

ASTRO MED INC /NEW/  
Form 10-Q  
December 11, 2006  
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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 28, 2006

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)

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

**(401) 828-4000**

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

Identification No.)

**02893**  
(Zip Code)

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(Registrant's telephone number, including area code)

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer .

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 6,714,825 shares (excluding treasury shares) as of November 30, 2006

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

|   | October 28,<br>2006<br>(Unaudited) | January 31,<br>2006<br>(Audited) |
|---|------------------------------------|----------------------------------|
| <b>ASSETS</b>   |                                    |                                  |
| <b>CURRENT ASSETS</b>   |                                    |                                  |
| Cash and Cash Equivalents   | \$ 9,151,224                       | \$ 4,598,993                     |
| Securities Available for Sale   | 12,216,401                         | 10,124,725                       |
| Accounts Receivable, Net  | 10,333,886                         | 10,623,552                       |
| Inventories   | 10,879,701                         | 9,809,770                        |
| Prepaid Expenses and Other Current Assets   | 1,039,203                          | 1,116,270                        |
| Deferred Tax Assets   | 3,546,008                          | 3,388,756                        |
| <b>Total Current Assets</b>   | <b>47,166,423</b>                  | <b>39,662,066</b>                |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>  |                                    |                                  |
| Less Accumulated Depreciation   | (21,178,144)                       | (20,251,669)                     |
|   | 7,422,755                          | 7,099,659                        |
| <b>OTHER ASSETS</b>   |                                    |                                  |
| Goodwill  | 2,336,721                          | 2,336,721                        |
| Amounts Due from Officers, net of current portion   | 27,050                             | 480,314                          |
| Other   | 333,454                            | 68,520                           |
|   | <b>\$ 57,286,403</b>               | <b>\$ 49,647,280</b>             |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |                                    |                                  |
| <b>CURRENT LIABILITIES</b>  |                                    |                                  |
| Accounts Payable  | \$ 2,888,198                       | \$ 2,672,555                     |
| Accrued Compensation  | 2,645,729                          | 1,848,029                        |
| Accrued Expenses  | 2,944,017                          | 2,304,247                        |
| Deferred Revenue  | 692,190                            | 752,049                          |
| Income Taxes Payable  | 2,286,093                          | 362,747                          |
| Deposit on Real Estate Sale   |                                    | 500,000                          |
| <b>Total Current Liabilities</b>  | <b>11,456,227</b>                  | <b>8,439,627</b>                 |
| <b>OTHER LIABILITIES</b>  |                                    |                                  |
| Deferred Tax Liabilities  | 941,262                            | 906,157                          |
| <b>SHAREHOLDERS EQUITY</b>  |                                    |                                  |
| Common Stock, \$.05 Par Value, Authorized 13,000,000 Shares, Issued, 7,835,926 and 6,342,321 Shares, respectively (Note 11) | 391,800                            | 317,120                          |
| Additional Paid-In Capital (Note 11)  | 30,101,095                         | 16,385,210                       |
| Retained Earnings (Note 11)   | 21,819,304                         | 30,030,652                       |
| Treasury Stock, at Cost, 1,124,106 and 1,024,106 Shares, respectively   | (7,644,647)                        | (6,579,147)                      |
| Accumulated Other Comprehensive Income  | 221,362                            | 147,661                          |

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|                           |               |               |
|---------------------------|---------------|---------------|
| Total Shareholders Equity | 44,888,914    | 40,301,496    |
|                           | \$ 57,286,403 | \$ 49,647,280 |

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

|   | Three-Months Ended |               | Nine-Months Ended |               |
|---|--------------------|---------------|-------------------|---------------|
|   | (Unaudited)        |               | (Unaudited)       |               |
|   | October 28,        | October 29,   | October 28,       | October 29,   |
|   | 2006               | 2005          | 2006              | 2005          |
| Net Sales   | \$ 16,042,923      | \$ 14,455,179 | \$ 47,951,068     | \$ 43,296,634 |
| Cost of Sales                                     | 9,616,068          | 8,671,507     | 28,252,214        | 25,493,988    |
| Gross Profit                                      | 6,426,855          | 5,783,672     | 19,698,854        | 17,802,646    |
| Costs and Expenses:                               |                    |               |                   |               |
| Selling, General and Administrative               | 4,819,313          | 4,316,543     | 14,364,814        | 12,970,531    |
| Research and Development                          | 979,952            | 987,446       | 2,976,853         | 2,931,919     |
| Operating Expenses                                | 5,799,265          | 5,303,989     | 17,341,667        | 15,902,450    |
| Gain on Sale of Real Estate, net of related costs | 5,251,707          |               | 5,251,707         |               |
| Operating Income                                  | 5,879,297          | 479,683       | 7,608,894         | 1,900,196     |
| Other Income (Expense):                           |                    |               |                   |               |
| Investment Income                                 | 171,824            | 82,572        | 444,829           | 284,866       |
| Other, Net  | 176,837            | (65,841)      | 243,990           | (68,885)      |
|   | 348,661            | 16,731        | 688,819           | 215,981       |
| Income Before Income Taxes                        | 6,227,958          | 496,414       | 8,297,713         | 2,116,177     |
| Income Tax Provision (Benefit)                    | 2,251,258          | (177,329)     | 3,037,765         | 422,057       |
| Net Income  | \$ 3,976,700       | \$ 673,743    | \$ 5,259,948      | \$ 1,694,120  |
| Net Income per Common Share:                      |                    |               |                   |               |
| Basic   | \$ 0.59            | \$ 0.10       | \$ 0.78           | \$ 0.26       |
| Diluted   | \$ 0.53            | \$ 0.09       | \$ 0.71           | \$ 0.23       |
| Weighted Average Number of Shares Outstanding:    |                    |               |                   |               |
| Basic   | 6,693,246          | 6,618,894     | 6,711,773         | 6,603,496     |
| Diluted   | 7,438,658          | 7,334,326     | 7,378,728         | 7,211,554     |
| Dividends Declared Per Common Share               | \$ 0.05            | \$ 0.03       | \$ 0.15           | \$ 0.10       |

