

AstroNova, Inc.  
Form 10-Q  
September 01, 2017  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended July 29, 2017**

**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**

**AstroNova, Inc.**

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

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

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

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

**02893**  
**(Zip Code)**

**(Registrant's telephone number, including area code)**

**Astro-Med, Inc.**

**(Former name, former address and former fiscal year, if changed since last report)**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Edgar Filing: AstroNova, Inc. - Form 10-Q

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

**Common Stock, \$.05 Par Value 6,742,366 shares**

**(excluding treasury shares) as of August 30, 2017**

**Table of Contents**

## ASTRONOVA, INC.

## INDEX

	<b>Page No.</b>
Part I. <u>Financial Information</u>	
Item 1. <u>Financial Statements</u>	
<u>Unaudited Condensed Consolidated Balance Sheets July 29, 2017 and January 31, 2017</u>	3
<u>Unaudited Condensed Consolidated Statements of Income Three and Six Months Ended July 29, 2017 and July 30, 2016</u>	4
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income Three and Six Months Ended July 29, 2017 and July 30, 2016</u>	5
<u>Unaudited Condensed Consolidated Statements of Cash Flows Six Months Ended July 29, 2017 and July 30, 2016</u>	6
<u>Notes to the Condensed Consolidated Financial Statements (unaudited)</u>	7-21
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22-28
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	29
Item 4. <u>Controls and Procedures</u>	29
Part II. <u>Other Information</u>	
Item 1. <u>Legal Proceedings</u>	29
Item 1A. <u>Risk Factors</u>	30
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
Item 5. <u>Other Information</u>	30
Item 6. <u>Exhibits</u>	31
<u>Signatures</u>	32

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

	<b>July 29, 2017 (Unaudited)</b>	<b>January 31, 2017</b>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 8,829	\$ 18,098
Securities Available for Sale	5,131	6,723
Accounts Receivable, net	17,044	15,702
Inventories	20,269	19,506
Prepaid Expenses and Other Current Assets	1,560	1,394
Total Current Assets	52,833	61,423
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Less Accumulated Depreciation	(32,090)	(31,098)
Property, Plant and Equipment, net	9,451	9,280
<b>OTHER ASSETS</b>		
Intangible Assets, net	8,189	5,264
Goodwill	12,542	4,521
Deferred Tax Assets	2,808	2,811
Other	119	366
Total Other Assets	23,658	12,962
<b>TOTAL ASSETS</b>	<b>\$ 85,942</b>	<b>\$ 83,665</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 6,428	\$ 4,957
Accrued Compensation	2,024	2,936
Other Liabilities and Accrued Expenses	2,009	2,171
Current Portion of Long -Term Debt	1,564	
Deferred Revenue	335	472
Income Taxes Payable	1,360	1,449

Edgar Filing: AstroNova, Inc. - Form 10-Q

Total Current Liabilities	13,720	11,985
Deferred Tax Liabilities	879	11
Long-Term Debt	7,202	
Other Liabilities	3,329	1,132
<b>TOTAL LIABILITIES</b>	<b>25,130</b>	<b>13,128</b>
<b>SHAREHOLDERS EQUITY</b>		
Common Stock, \$0.05 Par Value, Authorized 13,000,000 shares; Issued 9,937,965 shares and 9,834,906 shares at July 29, 2017 and January 31, 2017, respectively	497	492
Additional Paid-in Capital	48,891	47,524
Retained Earnings	44,597	44,358
Treasury Stock, at Cost, 3,227,129 and 2,375,076 shares at July 29, 2017 and January 31, 2017, respectively	(32,386)	(20,781)
Accumulated Other Comprehensive Loss, net of tax	(787)	(1,056)
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>60,812</b>	<b>70,537</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 85,942</b>	<b>\$ 83,665</b>

See Notes to condensed consolidated financial statements (unaudited).

Table of Contents

## ASTRONOVA, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, Except Per Share Data)

(Unaudited)

	Three Months		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Revenue	\$ 27,483	\$ 25,339	\$ 51,941	\$ 49,449
Cost of Revenue	17,224	15,034	32,376	29,671
Gross Profit	10,259	10,305	19,565	19,778
Operating Expenses:				
Selling and Marketing	5,315	4,777	10,426	9,608
Research and Development	1,675	1,755	3,307	3,199
General and Administrative	2,327	2,025	4,183	3,676
Operating Expenses	9,317	8,557	17,916	16,483
Operating Income, net	942	1,748	1,649	3,295
Other Income (Expense)	16	40	(33)	(12)
Income before Income Taxes	958	1,788	1,616	3,283
Income Tax Provision	231	496	378	972
Net Income	\$ 727	\$ 1,292	\$ 1,238	\$ 2,311
Net Income per Common Share Basic:	\$ 0.11	\$ 0.17	\$ 0.17	\$ 0.31
Net Income per Common Share Diluted:	\$ 0.11	\$ 0.17	\$ 0.17	\$ 0.31
Weighted Average Number of Common Shares Outstanding:				
Basic	6,727	7,418	7,097	7,388
Diluted	6,838	7,587	7,218	7,560
Dividends Declared Per Common Share	\$ 0.07	\$ 0.07	\$ 0.14	\$ 0.14

See Notes to condensed consolidated financial statements (unaudited).

