

ASTRO MED INC /NEW/  
Form 10-K  
April 16, 2007  
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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-K

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☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended January 31, 2007

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

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## 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)

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

**02893**

(Zip Code)

Registrant's telephone number, including area code: **(401) 828-4000**

Securities registered pursuant to Section 12(b) of the Act:

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Title of each class	Name of each exchange
None	on which registered None

## Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, \$.05 Par Value**

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 checkmark if disclosure of delinquent filers pursuant to Item 405 of regulation S-K is not contained herein, and will not be contained. To the best of the Registrant's knowledge, in definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 ☒

As of July, 29, 2006, the aggregate market value of the voting common equity of the Registrant held by non-affiliates of the Registrant, based on the closing price on the Nasdaq Global Market was \$50,115,190.

As of April 3, 2007 there were 6,875,202 shares of common stock (par value \$0.05 per share) of the Registrant issued and outstanding.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive proxy statement for the 2007 annual meeting of shareholders are incorporated by reference into Part III. See pages 20 through 22 for the exhibit index.

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**ASTRO-MED, INC.**

**FORM 10-K ANNUAL REPORT**

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### **ASTRO-MED, INC.**

#### **PART I**

##### **Item 1. *Business***

###### **General**

Astro-Med, Inc. (the Company) designs, develops, manufactures and distributes a broad range of specialty printers and electronic instruments which incorporate advance technologies including both hardware and software. Target markets for products of the Company include Aerospace, Automotive, Avionics, Transportation, Communications, Computer Peripherals, Apparel, Food and Beverage, Chemicals, Distribution, Life Sciences, Packaging and General Manufacturing.

The Company's products are distributed through its own domestic and international sales force in North America and Western Europe and by authorized dealers elsewhere in the world. Approximately 27.5% of the Company's sales in fiscal 2007 were to customers located outside the United States.

The Company and its subsidiaries and their representatives may from time to time make written or oral statements, including statements contained in the Company's filings with the Securities and Exchange Commission (SEC) and in its reports to shareholders which constitute or contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995 or by the SEC in its rules, regulations and releases.

All statements, other than statements of historical facts included in this annual report and the letter to our shareholders distributed in connection with our annual meeting regarding the Company's financial position and operating and strategic initiatives and addressing industry developments are forward-looking statements. Where, in any forward-looking statement, the Company or its management expresses an expectation or belief as to future results, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will result or be achieved or accomplished. Factors which could cause actual results to differ materially from those anticipated include, but are not limited to, general economic, financial and business conditions and those detailed herein under Item 1A, Risk Factors and from time to time in other filings with the SEC.

###### **Narrative Description of Business**

###### **Product Overview**

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 (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.

Products sold under the Astro-Med brand include ToughWriter page printers and ToughSwitches for use in passenger and military aircraft. ToughWriter page printers are used in both the cockpit and the cabins of aircraft. ToughSwitches are also used in military vehicles. These and other similar products are ruggedized and comply with rigorous MIL-STD specifications for operation under extreme environmental conditions. The Company is currently furnishing ToughWriters for the Airbus A380, the Boeing C-17, B-787, B-777, B-747, B-767, and the Lockheed C-130.

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Other products sold under the Astro-Med brand include the Everest, a telemetry workstation used widely in the aerospace industry to monitor and track space vehicles, aircraft and missiles under test. The Everest ranges in price from \$18,000 to \$35,000 depending on features and options selected.

The Astro-Med brand Dash Series constitute a family of portable electronic data acquisition systems which are used as maintenance and troubleshooting instruments for pulp, paper, metal mills, power plants, automotive R & D centers and manufacturing plants. Included in the Dash Series are the Dash 2EZ, Dash 8X, Dash 8HF, Dash 8XPM and the Dash 18 and they range in price from \$3,500 to \$20,000 depending on model and features and options selected.

Products sold under the QuickLabel System brand include a family of digital color label printers including the Vivo!, the first electrophotographic roll-to-roll printer, the QLS-4100 XE, QLS-8100 XE, QLS-2000, and QLS-3000 thermal transfer label printers, as well as a line of monochrome thermal transfer digital label printers including the Pronto! Series. This Series includes four models used in printing bar code labels.

QuickLabel digital color label printers are sold via a direct sales force throughout the US, Canada, and Western Europe, and serviced by a factory-trained, direct technical support staff. In the rest of the world, QuickLabel uses a broad network of dealers to sell and support its products. QuickLabel's unique labeling solutions are aimed at label printing applications in which product packaging requires frequent content changes. QuickLabel digital color label printers fill a critical need in environments which require on-demand flexibility to package multiple product variations, and to add value to the product itself, as in private labeling, to produce OEM packaging, and to customize virtually any product. Industries that require instant label production flexibility include food and beverage, foodservice distribution, grocery retailing, chemical and sanitary supplies, pharmaceutical and medical products, personal care products, advertising specialties, tire manufacturing and apparel.

Custom QuickLabel, a custom label creation software package, is an integral part of the QuickLabel printing system, and was designed by the same team of engineers who designed the digital label printers. The latest generation of QuickLabel's proprietary user-friendly label creation software offers significant new tools for simplifying label creation and for controlling and enhancing label output. The Company's patented MicroCell® half-toning algorithms have been improved in this latest version of the software, so that printers driven by Custom QuickLabel now render process-color print quality that closely approximates digital artwork.

QuickLabel digital label printers generate revenue through label, tag, thermal transfer ribbon and toner cartridge consumables sales. The Company engineers and manufactures unique printing supplies especially for use in optimizing the performance of the QuickLabel brand of digital label printers.

Products sold under the Grass Technologies brand include systems, instruments and software products to detect, amplify and display the electrical activity of the human brain commonly called electroencephalography (EEG). EEG data is used by clinicians to diagnose epilepsy and other neurological conditions including sleep apnea.

Included in the Grass Technologies line of products are the Comet, the Aura, the wireless Aura PSG, and the Beehive. These systems are all operated under the Twin software system, a Windows-based multi-module software program developed by the Company over the past six years. Included also is a line of amplifiers, electrodes, transducers and stimulators used by clinicians and researchers.

Products sold under the Grass Technologies brand are sold to hospitals, sleep centers, clinics and doctors offices. All Grass Technologies clinical products which are connected to the human body are approved by the Food and Drug Administration (FDA).

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### **Technology**

The core technologies of the Company relate to (1) acquiring data, (2) conditioning the data, (3) displaying the data on hard copy, monitor, or electronic storage media, and finally (4) analyzing the data.

The Company is continually improving the performance and functionality of core technologies, enabling the Company to lead the competition with innovative products.

### **Patents and Copyrights**

The Company holds a number of product patents in the United States and in foreign countries. It has filed applications for other patents that are pending. The Company considers its patents to be important, but does not believe that its business is materially dependent on them. The Company copyrights its extensive software and registers its trademarks.

### **Manufacturing and Supplies**

The Company designs its products and manufactures many of the component parts. The balance of the parts are produced to the Company's specifications by suppliers. Raw materials required for the manufacture of products, including parts produced to the Company's specifications, are generally available from numerous suppliers. However, the Company does obtain certain components of our products and certain finished products from sole sources.

### **Product Development**

The Company has maintained an active program of product research and development since its inception. During fiscal 2007, 2006 and 2005, the Company incurred costs of \$4,187,018, \$4,042,710, and \$4,046,583, respectively, on Company-sponsored product development. The Company is committed to product development as a requisite to its growth and expects to continue its focus on research and development efforts in fiscal 2008 and beyond.

### **Marketing and Competition**

The Company competes worldwide in many markets including clinical and research medicine, aerospace, avionics, 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.

The Company has a number of competitors in each of the markets that it serves. In the T&M area, the Company feels that it leads the field in Data Acquisition Recorders.

In the Color Label Printer field, the Company believes it leads the world in color printing using the thermal transfer printing technology. The Company introduced the very first thermal transfer color printers in 1995. The Company believes it is the first to introduce an electrophotographic roll-to-roll color label printer.

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The Grass Technologies products of the Company are devoted to clinical applications in EEG, PSG, and Long Term Epilepsy Monitoring (LTM). There are approximately fourteen companies that compete in one or more of the three modalities (EEG, PSG, LTM), but none are the clear leader. The Company feels it offers superior products based upon its long history and pioneering efforts in the field since 1935. The Company, unlike most of its competitors, designs, manufactures and produces complete systems including transducers, amplifiers, sensors, and Windows-based application software. Additionally, the Company produces a range of life science products for the research market. Many of the latter products eventually find their way into clinical applications.

No single customer accounted for 10% or more of the Company's net sales in any of the last three fiscal years. The Company's products were sold to approximately 5,000 customers.

### **International Sales**

In fiscal 2007, 2006 and 2005, net sales to customers in various geographic areas outside the United States, primarily in Canada and Western Europe, amounted to \$18,015,742, \$17,884,078, and \$17,037,967, respectively.

### **Order Backlog**

The Company's backlog fluctuates regularly. It consists of a blend of orders for end user customers as well as original equipment manufacturer customers. Manufacturing is geared to forecasted demands and applies a rapid turn cycle to meet customer expectations. Accordingly, the amount of order backlog does not indicate future sales trends. The Company's backlog at January 31, 2007 and 2006 was \$5,959,000 and \$5,563,000, respectively.

### **Other Information**

The Company's business is not seasonal in nature; however, the Company's sales are impacted by the size and complexity of the transactions, which can cause fluctuations in sales from quarter to quarter.

Most of the Company's products are generally warranted for one year against defects in materials or workmanship. Warranty expenses have generally averaged approximately \$405,000 a year for the Company's last five fiscal years.

As of January 31, 2007, the Company employed approximately 400 people. The Company is generally able to satisfy its employment requirements. No employees are represented by a union. The Company believes that employee relations are good.

### **Item 1A. Risk Factors**

Investing in our common stock involves a degree of risk. The risks and uncertainties described below are not the only risks facing our Company. Additional risks and uncertainties may also impair our business operations. If any of the following risks actually occur, our business, financial condition or results of operations would likely suffer.

*Astro-Med competes in highly competitive markets which are likely to become more competitive.* The markets for our products are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. Current competitors or new market entrants may develop new products with features that could adversely affect the competitive position of our products. We may not be successful in selecting, developing, manufacturing and marketing new products or enhancing our existing products or in responding effectively to technological changes, new standards or product announcements by competitors. The timely availability of new products and enhancements, and their acceptance by customers are important to our future success. Delays in such availability or a lack of market acceptance could have an adverse effect on our business. Additionally, there may be technological innovation that eliminates or reduces the needs for our products.

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*Astro-Med could incur liabilities as a result of installed product failures due to design or manufacturing defects.* Our products may have defects despite testing internally or by current or potential customers. These defects could result in product returns or recalls and loss or delay in market acceptance which could have a material adverse effect on our business, operating results or financial condition.

*Astro-Med sells a significant portion of its products internationally.* We sell our products worldwide through several foreign locations and distributors. Our worldwide operations are subject to the risks normally associated with foreign operations including, but not limited to:

Customer and vendor financial stability;

Volatility in general world economic conditions;

The disruption of markets;

Changes in export or import laws;

Restrictions on currency exchanges;

Longer payment terms; and

The modification or introduction of government policies with potentially adverse effects.

International sales, which are both direct and indirect sales to customers outside the U.S. accounted for approximately 27.5% of our sales in fiscal 2007. We anticipate that international sales will continue to account for a significant portion of our revenue. We invoice our customers in various currencies. Therefore, we may be exposed to exchange losses based upon currency exchange rate fluctuations, which losses could have a material adverse effect on our operating results.

*Astro-Med depends on the ongoing service of its senior management and ability to attract and retain other key personnel.* Our success depends to a significant degree upon the continuing contributions of key management, sales, marketing, research and development and manufacturing personnel, many of whom we would have difficulty replacing. We believe that our future success will depend in large part upon our ability to attract and retain highly skilled engineers and management, sales and marketing personnel. Failure to attract and retain key personnel could have a material adverse effect on our business, operating results or financial position.