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

|   | Nine-Months Ended   |                     |
|---|---------------------|---------------------|
|   | October 28,<br>2006 | October 29,<br>2005 |
|   | (Unaudited)         | (Unaudited)         |
| <b>Cash Flows from Operating Activities:</b>  |                     |                     |
| Net Income  | \$ 5,259,948        | \$ 1,694,120        |
| <b>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</b>  |                     |                     |
| Depreciation and Amortization   | 1,132,566           | 1,067,883           |
| Share-based Compensation  | 306,734             |                     |
| Deferred Income Taxes   | (122,147)           | (224,514)           |
| Gain on sale of Real Estate   | (5,251,707)         |                     |
| <b>Changes in Assets and Liabilities:</b>   |                     |                     |
| Accounts Receivable   | 289,666             | (776,074)           |
| Inventories   | (1,128,396)         | (189,100)           |
| Other   | (196,695)           | (131,202)           |
| Income Taxes Payable  | (1,923,346)         | (53,001)            |
| Accounts Payable and Accrued Expenses   | 744,961             | (344,131)           |
| Total Adjustments   | (2,301,672)         | (650,139)           |
| Net Cash Provided by Operating Activities   | 2,958,276           | 1,043,981           |
| <b>Cash Flows from Investing Activities:</b>  |                     |                     |
| Proceeds from Maturities of Securities Available for Sale   | 4,392,636           | 1,705,505           |
| Purchases of Securities Available for Sale  | (6,450,067)         | (5,718,208)         |
| Proceeds from Sale of Real Estate   | 6,100,000           |                     |
| Additions to Property, Plant and Equipment  | (1,398,181)         | (816,959)           |
| Net Cash Provided (Used) by Investing Activities  | 2,644,388           | (4,829,662)         |
| <b>Cash Flows from Financing Activities:</b>  |                     |                     |
| Proceeds from Common Shares Issued Under Employee Stock Purchase Plan and Exercises of Stock Options  | 953,682             | 240,654             |
| Shares Repurchased  | (1,065,550)         | (30,163)            |
| Dividends Paid  | (938,615)           | (635,657)           |
| Net Cash (Used) by Financing Activities   | (1,050,433)         | (425,166)           |
| Net Increase (Decrease) in Cash and Cash Equivalents  | 4,552,231           | (4,210,847)         |
| Cash and Cash Equivalents, Beginning of Period.   | 4,598,993           | 6,225,122           |
| Cash and Cash Equivalents, End of Period  | \$ 9,151,224        | \$ 2,014,275        |
| <b>Supplemental Disclosures of Cash Flow Information:</b>   |                     |                     |
| <b>Cash Paid During the Period for:</b>   |                     |                     |
| Income Taxes  | \$ 1,208,230        | \$ 586,681          |
| Non-cash Transfer from Retained Earnings to Capital Stock and Additional Paid in Capital Due to the 5-4 Stock Split which was characterized as a Stock Dividend | \$ 12,532,681       | \$                  |

**Table of Contents****ASTRO-MED, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****October 28, 2006****(Unaudited)****(1) Basis of Presentation**

The accompanying condensed financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ), 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. These financial statements do not include all disclosures associated with annual financial statements and, accordingly, should be read in conjunction with footnotes contained in the Company's annual report on Form 10-K for the year ended January 31, 2006. Certain reclassifications have been made to conform to the current period reporting format.

**(2) Principles of Consolidation**

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

**(3) Net income Per Share**

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

|  | <b>Three-Months Ended</b> |                | <b>Nine-Months Ended</b> |                |
|--|---------------------------|----------------|--------------------------|----------------|
|  | <b>October</b>            | <b>October</b> | <b>October</b>           | <b>October</b> |
|  | <b>28,</b>                | <b>29,</b>     | <b>28,</b>               | <b>29,</b>     |
|  | <b>2006</b>               | <b>2005</b>    | <b>2006</b>              | <b>2005</b>    |
| Weighted Average Common Shares Outstanding - Basic   | 6,693,246                 | 6,618,894      | 6,711,773                | 6,603,496      |
| Dilutive Effect of Options Outstanding               | 745,412                   | 715,432        | 666,955                  | 608,058        |
| Weighted Average Common Shares Outstanding - Diluted | 7,438,658                 | 7,334,326      | 7,378,728                | 7,211,554      |

For the three-month and nine-month periods ended October 28, 2006 and October 29, 2005, the diluted per share amounts do not reflect options outstanding of zero and 3,300, respectively. These outstanding options were not included in the weighted average common shares outstanding because the exercise prices of the options were greater than the average market price of the Company's stock during the periods presented.

**(4) Revenue Recognition**

The majority of the Company's product sales are recorded at the time of shipment, when legal title has transferred and risk of loss passes to the customer, when persuasive evidence of an arrangement exists, the Company's price to the buyer is fixed or determinable and collectibility is reasonably assured in accordance with the requirements in Staff Accounting Bulletin ( SAB ) 104, Revenue Recognition in Financial Statements. When a sale arrangement involves training or installation, the deliverables in the arrangement are evaluated to determine whether they represent separate units of accounting in accordance with SAB 104 and EITF 00-21, Revenue Arrangements With Multiple Deliverables . This evaluation occurs at inception of the arrangement and as each item in the arrangement is delivered. The total revenue 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



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met. When other significant obligations remain after products are delivered, revenue is recognized only after such obligations are fulfilled. All of the Company's equipment contains embedded operating systems and data management software which is included in the selling price of the equipment. The software is deemed incidental to the system as a whole as it is not sold separately 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.

**Table of Contents****ASTRO-MED, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****October 28, 2006****(Unaudited)****(5) Share-Based Compensation**

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. SFAS No. 123(R) addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise, or (b) liability instruments that are based on the fair value of the enterprise's equity instruments that may be settled by the issuance of such equity instruments. SFAS No. 123(R) requires an entity to recognize the grant-date fair-value of stock options and other equity-based compensation issued to employees in the statement of operations.

