered into a manufacturing services agreement under which Miltope will provide transition services and continue to manufacture printers for Astro-Med for up to six months until the Company transitions the manufacturing to its West Warwick, Rhode Island facility.

The purchase price of the acquisition has been allocated on the basis of the estimated fair value as follows:

| | |
|--------------------------------|--------------|
| (In thousands) | |
| Accounts Receivable | \$ 713 |
| Inventories | 2,503 |
| Identifiable Intangible Assets | 3,400 |
| Goodwill | 196 |
| Warranty Reserve | (80) |
| Total Purchase Price | \$ 6,732 |

The following unaudited pro forma information assumes the acquisition of Miltope occurred on February 1, 2013. This information has been prepared for informational purposes only and does not purport to represent the results of operations that would have happened had the acquisition occurred as of the date indicated, nor of future results of operations.

| | | |
|----------------|---------------------------|-------------------------|
| | Three Months Ended | Six Months Ended |
| | August 3, 2013 | August 3, 2013 |
| (In thousands) | | |
| Net Sales | \$ 19,194 | \$ 36,679 |

The impact on net income and earnings per share would not have been material to the Company in fiscal 2014.

(5) 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:

| | |
|---------------------------|-------------------------|
| Three Months Ended | Six Months Ended |
|---------------------------|-------------------------|

| | August 2, 2014 | August 3, 2013 | August 2, 2014 | August 3, 2013 |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| Weighted Average Common Shares Outstanding Basic | 7,703,782 | 7,457,652 | 7,652,000 | 7,429,253 |
| Effect of Dilutive Options, Restricted Stock Awards and Restricted Stock Units | 212,176 | 197,332 | 230,706 | 187,565 |
| Weighted Average Common Shares Outstanding Diluted | 7,915,958 | 7,654,984 | 7,882,706 | 7,616,818 |

For the three and six months ended August 2, 2014, the diluted per share amounts do not reflect 150,000 common equivalent shares outstanding because their effect would have been anti-dilutive. For the three and six months ended August 3, 2013, the diluted per share amounts do not reflect 173,300 common equivalent shares outstanding because their effect would have been anti-dilutive. These outstanding options were not included due to their anti-dilutive effect, as the exercise price was greater than the average market price of the underlying stock during the period presented.

Table of Contents**(6) 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 directors, officers and certain employees. An aggregate of 1,000,000 shares were authorized for awards under the Plan. At August 2, 2014, 210,164 shares were available for grant under the Plan. Options granted to employees vest over four years. The exercise price of each stock option will be established at the discretion of the Compensation Committee; however, any incentive stock options granted must be at an exercise price of not less than fair market value at the date of grant. In fiscal year 2013, a portion of the Company's executive's long-term incentive compensation was awarded in the form of RSUs (2013 RSUs). The 2013 RSUs were earned based on the Company achieving specific thresholds of net sales and annual operating income as established under the fiscal 2013 Domestic Management Bonus Plan and vested 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 was employed on each vesting date by Astro-Med or an affiliate company. All such 2013 RSUs were earned and vested as of March 2014. In April 2013, the Company granted options and RSUs to officers (2014 RSUs). Each 2014 RSU will be earned and vest as follows: twenty-five percent of the 2014 RSU vests on the third anniversary of the grant date, fifty percent of the 2014 RSU vests upon the Company achieving its cumulative budgeted net sales target for fiscal years 2014 through 2016 (the Measurement Period), and twenty-five percent of the total 2014 RSU vests upon the Company's achieving a target average annual ORONA (operating income return on net assets as calculated under the Domestic Management Bonus Plan) for the Measurement Period. The grantee may not sell, transfer or otherwise dispose of more than fifty percent of the common stock issued upon vesting of the RSU until the first anniversary of the vesting date.

The Plan provides for an automatic annual grant of ten-year options to purchase 5,000 shares of stock to each non-employee director upon the adjournment of each 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 shareholders' meeting. In addition to the automatic option grant under Plan, the Company has a Non-Employee Director Annual Compensation Program (the Program) which provides that each non-employee director is entitled to an annual cash retainer of \$7,000 (the Annual Cash Retainer), plus \$500 for each Board and committee meeting attended. In addition, effective August 1, 2014, the Chairman of the Board will receive an annual retainer of \$6,000 and the Chair of the Audit Committee and Compensation Committee will each receive an annual retainer of \$4,000 each (Chair Retainer). The non-employee director may elect for any fiscal year to receive all or a portion of the Annual Cash Retainer and/or Chair Retainer (collectively 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. During the second quarter of fiscal 2015, 798 shares were awarded to non-employee directors in lieu of the Cash Retainer.

In addition, under the Program, each non-employee director receives RSAs with a value equal to \$20,000 (the Equity Retainer) upon adjournment of each annual shareholders meeting. If a non-employee director is first appointed or elected to the Board of Directors effective on a date other than at the annual shareholders meeting, on the date of such appointment or election, the director shall receive a pro rata award of restricted common stock having a value based on the number of days remaining until the next annual meeting. The Equity Retainer will vest on the earlier of 12

months after the grant date or the date immediately prior to the next annual meeting of the shareholders following the meeting at which such RSAs were granted. However, a non-employee director may not sell, transfer, assign, pledge or otherwise encumber the vested common stock prior to the second anniversary of the vesting date. In the event of the death or disability of a non-employee director, or a change in control of the Company, the RSAs shall immediately vest and shall no longer be subject to such restrictions on transfer. During the second quarter of fiscal 2015, 7,245 RSA were awarded to non-employee directors pursuant to the Program.