Table of Contents**ASTRONOVA, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In Thousands)****(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 29, 2017</b>	<b>July 30, 2016</b>	<b>July 29, 2017</b>	<b>July 30, 2016</b>
Net Income	\$ 727	\$ 1,292	\$ 1,238	\$ 2,311
Other Comprehensive Income (Loss), Net of Taxes and Reclassification Adjustments:				
Foreign Currency Translation Adjustments	540	(193)	318	134
Change in Value of Derivatives Designated as Cash Flow Hedge	(501)		(760)	
Losses from Cash Flow Hedges Reclassified to Income Statement	492		704	
Unrealized Holding Gain (Loss) on Securities Available for Sale	(5)	9	7	7
Other Comprehensive Income (Loss)	526	(184)	269	141
Comprehensive Income	\$ 1,253	\$ 1,108	\$ 1,507	\$ 2,452



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

	<b>Six Months Ended</b>	
	<b>July 29, 2017</b>	<b>July 30, 2016</b>
<b>Cash Flows from Operating Activities:</b>		
Net Income	\$ 1,238	\$ 2,311
<b>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</b>		
Depreciation and Amortization	1,461	1,255
Amortization of Debt Issuance Costs	14	
Share-Based Compensation	580	546
Deferred Income Tax Provision	4	270
<b>Changes in Assets and Liabilities, Net of Impact of Acquisition:</b>		
Accounts Receivable	336	127
Inventories	221	(2,656)
Income Taxes	(255)	400
Accounts Payable and Accrued Expenses	(2,113)	995
Other	193	1,135
<b>Net Cash Provided by Operating Activities</b>	<b>1,679</b>	<b>4,383</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sales/Maturities of Securities Available for Sale	1,601	1,921
Purchases of Securities Available for Sale		(400)
Cash Paid for TrojanLabel Acquisition, net of cash acquired	(9,007)	
Payments Received on Line of Credit and Note Receivable	60	188
Additions to Property, Plant and Equipment	(983)	(377)
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>(8,329)</b>	<b>1,332</b>
<b>Cash Flows from Financing Activities:</b>		
Cash (used) proceeds from Common Shares Issued Under Employee Benefit Plans and Employee Stock Option Plans, Net of Payment of Minimum Tax Withholdings	424	(7)
Purchase of Treasury Stock	(11,238)	
Proceeds from Issuance of Long-Term Debt	9,200	
Principal Payments on Long-Term Debt	(276)	
Payments of Debt Issuance Costs	(155)	
Dividends Paid	(997)	(1,036)
<b>Net Cash Used by Financing Activities</b>	<b>(3,042)</b>	<b>(1,043)</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	423	185

Edgar Filing: AstroNova, Inc. - Form 10-Q

Net Increase (Decrease) in Cash and Cash Equivalents	(9,269)	4,857
Cash and Cash Equivalents, Beginning of Period	18,098	10,043
Cash and Cash Equivalents, End of Period	\$ 8,829	\$ 14,900

Supplemental Disclosures of Cash Flow Information:

Cash Paid During the Period for Interest	\$ 30	\$
Cash Paid During the Period for Income Taxes, Net of Refunds	\$ 584	\$ 314

See Notes to condensed consolidated financial statements (unaudited).

---

**Table of Contents**

**ASTRONOVA, INC.**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**(1) Overview**

Headquartered in West Warwick, Rhode Island, AstroNova, Inc. leverages its expertise in data visualization technologies to design, develop, manufacture and distribute a broad range of specialty printers and data acquisition and analysis systems. Our products are distributed through our own sales force and authorized dealers in the United States. We also sell to customers outside of the United States primarily through our Company offices in Canada, China, Europe, Mexico and Southeast Asia as well as through independent dealers and representatives. AstroNova, Inc. products are employed around the world in a wide range of aerospace, apparel, automotive, avionics, chemical, computer peripherals, communications, distribution, food and beverage, general manufacturing, packaging and transportation applications.

The business consists of two segments, Product Identification, which includes specialty printing systems sold under the QuickLabel® and TrojanLabel brand names, and Test & Measurement which includes test and measurement as well as Aerospace systems sold under the AstroNova brand name.

Products sold under the QuickLabel and TrojanLabel brands are used in industrial and commercial product packaging and automatic identification applications to digitally print custom labels and other visual identification marks on demand. Products sold under the AstroNova Test & Measurement brand acquire and record visual and electronic signal data from local and networked data streams and sensors. The recorded data is processed and analyzed and then stored and presented in various visual output formats. In the aerospace market, the Company has a long history of using its data visualization technologies to provide high-resolution airborne printers and networking systems as well as related hardware and supplies.