The Company currently has options outstanding under the 1989, 1993 and 1997 Incentive Stock Option Plans and the 1989 and 1998 Non-Qualified Stock Option Plans. Under these plans, non-qualified stock options or incentive stock options may be granted to the Company's or its subsidiaries' employees, officers, advisers, or consultants as defined. Options are granted with an exercise price equal to the fair market value of the common stock on the date of grant and generally vest in equal annual amounts over four years beginning on the first anniversary of the date of the grant. No options are exercisable for periods of more than ten years after the date of grant. The plans were approved by the Company's shareholders, pursuant to which 3,643,750 shares of the Company's common stock were reserved for issuance. As of October 28, 2006, 662,200 options remain available for future grants. The Compensation Committee of the Board of Directors administers the plans, approves the individuals to whom options will be granted and determines the number of shares and exercise price of each option. Outstanding options under the plans at October 28, 2006 expire from March 24, 2007 through March 20, 2016. None of the Company's outstanding options include performance-based or market-based vesting conditions. In addition, the Company has a 1996 Non-Employee Director Stock Option Plan. This plan authorized the grant of options for up to 41,250 shares of common stock. Options granted under this plan vest six months after the grant date.

Under the Employee Stock Purchase Plan (ESPP), the Company is authorized to issue up to 247,500 shares of common stock, of which approximately 104,278 shares remain available as of October 28, 2006. The ESPP provides eligible employees the right to purchase common stock, via payroll deductions, on a monthly basis at 90% of the market price of the common stock at the end of each purchase period. During the quarters ended October 28, 2006 and October 29, 2005, 718 and 485 shares were purchased under the plan. During the nine months ended October 28, 2006 and October 29, 2005, 2,034 and 2,318 shares were purchased under the plan.

As permitted by SFAS No. 123, the Company historically accounted for share-based payments to employees using APB Opinion No. 25's intrinsic value method and recognized no compensation expense for employee stock options or shares purchased under the ESPP. Effective as of February 1, 2006, the Company adopted the provisions of SFAS No. 123(R) under the modified prospective transition method outlined in the statement. A modified prospective transition method is one in which compensation expense is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the date of adoption.

As a result of the adoption of SFAS No. 123(R), the Company's income before income taxes was reduced by approximately \$106,000 and \$306,000 for the three months and nine months ended October 30, 2006, respectively. For the three months ended October 28, 2006 the stock-based compensation expense included \$20,100 recorded in cost of sales, \$18,300 recorded in research and development, and \$67,600 recorded in selling and general and administrative expense. For the nine months ended October 28, 2006 the stock-based compensation expense included \$57,900 recorded in cost of sales, \$53,700 recorded in research and development, and \$194,400 recorded in selling and general and administrative expense. In accordance with the modified prospective transition method provided under SFAS No. 123(R), results for prior periods have not been restated. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Historically, as permitted under SFAS No. 123, the Company's policy was to record forfeitures as incurred. As a result of its adoption of SFAS No. 123(R) the Company will apply an estimated forfeiture rate of 3% for option grants awarded subsequent to February 1, 2006. Such forfeiture rate will be periodically revised, if necessary, based on actual experience.

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The following table illustrates the effect on net income and net income per share as if the fair value based method had been applied during the three months and nine ended October 29, 2005:

|  | <b>Three Months Ended<br/>October 29, 2005</b> | <b>Nine Months Ended<br/>October 29, 2005</b> |
|--|--|---|
| Net income as reported   | \$ 673,743                                     | \$ 1,694,120                                  |
| Stock-based employee compensation determined under the fair value method, net of tax effects | (77,124)                                       | (236,184)                                     |
| <b>Pro forma net income</b>  | <b>\$ 596,619</b>                              | <b>\$ 1,457,936</b>                           |
| Net income per common share - diluted  |  |   |
| As reported  | \$ 0.09  | \$ 0.24                                       |
| Pro forma  | \$ 0.08  | \$ 0.20                                       |

The Company has estimated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. The volatility assumption is based on the historical weekly price data of the Company's common stock over a period equivalent to the weighted average expected life of the Company's options. Management evaluated whether there were factors during that period which were unusual and would distort the volatility figure if used to estimate future volatility and concluded that there were no such factors. In determining the expected life of the option grants, the Company has observed the actual terms of prior grants with similar characteristics 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 risk-free interest rate was 3.78% and 3.43% for all options granted in the third quarter and nine months of fiscal 2007 and 2006, respectively.

**Table of Contents****ASTRO-MED, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****October 28, 2006****(Unaudited)****(5) Share-Based Compensation (Continued)**

The following table shows the weighted-average assumptions using the Black-Scholes options pricing model used for stock option grants as well as the fair value of options granted:

|                          | <b>Fiscal<br/>2007</b> | <b>Fiscal<br/>2006</b> |
|--------------------------|------------------------|------------------------|
| Risk Free Interest Rate  | 3.8%                   | 3.4%                   |
| Expected Volatility      | 52.2%                  | 57.9%                  |
| Expected Life (in years) | 5.0                    | 5.0                    |
| Forfeiture Rate          | 3.0%                   | 0.0%                   |
| Dividend Yield           | 1.6%                   | 1.7%                   |

The fair value per share for all options granted during the nine months ended October 28, 2006 and October 29, 2005 was \$3.45 per share and \$3.14 per share, respectively.

Aggregated information regarding the Company's stock option plans activities as of October 28, 2006 are summarized below:

|                                 | <b>Number of Options</b> | <b>Weighted Average<br/>Exercise<br/>Price</b> | <b>Weighted Average<br/>Remaining<br/>Contractual<br/>Life (in Years)</b> | <b>Aggregate Intrinsic<br/>Value</b> |
|---------------------------------|--------------------------|--|---|--------------------------------------|
| Outstanding at January 31, 2006 | 1,956,694                | \$ 5.18  |   |                                      |
| Granted                         | 132,500                  | 7.93   |   |                                      |
| Exercised                       | (174,888)                | 5.36   |   |                                      |
| Expired or canceled             | (12,532)                 | 7.33   |   |                                      |
| Outstanding at October 28, 2006 | 1,901,874                | \$ 5.34  | 4.4   | \$ 9,184,515                         |
| Exercisable at October 28, 2006 | 1,558,279                | \$ 4.75  | 3.5   | \$ 8,441,098                         |

The total aggregate intrinsic value of options exercised during the nine months ended October 28, 2006 was \$855,112. 44,825 options were exercised during the nine months ended October 29, 2005. As of October 28, 2006, there was \$826,291 of total unrecognized compensation expense related to share-based compensation arrangements, which is expected to be recognized over a weighted-average period of approximately 4 years. As of October 29, 2005, the number of options exercisable was 1,640,839 and the weighted average exercise price of those options was \$4.61 per share.