*Astro-Med cannot provide any assurance that current laws, or any laws enacted in the future, will not have a material adverse effect on our business.* Our operations are subject to laws, rules, regulations, including environmental regulations, government policies and other requirements in each of the jurisdictions in which we conduct business. Changes in laws, rules, regulations, policies or requirements could result in the need to modify our products and could affect the demand for our products, which may have an adverse impact on our future operating results. In addition, we must comply with new regulations restricting our ability to include lead and certain other substances in our products. If we do not comply with applicable laws, rules and regulations we could be subject to costs and liabilities and our business may be adversely impacted.

*Astro-Med relies on sole source suppliers that may result in product delays or price increases.* We currently obtain certain components of our products and certain finished products from sole sources. In the future, our suppliers may not be able to meet our demand for components and products in a timely and cost effective manner. Our inability to secure and qualify alternative sources of supply in a timely manner may disrupt our ability to fulfill customer orders.

*Astro-Med spends a significant amount of time and effort related to the development of our Ruggedized and Color Printer products.* Failure to develop these products and markets as anticipated could adversely affect our growth.





**Table of Contents****Item 1B. Unresolved Staff Comments**

None

**Item 2. Properties**

The following table sets forth information regarding the Company's principal owned properties, all of which are included in the consolidated balance sheet appearing elsewhere in this report.

	Approximate	
	Square	
Location	Footage	Principal Use
West Warwick, RI	116,000	Corporate headquarters, research and development, manufacturing
Slough, England	1,700	Sales and service

The Company also leases facilities in seven locations. The following information pertains to each location:

	Approximate	
	Square	
Location	Footage	Principal Use
Rockland, MA	36,000	Manufacturing, sales and service
Longueuil, Quebec, Canada	3,800	Sales and service
Rodgau, Germany	5,435	Manufacturing, sales and service
Trappes, France	2,164	Sales and service
Zwolle, Netherlands	475	Sales and service
Schaumburg, IL	1,131	Sales and service
Milano, Italy	753	Sales and service

During the first quarter of fiscal 2008 the Company purchased the 36,000 square feet of manufacturing, sales and service facility it was leasing in Rockland, MA.

The Company believes its facilities are well maintained, in good operating condition and generally adequate to meet its needs for the foreseeable future.

**Item 3. 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 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of the Company's security holders, through solicitation of proxies or otherwise, during the last quarter of the period covered by this report.

**Table of Contents****PART II****Item 5. Market for the Registrant's Common Stock, Related Stockholder's Matters and Issuer Purchases of Equity Securities**

The Company's common stock trades on The NASDAQ Stock Market under the symbol ALOT. The following table sets forth dividend data and the range of high and low closing prices, as furnished by NASDAQ, for the periods indicated.

	Years Ended January 31,	High	Low	Dividends Per Share
2007				
First Quarter		\$ 9.40	\$ 7.82	\$ 0.05
Second Quarter		\$ 10.45	\$ 8.72	\$ 0.05
Third Quarter		\$ 10.70	\$ 9.80	\$ 0.05
Fourth Quarter		\$ 10.67	\$ 9.59	\$ 0.05
2006				
First Quarter		\$ 8.55	\$ 6.72	\$ 0.03
Second Quarter		\$ 8.20	\$ 6.92	\$ 0.03
Third Quarter		\$ 10.46	\$ 7.83	\$ 0.03
Fourth Quarter		\$ 9.72	\$ 7.84	\$ 0.03

The Company had approximately 327 shareholders of record as of April 3, 2007, which does not reflect shareholders with beneficial ownership in shares held in nominee name.

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Set forth below is a line graph comparing the cumulative total return on the Company's common stock against the cumulative total return of a NASDAQ market index and a peer index for the period of five fiscal years ended January 31, 2007. The University of Chicago's Center for Research in Security Pricing (CRSP) total return index for the [NASDAQ Stock Market] is calculated using all companies trades on the NASDAQ National Market System (NMS) or on the NASDAQ supplemental listing through January 31, 2007 and on the NASDAQ Global Market since such date. It includes both domestic and foreign companies. The index is weighted by the current shares outstanding and assumes dividends reinvested. The return is calculated on a monthly basis. The peer group index, the CRSP Index for NASDAQ Electronic Components Stock designated below as the industry index, is comprised of companies classified as electronic equipment manufacturers. The total returns assume \$100 invested on February 1, 2002 with reinvestment of dividends.

	2002	2003	2004	2005	2006	2007
Astro-Med, Inc	\$ 100.00	99.07	428.43	303.62	335.27	432.29
Nasdaq Electronic Components	\$ 100.00	50.38	99.47	71.63	79.43	83.07
Nasdaq US and Foreign Index	\$ 100.00	68.64	108.09	107.99	121.84	131.09

### **Shareholder Services**

Shareholders of Astro-Med, Inc. who desire information about the Company are invited to contact the Investor Relations Department, Astro-Med, Inc., 600 East Greenwich Avenue, West Warwick, RI 02893 or call (401) 828-4000. Visit our Investor Relations website at [WWW.ASTRO-MEDINC.COM](http://WWW.ASTRO-MEDINC.COM). We make available free of charge on our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. These filings are also accessible on the SEC's website at <http://www.sec.gov>.

### **Dividend Policy**

The Company began a program of paying annual cash dividends in fiscal 1992. The Company anticipates that it will continue to pay comparable cash dividends on a quarterly basis. The Company has paid a dividend for 62 consecutive quarters. During fiscal 2007 the Company increased the annual dividend payment.

**Table of Contents****Stock Repurchases**

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.

The Company made no purchases of its common stock pursuant to this authority during the fourth quarter of fiscal 2007. However, the Company did repurchase 50,000 shares of its common stock during the second and third quarters of fiscal 2007.

**Item 6. Selected Financial Data**

(Dollars in Thousands, Except Per Share Amounts)

	2007	2006	2005	2004	2003
Results of Operations:					
Net Sales	\$ 65,519	\$ 59,301	\$ 55,975	\$ 55,781	\$ 49,165
Gain on Sale of Real Estate, Net of Related Costs	\$ 5,252	\$	\$	\$	\$
Net Income (Loss)	\$ 6,059	\$ 2,551	\$ 2,710	\$ 3,217	\$ (1,882)
Net Income (Loss) per Common Share Basic	\$ 0.90	\$ 0.39	\$ 0.41	\$ 0.53	\$ (0.32)
Net Income (Loss) per Common Share Diluted	\$ 0.82	\$ 0.35	\$ 0.37	\$ 0.48	\$ (0.32)
Dividends Declared per Common Share	\$ 0.20	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.13
Financial Condition:					
Working Capital	\$ 34,294	\$ 31,222	\$ 29,268	\$ 24,499	\$ 18,825
Total Assets	\$ 58,001	\$ 49,647	\$ 47,039	\$ 42,065	\$ 35,210
Long-Term Debt	\$	\$	\$	\$	\$
Shareholders' Equity	\$ 45,958	\$ 40,301	\$ 38,408	\$ 34,547	\$ 29,081
Restructuring and Impairment (Credits) Charges	\$	\$	\$	\$ (15)	\$ 490

Included in fiscal 2007 is approximately \$0.42 of diluted earnings per share related to the sale of the Braintree Real Estate.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations****Overview**

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. It markets and sells its products and services through three business segments including:

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 paper, energy, automotive and steel fabrication. In addition, T&M also includes a suite of ruggedized printer products designed for military and commercial applications to be used to print weather maps, communications and other flight critical information.

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

Grass Technologies Product Group (GT) 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.

The Company 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.



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The Company's growth strategy centers on product innovation made possible by research and development initiatives, as well as acquisitions that strategically fit into existing core businesses. Research and development activities are funded by the Company at approximately 6.5% of annual sales.

The Company's continued success in increasing its product revenues will be dependent on the Company's ability to introduce new and/or enhanced product lines each year. The Company attempts to have approximately 45% of annual hardware sales generated by products developed or acquired within the past three years.

The Company improved its liquidity position during the year by generating cash from operations, selling its Braintree facility and proceeds received from the exercise of employee stock options.

To help sustain its continued growth and profitability in fiscal 2008 and beyond, the Company will increase its investment in: personnel by adding salespersons in underserved markets; plant capacity by purchasing the Rockland facility which it has been leasing; productivity by increasing manufacturing capabilities through the acquisition of new equipment, such as a thermal transfer ribbon slitting machine, metal fabrication equipment and electronic circuit board automatic test equipment; distribution by expanding our global dealer organization; and information technology by providing hardware and software tools that improve the knowledge and efficiency of our employee population.

**Results of Operations**

(in thousands)

	<b>2007 Sales</b>	<b>2007 Sales as a %</b>	<b>% Change Over Prior Year</b>	<b>2006 Sales</b>	<b>2006 Sales as a %</b>	<b>% Change Over Prior Year</b>	<b>2005 Sales</b>	<b>2005 Sales as a %</b>
T&M	\$ 15,695	23.9%	36.9%	\$ 11,467	19.3%	3.5%	\$ 11,082	19.8%
QuickLabel	31,121	47.5%	4.8%	29,698	50.1%	4.5%	28,420	50.8%
GT	18,703	28.6%	3.1%	18,136	30.6%	10.1%	16,473	29.4%
Total	\$ 65,519	100.0%	10.5%	\$ 59,301	100%	5.9%	\$ 55,975	100.0%

**Fiscal 2007 compared to Fiscal 2006**

The Company's sales in fiscal 2007 were \$65,519,261, up from the prior year's sales of \$59,301,180. Domestic sales of \$47,503,519 increased 14.7% from the prior year sales of \$41,417,102. The increase was driven by growth in each of the three product groups. T&M domestic sales increased 50.2% on strong growth from the Everest and Ruggedized products. Quicklabel System domestic sales increased 6.5% over the prior year sales as demand for the Company's consumables remained strong. GT domestic sales increased 5.5% as a result of Sleep and Research products. Sales through the Company's international channels were \$18,015,742 representing a 1.0% increase from the prior year sales of \$17,884,078. The international channel increase was the result of a mixed performance by the product groups. T&M international sales were 5.5% ahead of the prior year due to increased sales within the Everest Series products. Quicklabel international sales were essentially flat with the prior year as a 2.2% increase in consumable sales was offset by lower hardware sales. GT international sales experienced a 2.5% decrease over the prior year as a result of decreases within parts and supplies. The impact of foreign exchange rate changes added approximately \$400,000 in sales through the international channel.

The Company's hardware sales were \$32,779,371, up 15.7% from the prior year sales of \$28,335,774. The increase was driven by the T&M Everest Series and Ruggedized products and GT Sleep systems and Research products. Quicklabel hardware was down for the year.

The Company's consumable sales were \$27,990,635, up 7.7% from the prior year sales of \$25,975,539. This increase was driven by Quicklabel consumable sales and GT electrodes and supplies which increased 10.0% and 6.7%, respectively.

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The Company's service and related products were \$4,749,255, down 4.8% from the prior year sales of \$4,989,867 as a result of lower sales of replacement parts.

The Company's gross profit was \$26,997,572, an increase of \$2,339,438 over the prior year's gross profit of \$24,658,134. This year's gross profit margin of 41.2% was slightly lower than the prior year's gross margin of 41.6%. The decrease in gross profit margin was the result of higher manufacturing costs related to ensuring the production facilities are compliant with ROHS and FAA certification requirements which offset manufacturing productivity gains realized from the increase in sales volume.

Operating expenses grew 9.3% to \$23,507,856. Specifically, selling, general and administrative (SG&A) expenses increased 10.6% to \$19,320,838, representing 29.5% of sales which was consistent with the prior year's 29.4% of sales. The increased SG&A spending was the result of higher personnel costs, commissions, travel and trade show expenses and stock-based compensation expense. Research & Development (R&D) expenses increased 3.6% to \$4,187,018. This level of spending represents 6.4% of sales which was slightly lower than the prior year's level of 6.8%.

During the third quarter of fiscal 2007 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 \$5,251,707.