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

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Share-based compensation expense was recognized as follows:

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | August 2, 2014 | August 3, 2013 | August 2, 2014 | August 3, 2013 |
| (In thousands) | | | | |
| Stock Options | \$ 61 | \$ 45 | \$ 115 | \$ 92 |
| Restricted Stock Awards and Restricted Stock Units | 67 | 68 | 144 | 181 |
| Total | \$ 128 | \$ 113 | \$ 259 | \$ 273 |

Stock Options

The fair value of stock options granted during the six months ended August 2, 2014 and August 3, 2013 was estimated using the following assumptions:

| | Six Months Ended | |
|--------------------------|-------------------------|-----------------------|
| | August 2, 2014 | August 3, 2013 |
| Risk Free Interest Rate | 1.6% | 0.8% |
| Expected Volatility | 26.8% | 38.3% |
| Expected Life (in years) | 5.0 | 5.0 |
| Dividend Yield | 2.0% | 2.6% |

The weighted average fair value per share for options granted was \$2.93 and \$2.84, during the first and second quarters of fiscal 2015, respectively compared to \$2.79 during the first and second quarters of fiscal 2014.

Aggregated information regarding stock options granted under the Plan for the six months ended August 2, 2014 is summarized below:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in Years) | Aggregate Intrinsic Value |
|--|--------------------------|--|---|--------------------------------------|
| Outstanding at January 31, 2014 | 736,647 | \$ 8.63 | 4.7 | \$ 3,707,000 |
| Granted | 150,600 | 14.00 | | |
| Exercised | (183,143) | 8.55 | | |
| Expired or canceled | (10,787) | 9.07 | | |
| Outstanding at August 2, 2014 | 693,317 | \$ 9.81 | 6.1 | \$ 2,423,000 |

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| | | | | | | |
|----------------------------------|---------|----|------|-----|----|-----------|
| Exercisable at August 2, 2014 | 442,243 | \$ | 8.64 | 4.4 | \$ | 1,975,000 |
|----------------------------------|---------|----|------|-----|----|-----------|

As of August 2, 2014, there was \$568,000 of unrecognized compensation expense related to unvested options, which will be recognized through May 2018.

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 August 2, 2014 is summarized below:

| | RSAs & RSUs | Weighted Average Grant Date Fair Value |
|------------------------------|------------------------|---|
| Unvested at January 31, 2014 | 106,496 | \$ 9.12 |
| Granted | 7,245 | 13.80 |
| Vested | (23,162) | 9.21 |
| Forfeited | (5,834) | 10.07 |
| Unvested at August 2, 2014 | 84,745 | \$ 9.43 |

As of August 2, 2014, there was \$343,000 of unrecognized compensation expense related to unvested RSUs and RSAs which will be recognized through April 2016.

Employee Stock Purchase Plan

Astro-Med has an Employee Stock Purchase Plan allowing eligible employees to purchase shares of common stock at a 15% discount from fair value on the date of purchase. A total of 247,500 shares were reserved for issuance under this plan. During the quarters ended August 2, 2014 and August 3, 2013, there were 777 and 1,054 shares respectively, purchased under this plan. During the six months ended August 2, 2014 and August 3, 2013, there were 1,592 and 2,266 shares respectively, purchased under this plan. As of August 2, 2014, 58,650 shares remain available.

(7) Inventories

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

| | August 2, 2014 | January 31, 2014 |
|------------------------|-----------------------|-------------------------|
| (In thousands) | | |
| Materials and Supplies | \$ 10,766 | \$ 10,722 |
| Work-In-Process | 1,132 | 852 |
| Finished Goods | 7,909 | 6,798 |
| | 19,807 | 18,372 |
| Inventory Reserve | (3,784) | (3,194) |
| | \$ 16,023 | \$ 15,178 |

(8) Income Taxes

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

| | Three Months Ended | Six Months Ended |
|-------------|---------------------------|-------------------------|
| Fiscal 2015 | 36.1% | 33.0% |
| Fiscal 2014 | 38.4% | 10.7% |

During the six months ended August 2, 2014, the Company recognized an income tax expense of approximately \$1,261,000 which included an expense of \$1,361,000 on the first six month pretax income and a benefit of \$100,000 related to the favorable resolution of a previously uncertain tax position. During fiscal 2014, the Company recognized an income tax expense on the income from continuing operations of approximately \$11,000.

As of August 2, 2014, the Company's cumulative unrecognized tax benefits totaled \$651,000 compared to \$715,000 as of January 31, 2014. There were no developments affecting unrecognized tax benefits during the quarter ended August 2, 2014.

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(9) Note Receivable and Line of Credit Issued

On January 30, 2012, the Company completed the sale of its label manufacturing operations in Asheboro, North Carolina to Label Line Ltd. The net sale 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 3.75% is payable in sixteen quarterly installments of principal and interest which commenced on January 30, 2013. The Note Receivable is disclosed at its present value on the accompanying condensed consolidated balance sheets. As of August 2, 2014, \$562,500 remains outstanding on this note.

