

ASTRO MED INC /NEW/  
Form 10-Q  
December 13, 2010  
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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 October 30, 2010**

**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)

**600 East Greenwich Avenue, West Warwick, Rhode Island**  
(Address of principal executive offices)

**(401) 828-4000**

(Registrant's telephone number, including area code)

**05-0318215**  
(I.R.S. Employer

Identification No.)

**02893**  
(Zip 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 7,229,795 shares**

**(excluding treasury shares) as of December 3, 2010**

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

|   | <b>October 30,<br/>2010<br/>(Unaudited)</b> | <b>January 31,<br/>2010<br/>(Audited)</b> |
|---|---|---|
| <b>ASSETS</b>   |   |   |
| <b>CURRENT ASSETS</b>   |   |   |
| Cash and Cash Equivalents   | \$ 10,870,669                               | \$ 14,155,096                             |
| Securities Available for Sale   | 10,408,144                                  | 9,605,216                                 |
| Accounts Receivable, Net  | 10,837,758                                  | 9,172,857                                 |
| Inventories   | 13,964,534                                  | 12,039,306                                |
| Deferred Tax Assets   | 2,712,595                                   | 2,648,294                                 |
| Prepaid Expenses and Other Current Assets   | 617,098                                     | 2,246,789                                 |
| <b>Total Current Assets</b>   | <b>49,410,798</b>                           | <b>49,867,558</b>                         |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>  |   |   |
| PROPERTY, PLANT AND EQUIPMENT   | 38,248,394                                  | 36,330,665                                |
| Less Accumulated Depreciation   | (25,459,757)                                | (24,340,083)                              |
| Property, Plant and Equipment, Net  | 12,788,637                                  | 11,990,582                                |
| <b>OTHER ASSETS</b>   |   |   |
| Intangible Assets, net  | 349,306                                     | 403,056                                   |
| Goodwill  | 2,336,721                                   | 2,336,721                                 |
| Other   | 89,026                                      | 78,127                                    |
| <b>Total Other Assets</b>   | <b>2,775,053</b>                            | <b>2,817,904</b>                          |
| <b>TOTAL ASSETS</b>   | <b>\$ 64,974,488</b>                        | <b>\$ 64,676,044</b>                      |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |   |   |
| <b>CURRENT LIABILITIES</b>  |   |   |
| Accounts Payable  | \$ 3,124,732                                | \$ 2,885,067                              |
| Accrued Compensation  | 1,959,723                                   | 2,019,644                                 |
| Other Accrued Expenses  | 1,890,279                                   | 1,584,357                                 |
| Deferred Revenue  | 621,743                                     | 695,240                                   |
| Other Current Tax Liabilities   | 415,315                                     | 654,905                                   |
| Income Taxes Payable  | 194,521                                     | 318,930                                   |
| <b>Total Current Liabilities</b>  | <b>8,206,313</b>                            | <b>8,158,143</b>                          |
| Deferred Tax Liabilities  | 2,097,738                                   | 2,056,393                                 |
| Other Long Term Liabilities   | 674,445                                     | 642,612                                   |
| <b>TOTAL LIABILITIES</b>  | <b>10,978,496</b>                           | <b>10,857,148</b>                         |
| <b>SHAREHOLDERS EQUITY</b>  |   |   |
| Common Stock, \$.05 Par Value, Authorized 13,000,000 shares; Issued 8,654,295 and 8,322,844 shares at October 30, 2010 and January 31, 2010, respectively | 432,719                                     | 416,146                                   |

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|  |                      |                      |
|--|----------------------|----------------------|
| Additional Paid-In Capital   | 36,089,291           | 34,712,369           |
| Retained Earnings  | 26,418,669           | 26,403,248           |
| Treasury Stock, at Cost, 1,325,081 and 1,165,706 shares at October 30, 2010 and January 31, 2010 | (9,207,288)          | (8,030,335)          |
| Accumulated Other Comprehensive Income   | 262,601              | 317,468              |
| <b>Total Shareholders' Equity</b>  | <b>53,995,992</b>    | <b>53,818,896</b>    |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>  | <b>\$ 64,974,488</b> | <b>\$ 64,676,044</b> |

See Notes to condensed consolidated financial statements (unaudited).

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

|  | Three Months Ended  |                     | Nine Months Ended   |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | October 30,<br>2010 | October 31,<br>2009 | October 30,<br>2010 | October 31,<br>2009 |
| Net Sales                                      | \$ 18,329,000       | \$ 16,657,776       | \$ 53,159,060       | \$ 47,750,557       |
| Cost of Sales                                  | 10,928,429          | 9,598,887           | 31,869,215          | 27,928,330          |
| Gross Profit                                   | 7,400,571           | 7,058,889           | 21,289,845          | 19,822,227          |
| Costs and Expenses:                            |                     |                     |                     |                     |
| Selling and Marketing                          | 4,231,926           | 3,840,047           | 12,349,272          | 11,446,777          |
| General and Administrative                     | 1,078,942           | 1,094,609           | 3,326,920           | 3,423,013           |
| Research and Development                       | 1,382,696           | 1,163,360           | 3,736,909           | 3,565,474           |
| Operating Expenses                             | 6,693,564           | 6,098,016           | 19,413,101          | 18,435,264          |
| Operating Income                               | 707,007             | 960,873             | 1,876,744           | 1,386,963           |
| Other Income                                   | 24,157              | 75,460              | 130,392             | 194,250             |
| Income Before Income Taxes                     | 731,164             | 1,036,333           | 2,007,136           | 1,581,213           |
| Income Tax (Benefit) Provision                 | (61,137)            | 353,077             | 462,012             | 543,786             |
| Net Income                                     | \$ 792,301          | \$ 683,256          | \$ 1,545,124        | \$ 1,037,427        |
| Net Income per Common Share:                   |                     |                     |                     |                     |
| Basic  | \$ 0.11             | \$ 0.10             | \$ 0.21             | \$ 0.15             |
| Diluted  | \$ 0.11             | \$ 0.09             | \$ 0.21             | \$ 0.14             |
| Weighted Average Number of Shares Outstanding: |                     |                     |                     |                     |
| Basic  | 7,334,589           | 7,150,872           | 7,276,835           | 7,128,763           |
| Diluted  | 7,491,981           | 7,395,829           | 7,488,343           | 7,349,233           |
| Dividends Declared Per Common Share            | \$ 0.07             | \$ 0.06             | \$ 0.21             | \$ 0.18             |

See Notes to condensed consolidated financial statements (unaudited).