Investment income in fiscal 2007 was \$648,855, up from \$337,094 in fiscal 2006. The increase in investment income during fiscal year 2007 was attributable to higher average cash balances during the year and higher investment yields. Other income was \$234,839 in fiscal 2007 as compared to other expense of \$90,163 in fiscal 2006. The favorable change of \$325,002 was driven by the impact of favorable foreign exchange transactions of \$137,000, the sale of GT research contracts of \$75,000 and other miscellaneous income of \$113,002.

As a result of the adoption of SFAS No. 123(R) the Company's pretax income was reduced by \$412,693. The stock-based compensation expense included \$78,085 recorded in cost of sales, \$261,169 recorded in SG&A and \$73,439 recorded within R&D.

During fiscal 2007 the Company recognized an income tax expense of \$3,566,152. The current year's income tax expense includes 1) \$1,670,686 on the current year's pre-tax income, 2) a \$231,524 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 \$851,629 in the prior year which includes 1) an income tax expense of \$1,212,000 on the prior year's pre-tax income and 2) a \$361,000 reversal of tax reserves related to the favorable resolution of certain income tax examinations.

The Company reports three segments that mirror the Company's sales product groups (i.e., T&M, QuickLabel and GT). The Company evaluates segment performance based on the operating segment's profit before corporate and financial administration expenses.



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The following table summarizes selected financial information by segment:

(in thousands)	Sales			Segment Operating Profit (Loss)			Segment Operating Profit (Loss) %		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
T&M	\$ 15,695	\$ 11,467	\$ 11,082	\$ 2,592	\$ 331	\$ (170)	16.5%	2.9%	(1.5)%
QuickLabel	31,121	29,698	28,420	1,248	2,874	3,760	4.0%	9.7%	13.2%
GT	18,703	18,136	16,473	3,109	2,906	1,800	16.6%	16.0%	10.9%
Total	\$ 65,519	\$ 59,301	\$ 55,975	\$ 6,949	\$ 6,111	\$ 5,390	10.6%	10.3%	9.6%
Corporate Expenses				3,460	2,956	2,820			
Gain on Sale of Real Estate, net				5,252					
Operating Income				8,741	3,155	2,570			
Other Income and Expense, net				884	247	197			
Income Before Income Taxes				9,625	3,402	2,767			
Income Tax Provision				3,566	851	57			
Net Income				\$ 6,059	\$ 2,551	\$ 2,710			

The operating results of each segment are summarized as follows:

### Test & Measurement

T&M's sales increased 36.9% in fiscal 2007 to \$15,695,000 from \$11,467,000 in the prior year. The increase is traceable to sales growth within the Everest Series products which were up 96.7% over the prior year and the Ruggedized products which were up 147.8%. These increases were tempered by flat volume from the Dash product line. T&M's segment operating profit was \$2,592,000 in fiscal 2007. This result compares favorably to the prior year's segment operating income of \$331,000. The current year's improvement is due to higher sales volume and better margins. T&M selling expenses were higher in the current year in support of the higher sales volume.

### Quicklabel Systems

Sales of the QuickLabel Systems products increased 4.8% in fiscal 2007 to \$31,121,000 from \$29,698,000 in the prior year. This year's sales growth was driven by a 10.2% increase in Quicklabel consumable products. However, the growth in Quicklabel consumables was tempered by a decrease in Quicklabel Hardware sales. The Quicklabel Product Group segment operating profit was \$1,248,000 during fiscal 2007. This result is below the prior year's segment operating profit of \$2,874,000. The lower segment operating profit on increased sales was due to a shift in product mix to consumables, higher selling and support expenses and unfavorable manufacturing costs associated with the lower hardware sales.

### Grass Technologies

GT's sales increased 3.1% in fiscal 2007 to \$18,703,000 from \$18,136,000 in the prior year. The product group's higher sales were due to increases within Sleep systems, which were up 14.0% and increases within Research products, which were up 21.9%. EEG and LTM systems were down for the year and the GT product group's consumable sales were essentially flat due to lower chart paper sales. This year's segment operating profit was driven by higher sales volume and product mix, as well as lower spending within R&D for this product group.

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### **Fiscal 2006 compared to Fiscal 2005**

The Company's sales in fiscal 2006 were \$59,301,180, up from the prior year's sales of \$55,974,654. Domestic sales of \$41,417,102 increased 6.4% from the prior year sales of \$38,936,687. The increase results from a mixed performance by the product groups. QuickLabel System domestic sales were healthy during the year increasing 7.5% over the prior year sales as demand for the Company's consumables remained strong. GT domestic sales were also healthy during the year increasing 9%, as sales of the Sleep, LTM (long term monitoring), and Electrode consumable products each experienced growth over the prior year. T&M domestic sales were flat with the prior year as sales growth in Ruggedized and Dash Series products were tempered by sales declines in the Everest Series products as the aerospace telemetry market continues to decline. Sales through the Company's international channels were \$17,884,078, representing a 3% increase from the prior year sales of \$17,037,967. Similar to the domestic channel the increase was the result of a mixed performance by the product groups. T&M international sales were 15% ahead of the prior year due to increased sales within Ruggedized products. However, the T&M international channel also experienced sales declines within the Everest series. GT international sales experienced a 12% increase over the prior year as a result of an increase in sleep system sales. Quicklabel international sales were essentially flat with the prior year as a 4% increase in consumable sales was offset by lower hardware sales. The impact of foreign exchange rate changes during the year was nominal when compared to the prior year.

The Company's hardware sales were \$28,335,774, up 3.6% from the prior year sales of \$27,345,419. The increase was driven by the T&M Dash Series and Ruggedized products and GT Sleep systems and LTM systems. Quicklabel hardware was down for the year.

The Company's consumable sales were \$25,975,539, up 11.1% from the prior year sales of \$23,384,060. This increase was driven by Quicklabel consumable sales and GT electrodes and supplies.

The Company's service and related products were \$4,989,867, down 4.9% from the prior year sales of \$5,245,175 as a result of lower sales of replacement parts.

The Company's gross profit was \$24,658,134, an increase of \$1,612,025 over the prior year's gross profit of \$23,046,109. This year's gross profit margin of 41.6% was slightly higher than the prior year's gross margin of 41.2%. This slight increase was the result of favorable product mix.

Operating expenses grew 5% to \$21,502,851. Specifically, selling, general and administrative (SG&A) expenses increased 6% to \$17,460,141, representing 29% of sales which was consistent with the prior year's 29% of sales. The increased SG&A spending is the result of selling and marketing initiatives which include additional selling personnel of \$400,000, an increase in travel and trade show expenses of \$200,000 and an increase in commissions of 300,000 related to the higher sales, as well as an increase in G&A staffing. Research & Development (R&D) expenses of \$4,042,710 were essentially flat with the prior year. This level of spending represents 6.8% of sales which was slightly lower than the prior year's level of 7.2%.

Investment income in fiscal 2006 was \$337,094, down from \$416,079 in fiscal 2005. The decrease in investment income during fiscal year 2006 was attributable to a change in the composition of our underlying investment portfolio and resulting yields. Other expense, net was \$90,163 as compared to last fiscal year's other expense, net of \$218,890. The change of \$128,727 was the result of the change in foreign exchange rates.

The Company recorded tax expense of \$851,629 and \$57,581 in fiscal 2006 and 2005, respectively. For the twelve months ended January 31, 2006, an income tax expense of \$851,629 was recognized as a result of income tax expense of \$1,212,629 on the current year's pretax income of \$3,402,214 and a \$361,000 non-cash tax benefit recorded in the third quarter of fiscal 2006 due to the reversal of tax reserves related to the favorable resolution of certain income tax examinations. For the twelve months ended January 31, 2005 an income tax expense of \$57,581 was recorded as a result of income tax expense of \$996,581 on the current year's pretax income of \$2,767,111 and a \$939,000 one-time non-cash tax benefit recorded in the first quarter of fiscal 2005 related to the release of the valuation allowance on the net deferred tax asset that was established in fiscal 2003.

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### Liquidity and Capital Resources

The Company expects to finance its future working capital needs, capital expenditures and acquisition requirements through internal funds. To the extent the Company's capital and liquidity requirements are not satisfied internally, the Company may utilize a \$3,500,000 unsecured bank line of credit, all of which is currently available.

The Company's Statements of Cash Flows for the three years ended January 31, 2007, 2006 and 2005 are included on page 32. Net cash flow provided by operating activities in fiscal year 2007 was \$2,383,173. The net cash flow provided by operations is attributed to the positive cash flow generated from net income and from depreciation of \$1,390,261. Cash flow from operating activities was adversely affected by changes in Assets and Liabilities of \$1,988,616. The demand on working capital is in support of the Company's growth profile.

Net cash flow provided by investing activities was \$1,767,024, which was mostly the result of the proceeds of \$6,100,000 from the sale of the Braintree property. These proceeds were offset by additions to property, plant and equipment of \$2,170,276. These purchases included machinery and equipment of \$959,988, information technology of \$241,977, building improvements of \$593,232, tools and dies of \$170,544 and the purchase of a parcel of land adjacent to the Company's West Warwick facility for \$204,535, which was part of a Section 1031 exchange.

Net cash flow used by financing activities was \$953,620 in fiscal 2007. During the year the Company paid dividends of \$1,274,448 and purchased \$1,065,500 of Company stock. Also during the current year, the Company generated \$1,283,567 in cash through the exercise of employee stock options and Employee Stock Purchase Plan transactions.

Also during fiscal 2007 the Company transferred \$3,200,000 of cash to long term investments for the purpose of purchasing the Rockland facility which it had been leasing. This purchase was completed in March 2007 as part of the Section 1031 like-kind exchange disclosed below.

Dividends paid for fiscal 2007, 2006, and 2005 were \$1,274,448, \$848,172 and \$828,235, respectively. The Company's annual dividend per share was \$0.20 in fiscal 2007 and \$0.13 in fiscal 2006 and fiscal 2005. Since the inception of the common stock buy back program in fiscal 1997, the Company has repurchased 1,094,035 shares of its common stock. At January 31, 2007, the Company has the Board of Directors authorization to purchase an additional 447,589 shares of the Company's common stock in the future.

### Contractual Obligations, Commitments and Contingencies

On March 13, 2007, the Company completed the acquisition of certain real property located in Rockland, Massachusetts constituting approximately 86,933 square feet of land (the Property), for the purchase price of \$3,150,000 which was paid by the Company in cash at the closing. The purchase of the Property by the Company consummates its tax free like-kind exchange under Section 1031 of the Internal Revenue Code initiated through the Company's sale of the facility located in Braintree, Massachusetts on September 19, 2006.

A summary of the Company's contractual obligations and commitments as of January 31, 2007 is as follows:

In Millions	Payment Due	1-3	
	Within 1 Year	Years	Thereafter
Operating Leases	\$ 389,252	\$ 835,255	\$ 218,766
Purchase Obligations	\$ 4,652,154		
<b>Total</b>	<b>\$ 5,041,406</b>	<b>\$ 835,255</b>	<b>\$ 218,766</b>

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Purchase obligations include amounts committed under legally enforceable contracts or purchase orders for goods and services with defined terms as to price, quantity, and delivery and termination liability.

The Company is subject to contingencies, including legal proceedings and claims arising out of its businesses that cover a wide range of matters, including, among others, contract and employment claims, workers compensation claims, product liability, warranty and modification, adjustment or replacement of component parts of units sold.

The Company provides accruals for direct costs associated with the estimated resolution of contingencies at the earliest date at which it is deemed probable that a liability has been incurred and the amount of such liability can be reasonably estimated. Costs accrued have been estimated and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies and outcomes. While it is impossible to ascertain the ultimate legal and financial liability with respect to contingent liabilities, including lawsuits, the Company believes that the aggregate amount of such liabilities, if any, in excess of amounts provided or covered by insurance, will not have a material adverse effect on the consolidated financial position or results of operations of the Company. It is possible, however, that future results of operations for any particular future period could be materially affected by changes in our assumptions or strategies related to these contingencies or changes out of the Company's control.