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

**(2) Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods included herein. These financial statements do not include all disclosures associated with annual financial statements and, accordingly, should be read in conjunction with footnotes contained in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2017.

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

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

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

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

### **(3) Principles of Consolidation**

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

### **(4) Acquisition**

On February 1, 2017, our newly-formed wholly-owned Danish subsidiary, ANI ApS, completed the acquisition of the issued and outstanding equity interests of TrojanLabel ApS (TrojanLabel), a Danish private limited liability company, pursuant to the terms of a Share Purchase Agreement dated January 7, 2017. Based in Copenhagen, Denmark, TrojanLabel is a manufacturer of products including digital color label presses and specialty printing systems for a broad range of end markets. Upon consummation of the acquisition, TrojanLabel became an indirect wholly-owned subsidiary of AstroNova.

**Table of Contents**

The purchase price of this acquisition was 62.9 million Danish Krone (approximately \$9.1 million), net of cash acquired of 976,000 Danish Krone (approximately \$0.1 million), of which 6.4 million Danish Krone (approximately \$0.9 million) was placed in escrow to secure certain post-closing working capital adjustments and indemnification obligations of the sellers. The acquisition was funded using available cash and investment securities.

The sellers of TrojanLabel may be entitled to additional contingent consideration if 80% of specified earnings targets are achieved by TrojanLabel during the seven years following the closing, subject to certain closing working capital adjustments and potential offsets to satisfy the sellers' indemnification obligations. The contingent consideration consists of potential earn-out payments to the sellers of between 32.5 million Danish Krone (approximately \$5.0 million) if 80% of the specified earnings targets are achieved, 40.6 million Danish Krone (approximately \$5.8 million) if 100% of the specified earnings targets are achieved, and a maximum of 48.7 million Danish Krone (approximately \$7 million) if 120% of the specified earnings targets are achieved.

Total acquisition-related costs were approximately \$0.7 million, of which \$0.1 million and \$0.6 million are included in the general and administrative expenses in the Company's consolidated statements of income for the periods ending July 29, 2017 and January 31, 2017, respectively. The acquisition was accounted for under the acquisition method in accordance with the guidance provided by FASB ASC 805, Business Combinations.

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

(In thousands)	
Accounts Receivable	\$ 1,322
Inventory	796
Other Current Assets	166
Property, Plant and Equipment	15
Identifiable Intangible Assets	3,264
Goodwill	7,388
Accounts Payable and Other Current Liabilities	(1,821)
Other Liability	(114)
Contingent Liability (Earnout)	(1,314)
Deferred Tax Liability	(695)
<b>Total Purchase Price</b>	<b>\$ 9,007</b>

The fair value of the intangible assets acquired was estimated by applying the income approach, and the fair value of the contingent consideration liability was estimated by applying the real options method. These fair value measurements are based on significant inputs that are not observable in the market and therefore represent a Level 3 measurement as defined in ASC 820, Fair Value Measurement and Disclosure. Key assumptions in estimating the fair value of the intangibles include (1) remaining life of existing technology acquired based on estimate of percentage of revenue from 0% -100% for each product, (2) the Company's internal rate of return of 19.0% and (3) a range of earnings projections from \$121,000-\$1,070,000. Key assumptions in estimating the fair value of the contingent consideration liability include (1) the estimated earnout targets over the next seven years of \$407,000-\$1,280,000, (2) the probability of success (achievement of the various contingent events) from 1.6%-87.2% and (3) a risk-adjusted discount rate of approximately 1.77%-3.35% used to adjust the probability-weighted earnout payments to their present value. The fair value of the contingent liability will be revalued every reporting period based on updated assumptions. Refer to Note 16 Fair Value for further details.

Goodwill of \$7.4 million, which is not deductible for tax purposes, represents the excess of the purchase price over the estimated fair value assigned to the tangible and identifiable intangible assets acquired and liabilities assumed from TrojanLabel. The goodwill recognized is attributable to synergies which are expected to enhance and expand the Company's overall product portfolio and opportunities in new and existing markets, future technologies that have yet to be determined and TrojanLabel's assembled work force. The carrying amount of the goodwill was allocated to the Product Identification segment of the Company.

The following table reflects the fair value of the acquired identifiable intangible assets and related estimated useful lives:

<b>(In thousands)</b>	<b>Fair Value</b>	<b>Useful Life (Years)</b>
Existing Technology	\$ 2,327	7
Non-Competition Agreement	937	10
<b>Total</b>	<b>\$ 3,264</b>	

The Existing Technology intangible asset acquired represents the various technologies TrojanLabel has developed related to its series of printing presses, including hardware components of the presses and the software utilized to optimize their performance.

**Table of Contents**

Beginning February 1, 2017, the results of operations for TrojanLabel have been included in the Company's statement of income for the three and six month periods ended July 29, 2017 and are reported as part of the Product Identification segment. Assuming the acquisition of TrojanLabel had occurred on February 1, 2016, the impact on net sales, net income and earnings per share would not have been material to the Company for the three and six month periods ended July 30, 2016.