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

|   | Nine Months Ended    |                      |
|---|----------------------|----------------------|
|   | October 30,<br>2010  | October 31,<br>2009  |
| <b>Cash Flows from Operating Activities:</b>  |                      |                      |
| Net Income  | \$ 1,545,124         | \$ 1,037,427         |
| <b>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</b>        |                      |                      |
| Depreciation and Amortization   | 1,179,678            | 1,041,357            |
| Share-Based Compensation  | 253,025              | 321,070              |
| Deferred Income Tax (Benefit) Provision   | (22,956)             | 296,026              |
| Legal Settlement Receivable   | 1,495,051            |                      |
| Loss (Gain) on Sale of Securities Available for Sale  | 30,961               | (41,776)             |
| <b>Changes in Assets and Liabilities:</b>   |                      |                      |
| Accounts Receivable   | (1,664,901)          | (603,927)            |
| Inventories   | (1,925,228)          | 1,475,292            |
| Income Taxes  | (323,274)            | (84,957)             |
| Accounts Payable and Accrued Expenses   | 265,158              | (469,502)            |
| Other   | 58,638               | 496,405              |
| <b>Net Cash Provided by Operating Activities</b>  | <b>891,276</b>       | <b>3,467,415</b>     |
| <b>Cash Flows from Investing Activities:</b>  |                      |                      |
| Proceeds from Sales/Maturities of Securities Available for Sale                                 | 6,149,039            | 6,274,248            |
| Purchases of Securities Available for Sale  | (6,980,000)          | (4,800,000)          |
| Additions to Property, Plant and Equipment  | (1,925,588)          | (779,723)            |
| <b>Net Cash (Used) Provided by Investing Activities</b>   | <b>(2,756,549)</b>   | <b>694,525</b>       |
| <b>Cash Flows from Financing Activities:</b>  |                      |                      |
| Proceeds from Common Shares Issued Under Employee Benefit Plans and Employee Stock Option Plans | 569,285              | 463,515              |
| Purchases of Treasury Stock   | (272,682)            |                      |
| Cash Settlement of Stock Options  | (186,054)            |                      |
| Dividends Paid  | (1,529,703)          | (1,283,371)          |
| <b>Net Cash Used in Financing Activities</b>  | <b>(1,419,154)</b>   | <b>(819,856)</b>     |
| <b>Net (Decrease) Increase in Cash and Cash Equivalents</b>                                     | <b>(3,284,427)</b>   | <b>3,342,084</b>     |
| <b>Cash and Cash Equivalents, Beginning of Period</b>   | <b>14,155,096</b>    | <b>10,978,553</b>    |
| <b>Cash and Cash Equivalents, End of Period</b>   | <b>\$ 10,870,669</b> | <b>\$ 14,320,637</b> |
| <b>Supplemental Disclosures of Cash Flow Information:</b>                                       |                      |                      |
| Cash Paid During the Period for Income Taxes, Net of Refunds                                    | \$ 861,546           | \$ 393,607           |
| 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. develops and manufactures specialty printers and data acquisition systems. The Company's products are distributed through its own sales force in the United States, Canada, and Western Europe and by authorized dealers elsewhere in the world. 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, 2010.

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.

Subsequent events have been evaluated by management through the filing of this form 10-Q with the SEC.

**(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 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  |                     | Nine Months Ended   |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | October 30,<br>2010 | October 31,<br>2009 | October 30,<br>2010 | October 31,<br>2009 |
| Weighted Average Common Shares Outstanding - Basic | 7,334,589           | 7,150,872           | 7,276,835           | 7,128,763           |
| Effect of Dilutive Options                         | 157,392             | 244,957             | 211,508             | 220,470             |



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|  |         |           |           |           |           |
|--|---------|-----------|-----------|-----------|-----------|
| Weighted Average Common Shares Outstanding | Diluted | 7,491,981 | 7,395,829 | 7,488,343 | 7,349,233 |
|--|---------|-----------|-----------|-----------|-----------|

For the three and nine months ended October 30, 2010, the diluted per share amounts do not reflect options outstanding of 782,346. For the three and nine months ended October 31, 2009, the diluted per share amounts do not reflect options outstanding of 794,727 and 800,686, respectively. These outstanding options were not included due to their anti-dilutive effect, as the exercise price of the options was greater than the average market price of the underlying stock during the periods presented.

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**Table of Contents****(5) Revenue Recognition**

The majority of Astro-Med's product sales are recorded at the time of shipment, when legal title has transferred and risk of loss passes to the customer, when persuasive evidence of an arrangement exists, the seller's price to the buyer is fixed or determinable and collectibility is reasonably assured in accordance with the requirements in Staff Accounting Bulletin (SAB) 104, Revenue Recognition in Financial Statements. When a sale arrangement involves training or installation, the deliverables in the arrangement are evaluated to determine whether they represent separate units of accounting in accordance with SAB 104 and FASB's Accounting Standards Codification (ASC) 605-25, Revenue Recognition-Multiple-Element Arrangements. This evaluation occurs at inception of the arrangement and as each item in the arrangement is delivered. The total fee from the arrangement is allocated to each unit of accounting based on its relative fair value. Fair value for each element is established generally based on the sales price charged when the same or similar element is sold separately. Revenue is recognized when revenue recognition criteria for each unit of accounting are met. When other significant obligations remain after products are delivered, revenue is recognized only after such obligations are fulfilled. All of our equipment contains embedded operating systems and data management software which is included in the purchase price of the equipment. The software is deemed incidental to the systems as a whole, as it is not sold or marketed separately and its production costs are minor as compared to those of the hardware system. Returns and customer credits are infrequent and are recorded as a reduction to sales. Rights of return are not included in sales arrangements. Revenue associated with products that contain specific customer acceptance criteria is not recognized before the customer acceptance criteria are satisfied. Discounts from list prices are recorded as a reduction to sales. Amounts billed to customers for shipping and handling fees are included in sales while related shipping and handling costs are included in cost of sales.

Infrequently, Astro-Med recognizes revenue for non-recurring engineering (NRE) fees for product modification orders upon completion of agreed-upon milestones. Revenue is deferred for any amounts received prior to completion of milestones. Certain of our NRE arrangements include formal customer acceptance provisions. In such cases, we determine whether we have obtained customer acceptance for the specific milestone before recognizing revenue. NRE fees have not been significant in the periods presented herein.