### **Critical Accounting Policies**

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. (See the Notes to the Consolidated Financial Statements included elsewhere herein.) Certain of the Company's accounting policies require the application of judgment in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. The Company periodically evaluates the judgments and estimates used for its critical accounting policies to ensure that such judgments and estimates are reasonable for its interim and year-end reporting requirements. These judgments and estimates are based on the Company's historical experience, current trends and information available from other sources, as appropriate. If different conditions result from those assumptions used in the Company's judgments, the results could be materially different from the Company's estimates. The Company's critical accounting policies include:

*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 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 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 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 the Company's 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 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.

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*Warranty Claims and Bad Debts:* Provisions for the estimated costs for future product warranty claims and bad debts are recorded in cost of sales and selling, general and administrative expense, respectively, at the time a sale is recorded. The amounts recorded are generally based upon historically derived percentages while also factoring in any new business conditions that might impact the historical analysis such as new product introduction for warranty and bankruptcies of particular customers for bad debts. The Company also periodically evaluates the adequacy of its reserves for warranty and bad debts recorded in its consolidated balance sheet as a further test to ensure the adequacy of the recorded provisions. Warranty and bad debt analysis often involves subjective analysis of a particular customer's ability to pay. As a result, significant judgment is required by the Company in determining the appropriate amounts to record and such judgments may prove to be incorrect in the future. The Company believes that its procedures for estimating such amounts are reasonable and historically have not resulted in material adjustments in subsequent periods when the estimates are adjusted to the actual amounts.

*Inventories:* Inventories are stated at the lower of cost (first-in, first-out) or market. The Company records provisions to write-down obsolete and excess inventory to its estimated net realizable value. The process for evaluating obsolete and excess inventory consists of the Company analyzing the inventory supply on hand and estimating the net realizable value of the inventory based on historical experience, current business conditions and anticipated future sales. The Company believes that its procedures for estimating such amounts are reasonable and historically have not resulted in material adjustments in subsequent periods when the estimates are adjusted to actual experience.

*Income Taxes:* The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. This SFAS requires that a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized. A review of all available positive and negative evidence must be considered, including the Company's performance, the market environment in which the Company operates, length of carryforward periods, existing sales backlog and future sales projections. The Company had previously provided valuation allowances only for future tax benefits resulting from certain foreign losses. In fiscal 2003, as required by SFAS No. 109, the Company established a full valuation allowance on its net deferred tax asset as a result of the uncertainty as to whether these deferred tax assets would more likely than not be realized in the future. Based on the facts and circumstances at that time it was determined that a full valuation allowance was required and it was stated that until an appropriate level of profitability could be sustained no tax benefits would be realized. As of the first quarter of fiscal 2005, the Company believed that an appropriate level of profitability had been established and maintained and that it is more likely than not the deferred tax assets would be realized in the future except for possible future tax benefits from the utilization of net operating loss carryforwards attributable to the Company's Italian subsidiary. The Company made this determination based on a review of the facts and circumstances as of May 1, 2004. This review consisted of an analysis of the Company's performance, the market environment in which the Company currently operates, the length of the carryforward periods, the existing sales backlog and the future sales projections.

*Long-Lived Assets and Goodwill:* The impairment of long-lived assets to be held and used are reviewed for impairment in accordance with SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset. Goodwill impairment reviews are performed in accordance with the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. Management evaluates the recoverability of goodwill annually or more frequently if events or changes in circumstances, such as declines in sales, earnings or cash flows, or material adverse changes in the business climate, indicate that the carrying value of an asset might be impaired. Goodwill is considered to be impaired when the net book value of a segment exceeds its estimated fair value. Fair values are established using a discounted cash flow methodology. The determination of discounted cash flows is based on the long-range planning forecast.

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*Share-Based Compensation:* Prior to February 1, 2006, the Company accounted for employee share-based compensation using the intrinsic value method supplemented by pro forma disclosures in accordance with Accounting Principles Board ( APB ) No. 25 and SFAS No. 123, *Accounting for Stock-Based Compensation*. 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.

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.

## **Recent Accounting Pronouncements**

In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes-an interpretation of SFAS No. 109*. This interpretation describes a recognition threshold and measurement attribute for the financial statement disclosure of tax positions taken or expected to be taken in a tax return. This Interpretation requires recognition of tax benefits that satisfy a more likely than not threshold. 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. The Company is evaluating the impact this Interpretation will have on its results of operations and financial position.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Current Year Misstatements*. SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in the quantification of a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. The Company adopted SAB 108 for its year ending January 31, 2007. The adoption of SAB 108 did not have an impact on the Company's consolidated results of operations or financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of SFAS No. 157 on its results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of SFAS 115* ( SFAS No. 159 ). The new statement allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings.

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SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the potential impact of SFAS No. 159 on our financial position and results of operations.

### ***Item 7A. Quantitative and Qualitative Disclosures about Market Risk***

#### **Foreign Exchange Risk**

The Company's financial results are affected by changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which products are sold. The Company's primary currency exposures are European Common Currency (Euro), British Pound, and Canadian Dollar. At January 31, 2007, the Company's net investment in foreign assets was \$4,429,445. An overall unfavorable change in foreign exchange rates of 10% would have resulted in a lower net income of approximately \$73,000 and a \$348,000, net of tax, reduction in shareholders' equity as a result of the impact on the cumulative translation adjustment.

The Company, on occasion, utilizes foreign exchange option contracts to minimize its exposure associated with unfavorable changes in foreign exchange rates on certain foreign denominated receivables. At January 31, 2007, the Company did not have any open contracts. The functional currencies of the Company's foreign affiliates are their respective local operating currencies, which are translated for consolidated financial reporting purposes into U.S. dollars.

**Table of Contents****Item 8. Financial Statements and Supplementary Data**

The consolidated financial statements required under this item are submitted as a separate section of this report on the pages indicated at Item 15(a)(1). The supplementary data regarding annual results of operations is set forth in the following table.

**QUARTERLY FINANCIAL DATA (Unaudited)**

(Dollars in Thousands, Except Per Share Amounts)

	Quarters Ended			
	April 29, 2006	July 29, 2006	October 28, 2006	January 31, 2007
Net Sales	\$ 15,641	\$ 16,267	\$ 16,043	\$ 17,568
Gross Profit	\$ 6,276	\$ 6,996	\$ 6,427	\$ 7,299
Net Income	\$ 543	\$ 740	\$ 3,977	\$ 799
Net Income Per Common Share Basic	\$ 0.08	\$ 0.11	\$ 0.59	\$ 0.12
Net Income Per Common Share Diluted	\$ 0.07	\$ 0.10	\$ 0.53	\$ 0.11

  

	April 30, 2005	July 30, 2005	October 29, 2005	January 31, 2006
Net Sales	\$ 14,193	\$ 14,648	\$ 14,455	\$ 16,005
Gross Profit	\$ 5,688	\$ 6,331	\$ 5,784	\$ 6,856
Net Income	\$ 398	\$ 622	\$ 674	\$ 856
Net Income Per Common Share Basic	\$ 0.06	\$ 0.09	\$ 0.10	\$ 0.13
Net Income Per Common Share Diluted	\$ 0.06	\$ 0.09	\$ 0.09	\$ 0.12

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None

**Item 9A. Controls and Procedures**

As required by Rule 13a-15 under the Exchange Act of 1934, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Chairman of the Board and Chief Executive Officer and the Company's Chief Financial Officer. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this report.

There have been no significant changes in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting.

The Company has initiated activities related to the assessment of its internal control environment in preparation for the compliance requirements of Section 404 of the Sarbanes-Oxley Act of 2002. In its assessment management will use the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in Internal Control-Integrated Framework . Under current SEC rules, management is required to disclose its assessment of the effectiveness of the Company's internal controls over financial reporting as of January 31, 2008.



**Table of Contents****Item 9B. Other Information**

Nothing to report

**PART III****Item 10. Directors, Executive Officers and Corporate Governance**

The response to this item is incorporated by reference to the Company's definitive proxy statement for the 2007 annual meeting of shareholders.

The following is a list of the names and ages of, and the positions and offices presently held by, all executive officers of the Company. All officers serve at the pleasure of the Board of Directors.

Name	Age	Position
Albert W. Ondis	81	Chairman, Chief Executive Officer and Director
Everett V. Pizzuti	70	President, Chief Operating Officer and Director
Joseph P. O'Connell	63	Vice President and Treasurer, Chief Financial Officer
Elias G. Deeb	64	Vice President Media Products
Michael J. Sullivan	56	Vice President and Chief Technology Officer
Michael M. Morawetz	47	Vice President International Branches
Stephen M. Petrarca	44	Vice President Instrument Manufacturing
John D. McGuinness	42	Corporate Controller

All of the persons named above have held the positions identified since January 31, 1985, except as indicated below.

Mr. Ondis has been a Director and Chief Executive Officer since he founded the Company in 1969. He was previously President and the Chief Financial Officer (Treasurer) of the Company from 1969 to 1985.

Mr. Pizzuti was previously a Vice President of the Company functioning as Chief Operating Officer since 1971.

Mr. O'Connell joined the Company in 1996. He previously held senior financial management positions with Cherry Tree Products Inc., IBI Corporation and Dennison Manufacturing Company. Mr. O'Connell is also Assistant Secretary of the Company.

Mr. Deeb has held the position identified since 1987. In 1985, he was named General Manager Media Products after having been Vice President and General Manager since 1981 of a business sold by the Company in 1984.

Mr. Sullivan was appointed Vice President and Chief Technology Officer in 2000. He is an electronic engineer and has been with the Company since 1983.

Mr. Morawetz was appointed Vice President International Branches in 2006. He was previously the General Manager of Branch Operations for the Company's German Subsidiary, having joined the Company in 1989.

Mr. Petrarca was appointed Vice President of Instrument Manufacturing in 1998. He has previously held positions as General Manager of Manufacturing, Manager of Grass Operations and Manager of Grass Sales. He has been with the Company since 1980.

Mr. McGuinness joined the Company in 2004. He was previously the Corporate Controller with Paramount Cards, Inc. from 2001 through 2004, and also held financial management positions with Nortek, Inc., The Monitor Company, and KPMG LLP. He is a certified public accountant.

**Table of Contents****Code of Ethics**

The Company has adopted a Code of Ethics which applies to all directors, officers and employees of the Company, including the Chief Executive Officer ( CEO ), Chief Operating Officer ( COO ), Chief Financial Officer ( CFO ) (who is both the principal financial and accounting officer) and Controller, as supplemented by a Code of Ethical Conduct for the Chief Executive Officer and Senior Financial Officers, which meets the requirements of a code of ethics as defined in Item 406 of Regulation S-K. The Company will provide a copy of the Codes to shareholders, without charge, upon request directed to the Investor Relations Contact listed on the Company's website, [WWW.ASTRO-MEDINC.COM](http://WWW.ASTRO-MEDINC.COM), under the headings Investor Relations Corporate Governance. The Company has posted the Codes on the Company's website under Investor Relations Corporate Governance and to disclose any amendment to, or waiver of, a provision of the Codes for the CEO, COO, CFO, Controller or persons performing similar functions by posting such information on its website and filing a Form 8-K as required under the rules of the NASDAQ Global Market.

**Item 11. Executive Compensation**

The response to this item is incorporated by reference to the Company's definitive proxy statement for the 2007 annual meeting of shareholders.

The information set forth under the heading Compensation Committee Report in the Company's definitive proxy statement is furnished and shall not be deemed as filed for purposes of Section 18 of the Securities Act of 1934, as amended, and is not deemed incorporated by reference in any filing under the Securities Act of 1933, as amended.

**Item 12. Security Ownership of Certain Beneficial Owners and Management**

The response to this item is incorporated by reference to the Company's definitive proxy statement for the 2007 annual meeting of shareholders.