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

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 29, 2017</b>	<b>July 30, 2016</b>	<b>July 29, 2017</b>	<b>July 30, 2016</b>
Weighted Average Common Shares Outstanding				
Basic	6,726,623	7,418,312	7,097,183	7,388,123
Effect of Dilutive Options, Restricted Stock Awards and Restricted Stock Units	111,213	168,300	121,238	172,022
Weighted Average Common Shares Outstanding Diluted	6,837,836	7,586,612	7,218,421	7,560,145

For the three and six months ended July 29, 2017, the diluted per share amounts do not reflect common equivalent shares outstanding of 591,359 and 591,309, respectively. For the three and six months ended July 30, 2016 the diluted per share amounts do not reflect common equivalent shares outstanding of 413,121 and 468,121, respectively. These outstanding common equivalent shares were not included due to their anti-dilutive effect. Anti-dilutive shares consist of those common stock equivalents that have either an exercise price above the average stock price for the period, or the common stock equivalent's related average unrecognized stock compensation expense is sufficient to buy back the entire amount of shares. Restricted stock units which vest based upon achievement of performance targets are excluded from the diluted shares outstanding unless the performance targets have been met as of the end of the reporting period, regardless of whether such performance targets are probable of achievement as of the end of the measurement period.

**(6) Intangible Assets**

Intangible assets are as follows:

	<b>July 29, 2017</b>			<b>January 31, 2017</b>		
	<b>Gross</b>	<b>Currency</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>	
(In thousands)	<b>Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Translation Adjustment</b>	<b>Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Carrying Amount</b>

Edgar Filing: AstroNova, Inc. - Form 10-Q

<b>Miltope:</b>						
Customer Contract Relationships	\$ 3,100	\$ (1,273)		\$ 1,827	\$ 3,100	\$ (1,108) \$ 1,992
<b>RITEC:</b>						
Customer Contract Relationships	2,830	(334)		2,496	2,830	(207) 2,623
Non-Competition Agreement	950	(396)		554	950	(301) 649
<b>TrojanLabel:</b>						
Existing Technology	2,327	(168)	187	2,346		
Non-Competition Agreement	937	(47)	76	966		
<b>Intangible Assets, net</b>	<b>\$ 10,144</b>	<b>\$ (2,218)</b>	<b>263</b>	<b>\$ 8,189</b>	<b>\$ 6,880</b>	<b>\$ (1,616) \$ 5,264</b>



---

**Table of Contents**

There were no impairments to intangible assets during the three or six month periods ended July 29, 2017 and July 30, 2016. With respect to the acquired intangibles included in the table above, amortization expense of \$304,000 and \$179,000 related to the above acquired intangibles has been included in the condensed consolidated statement of income for the three months ended July 29, 2017 and July 30, 2016, respectively. Amortization expense of \$603,000 and \$358,000 related to the above acquired intangibles has been included in the condensed consolidated statement of income for the six months ended July 29, 2017 and July 30, 2016, respectively.

**(7) Share-Based Compensation**

We have one equity incentive plan pursuant to which we grant equity awards – the 2015 Equity Incentive Plan (the 2015 Plan ). Under this plan, the Company may grant incentive stock options, non-qualified stock options, stock appreciation rights, time or performance-based restricted stock units (RSUs), restricted stock awards (RSAs), and other stock-based awards to executives, key employees, directors and other eligible individuals. The 2015 Plan will expire in May 2025. Options granted to employees under the plan vest over four years and expire after ten years. The exercise price of each stock option is established at the discretion of the Compensation Committee; however, all options granted under the 2015 Plan must be issued at an exercise price of not less than the fair market value of the Company's common stock on the date of grant. The 2015 Plan authorizes the issuance of up to 500,000 shares (subject to adjustment for stock dividends and stock splits), and at July 29, 2017, 137,430 shares were available for grant under the 2015 Plan. In addition, as of July 29, 2017, unvested shares of restricted stock granted and options to purchase an aggregate of 581,310 shares were outstanding under our 2007 Equity Incentive Plan (the 2007 Plan ). The 2007 Plan expired in May 2017 and no new awards may be issued under that plan, but outstanding awards will continue to be governed by it.

Under the plan, each non-employee director receives an automatic annual grant of ten-year options to purchase 5,000 shares of stock upon the adjournment of each annual shareholders meeting. Each such option is exercisable at the fair market value of the Company's common stock as of the grant date, and vests immediately prior to the next annual shareholders meeting. Accordingly, on May 17, 2017, 30,000 options were issued to the non-employee directors.