**Table of Contents****ASTRO-MED, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****October 28, 2006****(Unaudited)****(6) Comprehensive Income**

The Company's comprehensive income is as follows:

|  | <b>Three-Months Ended</b> |                    | <b>Nine-Months Ended</b> |                     |
|--|---------------------------|--------------------|--------------------------|---------------------|
|  | <b>October 28,</b>        | <b>October 29,</b> | <b>October 28,</b>       | <b>October 29,</b>  |
|  | <b>2006</b>               | <b>2005</b>        | <b>2006</b>              | <b>2005</b>         |
| <b>Comprehensive Income:</b>   |                           |                    |                          |                     |
| Net Income   | \$ 3,976,700              | \$ 673,743         | \$ 5,259,948             | \$ 1,694,120        |
| <b>Other Comprehensive Income (Loss):</b>                            |                           |                    |                          |                     |
| Foreign currency translation adjustments, net of tax                 | 3,687                     | 62,854             | 73,362                   | (128,061)           |
| <b>Unrealized gain (loss) in securities:</b>                         |                           |                    |                          |                     |
| Unrealized holding gain (loss) arising during the period, net of tax | 26,033                    | (7,856)            | 339                      | (37,686)            |
| <b>Other Comprehensive Income (Loss)</b>                             | <b>29,720</b>             | <b>54,998</b>      | <b>73,701</b>            | <b>(165,747)</b>    |
| <b>Comprehensive Income</b>  | <b>\$ 4,006,420</b>       | <b>\$ 728,741</b>  | <b>\$ 5,333,649</b>      | <b>\$ 1,528,373</b> |

**(7) Inventories**

Inventories, net of reserves, 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:

|                 | <b>October 28,</b> | <b>January 31,</b> |
|-----------------|--------------------|--------------------|
|                 | <b>2006</b>        | <b>2006</b>        |
| Raw Materials   | \$ 5,622,634       | \$ 5,879,486       |
| Work-In-Process | 2,337,895          | 1,050,910          |
| Finished Goods  | 2,919,172          | 2,879,374          |
|                 | \$ 10,879,701      | \$ 9,809,770       |

**(8) Income Taxes**

During the quarter ended October 28, 2006, the Company recognized an income tax expense of approximately \$2,251,000. The quarter's income tax expense includes 1) expense of \$355,000 on the current quarter's pre-tax income 2) a \$231,000 favorable adjustment related to differences between the prior year tax provision and the actual tax return as filed primarily relating to additional foreign tax credits, R&D credits and lower state income taxes and 3) expense of \$2,127,000 related to the net gain on the sale of the Braintree real estate. This compares to an income tax benefit of \$177,000 in the prior year which includes 1) an income tax expense of \$184,000 which equals an effective tax rate of 37% on the current quarter's pre-tax income and 2) a \$361,000 reversal of tax reserves related to the favorable resolution of certain income tax examinations.

During the nine months ended October 28, 2006, the Company recognized an income tax expense of \$3,037,000. The nine month income tax expense includes 1) expense of \$1,141,000 on the current quarter's pre-tax income 2) a \$231,000 favorable adjustment related to differences between the prior year tax provision and the actual tax return as filed primarily relating to additional foreign tax credits, R&D credits and lower

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state income taxes and 3) expense of \$2,127,000 related to the net gain on the sale of the Braintree real estate. This compares to an income tax expense of \$422,000 in the prior year which includes 1) an income tax expense of \$783,000 on the period's pre-tax income and 2) the \$361,000 reversal of tax reserves noted above.

**Table of Contents****ASTRO-MED, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****October 28, 2006****(Unaudited)****(9) Segment Information**

Summarized below are the sales and segment operating profit for each reporting segment for three-months ended October 28, 2006 and October 29, 2005:

|   | Sales               |                     | Segment Operating Profit |                     |
|---|---------------------|---------------------|--------------------------|---------------------|
|   | October 28,<br>2006 | October 29,<br>2005 | October 28,<br>2006      | October 29,<br>2005 |
| T&M   | \$ 3,865,000        | \$ 3,173,000        | \$ 821,000               | \$ 36,000           |
| Quicklabel  | 7,723,000           | 7,113,000           | 82,000                   | 746,000             |
| GT  | 4,455,000           | 4,169,000           | 591,000                  | 427,000             |
| Total   | \$ 16,043,000       | \$ 14,455,000       | 1,494,000                | 1,209,000           |
| Corporate Expenses                                |                     |                     | 866,000                  | 730,000             |
| Gain on Sale of Real Estate, net of related costs |                     |                     | 5,252,000                |                     |
| Operating Income                                  |                     |                     | 5,879,000                | 479,000             |
| Other Income, Net                                 |                     |                     | 348,000                  | 17,000              |
| Income Before Income Taxes                        |                     |                     | 6,228,000                | 496,000             |
| Income Tax Provision (Benefit)                    |                     |                     | 2,251,000                | (178,000)           |
| Net Income  |                     |                     | \$ 3,977,000             | \$ 674,000          |

Summarized below are the sales and segment operating profit for each reporting segment for the nine-months ended October 28, 2006 and October 29, 2005:

|   | Sales               |                     | Segment Operating Profit |                     |
|---|---------------------|---------------------|--------------------------|---------------------|
|   | October 28,<br>2006 | October 29,<br>2005 | October 28,<br>2006      | October 29,<br>2005 |
| T&M   | \$ 11,300,000       | \$ 8,423,000        | \$ 2,068,000             | \$ 161,000          |
| Quicklabel  | 22,847,000          | 21,766,000          | 1,021,000                | 2,156,000           |
| GT  | 13,804,000          | 13,107,000          | 2,101,000                | 1,817,000           |
| Total   | \$ 47,951,000       | \$ 43,296,000       | 5,190,000                | 4,134,000           |
| Corporate Expenses                                |                     |                     | 2,833,000                | 2,234,000           |
| Gain on Sale of Real Estate, net of related costs |                     |                     | 5,252,000                |                     |
| Operating Income                                  |                     |                     | 7,609,000                | 1,900,000           |