The terms of the Asheboro sale also included an agreement for Astro-Med to provide Label Line Ltd. with additional financing in the form of a revolving line of credit in the amount of \$600,000. This line of credit is fully secured by a first lien on various collateral of Label Line Ltd., including the Asheboro plant and plant assets and bears interest at a rate equal to the United States prime rate plus an additional margin of two percent of the outstanding credit balance. Although the initial term was for a period of one-year from the date of the sale, the agreement has been extended through January 31, 2015. As of August 2, 2014, \$200,000 remains outstanding on this revolving line of credit.

Table of Contents**(10) Segment Information**

Astro-Med reports two segments consistent with its sales product groups: QuickLabel Systems (QuickLabel) and Test & Measurement (T&M). On January 31, 2013, the Company completed the sale of substantially all of the assets of its Grass Technologies Product Group (Grass) in order to focus on its existing core businesses. Consequently, the Company has classified the results of operations of Grass as discontinued operations for the three and six months ended August 3, 2013. Refer to Note 15, *Discontinued Operations* for a further discussion.

On January 22, 2014, Astro-Med completed the acquisition of the ruggedized printer product line from Miltope. Astro-Med's ruggedized printer product line is part of the T&M product group and is reported as part of the T&M segment. The results of the Miltope's ruggedized printer product line operations have been included below for the three and six months periods ended August 2, 2014. Assuming the acquisition of Miltope occurred on February 1, 2013 the Company's net sales for the three and six months periods ended August 3, 2013 would have been \$19,194,000 and \$36,679,000, respectively. Refer to Note 4, *Acquisition*, for further details.

The Company evaluates segment performance based on the segment profit before corporate expenses.

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

| (In thousands) | Three Months Ended | | | | Six Months Ended | | | |
|---|--------------------|------------------|--------------------------|----------------|------------------|------------------|--------------------------|----------------|
| | Net Sales | | Segment Operating Profit | | Net Sales | | Segment Operating Profit | |
| | August 2, 2014 | August 3, 2013 | August 2, 2014 | August 3, 2013 | August 2, 2014 | August 3, 2013 | August 2, 2014 | August 3, 2013 |
| QuickLabel | \$ 15,257 | \$ 12,195 | \$ 2,247 | \$ 1,576 | \$ 29,680 | \$ 23,592 | \$ 4,445 | \$ 2,468 |
| T&M | 7,109 | 4,999 | 1,360 | 691 | 13,460 | 9,087 | 2,052 | 890 |
| Total | \$ 22,366 | \$ 17,194 | 3,607 | 2,267 | \$ 43,140 | \$ 32,679 | 6,497 | 3,358 |
| Product Replacement Related Costs | | | | | | | | 672 |
| Corporate Expenses | | | 1,443 | 1,380 | | | 2,634 | 2,521 |
| Operating Income | | | 2,164 | 887 | | | 3,863 | 165 |
| Other Income (Expense) Net | | | 83 | (25) | | | (38) | (62) |
| Income From Continuing Operations Before Income Taxes | | | 2,247 | 862 | | | 3,825 | 103 |
| Income Tax Provision | | | 812 | 331 | | | 1,261 | 11 |
| Income From Continuing Operations | | | 1,435 | 531 | | | 2,564 | 92 |
| Income From Discontinued Operations, Net of | | | | 165 | | | | 155 |

Income Taxes

| | | | | |
|------------|----------|--------|----------|--------|
| Net Income | \$ 1,435 | \$ 696 | \$ 2,564 | \$ 247 |
|------------|----------|--------|----------|--------|

(11) Recent Accounting Pronouncements*Revenue Recognition*

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 (IASB) to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2014-09 applies to all companies that enter into contracts with customers to transfer goods or services and is effective for public entities for interim and annual reporting periods beginning after December 15, 2016. Early application is not permitted and entities have the choice to apply ASU 2014-09 either retrospectively to each reporting period presented or by recognizing the cumulative effect of applying ASU 2014-09 at the date of initial application and not adjusting comparative information. The Company is currently evaluating the requirements of ASU 2014-09 and has not yet determined its impact on the Company's consolidated financial statements.

Table of Contents*Discontinued Operations*

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 limits discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. In addition, this ASU expands the disclosure requirements for disposals that meet the definition of a discontinued operation and requires entities to disclose information about disposals of individually significant components that do not meet the definition of a discontinued operation. ASU 2014-08 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2014. Early adoption is permitted for disposals that have not been reported in financial statements previously issued. We are currently evaluating the impact of the adoption of ASU 2014-08 and do not expect it to have a material effect on the Company's financial position or results of operations.

Income Taxes

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date, the unrecognized tax benefit should be presented in the financial statements as a liability. This ASU is effective for annual and interim periods beginning after December 15, 2013, with early adoption permitted. The adoption of this guidance did not have a material effect on the Company's financial position or results of operations.

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.

(12) 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 32 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 (classified as cash equivalents) securities have original maturities greater than 90 days.