The Company has a Non-Employee Director Annual Compensation Program (the Program ) under which each non-employee director receives an automatic grant of RSAs on the first business day of each fiscal quarter. Under the Program, the number of whole shares to be granted each quarter is equal to 25% of the number calculated by dividing the director compensation amount by the fair market value of the Company's stock on such day. The director annual compensation amount was \$55,000 in fiscal year 2017, and \$65,000, and \$75,000 for fiscal 2018 and 2019, respectively. In addition, the Chairman of the Board receives RSAs with an aggregate value of \$6,000, and the Chairs of the Audit and Compensation Committees each receive RSAs with an aggregate value of \$4,000, also issued in quarterly installments and calculated in the same manner as the directors' RSA grants. RSAs granted prior to March 30, 2017 become fully vested on the first anniversary of the date of grant. RSAs granted subsequent to March 30, 2017 become vested three months after the date of grant. A total of 7,314 and 8,262 shares were awarded to the non-employee directors as compensation under the Program in the second quarter of fiscal 2018 and 2017, respectively.

In April 2013 (fiscal year 2014), the Company granted options and RSUs to officers ( 2014 RSUs ). The 2014 RSUs vested as follows: twenty-five percent vested on the third anniversary of the grant date, fifty percent vested upon the Company achieving its cumulative budgeted net revenue target for fiscal years 2014 through 2016 (the Measurement Period ), and twenty-five percent vested upon the Company achieving a target average annual ORONA (operating income return on net assets as calculated under the Domestic Management Bonus Plan) for the Measurement Period. The grantee may not sell, transfer or otherwise dispose of more than fifty percent of the common stock issued upon vesting of the 2014 RSUs until the first anniversary of the vesting date. In April 2016, 9,300 of the 2014 RSUs vested,

as the Company achieved the targeted average annual ORONA, as defined in the plan, for the Measurement Period and another 9,300 vested as a result of the third year anniversary date of the grant. Additionally, on February 1, 2014, the Company accelerated the vesting of 4,166 of the 2014 RSUs held by Everett Pizzuti in connection with his retirement.

In March 2015 (fiscal year 2016), the Company granted 50,000 options and 537 RSAs to its CEO pursuant to the CEO Equity Incentive Agreement, and 35,000 options to other key employees.

In May 2015 (fiscal year 2016), the Company granted an aggregate of 80,000 time-based and 155,000 performance-based RSUs ( 2016 RSUs ) to certain officers of the Company. The time-based 2016 RSUs vest in four equal annual installments commencing on the first anniversary of the grant date. The performance-based 2016 RSUs vest over three years based upon the increase in revenue, if any, achieved each fiscal year relative to a three-year revenue increase goal. Performance-based 2016 RSUs that are earned based on organic revenue growth are fully vested when earned, while those earned based on revenue growth via acquisitions vest annually over a three-year period following the fiscal year in which the revenue growth occurs. Any performance-based 2016 RSUs that have not been earned at the end of the three-year performance period will be forfeited. The expense for such shares is recognized in the fiscal year in which the results are achieved, however, the shares are not fully earned until approved by the Compensation Committee in the first quarter of the following fiscal year. Based upon revenue in fiscal 2017 and 2016, 9,025 and 15,810 shares of the performance based RSUs were earned in the first quarter of fiscal 2018 and 2017, respectively.

In March 2016 (fiscal year 2017), the Company granted 50,000 options and 4,030 RSAs to its CEO pursuant to the CEO Equity Incentive Agreement.

**Table of Contents**

In May 2016 (fiscal year 2017) the Company granted 37,000 options to certain key employees. On August 1, 2016 (fiscal year 2017) the Company granted 5,000 options to its Chief Financial Officer.

In March 2017 (fiscal year 2018), the Company granted 50,000 options to the Chief Executive Officer pursuant to the CEO Equity Incentive Agreement and in February and April 2017 (fiscal year 2018) the Company granted 52,189 options to certain other key employees.

The options and RSAs granted March 2015 through March 2017 vest in four equal annual installments commencing on the first anniversary of the grant date.

**Table of Contents**

Share-based compensation expense was recognized as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Stock Options	\$ 117	\$ 87	\$ 211	\$ 168
Restricted Stock Awards and Restricted Stock Units	289	142	363	372
Employee Stock Purchase Plan	3	3	6	6
Total	\$ 409	\$ 232	\$ 580	\$ 546

*Stock Options*

The fair value of stock options granted during the six months ended July 29, 2017 and July 30, 2016 was estimated using the following weighted average assumptions:

	Six Months Ended	
	July 29, 2017	July 30, 2016
Risk Free Interest Rate	1.7%	1.4%
Expected Volatility	37.9%	28.2%
Expected Life (in years)	8.0	5.0
Expected Dividend Yield	2.0%	1.9%

The weighted average fair value per share for options granted was \$5.62 and \$4.46 during the three and six month periods ended July 29, 2017, compared to \$2.86 and \$3.20 during the three and six month periods ended July 30, 2016.