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|                            |              |              |
|----------------------------|--------------|--------------|
| Other Income, Net          | 689,000      | 216,000      |
| Income Before Income Taxes | 8,298,000    | 2,116,000    |
| Income Tax Provision       | 3,038,000    | 422,000      |
| Net Income                 | \$ 5,260,000 | \$ 1,694,000 |



**Table of Contents****ASTRO-MED, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(Unaudited)****(10) Product Liability**

Changes in the Company's product warranty liability during the nine-months ended October 28, 2006 and October 29, 2005, are as follows:

|                                     | <b>October 28,<br/>2006</b> | <b>October 29,<br/>2005</b> |
|-------------------------------------|-----------------------------|-----------------------------|
| Balance, beginning of the period    | \$ 238,642                  | \$ 208,642                  |
| Warranties issued during the period | 341,374                     | 416,149                     |
| Settlements made during the period  | (313,403)                   | (401,149)                   |
| Balance, end of the period          | \$ 266,613                  | \$ 223,642                  |

**(11) Stock Split**

On May 16, 2006, the Company declared a 5 for 4 stock split with a record date of June 16, 2006 which was accounted for as a stock dividend and was distributed to shareholders on June 30, 2006. An amount equal to the fair value of the additional shares was transferred from retained earnings to additional paid in capital and common stock as of the declaration date. All per share amounts have been restated.

**(12) Sale of Real Estate**

On September 19, 2006, the Company completed the sale of its property located in Braintree, Massachusetts constituting approximately 24.692 acres of land to Hanover R.S. Limited Partnership for the price of \$6,100,000 which was paid in cash at the closing. The \$5,251,707 gain on the sale of the property was net of the book value of the property, professional fees, executive bonus for completing the transaction and other miscellaneous expenses related to the transaction. The net proceeds from the sale were deposited with a qualified intermediary in order to give the Company the option to enter into a tax free like-kind exchange under Section 1031 of the Internal Revenue Code. The Company had forty five days to identify possible replacements in order to effect a like-kind exchange. As of November 3, 2006 the Company was able to identify four properties in accordance with Section 1031 of the Internal Revenue Code.

In July 2006, the Company entered into a lease agreement for approximately 36,000 square feet of manufacturing space located in Rockland, Massachusetts. During the third quarter ended October 28, 2006, the Company transferred its manufacturing operations for Grass Technologies from Braintree to Rockland.

**(13) Subsequent Event**

On November 15, 2006 the Company announced the elimination of the indebtedness of its senior officers to the Company. Both the CEO and COO repaid in full the unsecured non-interest bearing demand notes in the amounts of \$321,640 and \$131,624, respectively. These repayment transactions by these corporate officers eliminate their outstanding debt obligations to the Company. As a result, these amounts were reclassified to current assets as of October 28, 2006.

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**ASTRO-MED, INC.**

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

**AND RESULTS OF OPERATIONS**

**Business Overview**

This section should be read in conjunction with the Condensed Consolidated Financial Statements of the Company included elsewhere herein and the Company's Form 10-K for the fiscal year ended January 31, 2006.

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

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

Effective as of February 1, 2006, we adopted SFAS No. 123(R). Share-Based Payment which requires that we recognize compensation expense in our statement of operations for the grant-date fair value of stock options and other equity-based compensation issued to employees. Before February 1, 2006, we accounted for share-based payments to employees using APB Opinion No. 25's intrinsic value method and recognized no compensation expense for employee stock options or shares purchased under our Employee Stock Purchase Plan.

We adopted the provisions of SFAS No. 123(R) under the modified prospective transition method. A modified prospective transition method is one in which compensation expense is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date. In accordance with the modified prospective transition method provided under SFAS No. 123(R), results for prior periods have not been restated. As a result, our financial statements for the periods ended before February 1, 2006 are not directly comparable to our financial statements for periods ended after February 1, 2006. Moreover, because the grant-date fair value method under SFAS No. 123(R) is not the same as the method under SFAS No. 123, our results of operations for periods ending after February 1, 2006 are not directly comparable to our pro forma disclosures in the notes to our financial statements for periods ended before February 1, 2006 under SFAS No. 123.

We estimate the fair value of each option on the date of grant using the Black-Scholes option pricing model. This model incorporates assumptions as to stock price volatility, the expected life of options, a risk free interest rate and dividend yield. Many of these assumptions are highly subjective and require the exercise of management judgment. If our actual experience differs from our estimates and we chose to employ different assumptions in the future, the stock-based compensation expense that we record in future periods may differ materially from that recorded in the current period.

As a result of the adoption of SFAS No. 123(R), our income before income tax expense for the three months and nine months ended October 28, 2006 was reduced by approximately \$106,000 and \$306,000, respectively. As of October 28, 2006, there was \$826,291 of total unrecognized compensation expense related to share-based compensation arrangements, which is expected to be recognized over a weighted-average period of approximately 4 years. Based on the assumptions and estimates described above, we estimate that we will record stock-based compensation expense of approximately \$400,000 for the year ending January 31, 2007.

**Results of Operations**

**Three-Months Ended October 28, 2006 vs. Three-Months Ended October 29, 2005**

|            | Sales as a          |                     | Sales as a          |                     | % Increase         |
|------------|---------------------|---------------------|---------------------|---------------------|--------------------|
|            | October 28,<br>2006 | % of<br>Total Sales | October 29,<br>2005 | % of<br>Total Sales | Over Prior<br>Year |
| T&M        | \$ 3,865,000        | 24.1%               | \$ 3,173,000        | 21.9%               | 21.8%              |
| QuickLabel | 7,723,000           | 48.1%               | 7,113,000           | 49.2%               | 8.6%               |
| GT         | 4,455,000           | 27.8%               | 4,169,000           | 28.9%               | 6.9%               |
| Total      | \$ 16,043,000       | 100.0%              | \$ 14,455,000       | 100.0%              | 11.0%              |

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**ASTRO-MED, INC.**

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

**AND RESULTS OF OPERATIONS**

**Results of Operations (continued):**

**Three-Months Ended October 28, 2006 vs. Three-Months Ended October 29, 2005**

Sales in the quarter were \$16,042,923, an increase of 11.0% from prior year's third quarter sales of \$14,455,179. Sales in the Company's T&M product group were \$3,865,000, an increase of 21.8% over the prior year. Sales in the Company's QLS product group were \$7,723,000, an 8.6% increase over the prior year. Sales through the Company's GT product group were \$4,455,000, a 6.8% increase over the prior year. Sales through the Company's domestic channel were \$12,312,000, up 18.2% from the prior year's third quarter sales of \$10,416,000. Sales through the Company's international channel were \$3,731,000, down 7.6% from the prior year's third quarter sales of \$4,039,000. The favorable impact of the change in foreign exchange rates was approximately \$119,000 during the quarter as the dollar continued to weaken. Had this favorable impact not occurred, sales through the Company's international channel would have been down 10.6% from the prior year.