Infrequently, Astro-Med receives requests from customers to hold product being purchased from us for the customers' convenience. Revenue is recognized for such bill and hold arrangements in accordance with the requirements of SAB 104 which requires, among other things, the existence of a valid business purpose for the arrangement; the transfer of ownership of the purchased product; a fixed delivery date that is reasonable and consistent with the buyer's business purpose; the readiness of the product for shipment; the use of customary payment terms; no continuing performance obligation by us; and segregation of the product from our inventories. Bill and hold arrangements have not been significant in the periods presented herein.

**(6) Share-Based Compensation**

Astro-Med has one equity incentive plan (the Plan) under which incentive stock options, non-qualified stock options, restricted stock and other equity based awards may be granted to officers and certain employees. To date, only options have been granted under the Plan. Options granted to employees vest over four years. An aggregate of 1,000,000 shares were authorized for awards under the Plan. The exercise price of each stock option will be established at the discretion of the Compensation Committee; however, any incentive stock options granted must be at an exercise price of not less than fair market value at the date of grant. The Plan provides for an automatic annual grant of ten-year options to purchase 5,000 shares of stock to each non-employee director upon the adjournment of each 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. At October 30, 2010, 726,500 shares were available for grant under the Plan.

We have estimated the fair value of each option on the date of grant using the Black-Scholes option-pricing model. Our estimate of share-based compensation 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.

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The fair value of stock options granted during the nine months ended October 30, 2010 and October 31, 2009 was estimated using the following assumptions:

|                          | Nine Months Ended |                  |
|--------------------------|-------------------|------------------|
|                          | October 30, 2010  | October 31, 2009 |
| Risk Free Interest Rate  | 2.11% -2.42%      | 1.54% -2.12%     |
| Expected Volatility      | 41.3%             | 41.9%            |
| Expected Life (in years) | 5.0               | 5.0              |
| Dividend Yield           | 3.4%              | 4.0%             |

The weighted average fair value per share for options granted was \$2.12 during the first quarter of fiscal 2011 and \$2.06 during the second quarter of fiscal 2011 compared to \$2.40 and \$2.28 during the first and second quarters of fiscal 2010. No options were granted during the third quarter of fiscal 2011 and 2010.

Aggregated information regarding stock options granted under the Plan for the nine months ended October 30, 2010 is summarized below:

|                                 | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in Years) | Aggregate Intrinsic Value |
|---------------------------------|-------------------|---------------------------------|--|---------------------------|
| Outstanding at January 31, 2010 | 1,688,951         | \$ 6.24                         | 3.4  | \$ 3,026,509              |
| Granted                         | 85,000            | 7.45                            |  |                           |
| Exercised                       | (325,791)         | 4.17                            |  |                           |
| Expired or canceled             | (224,852)         | 5.48                            |  |                           |
| Outstanding at October 30, 2010 | 1,223,308         | \$ 7.02                         | 4.4  | \$ 1,513,630              |
| Exercisable at October 30, 2010 | 1,014,187         | \$ 6.79                         | 3.7  | \$ 1,471,834              |

Share-based compensation expense was recognized as follows:

|                    | Three Months Ended |                  | Nine Months Ended |                  |
|--------------------|--------------------|------------------|-------------------|------------------|
|                    | October 30, 2010   | October 31, 2009 | October 30, 2010  | October 31, 2009 |
| Cost of Sales      | \$ 13,996          | \$ 16,707        | \$ 46,154         | \$ 55,223        |
| Operating Expenses | 64,524             | 70,093           | 206,871           | 265,847          |
| Total              | \$ 78,520          | \$ 86,800        | \$ 253,025        | \$ 321,070       |

As of October 30, 2010 there was \$370,929 of unrecognized compensation expense related to unvested options.

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 October 30, 2010 and October 31, 2009, 1,993 and 2,331 shares respectively, were purchased under this plan. During the nine months ended October 30, 2010 and October 31, 2009, 5,660 and 7,416 shares respectively, were purchased under this plan. As of October 30, 2010, 78,858 shares remain available.



**Table of Contents****(7) Comprehensive Income**

The Company's comprehensive income is as follows:

|   | Three Months Ended  |                     | Nine Months Ended   |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | October 30,<br>2010 | October 31,<br>2009 | October 30,<br>2010 | October 31,<br>2009 |
| Net Income  | \$ 792,301          | \$ 683,256          | \$ 1,545,124        | \$ 1,037,427        |
| Other Comprehensive Income (Loss), net of taxes and reclassification adjustments: |                     |                     |                     |                     |
| Foreign currency translation adjustments  | 155,480             | 117,441             | (66,968)            | 515,282             |
| Unrealized holding gain (loss) arising during the period                          | (1,945)             | (8,547)             | 12,101              | (62,444)            |
| Other Comprehensive Income (Loss)   | 153,535             | 108,894             | (54,867)            | 452,838             |
| Comprehensive Income  | \$ 954,836          | \$ 792,150          | \$ 1,490,257        | \$ 1,490,265        |

**(8) 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:

|                        | October 30, 2010 | January 31, 2010 |
|------------------------|------------------|------------------|
| Materials and Supplies | \$ 8,488,556     | \$ 7,422,465     |
| Work-In-Process        | 1,198,338        | 898,332          |
| Finished Goods         | 4,277,640        | 3,718,509        |
|                        | \$ 13,964,534    | \$ 12,039,306    |

**(9) Income Taxes**

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

|             | Three Months Ended | Nine Months Ended |
|-------------|--------------------|-------------------|
| Fiscal 2011 | (8.4)%             | 23.0%             |
| Fiscal 2010 | 34.1%              | 34.4%             |

During the third quarter of fiscal 2011, we recognized an income tax benefit of approximately \$61,000, which included an expense of \$340,000 on the quarter's pre-tax income, a benefit of \$251,000 related to the favorable resolution of a previously uncertain tax position and a benefit of \$150,000 related to the difference between the prior year's tax provision and the actual returns as filed. During the third quarter of fiscal 2010, we recognized an income tax expense of approximately \$353,000, which included an expense of \$378,000 on the quarter's pre-tax income and a benefit of \$25,000 related to the difference between the prior year's tax provision and the actual return as filed.