The fair value, amortized cost and gross unrealized gains and losses of the securities are as follows:

(In thousands)

| August 2, 2014 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---------------------------------|-----------------------|-----------------------------------|------------------------------------|-------------------|
| State and Municipal Obligations | \$ 14,774 | \$ 34 | \$ | \$ 14,808 |

| January 31, 2014 | Gross Unrealized | | Gross Unrealized | | Fair Value |
|---------------------------------|-------------------------|--------------|-------------------------|--|-------------------|
| | Amortized Cost | Gains | Losses | | |
| State and Municipal Obligations | \$ 18,729 | \$ 37 | \$ | | \$ 18,766 |

(13) 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.

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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 (including short term investment money market funds with original maturity of less than 90 days), accounts receivables, accounts payable, accrued compensation and other expenses and income tax payable are reflected in the condensed consolidated balance sheet at carrying value, which approximates fair value due to the short term nature of the these instruments.

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

(In thousands)

| August 2, 2014 | Level 1 | Level 2 | Level 3 | Total |
|---|-----------------|------------------|----------------|------------------|
| Money Market Funds (included in Cash and Cash Equivalents) | \$ 8,835 | \$ | \$ | \$ 8,835 |
| State and Municipal Obligations (included in Securities Available for Sale) | | 14,808 | | 14,808 |
| Total | \$ 8,835 | \$ 14,808 | \$ | \$ 23,643 |

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| January 31, 2014 | Level 1 | Level 2 | Level 3 | Total |
|---|-----------------|------------------|----------------|------------------|
| Money Market Funds (included in Cash and Cash Equivalents) | \$ 4,734 | \$ | \$ | \$ 4,734 |
| State and Municipal Obligations (included in Securities Available for Sale) | | 18,766 | | 18,766 |
| Total | \$ 4,734 | \$ 18,766 | \$ | \$ 23,500 |

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 prices for identical or similar assets.

(14) Accumulated Other Comprehensive Income

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

| (In thousands) | Foreign Currency Translation Adjustments | Unrealized Holding Gain on Available for Sale Securities | Total |
|---------------------------------------|---|---|--------------|
| Balance at January 31, 2014 | \$ 152 | \$ 24 | \$ 176 |
| Other Comprehensive Income (Loss) | (41) | (2) | (43) |
| Amounts reclassified to Net Income | | | |
| Net Other Comprehensive Income (Loss) | (41) | (2) | (43) |
| Balance at August, 2014 | \$ 111 | \$ 22 | \$ 133 |

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

(15) Discontinued Operations

On January 31, 2013, the Company completed the sale of substantially all of the assets of its Grass Technologies Product Group (Grass) which manufactured polysomnography and electroencephalography systems and related accessories and propriety electrodes for use in both research and clinical settings for \$18.6 million in cash, of which \$1.8 million was held in escrow and received in the first quarter of the current year. The assets sold consisted primarily of working capital (exclusive of inventory and accounts payable related to manufacturing), the engineering, sales and support workforce, intellectual property and certain other related assets.

As part of this transaction, Astro-Med entered into a Transition Service Agreement (TSA) with the purchaser pursuant to which the Company agreed to provide transition services and continue to manufacture Grass products for the purchaser for a period not to exceed twelve months following the sale closing date. The Company determined that cash flows from this activity was not significant and therefore Grass has been disclosed as a discontinued operation for the fiscal 2014 periods presented. The TSA officially expired on January 31, 2014 and the Company is no longer reporting discontinued operations in fiscal 2015.

In accordance with the terms of the TSA agreement, the purchaser was obligated to acquire the remaining Grass inventory upon expiration of the TSA on January 31, 2014. In connection with the disposition of the inventory previously included in discontinued operations, the Company received \$2,355,000 in the first quarter of fiscal 2015 from the purchaser of Grass related to the disposition of this inventory. Any future services related to Grass post fiscal 2014 are not expected to be material.

Results for discontinued operations are as follows:

| | Three Months Ended August 3, 2013 | Six Months Ended August 3, 2013 |
|---|--|--|
| (In thousands) | | |
| Net Sales | \$ 1,965 | \$ 3,716 |
| Gross Profit | \$ 327 | \$ 378 |
| Net Income from Discontinued Operations | \$ 165 | \$ 155 |

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

(16) Commitments and Contingencies

Product Replacement Program

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

Upon identifying this issue, Astro-Med immediately suspended production of the printers, notified all customers and contacted the supplier who confirmed the problem. Astro-Med is continuing to work with its customers to replace the non-conforming material on existing printers with conforming material. The estimated costs associated with the replacement program were \$672,000, which was based upon the number of printers shipped during the period the non-conforming material was used. Those estimated costs were recognized and recorded as a reserve in the first quarter of fiscal 2014 and are included in the cost of sales in the accompanying condensed consolidated statement of income for the six months ended August 3, 2013. As of August 2, 2014, the Company had expended \$256,000 in replacement costs which have been charged against this reserve. The remaining reserve amount of \$416,000 is included in Other Accrued Expenses in the accompanying condensed consolidated balance sheet dated August 2, 2014.

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

Since the supplier deviated from the agreed upon specifications for the power supply while providing certificates of conformance to the original specifications, in January 2014, Astro-Med received a non-refundable \$450,000 settlement from the supplier for recovery of the costs and expense associated with this issue. This settlement was recorded in cost of sales during the fourth quarter of the fiscal year ended January 31, 2014. In addition to this cash settlement, the Company will receive lower product prices from the supplier for a period of three years.