Aggregated information regarding stock options granted under the plans for the six months ended July 29, 2017, is summarized below:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 31, 2017	685,456	\$ 11.96
Granted	132,189	13.45
Exercised	(62,250)	10.73
Forfeited	(7,325)	14.17
Canceled	(24,600)	11.76
Outstanding at July 29, 2017	723,470	\$ 12.33

Set forth below is a summary of options outstanding at July 29, 2017:

Range of Exercise prices	Outstanding			Exercisable		
	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Number of Shares	Weighted- Average Exercise Price	Weighted Average Remaining Contractual Life
\$5.00-10.00	174,831	\$ 7.85	3.4	174,831	\$ 7.85	3.4
\$10.01-15.00	493,639	\$ 13.61	7.9	262,600	\$ 13.48	7.2
\$15.01-20.00	55,000	\$ 15.07	8.7	12,500	\$ 15.01	8.6
	723,470	\$ 12.33	6.9	449,931	\$ 11.33	5.7

As of July 29, 2017, there was approximately \$841,000 of unrecognized compensation expense related to stock options which is expected to be recognized over a weighted average period of approximately 2.6 years.

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

Aggregated information regarding RSUs and RSAs granted under the Plan for the three months ended July 29, 2017 is summarized below:

	<b>RSAs &amp; RSUs</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested at January 31, 2017	213,868	\$ 14.08
Granted	13,981	14.43
Vested	(37,692)	14.07
Forfeited	(9,087)	14.05
Unvested at April 29, 2017	181,070	\$ 14.11

As of July 29, 2017, there was approximately \$600,000 of unrecognized compensation expense related to RSUs and RSAs which is expected to be recognized over a weighted average period of 0.7 years.

*Employee Stock Purchase Plan*

AstroNova has an Employee Stock Purchase Plan allowing eligible employees to purchase shares of common stock at a 15% discount from fair value on the date of purchase. A total of 247,500 shares were reserved for issuance under this plan. During the quarters ended July 29, 2017 and July 30, 2016, there were 1,390 and 1,507 shares, respectively, purchased under this plan.

**(8) Shareholders Equity**

On May 1, 2017, the Company entered into a stock repurchase agreement to repurchase 826,305 shares of the Company's common stock held by a trust established by Albert W. Ondis at a per share price of \$13.60, for an aggregate repurchase price of \$11.2 million. This stock repurchase was consummated on May 2, 2017 and was funded using existing cash on hand. Following this stock repurchase, the Ondis trust owns 36,000 shares of the Company's common stock.

April L. Ondis, a director of the Company, is a beneficiary of the trust. The stock repurchase was authorized and approved by the Company's Audit Committee as a related party transaction. Prior to entering into the agreement, the Company obtained an opinion from an independent investment banking firm that the consideration to be paid by the Company to the trust pursuant to the stock repurchase agreement would be fair to the public stockholders of the Company, other than the trust, from a financial point of view.

**(9) Inventories**

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

(In thousands)

**July 29, 2017****January 31, 2017**

Edgar Filing: AstroNova, Inc. - Form 10-Q

Materials and Supplies	\$ 11,884	\$ 11,865
Work-In-Process	1,306	1,216
Finished Goods	11,542	10,270
	24,732	23,351
Inventory Reserve	(4,463)	(3,845)
	\$ 20,269	\$ 19,506

**(10) Income Taxes**

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

	<b>Three Months Ended</b>	<b>Six Months Ended</b>
Fiscal 2018	24.1%	23.4%
Fiscal 2017	27.7%	29.6%

**Table of Contents**

During the three months ended July 29, 2017, the Company recognized an income tax expense of approximately \$231,000. The effective tax rate in this period was impacted by updated projected forecasted income and updated lower foreign tax rates for the Company's foreign subsidiaries, as well as a \$12,000 benefit arising from windfall tax benefits related to the Company's stock. During the three months ended July 30, 2016, the Company recognized income tax expense of \$496,000. The effective tax rate in this period was directly impacted by a \$97,000 tax benefit relating to the filing of amended returns and a \$39,000 tax benefit related to disqualifying dispositions of Company stock.

During the six months ended July 29, 2017, the Company recognized an income tax expense of approximately \$378,000. The effective tax rate in this period was impacted by updated projected forecasted income and updated lower foreign tax rates for the Company's foreign subsidiaries, as well as a \$71,000 tax benefit related to the expiration of the statute of limitations on a previously uncertain tax position and a \$27,000 benefit arising from windfall tax benefits related to the Company's stock. During the six months ended July 30, 2016, the Company recognized income tax expense of \$972,000. The effective tax rate in this period was directly impacted by a \$97,000 tax benefit relating to the filing of amended returns; a \$52,000 tax benefit related to the statute of limitations expiring on a previously uncertain tax position and a \$39,000 tax benefit related to disqualifying dispositions of Company stock.

As of July 29, 2017, the Company's cumulative unrecognized tax benefits totaled \$663,000 compared to \$708,000 as of January 31, 2017. There were no other developments affecting unrecognized tax benefits during the quarter ended July 29, 2017.