During the nine months ended October 30, 2010, we recognized an income tax expense of approximately \$462,000, which included an expense of \$863,000 on the nine month's pre-tax income, a benefit of \$251,000 related to the favorable resolution of a previously uncertain tax position and a benefit of \$150,000 related the difference between the prior year's tax provision and the actual returns as filed. During the nine months ended October 31, 2009, we recognized an income tax expense of approximately \$544,000, which included an expense of \$569,000 on the nine month's pre-tax income and a benefit of \$25,000 related to the difference between the prior year's tax provision and the actual return as filed.

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As of October 30, 2010, the Company's cumulative unrecognized tax benefits totaled \$667,469 compared to \$875,225 as of January 31, 2010. During the third quarter of the current year, we recognized \$251,000 of a previously unrecognized tax benefit as a result of the expiration of statutes of limitations. We continue to accrue interest and penalties to unrecognized tax benefits in the income tax provision.

**Table of Contents****(10) 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:

| (In thousands)                 | Three Months Ended  |                     |                          |                     | Nine Months Ended   |                     |                          |                     |
|--------------------------------|---------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|--------------------------|---------------------|
|                                | Net Sales           |                     | Segment Operating Profit |                     | Net Sales           |                     | Segment Operating Profit |                     |
|                                | October 30,<br>2010 | October 31,<br>2009 | October 30,<br>2010      | October 31,<br>2009 | October 30,<br>2010 | October 31,<br>2009 | October 30,<br>2010      | October 31,<br>2009 |
| T&M                            | \$ 4,137            | \$ 3,667            | \$ 192                   | \$ 389              | \$ 10,964           | \$ 11,213           | \$ 910                   | \$ 1,025            |
| QuickLabel                     | 9,851               | 8,737               | 575                      | 871                 | 30,107              | 24,378              | 1,631                    | 1,774               |
| Grass                          | 4,341               | 4,254               | 894                      | 668                 | 12,088              | 12,160              | 2,250                    | 1,595               |
| Total                          | \$ 18,329           | \$ 16,658           | 1,661                    | 1,928               | \$ 53,159           | \$ 47,751           | 4,791                    | 4,394               |
| Corporate Expenses             |                     |                     | 954                      | 967                 |                     |                     | 2,914                    | 3,007               |
| Operating Income               |                     |                     | 707                      | 961                 |                     |                     | 1,877                    | 1,387               |
| Other Income - Net             |                     |                     | 24                       | 75                  |                     |                     | 130                      | 194                 |
| Income Before Income Taxes     |                     |                     | 731                      | 1,036               |                     |                     | 2,007                    | 1,581               |
| Income Tax (Benefit) Provision |                     |                     | (61)                     | 353                 |                     |                     | 462                      | 544                 |
| Net Income                     |                     |                     | \$ 792                   | \$ 683              |                     |                     | \$ 1,545                 | \$ 1,037            |

**(11) Recent Accounting Pronouncements***Fair Value Measurements*

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, Improving Disclosures About Fair Value Measurement, which requires reporting entities to make new disclosures about recurring or nonrecurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. ASU 2010-06 is effective for annual periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures which are effective for annual periods beginning after December 15, 2010. The adoption of ASU 2010-06 did not have a material impact on our consolidated financial position or results of operations.

*Revenue Recognition*

In October 2009, the FASB issued ASU 2009-13, Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force and ASU 2009-14, Software (Topic 985) Certain Arrangements That Include Software Elements a consensus of the FASB Emerging Issues Task Force. ASU 2009-13 provides amendments to the criteria in Subtopic 605-25 for separating consideration in multiple-deliverable arrangements. The amendments in this update established a selling price hierarchy for determining the selling price of a deliverable. ASU 2009-13 also eliminates the residual method of allocating arrangement consideration. ASU 2009-14 removes (1) tangible products containing software components and (2) non-software components that function together to deliver the tangible products essential functionality from the scope of software revenue guidance (ASC 965-605). ASU 2009-14 also provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We are currently evaluating the impact of adopting these updates on our consolidated financial position and results of operations.

*Other Accounting Changes*

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In May 2009, the FASB issued guidance included in ASC 855, Subsequent Events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. In particular, the guidance addresses: the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements; and the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. This guidance became effective for interim and annual reporting periods ending after June 15, 2009. The adoption did not have a material impact on our consolidated financial position or results of operations.

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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.

**(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 two to twenty months. During the second quarter of this year, our remaining auction rate security was settled by our investment advisor at par value. 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 at the time of purchase. The fair value, amortized cost and gross unrealized gains and losses of the securities are as follows:

|                                 |                       | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross Unrealized<br/>Losses</b> | <b>Fair Value</b> |
|---------------------------------|-----------------------|---------------------------------------|------------------------------------|-------------------|
| <b>October 30, 2010</b>         | <b>Amortized Cost</b> |                                       |                                    |                   |
| State and Municipal Obligations | \$ 10,399,104         | \$ 13,654                             | \$ (4,614)                         | \$ 10,408,144     |
| <b>January 31, 2010</b>         | <b>Amortized Cost</b> | <b>Gross Unrealized<br/>Gains</b>     | <b>Gross Unrealized<br/>Losses</b> | <b>Fair Value</b> |
| State and Municipal Obligations | \$ 9,114,511          | \$ 35,385                             | \$ (33,350)                        | \$ 9,116,546      |
| Auction Rate Securities         | 500,000               |                                       | (11,330)                           | 488,670           |
|                                 | \$ 9,614,511          | \$ 35,385                             | \$ (44,680)                        | \$ 9,605,216      |

**(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. 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.

The following table represents the fair value hierarchy for our financial assets (cash equivalents and investments) measured at fair value on a recurring basis:

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| <b>October 30, 2010</b>         | <b>Level 1</b>       | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>         |
|---------------------------------|----------------------|----------------|----------------|----------------------|
| Money Market Funds              | \$ 4,458,245         | \$             | \$             | \$ 4,458,245         |
| State and Municipal Obligations | 10,408,144           |                |                | 10,408,144           |
| <b>Total</b>                    | <b>\$ 14,866,389</b> | <b>\$</b>      | <b>\$</b>      | <b>\$ 14,866,389</b> |

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| <b>January 31, 2010</b>         | <b>Level 1</b>       | <b>Level 2</b> | <b>Level 3</b>    | <b>Total</b>         |
|---------------------------------|----------------------|----------------|-------------------|----------------------|
| Money Market Funds              | \$ 8,126,245         | \$             | \$                | \$ 8,126,245         |
| State and Municipal Obligations | 9,116,546            |                |                   | 9,116,546            |
| Governmental Obligations        | 1,249,998            |                |                   | 1,249,998            |
| Auction Rate Security           |                      |                | 488,670           | 488,670              |
| <b>Total</b>                    | <b>\$ 18,492,789</b> | <b>\$</b>      | <b>\$ 488,670</b> | <b>\$ 18,981,459</b> |

At January 31, 2010, the Level 3 asset consisted of an auction rate security whose underlying assets were backed by municipal assets. While we were continuing to earn interest at the maximum contractual rate, this investment was not trading and therefore did not have a readily determinable market value. The Company used the services of a global investment management and advisory firm to manage its auction rate security position. This investment management firm had developed and implemented a proprietary methodology for pricing auction rate securities using a disciplined discounted cash flow approach to establish fair market valuation.