(17) Subsequent Event

On September 5, 2014, Astro-Med entered into a new unsecured revolving line of credit agreement with Wells Fargo Bank to replace the previous agreement which expired on May 30, 2014. The terms of the new agreement are for a three-year, \$10 million revolving line of credit to be available to the Company to be used for ongoing working capital requirements, business acquisitions or general corporate purposes as needed. Any borrowings made under the new line of credit bear interest at either a fluctuating base rate equal to the highest of (i) the Prime Rate, (ii) 1.50% above the daily one month LIBOR, and (iii) the Federal Funds Rate in effect plus 1.50% or at a fixed rate of LIBOR plus an agreed upon margin of between 0% and 2.25%, based on the Company's funded debt to EBITDA ratio as defined in the agreement. As of the filing date of this Quarterly Report on Form 10-Q, there have been no borrowings against this new line of credit and the entire line is currently available.

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, 2014.

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

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.

Test and Measurement Product Group (T&M) offers a suite of ruggedized printer products designed primarily for military and commercial aerospace applications to be used to print weather maps, communications and other critical flight information. T&M also offers 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.

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On January 31, 2013, the Company completed the sale of substantially all of the assets of its Grass Technologies Product Group (Grass) in order to focus on its existing core businesses. Consequently, the Company has classified the results of operations of its Grass segment as discontinued operations for the three and six months ended August 3, 2013 periods presented.

On January 22, 2014, Astro-Med completed the acquisition of the Ruggedized Printer Product line from Miltope Corporation (Miltope), which is engaged in the design, development, manufacture and testing of ruggedized computers and computer peripheral equipment for military, industry and commercial applications. Astro-Med's ruggedized printer product line is part of the Test & Measurement (T&M) product group and is reported as part of the T&M segment. Miltope sales for the second quarter and six months ended August 2, 2014 were approximately \$1.6 million and \$3.8 million, respectively, and the results of the Miltope's ruggedized printer product line operations have been included in the condensed consolidated statements of operations for the three and six months ended August 2, 2014.

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

Results of Operations**Three Months Ended August 2, 2014 vs. Three Months Ended August 3, 2013**

Net sales by product group and current quarter percentage change over prior year for the three months ended August 2, 2014 and August 3, 2013 were:

| <i>(Dollars in thousands)</i> | August 2, 2014 | As a % of Net Sales | August 3, 2013 | As a % of Net Sales | % Change Over Prior Year |
|-------------------------------|---------------------------|------------------------------------|---------------------------|------------------------------------|---|
| QuickLabel | \$ 15,257 | 68.2% | \$ 12,195 | 70.9% | 25.1% |
| T&M | 7,109 | 31.8% | 4,999 | 29.1% | 42.2% |
| Total | \$ 22,366 | 100.0% | \$ 17,194 | 100.0% | 30.1% |

Net sales for the second quarter of the current year were \$22,366,000, representing a 30.1% increase as compared to the previous year's second quarter sales of \$17,194,000 and a 7.7% increase as compared to current year's first quarter sales of \$20,774,000. Sales through the domestic channels for the current quarter were \$15,176,000, an increase of 25.7% over the prior year's second quarter and a 3.8% increase compared to current year's first quarter domestic sales of \$14,623,000. International sales for the second quarter of the current year were \$7,190,000, representing a 40.4% increase from the previous year and a 16.9% increase over the current year's first quarter international sales of \$6,151,000. Current year's second quarter international sales include favorable foreign exchange rate impact of \$148,000.

Hardware sales in the current quarter were \$9,910,000, a 40.1% increase as compared to prior year's second quarter sales of \$7,071,000. Both segments contributed to the current quarter increase, as hardware sales were up 57.5% in the QuickLabel product group and 31.1% in the T&M product group compared to prior year second quarter. The increase in current quarter hardware sales is due to strong sales of the hardware product lines in the QuickLabel, Ruggedized

and Data Acquisition product groups. The sale of the ruggedized printers from the January 2014 acquisition of Miltope was also a strong contribution to the hardware sales volume.

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Consumables sales in the current quarter were \$10,922,000, representing an 18.7% increase over prior year's second quarter consumable sales of \$9,205,000. The current quarter increase in consumable sales as compared to the second quarter of the prior year is primarily due to the double-digit increase in sales of label and tag products and digital color printer supplies in the QuickLabel segment.

Service and other revenues of \$1,534,000 in the current quarter were up 67.0% from prior year's second quarter service and other revenues of \$918,000, primarily due to the increase in repairs and parts revenue during the quarter due to the Miltope acquisition.

Current year second quarter gross profit was \$9,589,000, representing a 38.5% improvement as compared to prior year's second quarter gross profit of \$6,923,000. The Company's gross profit margin of 42.9% in the current quarter also reflects an increase from the prior year's second quarter gross profit margin of 40.3%. The higher gross profit and related margin for the current quarter as compared to prior year is primarily attributable to higher sales, improved product mix and the Company's ongoing lean manufacturing initiatives.

Operating expenses for the current quarter were \$7,425,000, which increased as compared to prior year's second quarter operating expenses of \$6,036,000. The Company increased its spending in selling and market activities due to additional personnel and related commissions and benefits costs, as well as increased spending on targeted marketing and trade shows. The Company also expanded its R&D initiatives in the current quarter with new product programs aimed at growing the business. Although R&D expenses increased in the current quarter as compared to the prior year, current quarter spending in R&D represents 6.6% of sales, a decrease compared to prior year's second quarter level of 7.4%.