**(11) Debt**

Long-term debt in the accompanying condensed consolidated balance sheets is as follows:

(In thousands)	July 29, 2017	January 31, 2017
USD Term Loan with a rate equal to LIBOR plus a margin of 1.0% to 1.5%, (2.03% as of July 29, 2017), and maturity date of January 31, 2022	\$ 8,924	\$
Less:		
Debt Issuance Costs, net of accumulated amortization	\$ (158)	\$
Current Portion	\$ (1,564)	\$
<b>Long-Term Debt</b>	<b>\$ 7,202</b>	<b>\$</b>

The schedule of required principal payments remaining during the next five years on long-term debt outstanding as of July 29, 2017 is as follows:

(In thousands)	
Fiscal 2018	\$ 828
Fiscal 2019	1,472
Fiscal 2020	1,840



Edgar Filing: AstroNova, Inc. - Form 10-Q

Fiscal 2021	2,208
Fiscal 2022	2,576

\$ 8,924

On February 28, 2017, the Company and the Company's wholly-owned subsidiary, ANI ApS (together, the Parties), entered into a Credit Agreement with Bank of America, N.A. (the Lender). The Parties also entered into a related Security and Pledge Agreement with the Lender. The Credit Agreement provides for a term loan to the Parties in the amount of \$9.2 million. The Credit Agreement also provides for a \$10.0 million revolving credit facility available to the Company for general corporate purposes. Revolving credit loans may be borrowed, at the borrower's option, in U.S. Dollars or, subject to certain conditions, Euros, British Pounds, Canadian Dollars or Danish Krone. Upon entry into the Credit Agreement, the Company's prior credit facility with Wells Fargo Bank was terminated. No loans or other amounts were outstanding or owed under that facility at the time of termination.

The term loan bears interest under the Credit Agreement at a rate *per annum* equal to the LIBOR Rate plus a margin that varies within a range of 1.0% to 1.5% based on the Company's consolidated leverage ratio. Amounts borrowed under the revolving credit facility bear interest at a rate *per annum* equal to, at the Company's option, either (a) the LIBOR Rate (or in the case of revolving credit loans denominated in a currency other than U.S. Dollars, the applicable quoted rate), plus a margin that varies within a range of

---

**Table of Contents**

1.0% to 1.5% based on the Company's consolidated leverage ratio, or (b) a fluctuating reference rate equal to the highest of (i) the federal funds rate plus 0.50%, (ii) Bank of America's publicly announced prime rate or (iii) the LIBOR Rate plus 1.00%, plus a margin that varies within a range of 0.0% to 0.5% based on the Company's consolidated leverage ratio. In addition to certain other fees and expenses, the Company is required to pay a commitment fee on the undrawn portion of the revolving credit facility at the rate of 0.25% *per annum*.

In connection with the Credit Agreement, AstroNova and ANI ApS entered into certain hedging arrangements with the Lender to manage the variable interest rate risk and currency risk associated with its payments in respect of the term loan. Refer to Note 12, "Derivative Financial Instruments and Risk Management" for further information about these arrangements.

The Parties must comply with various customary financial and non-financial covenants under the Credit Agreement. The financial covenants consist of a maximum consolidated leverage ratio and a minimum consolidated fixed charge coverage ratio. The Credit Agreement contains limitations, in each case subject to various exceptions and thresholds, on the Company's and its subsidiaries' ability to incur future indebtedness, to place liens on assets, to conduct mergers or acquisitions, to sell assets, to alter their capital structure, to make investments and loans, to change the nature of their business, and to prepay subordinated indebtedness. The Credit Agreement permits the Company to pay cash dividends on and repurchase shares of its common stock, subject to certain limitations.

In connection with the May 1, 2017, stock repurchase (refer to Note 8, "Shareholders' Equity"), the Company entered into a consent and amendment, dated as of May 1, 2017, relating to the Credit Agreement solely for purposes of effecting the stock repurchase. The Amendment increased the aggregate amount of certain repurchases of Company equity interests permitted to be made by the Company under the Credit Agreement in the Company's fiscal year ending January 31, 2018, from \$5,000,000 to \$12,000,000, subject to certain conditions. The Amendment prohibits the Company from making other repurchases of Company equity interests under such permission in the fiscal year ending January 31, 2018. The Amendment also provides that the aggregate amount paid in cash by the Company to effect the stock repurchase shall not be deducted from the Company's consolidated EBITDA for the purposes of calculating the consolidated fixed charge coverage ratio covenant to which the Company is subject under the Credit Agreement with respect to any trailing four-fiscal-quarter measurement period through and including the measurement period ending January 31, 2018.

The Lender is entitled to accelerate repayment of the loans and to terminate its revolving credit commitment under the Credit Agreement upon the occurrence of any of various customary events of default, which include, among other events, the following: failure to pay when due any principal, interest or other amounts in respect of the loans, breach of any of the Company's covenants or representations under the loan documents, default under any other of the Company's or its subsidiaries' significant indebtedness agreements, a bankruptcy, insolvency or similar event with respect to the Company or any of its subsidiaries, a significant unsatisfied judgment against the Company or any of its subsidiaries, or a change of control of the Company.

The obligations of ANI ApS in respect of the term loan are guaranteed by the Company and TrojanLabel. The Company's obligations in respect of the revolving credit facility and its guarantee in respect of the term loan are secured by substantially all of the assets of the Company (including a pledge of a portion of the equity interests held by the Company in ANI ApS and the Company's wholly-owned German subsidiary Astro-Med GmbH), subject to certain exceptions.