**Equity Compensation Plan Information**

The following table sets forth information about the Company's equity compensation plans as of January 31, 2007:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuances Under Equity Compensation Plans
Equity Compensation Plans Approved by Security Holders	1,830,078(1)	\$ 5.36	662,340(2)
Equity Compensation Plans Not Approved by Security Holders			
<b>Total</b>	<b>1,830,078(1)</b>	<b>\$ 5.36</b>	<b>662,340(2)</b>

- (1) Includes 782,653 shares issuable upon exercise of outstanding options granted under the Company's incentive stock option plans and 1,024,050 shares issuable upon exercise of outstanding options granted under the Company's non-qualified stock option plans under which options may be granted to officers and key employees and 23,375 shares issuable upon exercise of outstanding stock options granted under the Astro-Med, Inc. Non-Employee Director Stock Option Plan.
- (2) Includes 265,740 shares under the Astro-Med, Inc. 1997 Incentive Stock Option Plan and 396,600 shares under the Astro-Med, Inc. 1998 Non-Qualified Stock Option Plan.

Additional information regarding these equity compensation plans is contained in Note 6 to the Company's Consolidated Financial Statements included in Item 15 hereto.



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### **Item 13. *Certain Relationships, Related Transactions and Director Independence.***

The response to this item is incorporated by reference to the Company's definitive proxy statement for the 2007 annual meeting of shareholders.

### **Item 14. *Principal Accountant Fees And Services***

The information required by this item is incorporated herein by reference to the Company's definitive proxy statement for the 2007 annual meeting of shareholders.

## **PART IV**

### **Item 15. *Exhibits, Financial Statement Schedules and Reports on Form 8-K***

#### **(a)(1) *Financial Statements:***

The following consolidated financial statements of Astro-Med, Inc. and subsidiaries are incorporated by reference in Item 8:

<u>Report of Independent Registered Public Accounting Firms</u>	<b>Page</b> 27-28
<u>Consolidated Balance Sheets as of January 31, 2007 and 2006</u>	29
<u>Consolidated Statements of Operations Years Ended January 31, 2007, 2006 and 2005</u>	30
<u>Consolidated Statements of Comprehensive Income and Changes in Shareholders' Equity Years Ended January 31, 2007, 2006 and 2005</u>	31
<u>Consolidated Statements of Cash Flows Years Ended January 31, 2007, 2006 and 2005</u>	32
<u>Notes to Consolidated Financial Statements</u>	33-45

#### **(a)(2) *Financial Statement Schedules:***

Schedule II Valuation and Qualifying Accounts and Reserves Years Ended January 31, 2007, 2006 and 2005

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore, have been omitted.

#### **(a)(3) *Exhibits:***

#### **Exhibit**

#### **Number**

- (3A) Articles of Incorporation of the Company and all amendments thereto (filed as Exhibit No. 3A to the Company's report on Form 10-Q for the quarter ended August 1, 1992 and by this reference incorporated herein).
- (3B) By-laws of the Company and all amendments thereto (filed as Exhibit 3B to the Company's report on Form 10-K for the year ended January 31, 2004 and by this reference incorporated herein).
- (4) Specimen form of common stock certificate of the Company (filed as Exhibit No. 4 to the Company's report on Form 10-K for the year ended January 31, 1985 and by this reference incorporated herein).
- (10.1) Astro-Med, Inc. 1989 Non-Qualified Stock Option Plan, as amended, filed as Exhibit 4.3 to Registration Statement on Form S-8, Registration No. 333-32317 and incorporated by reference herein. \*

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**Exhibit**

**Number**

(10.2)	Astro-Med, Inc. 1989 Incentive Stock Option Plan, as amended, filed as Exhibit 28 to Registration Statement on Form S-8, Registration No. 333-43700, and incorporated by reference herein. *
(10.3)	Astro-Med, Inc. 1993 Incentive Stock Option Plan filed as Exhibit 4.3 to Registration Statement on Form S-8, Registration No. 333-24127, and incorporated by reference herein. *
(10.4)	Astro-Med, Inc. Non-Employee Director Stock Option Plan filed as Exhibit 4.3 to Registration Statement on Form S-8, Registration No. 333-24123, and incorporated by reference herein. *
(10.5)	Astro-Med, Inc. 1997 Incentive Stock Option Plan, as amended, filed as Exhibit 4.3 to Registration Statements on Form S-8, Registration Nos. 333-32315, 333-93565 and 333-44414, and incorporated by reference herein. *
(10.6)	Astro-Med, Inc. 1998 Non-Qualified Stock Option Plan, as amended, filed as Exhibit 4.3 to Registration Statement on Form S-8, Registration Nos. 333-62431 and 333-63526, and incorporated by reference herein.
(10.8)	Astro-Med, Inc. Management Bonus Plan (Group III) (filed as Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended January 31, 2003 and by this reference incorporated herein. *
(21)	List of Subsidiaries of the Company.
(23.1)	Consent of Grant Thornton LLP
(23.2)	Consent of Ernst & Young LLP
(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. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(32.2)	Certification of Chief Financial Officer Pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\* Management contract or compensatory plan or arrangement.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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: April 16, 2007

By: /s/ ALBERT W. ONDIS  
(Albert W. Ondis, Chairman)

Each person whose signature appears below constitutes and appoints each of Albert W. Ondis, Everett V. Pizzuti or Joseph P. O. Connell, or any of them, each acting alone, his true and lawful attorneys-in-fact and agents, with full power of substitution and resolution, for such person and in his name, place and stead, in any and all capacities in connection with the annual report on Form 10-K of Astro-Med, Inc. for the year ended January 31, 2007 to sign any and all amendments to the Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, the Securities and exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Name	Title	Date
/s/ ALBERT W. ONDIS Albert W. Ondis	Chairman and Director (Principal Executive Officer)	April 16, 2007
/s/ EVERETT V. PIZZUTI Everett V. Pizzuti	President and Director (Principal Operating Officer)	April 16, 2007
/s/ JOSEPH P. O. CONNELL Joseph P. O. Connell	Vice President and Treasurer (Principal Financial Officer)	April 16, 2007
/s/ JOHN D. MCGUINNESS John D. McGuinness	Controller (Principal Accounting Officer)	April 16, 2007
/s/ JACQUES V. HOPKINS Jacques V. Hopkins	Director	April 16, 2007
/s/ HERMAN VIETS Herman Viets	Director	April 16, 2007
/s/ GRAEME MACLETCHE Graeme MacLetchie	Director	April 16, 2007



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors of

Astro-Med, Inc.

We have audited the accompanying consolidated balance sheets of Astro-Med, Inc. and subsidiaries (the Company) as of January 31, 2007 and 2006, and the related consolidated statements of operations, comprehensive income and changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Astro-Med, Inc. and subsidiaries as of January 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 5 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2007.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. Schedule II is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements as of and for the years ended January 31, 2007 and 2006 and, in our opinion, is fairly stated in all material aspects in relation to the basic consolidated financial statements taken as a whole.

/s/ GRANT THORNTON LLP

Boston, Massachusetts

April 10, 2007



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of

Astro-Med, Inc.

We have audited the consolidated balance sheet of Astro-Med, Inc. as of January 31, 2005, and the accompanying consolidated statement of operations, comprehensive income and changes in shareholders' equity, and cash flows for the year then ended. Our audit also included the financial statement schedule listed in the Index at Item 15(a) as it relates to the year ended January 31, 2005. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and schedule referred to above present fairly, in all material respects, the consolidated results of operations of Astro-Med, Inc. and its cash flows for the year ended January 31, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Providence, Rhode Island

March 19, 2005

**Table of Contents****ASTRO-MED, INC.****CONSOLIDATED BALANCE SHEETS****As of January 31, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 4,595,570	\$ 4,598,993
Securities Available for Sale	12,334,065	10,124,725
Accounts Receivable, net of reserves of \$588,508 in 2007 and \$511,648 in 2006	12,112,676	10,623,553
Inventories	11,394,763	9,809,770
Prepaid Expenses and Other Current Assets	841,528	1,116,269
Deferred Tax Assets, net	2,889,438	3,388,756
<b>Total Current Assets</b>	<b>44,168,040</b>	<b>39,662,066</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land and Improvements	819,113	490,202
Buildings and Improvements	7,753,454	7,768,913
Machinery and Equipment	20,741,350	19,092,213
	29,313,917	27,351,328
Less Accumulated Depreciation	(21,349,666)	(20,251,669)
<b>Total Property, Plant and Equipment, net</b>	<b>7,964,251</b>	<b>7,099,659</b>
<b>OTHER ASSETS</b>		
Amounts Due from Officers	27,050	480,314
Long Term Investments	3,200,000	
Goodwill	2,336,721	2,336,721
Other	304,918	68,520
<b>Total Other Assets</b>	<b>5,868,689</b>	<b>2,885,555</b>
	<b>\$ 58,000,980</b>	<b>\$ 49,647,280</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 3,559,518	\$ 2,672,555
Accrued Compensation	2,475,219	1,848,029
Accrued Expenses	2,626,019	2,304,247
Deferred Revenue	805,352	752,049
Income Taxes Payable	408,114	362,747
Deposit on Pending Sale		500,000
<b>Total Current Liabilities</b>	<b>9,874,222</b>	<b>8,439,627</b>
<b>DEFERRED TAX LIABILITIES</b>	<b>2,168,416</b>	<b>906,157</b>
<b>SHAREHOLDERS' EQUITY</b>		
Preferred Stock, \$10 Par Value, Authorized 100,000 Shares, None Issued		
Common Stock, \$0.05 Par Value, Authorized 13,000,000 Shares; Issued 7,905,319 Shares in 2007 and 7,671,875 Shares in 2006	395,270	317,120

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Additional Paid-in Capital	30,638,755	16,385,210
Retained Earnings	22,282,495	30,030,652
Treasury Stock, at Cost, 1,124,106 Shares in 2007 and 1,024,106 Shares in 2006	(7,644,647)	(6,579,147)
Accumulated Other Comprehensive Income	286,469	147,661
Total Shareholders' Equity	45,958,342	40,301,496
	\$ 58,000,980	\$ 49,647,280

The accompanying notes are an integral part of these financial statements.

**Table of Contents****ASTRO-MED, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****Years Ended January 31, 2007, 2006 and 2005**

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Net Sales	\$ 65,519,261	\$ 59,301,180	\$ 55,974,654
Cost of Sales	38,521,689	34,643,046	32,928,545
Gross Profit	26,997,572	24,658,134	23,046,109
Costs and Expenses:			
Selling, General and Administrative	19,320,838	17,460,141	16,429,604
Research and Development	4,187,018	4,042,710	4,046,583
Operating Expenses	23,507,856	21,502,851	20,476,187
Gain on Sale of Real Estate, Net of Related Costs	5,251,707		
Operating Income	8,741,423	3,155,283	2,569,922
Other Income (Expense):			
Investment Income	648,855	337,094	416,079
Other, Net	234,839	(90,163)	(218,890)
	883,694	246,931	197,189
Income before Income Taxes	9,625,117	3,402,214	2,767,111
Income Tax Provision	3,566,152	851,629	57,581
Net Income	\$ 6,058,965	\$ 2,550,585	\$ 2,709,530
Net Income Per Common Share Basic	\$ 0.90	\$ 0.39	\$ 0.41
Net Income Per Common Share Diluted	\$ 0.82	\$ 0.35	\$ 0.37
Weighted Average Number of Common Shares Outstanding Basic	6,721,140	6,613,576	6,612,751
Weighted Average Number of Common Shares Outstanding Diluted	7,389,001	7,232,821	7,226,566
Dividends Declared Per Common Share	\$ 0.20	\$ 0.13	\$ 0.13

The accompanying notes are an integral part of these financial statements.