The Company's hardware and software sales were \$7,893,000 for the quarter, up 15.1% from the prior year's sales of \$6,854,000. The increase from the prior year was driven by the T&M airborne printers and the Everest series equipment and the Grass Technologies sleep diagnosis equipment. QLS hardware sales were down from the prior year due to lower OEM monochrome printer sales.

The Company's consumable sales were \$7,027,000 for the quarter, up 11.7% from the prior year's sales of \$6,293,000. The growth in the consumable sales was traceable to the QLS media products. T&M and Grass Technologies consumable sales were down slightly when compared to the prior year.

Sales of the Company's service related products were \$1,123,000 for the quarter, down 14.1% from the prior year's sales of \$1,308,000. The decrease was driven by lower sales of replacement parts.

Gross profit dollars were \$6,426,855 which generated a gross profit margin of 40.1% for the quarter as compared to 40.0% for the third quarter in the prior year. This year's gross profit margin is the result of higher manufacturing costs related to ensuring the production facilities are compliant with ROHS and FAA certification requirements which offset manufacturing absorption gains realized from the increases in sales volume.

Operating expenses in the third quarter were \$5,799,265, compared to \$5,303,989 in the third quarter of the prior year. Selling and general administrative (SG&A) spending increased 11.6% from last year to \$4,819,313. The increase was driven by higher personnel costs, travel and trade show expenses and stock based compensation expense. Research & development spending decreased 1.0% from last year to \$979,952. As a percent of sales, R&D spending was 6.1% in the third quarter of the current year compared to 6.8% in the third quarter of the prior year.

During the third quarter of the current year the Company completed the sale of its property located in Braintree Massachusetts for the price of \$6,100,000 which was received in cash at the closing. The net pretax gain on the sale of this property after professional fees, management bonus expense and other miscellaneous fees was \$5,252,000.

Other income in the third quarter was \$348,661, compared to \$16,731 in the third quarter of the prior year. The increase of \$331,930 was driven by higher investment income of \$89,252, the impact of foreign exchange transactions of \$62,181, the sale of GT research contracts for \$75,000 and other miscellaneous income of \$105,497.

During the quarter ended October 28, 2006, the Company recognized an income tax expense of approximately \$2,251,000. The quarter's income tax expense includes 1) expense of \$355,000 on the current quarter's pre-tax income 2) a \$231,000 favorable adjustment related to differences between the prior year tax provision and the actual tax return as filed primarily relating to additional foreign tax credits, R&D credits and lower state income taxes and 3) expense of \$2,127,000 related to the net gain on the sale of the Braintree real estate. This compares to an income tax benefit of \$177,000 in the prior year which includes 1) an income tax expense of \$184,000 which equals an effective tax rate of 37% on the current quarter's pre-tax income and 2) a \$361,000 reversal of tax reserves related to the favorable resolution of certain income tax examinations.

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

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Summarized below are the sales and segment operating profit for each reporting segment for three-months ended October 28, 2006 and October 29, 2005:

|   | Sales             |                   | Segment Operating Profit |               |
|---|-------------------|-------------------|--------------------------|---------------|
|   | October 28,       | October 29,       | October 28,              | October 29,   |
|   | 2006              | 2005              | 2006                     | 2005          |
| T&M   | \$ 3,865,000      | \$ 3,173,000      | \$ 821,000               | \$ 36,000     |
| Quicklabel  | 7,723,000         | 7,113,000         | 82,000                   | 746,000       |
| GT  | 4,455,000         | 4,169,000         | 591,000                  | 427,000       |
| <br>Total   | <br>\$ 16,043,000 | <br>\$ 14,455,000 | <br>1,494,000            | <br>1,209,000 |
| Corporate Expenses                                |                   |                   | 866,000                  | 730,000       |
| Gain on Sale of Real Estate, net of related costs |                   |                   | 5,252,000                |               |
| Operating Income                                  |                   |                   | 5,879,000                | 479,000       |
| Other Income, Net                                 |                   |                   | 348,000                  | 17,000        |
| Income Before Income Taxes                        |                   |                   | 6,228,000                | 496,000       |
| Income Tax Provision (Benefit)                    |                   |                   | 2,251,000                | (178,000)     |
| Net Income  |                   |                   | \$ 3,977,000             | \$ 674,000    |

**Table of Contents****ASTRO-MED, INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION****AND RESULTS OF OPERATIONS****Results of Operations (continued):****Three-Months Ended October 28, 2006 vs. Three-Months Ended October 29, 2005****Test & Measurement**

T&M's sales were \$3,865,000 for the quarter compared to \$3,173,000 for the same quarter in the prior year. The \$692,000, or 21.8%, increase in T&M sales was driven by higher Ruggedized product sales and telemetry product sales. T&M Consumable sales and Service and Other sales decreased during the quarter. As a result of higher sales and improved gross profit margins, segment operating profit margins improved to 21.2% compared to 1.1% in the prior year.

**Quicklabel Systems**

Quicklabel Systems sales were \$7,723,000 for the quarter compared to \$7,113,000 for the same quarter in the prior year. The increase of \$610,000, or 8.6% was driven by an increase in Consumable sales. Hardware and Service and Other sales for the product group were down for the quarter as a result of lower OEM monochrome printer sales. As a result of a shift in product mix, higher selling and support expenses and unfavorable manufacturing costs associated with lower hardware sales the Quicklabel segment operating profit margins declined to 1.1% of sales compared to 10.4% in the prior year.