During the second quarter of the current year, the remaining auction rate security held by the Company was redeemed by our investment advisor at par value. Accordingly, we recorded an unrealized gain of \$11,330 related to the settlement of the remaining auction rate security as of October 30, 2010.

The following table provides a summary of changes in fair value of our auction rate securities for the nine months ended October 30, 2010:

|                             | <b>Nine months ended</b> |
|-----------------------------|--------------------------|
| Balance, January 31, 2010   | \$ 488,670               |
| Settlement                  | (500,000)                |
| Change in unrealized loss   | 11,330                   |
| Balance at October 30, 2010 | \$                       |

**(14) Litigation Settlement**

In November 2009, Astro-Med was awarded a \$1,391,000 judgment related to a lawsuit filed by the Company against a former employee and a competitor business. At issue in the lawsuit was the violation of a non-competition agreement which the former employee had signed as a condition of employment with Astro-Med. The \$1,391,000 judgment included both punitive and exemplary damages, as well as attorney fees (all of which have been previously expensed) and related interest earned on the judgment and was recorded as a gain on legal settlement in the consolidated statement of operations and as a receivable in prepaid and other current assets in the consolidated balance sheet for the fiscal year ended January 31, 2010. In November 2009, the Company also filed a motion to amend the original judgment to include additional legal fees of \$73,000. This motion was granted on February 12, 2010. On February 17, 2010, the Company collected a total of \$1,495,000 related to this legal proceeding, which included the \$1,391,000 gain on legal settlement recorded in the fourth quarter of fiscal 2010 and \$104,000 for interest and the additional attorney fees as granted pursuant to the February 12, 2010 motion. The \$104,000 was recorded as an additional gain on legal settlement in the first quarter of fiscal 2011 and is included in other income in the accompanying consolidated statement of operations for the nine month period ended October 30, 2010.

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**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, 2010.

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) represents 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. In addition, T&M also includes a suite of ruggedized printer products and ethernet switches designed for military and commercial applications to be used in the avionics industry to print weather and airport maps, communications and other critical flight information.

QuickLabel Systems Product Group (QuickLabel) offers hardware, software and media products that create on demand color labels and store and produce images in color or non-color formats on a broad range of media substrates.

Grass Technologies Product Group (Grass) centers on diagnostic and monitoring products that serve the clinical neurophysiology markets, as well as a range of biomedical instrumentation products and supplies focused on the life sciences markets. Astro-Med markets and sells its products and services globally through a diverse distribution structure of sales personnel, manufacturing representatives and dealers that deliver a full complement of branded products and services to customers in our respective markets.

**Table of Contents****Results of Operations****Three Months Ended October 30, 2010 vs. Three Months Ended October 31, 2009**

Net sales by product group and current quarter percentage change over prior year for the three months ended October 30, 2010 and October 31, 2009, were:

| <i>(Dollars in thousands)</i> | October 30,<br>2010 | As a<br>% of<br>Net Sales | October 31,<br>2009 | As a<br>% of<br>Net Sales | % Change<br>Over<br>Prior Year |
|-------------------------------|---------------------|---------------------------|---------------------|---------------------------|--------------------------------|
| T&M                           | \$ 4,137            | 22.6%                     | \$ 3,667            | 22.0%                     | 12.8%                          |
| QuickLabel                    | 9,851               | 53.7%                     | 8,737               | 52.5%                     | 12.8%                          |
| Grass                         | 4,341               | 23.7%                     | 4,254               | 25.5%                     | 2.0%                           |
| Total                         | \$ 18,329           | 100.0%                    | \$ 16,658           | 100.0%                    | 10.0%                          |

The Company's current year third quarter sales were \$18,329,000, representing a 10.0% increase as compared to the previous year's third quarter sales of \$16,658,000 and a 3.2% improvement over current year second quarter sales of \$17,753,000. Sales through the domestic channels for the current quarter were \$13,336,000, an increase of 16.7% over the prior year. International shipments for the second quarter of the current year were \$4,993,000, representing a 4.6% decrease from the previous year. The current year's third quarter decrease in international sales is primarily due to the \$207,000 negative impact due to foreign exchange rates.

Hardware sales in the current quarter were \$7,782,000, an increase of 9.9% over the prior year's third quarter hardware sales of \$7,079,000. The increase in hardware sales in the current quarter as compared to the prior year was primarily due to the demand for T&M's new TMX line as well as the 20.3% increase in sales of the Ruggedized product line within T&M product group. Also contributing to the increase in current quarter sales was the 14.9% increase in sales of QuickLabel printers and the 19.2% increase in Grass Technologies' clinical line of diagnostic systems, especially Long Term Epilepsy Monitoring Systems. The increase in the current quarter's hardware sales was somewhat tempered by lower sales of T&M's recorder and data acquisition product lines, as well as lower sales of Grass Technologies' research line of products.

Consumables sales in the current quarter were \$9,215,000, an increase of 10.3% over the prior year's third quarter consumable sales of \$8,353,000. The overall increase in consumable sales for the current quarter was primarily due to sales in the QuickLabel product group which were up 12.3% as compared to prior year's third quarter sales. QuickLabel's increased level of consumable sales in the current quarter is due to an increase in consumable demand from the Company's installed base of printer customers, as well as label shipments from the Asheboro, North Carolina business, acquired in December 2009.

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Service and other revenues of \$1,332,000 in the current quarter were up 8.6% from prior year's third quarter service and other revenue of \$1,226,000. The current quarter increase was shared among all three product groups with T&M up 6.2%, Quick Label up 13.7% and Grass Technology up 3.5% and was primarily due to the increase in freight revenue as well as parts and repair revenue which were up 13.1% and 9.8%, respectively, as compared to prior year's third quarter.