The provision for federal, state and foreign taxes on continuing operations for the second quarter of the current year was \$812,000, reflecting an effective tax rate of 36.1%. This compares to the prior year's second quarter provision on income from continued operations of \$331,000, reflecting an effective tax rate of 38.4%.

The Company reported income from continuing operations of \$1,435,000 for the second quarter of the current year, reflecting a return on sales of 6.4% and generating EPS of \$0.18 per diluted share, as compared to the prior year's second quarter income from continuing operations of \$531,000, reflecting a return on sales of 3.1% and related \$0.07 per diluted share.

Table of Contents**Discontinued Operation**

On January 31, 2013, the Company completed the sale of substantially all of the assets of its Grass Technologies Product Group for a purchase price of \$18,600,000. Consequently, the Company has classified the results of operations of its Grass segment as discontinued operations for the fiscal 2014 period presented.

Results for discontinued operations are as follows:

| (In thousands) | August 3, 2013 |
|---|---------------------------|
| Net Sales | \$ 1,965 |
| Gross Profit | \$ 327 |
| Net Income from Discontinued Operations | \$ 165 |

Six Months Ended August 2, 2014 vs. Six Months Ended August 3, 2013

Net sales by product group and current quarter percentage change over prior year for the six months ended August 2, 2014 and August 3, 2013 were:

| <i>(Dollars in thousands)</i> | August 2, 2014 | As a % of Net Sales | August 3, 2013 | As a % of Net Sales | % Change Over Prior Year |
|-------------------------------|---------------------------|------------------------------------|---------------------------|------------------------------------|---|
| QuickLabel | \$ 29,680 | 68.8% | \$ 23,592 | 72.2% | 25.8% |
| T&M | 13,460 | 31.2% | 9,087 | 27.8% | 48.1% |
| Total | \$ 43,140 | 100.0% | \$ 32,679 | 100.0% | 32.0% |

Net sales for the first six months of the current year were \$43,140,000, representing a 32.0% increase as compared to the previous year's sales of \$32,679,000. Sales through the domestic channels for the first half of the current year were \$29,799,000, an increase of 30.9% over the prior year. International shipments for the first six months of the current year were \$13,341,000, representing a 34.6% increase from the previous year. The current year's first six months international sales include a favorable foreign exchange rate impact of \$293,000.

Hardware sales in the first six months of the current year were \$18,472,000, a 45.4% increase compared to prior sales of \$12,708,000. Both product groups experienced growth in the current year, with T&M hardware sales at \$11,530,000, a 39.3% increase as compared to prior year sales of \$8,278,000 and QuickLabel hardware sales at \$6,942,000 in the current year, a 56.7% increase from prior year sales of \$4,430,000. The main source of the current year's increase was primarily due to T&M's Ruggedized product line sales as well as the increase in QuickLabel's new Kairo! product line sales.

Consumables sales in first half of the current year were \$21,760,000, representing a 20.2% increase over prior year's first six months sales of \$18,107,000. The current year increase in consumable sales is primarily due to the double-digit increase in both label and tag, as well as digital color printer supplies product sales in the QuickLabel segment.

Service and other revenues of \$2,908,000 in the first six months of the current year were up 56.0% from prior year's first six months service and other revenues of \$1,864,000, primarily due to the increase in repairs and parts revenue during the current year due to the Miltope acquisition.

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Current year first six months gross profit was \$18,225,000, reflecting a 51.5% improvement as compared to prior year's first six months gross profit of \$12,027,000. The Company's gross profit margin of 42.2% in the current year also reflects an increase from the prior year's first six months gross profit margin of 36.8%. The higher gross profit and related margin for the current year as compared to prior year is primarily attributable to increased sales, improved product mix, as well as \$672,000 in product replacement program costs recognized in the prior year related to a reserve established to address a non-compliant component used in a certain models of ToughWriter printers.

Operating expenses for the first six months of the fiscal year were \$14,362,000, an increase as compared to prior year's first six months operating expenses of \$11,862,000. Specifically, selling and marketing expenses for the current year increased as compared to the previous year's first six months due to additional personnel and related benefit and commission costs, as well as an increase in targeted marketing and trade show expenditures. G&A expenses slightly increased to \$2,634,000 in the first six months of the current year as compared to prior year's first six months G&A expenses of \$2,521,000 primarily due to an increase in professional fees. Although, investment in R&D in the first six months of the current year of \$2,850,000 increased compared to prior year's first six months investment of \$2,387,000 due primarily to the expansion of new product programs, current year spending in R&D represents 6.6% of sales as compared to prior year's first six months level of 7.3%.

First six months operating income of \$3,863,000, resulted in an operating profit margin of 9.0%, an increase as compared to the prior year's first six months operating income of \$165,000 and related operating margin of 0.5%. The increase in operating income and related margin is primarily attributable to increased sales volume, favorable product mix, as well as operating efficiencies in manufacturing operations.

Other expense during the first six months was \$38,000 compared to \$62,000 in the first six months of the previous year. The lower expense was primarily due to the decline in foreign exchange loss recognized in the first six months of the current year as compared to the prior year. Included in this year's other expense is a \$251,000 write down on the disposition of inventory related to the conclusion and settlement of the Grass Transition Service Agreement.