**Grass Technologies**

GT sales were \$4,455,000 for the quarter compared to \$4,169,000 for the same quarter in the prior year. The increase of \$286,000, or 6.9% was driven by increased hardware sales in clinical systems and research products. Sleep systems were up 36.6% from the prior year while EEG and LTM system sales were lower than the prior year sales level. GT electrode consumable sales increased 3.2% during the quarter. Service and Other sales were down during the quarter. GT segment operating profit margins were 13.3% for the quarter up from 10.2% in the prior year.

**Nine-Months Ended October 28, 2006 vs. Nine-Months Ended October 29, 2005**

|            | Sales as a    |             | Sales as a    |             | % Increase      |
|------------|---------------|-------------|---------------|-------------|-----------------|
|            | October 28,   | % of        | October 29,   | % of        |                 |
|            | 2006          | Total Sales | 2005          | Total Sales | Over Prior Year |
| T&M        | \$ 11,300,000 | 23.6%       | \$ 8,423,000  | 19.4%       | 34.1%           |
| QuickLabel | 22,847,000    | 47.6%       | 21,766,000    | 50.2%       | 4.9%            |
| GT         | 13,804,000    | 28.8%       | 13,107,000    | 30.4%       | 5.3%            |
| Total      | \$ 47,951,000 | 100.0%      | \$ 43,296,000 | 100.0%      | 10.7%           |

Sales for the first nine-months of the current year were \$47,951,000, a 10.7% increase over the \$43,296,000 for the first nine-months of the prior year. T&M sales were \$11,300,000, an increase of 34.1% from the prior year. Quicklabel sales were \$22,847,000, an increase of 4.9% from the prior year. GT sales were \$13,804,000, a 5.3% increase from the prior year. Sales through our domestic channel were \$35,160,000, up 15.3% from the prior year domestic channel sales of \$30,492,000. Sales through the Company's international channels were \$12,791,000, flat with the prior year's international channel sales of \$12,805,000. For the nine months ended October 28, 2006, the favorable change in foreign exchange rates added \$101,000 to the current year sales when compared to the prior year.

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The Company's hardware and software sales were \$23,821,000 for the nine months, up 16.8% from the prior year's sales of \$20,387,000. The increase from the prior year was driven by T&M sales and GT sales.

The Company's consumable sales were \$20,626,000 for the nine months, up 7.2% from the prior year's sales of \$19,236,000. The increase from the prior year was driven by Quicklabel consumable sales. T&M consumable sales were down from the prior year and GT consumable sales were approximately flat with the prior year.

Service and Other sales was \$3,504,000, down 4.6% from the prior year's sales of \$3,674,000 due to lower sales of parts.

Gross profit dollars were \$19,698,854, which generated a gross profit margin of 41.1% for the nine-months of the current year as compared to a gross profit margin of 41.1% for the first nine-months of the prior year. The flat gross margin for the nine months of the current year is attributed to additional manufacturing expenses as the Company repositions its production facility to be compliant with ROHS and FAA certification requirements, as well as increased production capacity demands for the ruggedized and color printer product lines.

Operating expenses for the nine-months were \$17,341,667 compared to \$15,902,450 for the same period in the prior year. Selling and general administrative (SG&A) spending increased 10.7% to \$14,364,814. The increase in SG&A spending can be attributed to the increase in field sales personnel costs, increases in advertising and tradeshow expenses and stock based compensation expense. R&D spending increased 1.5% from the prior year to \$2,976,853. As a percent of sales, R&D spending was 6.2% in the current year compared to 6.7% in the prior year.

During the first nine months of the current year the Company completed the sale of its property located in Braintree, Massachusetts for the price of \$6,100,000 which was received in cash at the closing. The net pretax gain on the sale of this property after professional fees, management bonus expense and other miscellaneous fees was \$5,252,000.

Other income for the first nine months of the current year was \$688,819 compared to \$215,981 for the same period in the prior year. The increase of \$472,838 was driven by higher investment income of \$159,963, the impact of foreign exchange transactions of \$121,830, the sale of GT research contracts for \$75,000 and other miscellaneous income of \$116,045.



**Table of Contents****ASTRO-MED, INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION****AND RESULTS OF OPERATIONS****Results of Operations (continued):****Nine-Months Ended October 28, 2006 vs. Nine-Months Ended October 29, 2005**

During the nine months ended October 28, 2006, the Company recognized an income tax expense of \$3,037,000. The nine month income tax expense includes 1) expense of \$1,141,000 on the current quarter's pre-tax income 2) a \$231,000 favorable adjustment related to differences between the prior year tax provision and the actual tax return as filed primarily relating to additional foreign tax credits, R&D credits and lower state income taxes and 3) expense of \$2,127,000 related to the net gain on the sale of the Braintree real estate. This compares to an income tax expense of \$422,000 in the prior year which includes 1) an income tax expense of \$783,000 on the period's pre-tax income and 2) the \$361,000 reversal of tax reserves noted above.

Summarized below are the sales and segment operating profit (loss) for each reporting segment for the nine-months ended October 28, 2006 and October 29, 2005:

|   | Sales         |               | Segment Operating Profit |              |
|---|---------------|---------------|--------------------------|--------------|
|   | October 28,   | October 29,   | October 28,              | October 29,  |
|   | 2006          | 2005          | (Loss) 2006              | (Loss) 2005  |
| T&M   | \$ 11,300,000 | \$ 8,423,000  | \$ 2,068,000             | \$ 161,000   |
| QLS   | 22,847,000    | 21,766,000    | 1,021,000                | 2,156,000    |
| GT  | 13,804,000    | 13,107,000    | 2,101,000                | 1,817,000    |
| Total   | \$ 47,951,000 | \$ 43,296,000 | 5,190,000                | 4,134,000    |
| Corporate Expenses                                |               |               | 2,833,000                | 2,234,000    |
| Gain on Sale of Real Estate, net of related costs |               |               | 5,252,000                |              |
| Operating Income                                  |               |               | 7,609,000                | 1,900,000    |
| Other Income, Net                                 |               |               | 689,000                  | 216,000      |
| Income Before Income Taxes.                       |               |               | 8,298,000                | 2,116,000    |
| Income Tax Provision                              |               |               | 3,038,000                | 422,000      |
| Net Income  |               |               | \$ 5,560,000             | \$ 1,694,000 |

**Test & Measurement**

T&M's sales were \$11,300,000 for the nine months compared to \$8,423,000 for the same period in the prior year. The \$2,877,000 or 34.1% increase in T&M sales was driven by higher Ruggedized product sales and Everest series sales. Dash sales were down for the period. T&M Consumable sales were down for the nine months and Service and Other sales were up slightly the prior year. As a result of higher sales and improved gross profit margins segment operating profit margins improved to 18.3% compared to 1.9% in the prior year.