**Table of Contents****ASTRO-MED, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND CHANGES IN****SHAREHOLDERS EQUITY****Years Ended January 31, 2007, 2006 and 2005**

	2007	2006	2005
<b>Comprehensive Income</b>			
Net Income	\$ 6,058,965	\$ 2,550,585	\$ 2,709,530
Other Comprehensive Income (Loss), Net			
Foreign currency translation adjustments	131,781	(143,691)	(13,460)
Unrealized gain (loss) on securities available for sale, net of taxes	7,027	22,656	(35,042)
Other comprehensive income (loss), net	138,808	(121,035)	(48,502)
Comprehensive Income	\$ 6,197,773	\$ 2,429,550	\$ 2,661,028
<b>Shareholders Equity</b>			
<b>Common Stock:</b>			
Balance at beginning of year	\$ 317,120	\$ 314,949	\$ 285,803
Par value from issuance of common stock	11,059	2,171	5,057
Common stock dividends	67,091		24,089
Balance at end of year	395,270	317,120	314,949
<b>Additional Paid-In Capital:</b>			
Balance at beginning of year	16,385,210	16,045,503	8,336,806
Net proceeds from issuance of common stock	26,570	24,528	24,207
Proceeds from the exercise of employee stock options	1,245,938	259,819	500,620
Share-based compensation	412,693		
Tax benefit of employee stock options	105,284	55,360	189,474
Reversal of the valuation allowance on certain deferred tax assets			1,762,352
Payment of fractional shares on stock split	(2,523)		
Common stock dividends	12,465,583		5,232,044
Balance at end of year	30,638,755	16,385,210	16,045,503
<b>Retained Earnings:</b>			
Balance at beginning of year	30,030,652	28,328,239	31,703,077
Net income	6,058,965	2,550,585	2,709,530
Dividends paid	(1,274,448)	(848,172)	(828,235)
Common stock dividends	(12,532,674)		(5,256,133)
Balance at end of year	22,282,495	30,030,652	28,328,239
<b>Treasury Stock:</b>			
Balance at beginning of year	(6,579,147)	(6,548,984)	(6,095,755)
Purchases of common stock	(1,065,500)	(30,163)	(453,229)
Balance at end of year	(7,644,647)	(6,579,147)	(6,548,984)

**Accumulated Other Comprehensive Income:**

Balance at beginning of year	147,661	268,696	317,198)
Other comprehensive income (loss), net	138,808	(121,035)	(48,502)
Balance at end of year	286,469	147,661	268,696
Total Shareholders' Equity	\$ 45,958,342	\$ 40,301,496	\$ 38,408,403

The accompanying notes are an integral part of these financial statements.

**Table of Contents****ASTRO-MED, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****Years Ended January 31, 2007, 2006 and 2005**

	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Cash Flows from Operating Activities:</b>			
Net Income	\$ 6,058,965	\$ 2,550,585	\$ 2,709,530
<b>Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:</b>			
Depreciation and Amortization	1,390,261	1,209,296	1,228,632
Share-based Compensation	412,693		
Deferred Income Tax (Benefit)	1,740,368	(148,703)	(1,020,409)
Excess Tax Benefit From Share-Based Compensation	(105,284)		
Gain on Sale of Real Estate	(5,251,707)		
<b>Changes in Assets and Liabilities:</b>			
Accounts Receivable	(1,489,124)	(1,271,848)	463,080
Inventories	(1,812,857)	(445,491)	(254,112)
Other	353,556	31,233	250,502
Accounts Payable and Accrued Expenses	1,040,935	572,652	(428,648)
Income Taxes Payable	45,367	(90,873)	419,240
<b>Total Adjustments</b>	<b>(3,675,792)</b>	<b>(143,734)</b>	<b>658,285</b>
<b>Net Cash Provided by Operating Activities</b>	<b>2,383,173</b>	<b>2,406,851</b>	<b>3,367,815</b>
<b>Cash Flows from Investing Activities:</b>			
Proceeds from Sales/Maturities of Securities Available for Sale	5,437,367	4,763,422	3,479,406
Purchases of Securities Available for Sale	(7,600,067)	(7,168,910)	(3,725,219)
Proceeds from Sale of Real Estate	6,100,000		
Additions to Property, Plant and Equipment	(2,170,276)	(1,035,675)	(1,143,943)
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>1,767,024</b>	<b>(3,441,163)</b>	<b>(1,389,756)</b>
<b>Cash Flows from Financing Activities:</b>			
Proceeds from Common Shares Issued Under Employee Benefit Plans and Employee Stock Option Plans	1,283,567	286,518	529,884
Purchases of Treasury Stock	(1,065,500)	(30,163)	(453,229)
Excess Tax Benefit from Share-Based Compensation	105,284		
Dividends Paid	(1,274,448)	(848,172)	(828,235)
Other Financing Activities	(2,523)		
<b>Net Cash (Used in) Financing Activities</b>	<b>(953,620)</b>	<b>(591,817)</b>	<b>(751,580)</b>
<b>Cash Designated for Real Estate Purchase Transferred to Long Term Investments</b>	<b>(3,200,000)</b>		
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(3,423)</b>	<b>(1,626,129)</b>	<b>1,226,479</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>4,598,993</b>	<b>6,225,122</b>	<b>4,998,643</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 4,595,570</b>	<b>\$ 4,598,993</b>	<b>\$ 6,225,122</b>
<b>Supplemental Information:</b>			
<b>Cash Paid During the Period for:</b>			
Income Taxes	\$ 1,671,581	\$ 1,095,804	\$ 220,181
<b>Non-Cash Items:</b>			
Demonstration Equipment Transferred from (to) Inventory to (from) Property, Plant and Equipment	\$ (57,697)	\$ 115,106	\$ 277,801

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Deposit Held in Escrow on Pending Sale of the Braintree, MA property	\$	\$	500,000	\$
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The accompanying notes are an integral part of these financial statements.



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### **ASTRO-MED, INC.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**January 31, 2007**

#### **Note 1 Summary of Significant Accounting Policies**

*Principles of Consolidation:* The consolidated financial statements include the accounts of Astro-Med, Inc. (the Company) and its subsidiaries. All material intercompany accounts and transactions are eliminated in consolidation. Certain prior year balances have been reclassified to conform to the current year reporting format.

*Cash and Cash Equivalents:* Highly liquid investments with an original maturity of 90 days or less are considered to be cash equivalents. Similar investments with original maturities beyond three months are classified as securities available for sale. Cash of \$956,832 and \$548,143 was held in foreign bank accounts at January 31, 2007 and 2006, respectively.

*Securities Available for Sale:* Securities available for sale are carried at fair value based on quoted market prices. The difference between cost and fair value, net of related tax effects, is recorded as a component of accumulated other comprehensive income (loss) in shareholders' equity.

*Property, Plant and Equipment:* Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets (land improvements 10 to 20 years; buildings and improvements 10 to 45 years; machinery and equipment 3 to 10 years).

*Officer Notes:* Amounts due from officers are comprised of unsecured non-interest bearing demand notes for loans made to certain officers. The remaining notes are expected to be repaid during fiscal 2008.

*Long Term Investments:* Long term investments consist of cash the Company has committed to purchasing real estate as part of the Section 1031 exchange previously disclosed (see Note 14).

*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 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 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 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 the Company's 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 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.

*Research and Development Costs:* The Company complies with SFAS No. 2 Accounting for Research & Development Costs by charging any costs to expense when incurred, as well as by disclosing in the financial statements the amount of R&D charged to expense. These charges include: salaries and benefits, external

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**ASTRO-MED, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

engineering service costs, engineering related information costs and supplies. The Company also complies with SFAS 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed* and SOP 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use* for guidance in accounting for the costs of software either developed or acquired.

*Foreign Currency:* The financial statements of foreign subsidiaries are measured using the local currency as the functional currency. The Company translates foreign currency denominated assets and liabilities into U.S. dollars at year-end exchange rates with the translation adjustment recorded as a component of accumulated comprehensive income in shareholders' equity. Revenues and expenses are translated at average exchange rates during the year.

*Advertising:* The Company expenses advertising costs as incurred. Such costs of advertising, advertising production, trade shows and other activities are designed to enhance demand for the Company's products.

*Health Insurance Reimbursement Reserve:* The Company reimburses a portion of employee health insurance deductibles and co-payments. The total reimbursement amounted to approximately \$150,000 and \$140,000 in 2007 and 2006, respectively. The Company accrued approximately \$106,000 and \$47,000 at January 31, 2007 and January 31, 2006, respectively, for estimated outstanding reimbursements due to employees.

*Long-Lived Assets:* Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset.

Management evaluates the recoverability of goodwill annually or more frequently if events or changes in circumstances, such as declines in sales, earnings or cash flows, or material adverse changes in the business climate, indicate that the carrying value of an asset might be impaired. Goodwill is considered to be impaired when the net book value of a segment exceeds its estimated fair value. Fair values are established using a discounted cash flow methodology. The determination of discounted cash flows is based on the long-range planning forecast. The Company completed its most recent impairment review as of January 31, 2007 and determined that goodwill is not impaired.

*Income Taxes:* The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. SFAS No. 109 requires that deferred income taxes be determined based on the estimated future tax effects of differences between the tax and book bases of assets and liabilities considering the provisions of enacted tax laws. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. At January 31, 2007 and 2006, the Company provided a valuation allowance on certain of its deferred tax assets for the net operating losses of a foreign subsidiary.

*Net Income Per Common Share:* Net income per common share has been computed and presented pursuant to the provisions of 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 basic weighted average number of shares and potential common shares for stock options outstanding during the period using the treasury stock method. Options to purchase 1,830,078, 1,956,694 and 1,912,831 shares of common stock were outstanding at January 31, 2007, 2006 and 2005, respectively. In fiscal years 2007, 2006 and 2005, there were 0,

**Table of Contents****ASTRO-MED, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

4,125, and 299,750 options that were not included in the computation of diluted net income per common share because their inclusion would be anti-dilutive. Stock compensation plans are more fully described in Note 6 herein.

	2007	January 31, 2006	2005
Weighted Average Common Shares Outstanding Basic	6,721,140	6,613,576	6,612,751
Dilutive Effect of Options Outstanding	667,861	619,245	613,815
Weighted Average Common Shares Outstanding Diluted	7,389,001	7,232,821	7,226,566

*Common Stock Dividends:* 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. On April 19, 2004, the Company declared a 10% common stock dividend to shareholders of record on May 4, 2004 that was distributed to shareholders on May 26, 2004. 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 and weighted average share amounts for all prior periods have been restated to reflect the impact of the most recent common stock dividend.

*Use of Estimates:* The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect these financial statements and accompanying notes. Some of the more significant estimates include the allowances for doubtful accounts and credits, inventory valuation, impairment of long-lived assets, income taxes 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.

*Allowance for Doubtful Accounts:* In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations, an allowance is established. The majority of accounts are individually evaluated on a regular basis and appropriate allowances are established as deemed appropriate. The remainder of the allowance is based upon historical write-off experience and current market assessments.

*Fair Value of Financial Instruments:* The Company's financial instruments consist mainly of cash and cash equivalents, securities available for sale, accounts receivable and accounts payable. The carrying amounts of these financial instruments as of January 31, 2007 and 2006 approximate fair value.

*Comprehensive Income:* In accordance with SFAS No. 130 Reporting Comprehensive Income, the Company reports by major components and as a single total the change in net assets during the period from non-owner sources. The consolidated statement of comprehensive income (loss) has been included with the consolidated statement of stockholders' equity. Accumulated other comprehensive income consists of net unrealized gains and losses on available for sale securities and net translation gains and losses on foreign operations.

*Share-Based Compensation:* Prior to February 1, 2006, the Company accounted for employee share-based compensation using the intrinsic value method supplemented by pro forma disclosures in accordance with Accounting Principles Board (APB) No. 25 and SFAS No. 123, *Accounting for Stock-Based Compensation*. Under the intrinsic value method the Company recognized no compensation expense for employee stock options or shares purchased under the ESPP. Effective 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

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**ASTRO-MED, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

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.

Prior to the adoption of SFAS 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the consolidated statement of cash flows. SFAS 123R requires the cash flow resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as a cash inflow from financing activities and a cash outflow from operating activities. The Company treats tax deductions from certain stock option exercises as being realized when they reduce taxes payable in accordance with relevant tax law.