The Company recognized a \$1,261,000 income tax expense on income from continuing operations for the first six months of the current fiscal year which includes a \$100,000 benefit related to the favorable resolution of a previously uncertain tax position. This compares to the prior year's first six months income tax expense on income from continued operations of \$11,000.

The Company reported net income from continuing operations of \$2,564,000 for the first six months of the current year, reflecting a return on sales of net 5.9% and generating a EPS of \$0.33 per diluted share. On a comparative basis, in the prior year's first six months, the Company recognized income from continuing operations of \$92,000, reflecting a return on sales of 0.3% and an EPS of \$0.01 per diluted share.

Table of Contents**Discontinued Operation**

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

Results for discontinued operations are as follows:

| (In thousands) | Six Months Ended August 3, 2013 | |
|---|--|-------|
| Net Sales | \$ | 3,716 |
| Gross Profit | \$ | 378 |
| Net Income from Discontinued Operations | \$ | 155 |

Segment Analysis

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

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

| (In thousands) | Three Months Ended | | | | Six Months Ended | | | |
|---|---------------------------|---------------------------|---------------------------------|---------------------------|---------------------------|---------------------------|---------------------------------|---------------------------|
| | Net Sales | | Segment Operating Profit | | Net Sales | | Segment Operating Profit | |
| | August 2, 2014 | August 3, 2013 | August 2, 2014 | August 3, 2013 | August 2, 2014 | August 3, 2013 | August 2, 2014 | August 3, 2013 |
| QuickLabel | \$ 15,257 | \$ 12,195 | \$ 2,247 | \$ 1,576 | \$ 29,680 | \$ 23,592 | \$ 4,445 | \$ 2,468 |
| T&M | 7,109 | 4,999 | 1,360 | 691 | 13,460 | 9,087 | 2,052 | 890 |
| Total | \$ 22,366 | \$ 17,194 | 3,607 | 2,267 | \$ 43,140 | \$ 32,679 | 6,497 | 3,358 |
| Product Replacement Related Costs | | | | | | | | 672 |
| Corporate Expenses | | | 1,443 | 1,380 | | | 2,634 | 2,521 |
| Operating Income | | | 2,164 | 887 | | | 3,863 | 165 |
| Other Income (Expense) Net | | | 83 | (25) | | | (38) | (62) |
| Income From Continuing Operations Before Income Taxes | | | 2,247 | 862 | | | 3,825 | 103 |
| Income Tax Provision | | | 812 | 331 | | | 1,261 | 11 |

| | | | | |
|--|----------|--------|----------|--------|
| Income From Continuing Operations | 1,435 | 531 | 2,564 | 92 |
| Income From Discontinued Operations, Net of Income Taxes | | 165 | | 155 |
| Net Income | \$ 1,435 | \$ 696 | \$ 2,564 | \$ 247 |

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QuickLabel Systems QuickLabel

Sales revenues from the QuickLabel product group increased 25.1% with sales of \$15,257,000 in the second quarter of the current year as compared to \$12,195,000 in the same period of the prior year. The current quarter increase in sales is due to both the consumables and hardware product lines. Consumable sales increased 17.0% from the same period in the prior year, primarily due to the increased demand for label and tag as well as digital color printer supplies products, both which have experienced double-digit growth as compared to the prior year. Sales in the hardware product line increased 57.5% primarily attributable to sales in the ink jet printer product lines. QuickLabel's current quarter segment operating profit was \$2,247,000, reflecting a profit margin of 14.7%, an increase from prior year's second quarter segment profit of \$1,576,000 and related profit margin of 12.9%. The increase in QuickLabel's current year's segment operating profit and related margin is primarily due to higher sales, lower manufacturing costs and favorable product mix.

Sales revenues from the QuickLabel product group were \$29,680,000 for the first six months of the current fiscal year as compared to \$23,592,000 in the same period of the prior year. The increase in sales is primarily due to the consumables product line which increased 18.7% from the prior year, primarily attributable to the increased demand for the label and tag, as well as digital color printer supplies product lines. Also contributing to the current year increase were sales in the hardware product line, which increased 56.7% from the same period of the prior year, primarily due to the ink jet printer product line. QuickLabel's current year's segment operating profit was \$4,445,000, reflecting a profit margin of 15.0% an increase from prior year's segment profit of \$2,468,000 and related profit margin of 10.5%. The increase in QuickLabel's current year's segment operating profit and related margin is primarily due to increased sales and favorable product mix.

Test & Measurement T&M

Sales revenues from the T&M product group were \$7,109,000 for the second quarter of the current fiscal year, representing a 42.2% increase as compared to sales of \$4,999,000 for the same period in the prior year. The increase is primarily attributable to the sales

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growth in the second quarter in the Ruggedized product lines, including the Miltope ruggedized aerospace printer product line acquired in January 2014. T&M also experienced increase in demand for its high-speed data recorder products line during the current quarter. T&M's second quarter segment operating profit of \$1,360,000 resulted in a 19.1% profit margin as compared to the prior year's segment operating profit of \$691,000 and related operating margin of 13.8%. The higher segment operating profit and related margin were due to higher sales and favorable product mix.