Current year third quarter gross profit was \$7,401,000, reflecting an improvement over both the current year second quarter gross profit of \$7,024,000 and the prior year's third quarter gross profit of \$7,059,000, and is as a result of higher sales. The Company's gross profit margin of 40.4% in the current quarter reflects a decrease from the prior year's third quarter gross profit margin of 42.4%. The lower gross profit margin for the current quarter as compared to prior year is primarily attributable to unfavorable sales product mix as well as higher manufacturing costs due to unfavorable factory absorption.

Operating expenses for the current quarter were \$6,694,000, a 9.8% increase from prior year's third quarter operating expenses of \$6,098,000. Specifically, selling and marketing expenses for the current quarter increased 10.2% to \$4,232,000 as compared to the previous year's third quarter selling and marketing expenses of \$3,840,000. The increase in selling and marketing for the current quarter was primarily the result of increases in commissions and wages due to personnel additions and increased sales. The increase in sales and marketing was also due to increased travel spending. General and administrative (G&A) expenses decreased 1.5% to \$1,079,000 in the third quarter of the current year as compared to prior year's third quarter G&A expenses of \$1,095,000. The decrease in G&A was primarily due to a decrease in banking and professional service fees as compared to prior year. Spending on research & development (R&D) in the third quarter of the current year of \$1,383,000 represents an 18.9% increase compared to prior year's third quarter spending of \$1,163,000 primarily due to the increase in outsourced development services fees. The current quarter spending in R&D represents 7.5% of sales, an increase from the prior year's third quarter level of 7.0%.

Third quarter income from operations is \$707,000, a 26.4% decrease as compared to the prior year's third quarter operating income of \$961,000. Operating margin for the third quarter of the current year of 3.9% is down compared to the prior year's third quarter margin of 5.8%. The lower operating income and related margin is primarily attributable to unfavorable sales product mix; higher manufacturing cost due to unfavorable factory absorption; and increased selling and marketing and R&D expenses during the current quarter.

Other income during the third quarter was \$24,000 compared to \$76,000 in the third quarter of the previous year. The decrease for the current quarter was primarily due to lower investment income, due to lower overall interest rates, as well as foreign exchange losses recognized in the current quarter due to the continuing strengthening of the US dollar as compared to the same period in the prior year.

In the third quarter of the current year, the Company recognized an income tax benefit of \$61,000, reflecting an effective tax rate of negative 8.4%. The current quarter tax benefit is due to the recognition of \$251,000 related to the favorable resolution of a previously uncertain tax position and \$150,000 related to the difference between the prior year's tax provision and the actual returns as filed. This result compares to the prior year's third quarter income tax expense of \$353,000, reflecting an effective tax rate of 34.1%.

The Company reported \$792,000 in net income for the third quarter of the current year, reflecting a return on sales of 4.3% and generating EPS of \$0.11 per diluted share. Included in net income is a tax benefit of \$401,000, or \$0.05 per diluted share, related to the favorable resolution of a previously uncertain tax position and favorable adjustment in the filing of the prior year's tax returns. On a comparative basis, prior year's third quarter recognized net income of \$683,000, reflecting a return on sales of 4.1% and an EPS of \$0.09 per diluted share.

**Table of Contents****Nine Months Ended October 30, 2010 vs. Nine Months Ended October 31, 2009**

Net sales by product group and current quarter percentage change over prior year for the nine months ended October 30, 2010 and October 31, 2009 were:

| <i>(Dollars in thousands)</i> | October 31,<br>2010 | As a<br>% of<br>Net Sales | October 31,<br>2009 | As a<br>% of<br>Net Sales | % Change<br>Over<br>Prior Year |
|-------------------------------|---------------------|---------------------------|---------------------|---------------------------|--------------------------------|
| T&M                           | \$ 10,964           | 20.6%                     | \$ 11,213           | 23.5%                     | (2.2)%                         |
| QuickLabel                    | 30,107              | 56.7%                     | 24,378              | 51.0%                     | 23.5%                          |
| Grass                         | 12,088              | 22.7%                     | 12,160              | 25.5%                     | (0.6)%                         |
| Total                         | \$ 53,159           | 100.0%                    | \$ 47,751           | 100.0%                    | 11.3%                          |

Net sales for the nine month period of the current fiscal year were \$53,159,000, an 11.3% increase as compared to \$47,751,000 reported for the nine months of the prior fiscal year. Sales through the domestic channels for the nine months of the current year were \$38,112,000, a 13.7% increase from the prior year. International sales for the nine months of the current year of \$15,047,000 reflects a 5.8% increase as compared to the prior year and is net of a \$184,000 unfavorable impact due to foreign exchange rates.

The Company's hardware sales were \$20,732,000 in the nine months of fiscal 2011, a 2.3% decrease as compared to the same period in the prior year. The decrease in hardware sales is primarily due to lower sales in T&M's recorder and data acquisition product lines and lower sales in Grass Technologies' research product lines. The Company did realize growth in certain hardware product lines including T&M's TMX line, Grass Technologies' Long-Term Monitoring systems and Sleep product lines and QuickLabel's line of color printers. Consumable sales for the nine months of the current year of \$28,266,000 increased 23.3% from the prior year nine month period. The increase was evident in all product groups, but was dominated by QuickLabel which was up 25.9% as compared to the same period in the prior year. The increased level of consumable sales for QuickLabel in the nine months of fiscal 2011 is due to increased demand for supplies from the current installed base of printer customers, as well as label sales from the Company's recent acquisition of the Asheboro, North Carolina label manufacturer. Service and other sales revenues for the nine months ended October 30, 2010, were \$4,161,000, an increase of 15.4% from the prior year. The increase in service and other sales was evident in all three product groups.

The Company achieved \$21,290,000 in gross profit for the nine months of fiscal 2011 and generated a gross profit margin of 40.0% as compared to prior year's gross profit margin of 41.5%. The decline in gross profit margin for the nine months of the current year is due to unfavorable sales product mix as well as higher manufacturing costs.

Operating expenses in the nine months of the current year were \$19,413,000, representing a 5.3% increase from the prior year. Selling and marketing expenses for the nine months of the current year increased 7.9% from the prior year to \$12,349,000 with the increase traceable primarily to wages and benefits due to personnel additions as well as higher travel and outside service spending. R&D spending for the current nine months of \$3,737,000 represents a 4.8% increase as compared to prior year R&D of \$3,566,000. Current year spending in R&D represents 7.0% of the current year's sales compared to 7.5% of sales in the prior year. General and administrative (G&A) expenses for the nine months of the current year were \$3,327,000, a 2.8% decrease from the prior year. The lower spending level for G&A in the current year is mainly attributed to the lower professional service fees.