*Recent Accounting Pronouncements:*

In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes-An Interpretation of SFAS No. 109*. This interpretation describes a recognition threshold and measurement attribute for the financial statement disclosure of tax positions taken or expected to be taken in a tax return. This Interpretation requires recognition of tax benefits that satisfy a more likely than not threshold. 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. The Company is evaluating the impact this Interpretation will have on its results of operations and financial position.

In September 2006, the Securities and Exchange Commission issued SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Current Year Misstatements*. SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in the quantification of a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. The Company adopted SAB 108 for its year ended January 31, 2007. The adoption of SAB 108 did not have an impact on the Company's consolidated results of operations or financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of SFAS No. 157 on its results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of SFAS 115* (SFAS No. 159). The new statement allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible

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item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the potential impact of SFAS No. 159 on our financial position and results of operations.

**Note 2 Securities Available for Sale**

Securities available for sale include corporate debt securities, governmental obligations and state and municipal securities with various contractual or anticipated maturity dates. Governmental obligations include U.S. Government and Federal Agencies securities. The fair value, amortized cost and gross unrealized gains and losses of the securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>January 31, 2007</b>				
Auction Rate Securities	\$ 6,725,000	\$	\$	\$ 6,725,000
Governmental	3,155,639	45	(76,103)	3,079,581
State and Municipal	2,530,942		(1,458)	2,529,484
	\$ 12,411,581	\$ 45	\$ (77,561)	\$ 12,334,065
<b>January 31, 2006</b>				
Auction Rate Securities	\$ 3,550,000			\$ 3,550,000
Governmental	6,662,886	1,843	(90,004)	6,574,725
	\$ 10,212,886	1,843	(90,004)	\$ 10,124,725

The cost of securities available for sale is based on specific identification in determining realized gains or losses.

The expected maturity dates of these securities are as follows: Less than one year \$5,256,378 One to Five Years \$818,931; and greater than Five Years \$6,258,756. Actual maturities may differ as a result of sales or earlier issuer redemptions.

**Note 3 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:

	January 31,	
	2007	2006
Materials and Supplies	\$ 6,848,636	\$ 5,879,486
Work-in-Progress	1,486,773	1,050,910
Finished Goods	3,059,354	2,879,374
	\$ 11,394,763	\$ 9,809,770

**Note 4 Debt**

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The Company has a \$3,500,000 unsecured bank line of credit, all of which is currently available. Borrowings under this line of credit bear interest at the bank's prime rate. This line of credit is scheduled to expire on July 1, 2007 and is expected to be renewed at that time.

**Table of Contents****ASTRO-MED, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 5 Share Based Compensation**

The Company adopted SFAS 123(R) on February 1, 2006 and recognized the following compensation expense during fiscal 2007:

Cost of Sales	\$ 78,085
Selling, General and Administrative	261,169
Research and Development	73,439
Reduction in Pre tax income	412,693
Income tax effect	(52,013)
Decrease in Net Income	\$ 360,680
Decrease in Net Income per Share basic	\$ 0.05
Decrease in Net Income per Share diluted	\$ 0.05

As of January 31, 2007 there was \$720,847 of unrecognized compensation expense related to unvested stock options. This expense is to be recognized over a weighted average of 2.1 years.

SFAS 123(R) requires the Company to present pro forma information for the comparative periods prior to the adoption as if the Company had accounted for all share-based compensation under the fair value method. The following table illustrates the effect on net income and net income per share as if the fair value based method had been applied.

	Year Ended January 31, 2006	Year Ended January 31, 2005
Net Income as reported	\$ 2,550,585	\$ 2,709,530
Stock-based employee compensation determined under the fair value method, net of tax effects	(341,842)	(227,709)
Pro forma net income	\$ 2,208,743	\$ 2,481,821
Net income per common share diluted		
As reported	\$ 0.35	\$ 0.37
Pro forma	\$ 0.31	\$ 0.34

**Note 6 Shareholders Equity**

*Common Stock:* The Company repurchased 100,000, 3,384 and 51,027 shares of its common stock for \$1,065,500, \$30,163 and \$453,229 in fiscal 2007, 2006 and 2005, respectively. The Company's Board of Directors has authorized the purchase of up to an additional 447,589 shares of the Company's common stock on the open market in the future as of January 31, 2007.

The Company maintains the following benefit plans involving the Company's common stock:

*Stock Option Plans:* As of January 31, 2007, the Company has one incentive stock option plan and one non-qualified stock option plan under which options may be granted to officers and key employees. Options now vest over four years. Options for an aggregate of 1,718,750 shares may be granted under the incentive stock option plan at option prices of not less than fair market value at the date of grant. Options for an aggregate of 1,375,000 shares may be granted under the non-qualified plan at option prices of not less than 50% of fair market value at the date

of grant.

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Summarized option data for all plans is as follows:

	<b>Number of Shares</b>	<b>Option Price Per Share</b>	<b>Weighted Average Option Price Per Share</b>
Options Outstanding, January 31, 2004	1,784,544	\$ 2.40 9.59	\$ 4.46
Options Granted	315,563	\$ 7.06 8.73	\$ 8.70
Options Exercised	(132,276)	\$ 2.40 7.46	\$ 3.82
Options Expired	(55,000)	\$ 7.46 8.73	\$ 7.82
Options Outstanding, January 31, 2005	1,912,831	\$ 2.40 9.59	\$ 5.07
Options Granted	109,750	\$ 6.77 8.73	\$ 6.84
Options Exercised	(51,012)	\$ 2.40 8.73	\$ 5.14
Options Expired	(14,875)	\$ 6.77 8.73	\$ 7.94
Options Outstanding, January 31, 2006	1,956,694	\$ 2.40 9.59	\$ 5.18
Options Granted	132,500	\$ 7.93 7.93	\$ 7.93
Options Exercised	(243,147)	\$ 2.40 6.77	\$ 5.17
Options Expired	(15,969)	\$ 6.14 8.73	\$ 7.63
Options Outstanding, January 31, 2007	1,830,078	\$ 2.40 9.59	\$ 5.36
Options Exercisable, January 31, 2007	1,484,779	\$ 2.40 9.59	\$ 4.74
Options Exercisable, January 31, 2006	1,633,943	\$ 2.40 9.59	\$ 4.60
Options Exercisable, January 31, 2005	1,613,081	\$ 2.40 9.59	\$ 4.40

Set forth below is a summary of options outstanding at January 31, 2007:

<b>Range of</b>	<b>Outstanding Weighted Average</b>		<b>Remaining</b>	<b>Exercisable</b>	
<b>Exercise prices</b>	<b>Options</b>	<b>Exercise Price</b>	<b>Contractual Life</b>	<b>Options</b>	<b>Weighted Average Exercise Price</b>
\$2.40-\$3.59	685,603	\$3.04	4yrs	685,603	\$3.04
\$4.27-\$6.14	633,201	\$5.61	2yrs	633,621	\$5.61
\$6.73-\$9.59	511,274	\$8.16	8yrs	165,555	\$8.48
	1,830,078			1,484,779	

The fair value of each option granted was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions.

	Years Ended January 31,		
	2007	2006	2005
Risk-free interest rate	3.8%	3.43%	3.10%
Expected life (years)	5	5	5
Expected volatility	52.2%	57.9%	59.0%
Forfeiture rate	3.0%	0.0%	0.0%
Expected dividend yield	1.6%	1.7%	1.4%

**Table of Contents****ASTRO-MED, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The weighted average grant date fair value of options granted during fiscal 2007, 2006 and 2005 was \$3.45, \$3.14 and \$4.58, respectively. As of January 31, 2007 there was \$720,847 of unrecognized compensation expense related to the unvested stock options granted under the plans. The expense is to be recognized over a weighted average of 2.1 years.

As of January 31, 2007 the aggregate intrinsic value (the aggregate difference between the closing stock price of the Company's common stock on January 31, 2007 and the exercise price of the outstanding options) that would have been received by the option holders if all options had been exercised was \$8,425,350 for all exercisable options and \$9,259,181 for all options outstanding. The weighted average remaining contractual term for these options are 3.6 years for options that are exercisable and 4.4 years for all options outstanding. The total aggregate intrinsic value of options exercised during fiscal 2007 was \$1,276,730.

At January 31, 2007 options covering 265,740 shares under the incentive plan and 396,660 under the non-qualified plan were available for grant.

*Employee Stock Purchase Plan:* The Company has an Employee Stock Purchase Plan allowing eligible employees to purchase shares of common stock at a 10% discount from fair market value on the date of purchase. A total of 247,500 shares were initially reserved for issuance under the Plan. Summarized plan activity is as follows:

	Years Ended January 31,		
	2007	2006	2005
Shares Reserved, Beginning	106,312	109,648	113,036
Shares Purchased	(3,068)	(3,336)	(3,388)
Shares Reserved, Ending	103,244	106,312	109,648

*Employee Stock Ownership Plan:* The Company has an Employee Stock Ownership Plan (ESOP) providing retirement benefits to all eligible employees. Annual contributions in amounts determined by the Company's Board of Directors are invested by the ESOP's Trustees in shares of common stock of the Company. Contributions may be in cash or stock. The Company's contributions (paid or accrued) amounted to \$80,000, \$0 and \$0 in fiscal 2007, 2006 and 2005, respectively. All shares owned by the ESOP have been allocated to participants.

**Note 7 Income Taxes**

The components of domestic and foreign income before the provision for income taxes are as follows:

	Years Ended January 31,		
	2007	2006	2005
Domestic	\$ 8,276,724	\$ 1,931,304	\$ 1,711,668
Foreign	1,348,393	1,470,910	1,055,443
Total	\$ 9,625,117	\$ 3,402,214	\$ 2,767,111

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The components of the provision for income taxes are as follows:

	Years Ended January 31,		
	2007	2006	2005
Current:			
Federal	\$ 1,008,275	\$ 303,866	\$ 530,697
State	334,794	161,474	11,989
Foreign	482,715	534,992	535,304
	1,825,784	1,000,332	1,077,990
Deferred:			
Federal	1,684,524	(137,379)	(882,676)
State	117,071	(11,324)	(137,733)
Foreign	(61,227)		
	1,740,368	(148,703)	(1,020,409)
	\$ 3,566,152	\$ 851,629	\$ 57,581

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate (34%) to income before income taxes, due to the following:

	Years Ended January 31,		
	2007	2006	2005
Income Tax Provision at Statutory Rate	\$ 3,272,540	\$ 1,156,752	\$ 940,818
State Taxes, Net of Federal Income Tax Benefits	298,231	99,099	(82,991)
Change in Valuation Allowance	60,957		(1,092,415)
Reversal of Reserves No Longer Required	(231,534)	(361,000)	
Other, Net	165,958	(43,222)	292,169
	\$ 3,566,152	\$ 851,629	\$ 57,581

In the third quarter of fiscal 2007, the Company recorded a \$231,534 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. In the third quarter of fiscal 2006, the Company recorded a \$361,000 reversal of tax reserves related to the favorable resolution of certain income tax examinations.