**Quicklabel Systems**

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Quicklabel Systems sales were \$22,847,000 for the nine months compared to \$21,766,000 for the same period in the prior year. The increase of \$1,081,000, or 4.9% was driven by a 10.1% increase in Consumable sales. Hardware sales for the product group were down 8.0% for the period primarily as a result of lower OEM monochrome printer sales. Service and Other sales were down 6.1% from the prior year as a result of lower sales of parts. As a result of a shift in product mix, higher selling and support expenses and unfavorable manufacturing variances associated with lower hardware sales the Quicklabel segment operating profit margins declined to 4.4% of sales compared to 9.9% in the prior year.

### Grass Technologies

GT sales were \$13,804,000 for the nine months compared to \$13,107,000 for the same period in the prior year. The increase of \$697,000, or 5.3% was driven by increased hardware sales in sleep systems and research products. These hardware increases were tempered by decreased sales within EEG and long term monitoring systems. GT consumable sales were flat with the prior year. Service and Other sales were down 6.5% from the prior year. GT segment operating profit margins were 15.2% in the current year compared to 13.9% in the prior year.

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**ASTRO-MED, INC.**

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

**AND RESULTS OF OPERATIONS**

**Financial Condition:**

The Company's Statements of Cash Flows for the nine-months ended October 28, 2006 and October 29, 2005 are included on page 5. Net cash flows provided by operating activities for the nine-months ended October 28, 2006 and October 29, 2005 were \$2,958,276 and \$1,043,981, respectively. The increase in the cash provided by operating activities can be attributed to decreases in working capital requirements, higher operating income and non cash share based compensation expense.

Cash and Marketable Securities available for sale increased to \$21,367,625 at the end of the third quarter primarily as a result of the Braintree real estate sale. The Company is evaluating possible uses of these funds. Accounts receivable decreased to \$10,333,836 at the end of the third quarter compared to \$10,623,553 at year-end. The accounts receivable collection cycle improved to 58 net days sales outstanding at the end of the quarter as compared to 60 net days outstanding at year-end. Inventory increased to \$10,879,701 at the end of the third quarter compared to \$9,809,770 at year-end. Inventory turns slowed to 3.5 turns at the end of the quarter as compared to 3.7 turns at year-end. The increase in inventory was driven by WIP as the Company's sales and backlog continue to grow.

Capital expenditures were \$1,398,181 for the nine-months ended October 28, 2006 as the Company purchased machinery and equipment, information technology hardware and software and tools and dies.

The Company paid cash dividends for the nine-months ended October 28, 2006 of \$938,615 or \$0.15 per common share.

Backlog was \$7,666,000 at October 28, 2006 compared to \$4,230,000 at October 29, 2005.

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

In the Company's Form 10-K for the year ended January 31, 2006, the Company's most critical accounting policies and estimates upon which our financial status depends were identified as those relating to revenue recognition, warranty claims, bad debt, customer returns, inventories and long-lived assets. We considered the disclosure requirements of Financial Release ( FR ) 60 ( FR-60 ) regarding critical accounting policies and FR-61, as amended by FR-67, 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.

### **Stock Split**

On May 16, 2006, the Company declared a 5 for 4 stock split with a record date of June 16, 2006 which was accounted for as a stock dividend and was distributed to shareholders on June 30, 2006. An amount equal to the fair value of the additional shares was transferred from retained earnings to additional paid in capital and common stock as of the declaration date. All per share amounts have been restated.

### **New Accounting Pronouncements**

In June 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of SFAS No. 109 , which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This interpretation will become effective for the Company during the first quarter of fiscal 2008. We are evaluating the impact this interpretation may have on our financial statements.

### **Safe Harbor Statement**

This document contains forward-looking statements based on current expectations that involve a number of risks and uncertainties. Factors which could cause actual results to differ materially from those anticipated are described in Item 1A of the Company's Form 10-K for the fiscal year ended January 31, 2006.

### **Item 3. Quantitative and Qualitative Disclosure about Market Risk**

The Company's exposure to market risk has not changed materially from its exposure at January 31, 2006 as set forth in Item 7A in its Form 10-K for the fiscal year ended January 31, 2006.

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

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

## **Part II. Other Information**

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

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**

There is no change to the Risk factors disclosed in Item 1A to the Company's Form 10-K for the fiscal year ended January 31, 2006.

**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 2007, the Company made the following repurchases of its common stock:

|              |              | <b>Total Number<br/>of Shares<br/>Repurchased</b> | <b>Average Price paid<br/>Per Share</b> | <b>Total Number of<br/>Shares Purchased as<br/>Part of Publicly<br/>Announced Plans or<br/>Programs</b> | <b>Maximum Number of<br/>Shares That May Be<br/>Purchased Under The<br/>Plans or Programs</b> |
|--------------|--------------|---|---|---|---|
| July 30      | August 26    | 50,000  | \$ 10.03                                | 50,000  | 447,589   |
| August 27    | September 23 |   |   |   | 447,589   |
| September 23 | October 28   |   |   |   | 447,589   |

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**PART II. OTHER INFORMATION**

Item 6. Exhibits

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

- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)
  - 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)
  - 32.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(b) and 18 U.S.C. 1350
  - 32.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(b) and 18 U.S.C. 1350
- 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: December 11, 2006

By /s/ A. W. Ondis  
A. W. Ondis, Chairman  
(Principal Executive Officer)

Date: December 11, 2006

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