The Company earned \$1,877,000 in operating income during the nine months of fiscal 2011, a 35.3% improvement as compared to operating income of \$1,387,000 for the same period in the prior year. On a margin basis, this year's operating income reflects an operating margin of 3.5% on sales compared to prior year's operating margin of 2.9%.

Other income realized during the nine months of the current fiscal year is \$130,000, a decrease of 33.0% as compared to the other income reported in the previous year. This lower level of other income is a result of lower investment income, due to lower overall interest rates, as well as foreign exchange losses recognized in the current year due to the continued strengthening of the US dollar. The overall decline in other income for the nine months of fiscal 2011 is tempered by the \$104,000 gain on legal settlement recognized in the second quarter for interest and attorney fees recognized as a result of damages collected from a lawsuit filed against a former employee and competitor business.

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The Company has provided federal, state, and foreign income tax expense of \$462,000 for the nine month period ended October 30, 2010. This year's provision reflects an effective tax rate of 23.0%, and includes a \$251,000 benefit related to the favorable resolution of a previously uncertain tax position and a \$150,000 benefit related to the difference between the prior year's tax provision and the actual returns as filed. This result compares to the prior year's third quarter year to date income tax expense of \$544,000 reflecting an effective tax rate of 34.4%.

Net income earned during the nine months of the current fiscal year was \$1,545,000 reflecting a return on sales of 2.9% and generating EPS of \$0.21 per diluted share. Included in net income is a tax benefit of \$401,000, or \$0.05 per diluted share, related to the favorable resolution of a previously uncertain tax position and favorable adjustment in the filing of the prior year's tax returns. On a comparative basis, prior year's third quarter year to date net income was \$1,037,000 reflecting a return on sales of 2.2% and an EPS of \$0.14 per diluted share.



**Table of Contents****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  |                     |                          |                     | Nine Months Ended   |                     |                          |                     |
|----------------------------|---------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|--------------------------|---------------------|
|                            | Net Sales           |                     | Segment Operating Profit |                     | Net Sales           |                     | Segment Operating Profit |                     |
|                            | October 30,<br>2010 | October 31,<br>2009 | October 30,<br>2010      | October 31,<br>2009 | October 30,<br>2010 | October 31,<br>2009 | October 30,<br>2010      | October 31,<br>2009 |
| T&M                        | \$ 4,137            | \$ 3,667            | \$ 192                   | \$ 389              | \$ 10,964           | \$ 11,213           | \$ 910                   | \$ 1,025            |
| QuickLabel                 | 9,851               | 8,737               | 575                      | 871                 | 30,107              | 24,378              | 1,631                    | 1,774               |
| Grass                      | 4,341               | 4,254               | 894                      | 668                 | 12,088              | 12,160              | 2,250                    | 1,595               |
| Total                      | \$ 18,329           | \$ 16,658           | 1,661                    | 1,928               | \$ 53,159           | \$ 47,751           | 4,791                    | 4,394               |
| Corporate Expenses         |                     |                     | 954                      | 967                 |                     |                     | 2,914                    | 3,007               |
| Operating Income           |                     |                     | 707                      | 961                 |                     |                     | 1,877                    | 1,387               |
| Other Income - Net         |                     |                     | 24                       | 75                  |                     |                     | 130                      | 194                 |
| Income Before Income Taxes |                     |                     | 731                      | 1,036               |                     |                     | 2,007                    | 1,581               |
| Income Tax Provision       |                     |                     | (61)                     | 353                 |                     |                     | 462                      | 544                 |
| Net Income                 |                     |                     | \$ 792                   | \$ 683              |                     |                     | \$ 1,545                 | \$ 1,307            |

**Test & Measurement T&M**

Sales revenues from the Test & Measurement product group were \$4,137,000 for the third quarter of the current fiscal year representing a 12.8% increase as compared to sales of \$3,667,000 for the same period in the prior year. The increase is primarily attributable to the demand for the new TMX product line as well as the double-digit growth in the Ruggedized printer product line. Despite T&M's higher sales in the third quarter, segment operating profit decreased 50.6% to \$192,000, resulting in a 4.6% profit margin as compared to the prior year's segment operating profit of \$389,000 and related operating margin of 10.6%. The decline in both segment operating profit and related margin was due to higher manufacturing costs and higher operating expenses, specifically, research and development.

For the nine months of the current fiscal year, sales revenues of the T&M product group were \$10,964,000 representing a 2.2% decrease as compared to \$11,213,000 for the same period of the previous year. The decrease in sales stems from lower sales in the recorder and data acquisition product lines as compared to the prior year. The decrease in current year to date sales was tempered by the demand for the new TMX product line, as well as increases in Ruggedized and consumables product line sales and an increase in repair revenue. For the first nine months of the current year, T&M's segment operating profit was \$910,000, resulting in an 8.3% segment operating profit margin, as compared to segment operating profit of \$1,025,000 and related margin of 9.1% for the same period in the prior year. The decrease in T&M's segment operating profit and related margin is traceable to lower sales and higher manufacturing costs due to unfavorable factory absorption, as well as higher operating expenses, specifically, research and development, in the current fiscal year.

**QuickLabel Systems QuickLabel**

Sales revenues from the QuickLabel Systems product group were \$9,851,000 in the third quarter of the current fiscal year, representing a 12.8% increase as compared to sales of \$8,737,000 in the same quarter of the prior year. The increase in sales is due to the label and tag product lines which increased 34.2% over last year. Aside from sales growth from our existing customer base, the Company's recently acquired label and tag manufacturer in North Carolina contributed to the increment. Current quarter revenues from QuickLabel's hardware line also reported a double-digit growth rate over the same period in the previous year. QuickLabel's current quarter segment operating profit was \$575,000,

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reflecting a profit margin of 5.8% and a decrease from prior year's second quarter segment profit of \$871,000 and related profit margin of 10.0%. The decline in QuickLabel's current year's segment operating profit and related margin is due to unfavorable sales product mix, higher manufacturing costs due to unfavorable factory absorption, as well as higher operating expenses.