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The tax effects of temporary differences, carryforwards and the deferred gain on the sale of the Braintree property which gave rise to significant portions of deferred tax assets and liabilities in the accompanying consolidated balance sheets are as follows:

	<b>January 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Deferred Tax Assets:</b>		
Net Operating Loss Carryforward	\$ 275,580	\$ 214,623
Inventory Reserves	1,083,491	1,075,777
R&D Credits	462,364	994,059
Vacation Accrual	335,194	254,399
Foreign Tax Credits	152,760	364,105
Deferred Service Contract Revenue	311,027	250,156
Reserve for Doubtful Accounts	194,327	166,778
Other	591,409	439,598
	3,406,152	3,759,495
<b>Deferred Tax Liabilities:</b>		
Accumulated Tax Depreciation in Excess of Book Depreciation	629,620	650,568
Deferred Tax Gain on Sale of Real Estate	1,270,598	
Other	509,332	411,705
	2,409,550	1,062,273
Subtotal	996,602	2,697,222
Valuation Allowance	(275,580)	(214,623)
Net Deferred Tax Assets	\$ 721,022	\$ 2,482,599

Compliance with SFAS 109 requires the Company to periodically evaluate the necessity of establishing or increasing a valuation allowance for deferred tax assets depending on whether it is more likely than not that a related benefit will be recognized in future periods. In fiscal 2003, as required by SFAS No. 109, the Company established a full valuation allowance on its net deferred tax asset as a result of the uncertainty as to whether these deferred tax assets would more likely than not be realized in the future. Based on the facts and circumstances at that time it was determined that a full valuation allowance was required and it was stated that until an appropriate level of profitability could be sustained no tax benefits would be realized. As of the first quarter of fiscal 2005, the Company reversed approximately \$2,701,352 of its valuation allowance on its deferred tax asset with a \$939,000 credit to the fiscal 2005 tax provision and a \$1,762,352 credit to Additional Paid in Capital. The Company believed an appropriate level of profitability had been established and maintained that it is more likely than not the deferred tax assets will be realized in the future. The Company made this determination based on a review of the facts and circumstances as of May 1, 2004. This review consisted of an analysis of the Company's performance, the market environment in which the Company currently operates, the length of the carryforward periods, the existing sales backlog and the future sales projections. The valuation allowance relates to the Company's wholly owned subsidiary Astro-Med SRL. At January 31, 2007 this subsidiary has an \$835,000 net operating loss carryforward that can be carried forward indefinitely. The future tax benefits of this net operating loss carryforward is uncertain because it is limited to future annual taxable income of the subsidiary.

During fiscal 2007 and 2006, the Company received proceeds from the exercise of employee stock options. The majority of the stock acquired upon exercise of employee stock options was sold in disqualified dispositions for tax purposes. Disqualified dispositions of stock acquired upon exercise by employee stock options provide



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the Company a tax benefit that is treated differently for book and tax purposes. For book purposes, the tax benefit is recorded in Additional Paid-in-Capital (APIC) in Shareholders' Equity. For tax purposes, the tax benefit is a valid deduction that lowers the Company's current income tax payable. For book purposes, \$105,284, \$55,360 and \$189,474 of the tax benefit was recognized in APIC in fiscal 2007, 2006 and 2005, respectively. The Company records foreign translation adjustments and unrealized gains and losses on Securities Available for Sale as a component of Other Comprehensive Income. During fiscal 2007 and 2006, the Company recorded a tax expense of \$62,035 and a tax benefit of \$61,663, respectively, to Other Comprehensive Income related to these items.

**Note 8 Leases and Other Contractual Obligations**

Minimum payments under noncancellable operating leases at January 31, 2007 were as follows:

<b>Year Ending January 31,</b>	
2008	\$ 389,252
2009	322,739
2010	277,738
2011	234,778
2012 and Thereafter	218,766
Minimum Lease Payments	\$ 1,443,273

The Company incurred rent expense in the amount of \$604,586, \$485,311 and \$457,805 for the fiscal years 2007, 2006 and 2005, respectively.

The Company has purchase obligations in the amount of \$4,652,154 due within one year for goods and services with defined terms as to price, quantity, delivery and termination liability.

**Note 9 Nature of Operations, Segment Reporting and Geographical Information**

The Company's operations consist of the design, development, manufacture and sale of specialty data recorder and acquisition systems, label printing and applicator systems, neuropsychological instrumentation systems and consumable supplies. The Company organizes and manages its business as a portfolio of products and services designed around a common theme of data acquisition and information output. The Company reports three reporting segments consistent with its sales product groups: Test & Measurement (T&M); QuickLabel Systems (QuickLabel) and Grass Technologies (GT).

T&M produces data recording equipment used worldwide for a variety of recording, monitoring and troubleshooting applications for the aerospace, automotive, metal mill, power and telecommunications industries. QuickLabel produces an array of high-technology digital label printers, automatic labelers, print and apply systems, labeling software and consumables for a variety of commercial industries worldwide. GT produces a range of instrumentation equipment and supplies for clinical neurophysiology (EEG and epilepsy monitoring), polysomnography (PSG - Sleep Monitoring) and biomedical research applications used worldwide by universities, medical centers and companies engaged in a variety of clinical and research activities. The accounting policies of the reporting segments are the same as those described in the summary of significant accounting policies herein. The Company evaluates segment performance based on the segment profit before corporate and financial administration expenses.

Business is conducted in the United States and through foreign affiliates in Canada and Europe. Substantially all manufacturing activities are conducted in the United States. Sales and service activities outside





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the United States are conducted through wholly owned entities and, to a lesser extent, through authorized distributors and agents. Transfer prices are intended to produce gross profit margins commensurate with the sales and service effort associated with the product sold.

The following tables summarizes selected financial information by segment:

(in thousands)	Sales			Segment Operating Profit (Loss)			Segment Operating Profit (Loss) %		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
T&M	\$ 15,695	\$ 11,467	\$ 11,082	\$ 2,592	\$ 331	\$ (170)	16.5%	2.9%	(1.5)%
QuickLabel	31,121	29,698	28,420	1,248	2,874	3,760	4.0%	9.7%	13.2%
GT	18,703	18,136	16,473	3,109	2,906	1,800	16.6%	16.0%	10.9%
Total	\$ 65,519	\$ 59,301	\$ 55,975	\$ 6,949	\$ 6,111	\$ 5,390	10.6%	10.3%	9.6%
Corporate Expenses				3,460	2,956	2,820			
Gain on Sale of Real Estate, net				5,252					
Operating Income				8,741	3,155	2,570			
Other Income and Expense, net				884	247	197			
Income Before Income Taxes				9,625	3,402	2,767			
Income Taxes Provision				3,566	851	57			
Net Income				\$ 6,059	\$ 2,551	\$ 2,710			

Presented below is selected information by segment:

(in thousands)	Amortization and Depreciation			Capital Expenditures		
	2007	2006	2005	2007	2006	2005
T&M	\$ 397	\$ 319	\$ 349	\$ 701	\$ 365	\$ 307
QuickLabel	603	516	474	750	399	561
GT	390	374	406	719	271	276
Total	\$ 1,390	\$ 1,209	\$ 1,229	\$ 2,170	\$ 1,035	\$ 1,144

Presented below are selected assets by segment:

(in thousands)	Assets	
	2007	2006

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T&M	\$ 9,630	\$ 6,951
QuickLabel	16,424	15,139
GT	8,288	8,659
Corporate*	23,659	18,898
Total	\$ 58,001	\$ 49,647

\* Corporate assets consist of cash, investments, income tax accounts and miscellaneous fixed assets.

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Presented below is selected financial information by geographic area:

(in thousands)	Sales			Long-Lived Assets	
	2007	2006	2005	2007	2006
United States	\$ 47,504	\$ 41,417	\$ 38,937	\$ 9,408	\$ 8,781
Europe	11,688	11,746	11,098	835	563
Canada	2,217	2,548	2,336	58	93
Asia	2,366	1,948	1,557		
Central and South America	1,077	1,102	1,292		
Other	667	540	755		
<b>Total</b>	<b>\$ 65,519</b>	<b>\$ 59,301</b>	<b>\$ 55,975</b>	<b>\$ 10,301</b>	<b>\$ 9,437</b>

Included in Long-Lived Assets is goodwill assigned to the following segments: T&M \$0.7 million and GT \$1.6 million at January 31, 2007 and 2006, respectively.

**Note 10 Profit-Sharing Plan**

Along with the ESOP described in Note 6, the Company sponsors a Profit-Sharing Plan (the "Plan") which provides retirement benefits to all eligible employees. The Plan allows participants to defer a portion of their cash compensation and contribute such deferral to the Plan through payroll deductions. The Company makes matching contributions up to specified levels. The deferrals are made within the limits prescribed by Section 401(k) of the Internal Revenue Code.

All contributions are deposited into trust funds. It is the policy of the Company to fund any contributions accrued. The Company's annual contribution amounts are determined by the Board of Directors. The Company's contributions paid or accrued amounted to \$162,328, \$152,500 and \$154,200 in fiscal 2007, 2006 and 2005, respectively.

**Note 11 Product Warranty Liability**

The Company offers a one-year warranty for the majority of its products. The specific terms and conditions of warranties vary depending upon the product sold and country in which the Company does business. For products sold in the United States, the Company provides a basic limited warranty, including parts and labor. The Company estimates the costs based on historical claims experience and records a liability in the amount of such estimates at the time product revenue is recognized. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Activity in the Company's product warranty liability during the years ended January 31, 2007, 2006, and 2005, respectively, are as follows:

	2007	2006	2005
Balance, beginning of the period	\$ 238,642	\$ 208,642	\$ 176,000
Warranties issued during the period	560,983	395,265	397,362
Settlements made during the period	(444,724)	(365,265)	(364,720)
 Balance, end of the period	 \$ 354,901	 \$ 238,642	 \$ 208,642

**Note 12 Concentration of Credit Risk**

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The Company generally extends credit on an uncollateralized basis to almost all customers after review of credit worthiness. Concentration of credit and geographic risk with respect to accounts receivable is limited due

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

to the large number and general dispersion of accounts which constitute the Company's customer base. The Company periodically performs credit evaluations of its customers. At January 31, 2007 and 2006, no single customer accounted for more than 10% of net sales. The Company has not historically experienced significant credit losses on customers' accounts.

The Company invests its excess cash principally in investment grade government and corporate debt securities. The Company has established guidelines relative to diversification and maturities that maintain safety of principal, liquidity and yield. These guidelines are periodically reviewed and modified to reflect changes in market conditions. The Company has not historically experienced any significant losses on its cash equivalents or short-term investments.

**Note 13 Commitments and Contingencies**

The Company is subject to contingencies, including legal proceedings and claims arising in the normal course of business that cover a wide range of matters including, among others, contract and employment claims, workers compensation claims, product liability, warranty and modification, adjustment or replacement of component parts of units sold.

The Company accrues for direct costs associated with the estimated resolution of contingencies at the earliest date at which it is deemed probable that a liability has been incurred and the amount of such liability can be reasonably estimated. Costs accrued have been estimated and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies and outcomes. While it is impossible to ascertain the ultimate legal and financial liability with respect to contingent liabilities, including lawsuits, the Company believes that the aggregate amount of such liabilities, if any, in excess of amounts provided or covered by insurance, will not have a material adverse effect on the consolidated financial position or results of operations of the Company. It is possible, however, that future results of operations for any particular future period could be materially affected by changes in our assumptions or strategies related to these contingencies or changes out of the Company's control.

**Note 14 Subsequent Events**

On March 13, 2007, the Company completed the acquisition of certain real property located in Rockland, Massachusetts constituting approximately 86,933 square feet of land (the Property) for the purchase price of \$3,150,000 which was paid by the Company in cash at the closing. The purchase of the Property by the Company consummates its tax free like-kind exchange under Section 1031 of the Internal Revenue Code initiated with the Company's sale of the facility located in Braintree, Massachusetts on September 19, 2006.

On March 16, 2007 the Company's allowable time to complete a tax free like-kind exchange under Section 1031 of the Internal Revenue Code expired. Prior to this expiration date the Company purchased the Rockland Massachusetts property it was leasing as described above for approximately \$3,150,000 and also the land immediately adjacent to its West Warwick location for approximately \$200,000.

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**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS AND RESERVES**

<b>Description</b>	<b>Balance at Beginning of Year</b>	<b>Provision Charged to Operations</b>	<b>Deductions(2)</b>	<b>Balance at End of Year</b>
Allowance for Doubtful Accounts(1):				
Year Ended January 31,				
2007	\$ 511,648	\$ 105,000	\$ (28,140)	\$ 588,508
2006	\$ 523,859	\$ 89,995	\$ (102,206)	\$ 511,648
2005	\$ 367,194	\$ 142,358	\$ 14,307	\$ 523,859

- (1) The allowance for doubtful accounts has been netted against accounts receivable as of the respective balance sheet dates.  
(2) Uncollectible accounts written off, net of recoveries.