Sales revenues from the T&M product group were \$13,460,000 for the first six months of the current fiscal year, representing a 48.1% increase as compared to sales of \$9,087,000 for the same period in the prior year. The increase is primarily attributable to the hardware product line, as both the Ruggedized and high-speed data recorder product lines experienced growth over prior year. T&M's segment operating profit for the first six months of the current fiscal year was \$2,052,000 which resulted in a 15.2% profit margin as compared to the prior year's segment operating profit of \$890,000 and related operating margin of 9.8%. The increase in segment operating profit and related margin was due to increased sales and favorable product mix.

Financial Condition and Liquidity

The Company believes that cash provided by operations will continue to be sufficient to meet operating and capital needs for at least the next twelve months. However, in the event that cash from operations is not sufficient, the Company has a substantial cash and short term marketable securities balance. The Company's \$10.0 million revolving bank line of credit, all of which was available, expired on May 30, 2014 and the Company is currently in the process of negotiating a new \$10.0 credit line facility for a three year term which is expected bear interest at a base rate plus margin.

The Company's statements of cash flows for the six months ended August 2, 2014 and August 3, 2013 are included on page 6. Net cash flows used by operating activities was \$2,370,000 in the current year compared to \$6,187,000 in the previous year. The decrease in operating cash flow used in the six months of the current year as compared to the previous year is related to income tax payments made in the prior year in connection with the gain on the sale of Grass, partially offset by higher accounts receivable and inventory balances in the current year. Accounts receivables increased to \$14,075,000 at the end of the second quarter as compared to \$11,366,000 at year-end, although the accounts receivable collection cycle decreased to 53 days sales outstanding at the end of the current quarter as compared to 54 days outstanding at year end. Inventory increased to \$16,023,000 at the end of the second quarter compared to \$15,178,000 at year end and inventory days on hand slightly decreased to 112 days on hand at the end of the current quarter from 113 days at year end.

The Company's cash, cash equivalents and investments at the end of the second quarter totaled \$28,007,000 compared to \$27,107,000 at year end. The increased cash and investment position at August 2, 2014 resulted from current six months net income,

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\$1.8 million cash received in the first quarter related to the cash held in escrow as part of the sale of Grass and cash received in the first quarter related to the disposition of inventory to the purchaser of Grass. This increase was partially offset by increases in accounts receivable and inventory, as discussed above, dividends paid of \$1,076,000 and cash used to acquire property, plant and equipment of \$874,000.

The Company's backlog increased 4.6% from year-end to \$14,700,000 at the end of the current 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, 2014, the Company's most critical accounting policies and estimates upon which our financial status depends were identified as those relating to revenue recognition, warranty claims, bad debts, inventories, income taxes, long-lived assets, goodwill and share-based compensation. We considered the disclosure requirements of Financial Release (FR) 60 (FR-60) regarding critical accounting policies and FR-61 regarding liquidity and capital resources, certain trading activities and related party/certain other disclosures, and concluded that nothing materially changed during the quarter that would warrant further disclosure under these releases.

Forward-Looking Statements

This Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not statements of historical fact, but rather reflect our current expectations concerning future events and results. We generally use the words believes, expects, intends, plans, anticipates, likely, continues, may, will, and similar expressions to identify forward-looking statements. Such forward-looking statements, including those concerning our expectations, involve risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors which could cause actual results to differ materially from those anticipated include, but are not limited to (a) general economic, financial and business conditions; (b) declining demand in the test and measurement markets, especially defense and aerospace; (c) competition in the specialty printer industry; (d) ability to develop market acceptance of our products and effective design of customer required features; (e) competition in the data acquisition industry; (f) the impact of changes in foreign currency exchange rates on the results of operations; (g) the ability to successfully integrate acquisitions and realize benefits from divestitures; (h) the business abilities and judgment of personnel and changes in business strategy; (i) the efficacy of research and development investments to develop new products; (j) the launching of significant new products which could result in unanticipated expenses; (k) bankruptcy or other financial problems at major suppliers or customers that could cause disruptions in the Company's supply chain or difficulty in collecting amounts owed by such customers; (l) and other risks included under Item 1A-Risk Factors in our Annual Report on Form 10-K for the fiscal year ended January 31, 2014. We assume no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

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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, 2014, which could materially affect our business, financial condition or future operating results. The risks described in our Annual Report on 10-K are not the only risks that we face, as additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating result as well as adversely affect the value of our common stock.

There have been no material updates to the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2014.

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

During the second quarter of fiscal 2015, 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 |
|---------|----------|---|------------------------------------|---|--|
| May 4 | May 31 | | \$ | | 390,000 |
| June 1 | June 28 | | \$ | | 390,000 |
| June 29 | August 2 | | \$ | | 390,000 |

Item 6. Exhibits

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

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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- 32.1 Certification of Chief Executive Officer Pursuant 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (101) The following materials from Registrant's Quarterly Report on Form 10-Q for the period ended August 2, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to the Condensed Consolidated Financial Statements. Filed electronically herein.

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SIGNATURES

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

ASTRO-MED, INC.

(Registrant)

Date: September 9, 2014

By /s/ Gregory A. Woods
Gregory A. Woods,
President, Chief Executive Officer and Director
(Principal Executive Officer)

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