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The QuickLabel product group had sales revenue of \$30,107,000 for the nine months of the current fiscal year as compared with \$24,378,000 in sales revenues reported for the same period in the prior year. The increase in current year's sales is primarily attributed to the consumable product lines which increased \$4,944,000 or 25.9% from the prior year. Within the consumable line, label and tag product line sales made a significant contribution to the overall growth rate for the first nine months of the current year, primarily due to the newly acquired Asheboro, North Carolina business, as well as the increased base of installed printers placed in service. Revenues from QuickLabel's hardware line also reported a double-digit growth rate over the previous year driven by growth in the color printer product line. Segment operating profit margin for the nine months of the current year is 5.4%, a decrease as compared to a 7.3% for the same period of the previous year. The decline in segment operating profit margin is due to unfavorable sales product mix, higher manufacturing costs from unfavorable factory absorption, as well as higher operating expenses.

**Grass Technologies Grass**

Sales revenues in the third quarter of the current year for the Grass Technologies group were \$4,341,000 representing a 2.0% increase as compared to prior year's third quarter sales of \$4,254,000. The increase in sales is primarily attributable to the Grass Technologies Clinical products lines, where sales were up 19.2% over the prior year, as particularly evident in the Sleep and Long Term Monitoring product lines sales. The increase is tempered by lower sales of Grass Research product line which has been adversely affected by the economic downturn and lower funding sources currently being experienced by hospitals, laboratories and research facilities. Segment operating profits increased 33.8% in the current quarter, with the segment achieving an operating profit margin of 20.6% as compared to a segment operating profit margin of 15.7% reported in the third quarter of the prior year. This increase in segment operating profit and related margin is primarily due to favorable product mix, lower manufacturing costs and lower operating expenses.

Grass sales were \$12,088,000 for the nine months of the current year as compared to \$12,160,000 for the same period of the prior year. This year's sales ran nominally behind the prior year's sales as the Research line of products were lower than the prior years; however the Clinical line of diagnostic products including EEG, Sleep and Long Term Monitoring, reported growth of approximately 5.6% from the previous year's sales volume. Also making a positive contribution to sales volume during the current year was the line of consumable products of electrodes and creams which reported a 6.0% increase in sales over last year. Notwithstanding Grass' lower sales in the nine months of the current year, segment operating profit increased 41.1% to \$2,250,000, resulting in an 18.6% segment operating profit margin as compared to prior year's segment operating profit margin of 13.1%. The improvement in both segment operating profit and related margin is due to product mix, lower manufacturing and research and development costs.

**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 and may utilize a \$3.5 million revolving bank line of credit, all of which is currently available. Borrowings under this line of credit bear interest at LIBOR Advantage Rate plus 200 basis points. As of October 30, 2010, the Company held \$21,279,000 in cash and current marketable securities.

The Company is currently in the process of negotiating an increase to its existing revolving bank line of credit so that the total amount available will be \$5.0 million. The terms of the agreement have not yet been agreed upon by all parties, but the Company anticipates that an agreement will be signed by the end of its current fiscal year.

The Company's statements of cash flows for the nine months ended October 30, 2010 and October 31, 2009 are included on page 5. Net cash flows provided by operating activities was \$891,000 in the current year compared to net cash provided by operating activities of \$3,467,000 in the previous year. The declining cash flows provided in the third quarter of the current year as compared to the same period in the previous year are primarily related to higher working capital requirements. Accounts receivables increased to \$10,838,000 at the end of the third quarter as compared to \$9,173,000 at year-end. The accounts receivable collection cycle increased to 50 days sales outstanding at the end of the quarter as compared to 49 days outstanding at year end. Inventory balances increased to \$13,965,000 at the end of the second quarter compared to \$12,039,000 at year end due to the build up of inventory in anticipation of QuickLabel's new product launch. Inventory days on hand also increased to 115 days on hand at the end of the current quarter from 114 days at year end. The Company also utilized cash to acquire property, plant and equipment of \$1,926,000, primarily to expand its consumable manufacturing capacity. Cash was also used during the current quarter to pay cash dividends of \$1,530,000.

The Company's backlog increased 2.6% to \$5,820,000 at the end of the third quarter from a backlog of \$5,675,000 at year-end.

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

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In the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2010, 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.

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**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, 2010. 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.

**Table of Contents****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.

**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, 2010, 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, 2010.

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

On August 16, 2004, the Company announced that its Board of Directors had approved the repurchase of 600,000 shares of common stock. This is an ongoing authorization without any expiration date

During the third quarter of fiscal 2011, the Company made the following repurchases of its common stock:

| Total Number<br>of Shares<br>Repurchased | Average<br>Price paid<br>Per Share | Total Number of<br>Shares Purchased as<br>Part of Publicly | Maximum Number<br>of Shares That<br>May Be Purchased |
|--|------------------------------------|--|--|
|--|------------------------------------|--|--|

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|              |              |           |         | Announced Plans or<br>Programs | Under The<br>Plans<br>or Programs |
|--------------|--------------|-----------|---------|--------------------------------|-----------------------------------|
| August 1     | August 28    | 11,837(a) | \$ 7.42 | 3,200                          | 389,089                           |
| August 29    | September 25 | 35,000    | \$ 7.13 | 35,000                         | 354,089                           |
| September 26 | October 30   | 3,038(b)  | \$ 7.10 |                                | 354,089                           |

- (a) On August 20, 2010, the Company's Vice President - Media Products delivered 8,637 shares of the Company's common stock to satisfy the exercise price for 20,625 stock options exercised. The shares delivered were valued at \$7.49 per share and are included with treasury stock in the consolidated balance sheet. This transaction did not impact the number of shares authorized for repurchase under the Company's current repurchase program.
- (b) On September 13, 2010, the Company's Vice President and Chief Technology Officer delivered 3,038 shares of the Company's common stock to satisfy the exercise price for 6,875 stock options exercised. The shares delivered were valued at \$7.10 per share and are included with treasury stock in the consolidated balance sheet. This transaction did not impact the number of shares authorized for repurchase under the Company's current repurchase program.

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**Item 6. Exhibits**

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

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002



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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.

Date: December 13, 2010

ASTRO-MED, INC.

(Registrant)

By /s/ Albert W. Ondis  
Albert W. Ondis,

Chairman and Chief Executive Officer

(Principal Executive Officer)

By /s/ Joseph P. O Connell  
Joseph P. O Connell

Senior Vice President, Treasurer and Chief Financial Officer

(Principal Financial Officer)