As of July 29, 2017, there are no borrowings under the revolving credit facility, and we believe the Company is in compliance with all of the covenants in the Credit Agreement.

**(12) Derivative Financial Instruments and Risk Management**

As a multinational enterprise, AstroNova is exposed to certain risks relating to our ongoing business operations. We employ a number of practices to manage these risks, including operating and financing activities, and where appropriate, the use of derivative instruments. The primary risks managed by using derivative instruments are interest rate risk and foreign currency exchange rate risk.

ASC 815, Derivatives and Hedging, requires the Company to recognize all of its derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in the statement of income during the current period.

**Table of Contents**

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings (e.g., in interest expense when the hedged transactions are interest cash flows associated with floating-rate debt, or other income (expense) for portions reclassified relating to the remeasurement of the debt). The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any (i.e., the ineffectiveness portion), or hedge components excluded from the assessment of effectiveness, are recognized in the statement of financial income during the current period.

In connection with the Credit Agreement, we entered into a cross-currency interest rate swap to manage the interest rate risk and foreign currency exchange risk associated with the floating-rate foreign currency-denominated borrowing on our Danish Subsidiary and, in accordance with the guidance in ASC 815, have designated this swap as a cash flow hedge of floating-rate borrowings. The cross-currency interest rate swap agreement utilized by the Company effectively modifies the Company's exposure to interest rate risk and foreign currency exchange rate risk by converting approximately \$8.9 million of the Company's floating-rate debt denominated in U.S. Dollars on our Danish subsidiary's books to a fixed-rate debt denominated in Danish Krone for the next five years, thus reducing the impact of interest-rate and foreign currency exchange rate changes on future interest expense and principal repayments. This swap involves the receipt of floating rate amounts in U.S. Dollars in exchange for fixed-rate interest payments in Danish Krone, as well as exchanges of principal at the inception spot rate, over the life of the Credit Agreement.

As of July 29, 2017, the total notional amount of the Company's cross-currency interest rate swap was \$8.4 million; the fair value was \$1.1 million.

The following table presents the impact of the derivative instrument in our condensed consolidated financial statements for the six months ended July 29, 2017 and July 30, 2016:

	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
	July 29, 2017	July 30, 2016		July 29, 2017	July 30, 2016
Cash Flow Hedge					
(In thousands)					
Swap contract	\$ (1,035)	\$	Other Income (Expense)	\$ (953)	\$

The swap contract resulted in no ineffectiveness for the three months ended July 29, 2017, and no gains or losses were reclassified into earnings as a result of the discontinuance of the swap contract due to the original forecasted transaction no longer being probable of occurring. At July 29, 2017, the Company expects to reclassify approximately \$116,000 of net gains on the swap contract from accumulated other comprehensive income to earnings during the next 12 months due to changes in foreign exchange rates and the payment of variable interest associated with the floating-rate debt.



**Table of Contents****(13) Segment Information**

AstroNova reports two segments: Product Identification and Test & Measurement (T&M). The Company evaluates segment performance based on the segment profit before corporate expenses.

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

(In thousands)	Three Months Ended				Six Months Ended			
	Revenue		Segment Operating Profit		Revenue		Segment Operating Profit	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Product Identification	\$ 20,841	\$ 17,628	\$ 2,612	\$ 2,632	\$ 39,487	\$ 34,234	\$ 5,104	\$ 4,628
T&M	6,642	7,711	657	1,141	12,454	15,215	728	2,343
<b>Total</b>	<b>\$ 27,483</b>	<b>\$ 25,339</b>	<b>3,269</b>	<b>3,773</b>	<b>\$ 51,941</b>	<b>\$ 49,449</b>	<b>5,832</b>	<b>6,971</b>
Corporate Expenses			2,327	2,025			4,183	3,676
Operating Income			942	1,748			1,649	3,295
Other Income (Expense), Net			16	40			(33)	(12)
Income Before Income Taxes			958	1,788			1,616	3,283
Income Tax Provision			231	496			378	972
<b>Net Income</b>			<b>\$ 727</b>	<b>\$ 1,292</b>			<b>\$ 1,238</b>	<b>\$ 2,311</b>

**(14) Recent Accounting Pronouncements***Goodwill*

In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-04, Intangibles Goodwill and Other (Topic 350). ASU 2017-14 simplifies the subsequent measurement of goodwill impairment. The new guidance eliminates the two-step process that required identification of potential impairment and a separate measure of the actual impairment. Goodwill impairment charges, if any, would be determined by reducing the goodwill balance by the difference between the carrying value and the reporting unit's fair value (impairment loss is limited to the carrying value). This standard is effective for annual or any interim goodwill impairment tests beginning after December 15, 2019. The Company does not believe the adoption of this guidance will have a material impact on the Company's consolidated financial statements.

---

**Table of Contents**

*Statement of Cash Flows*

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (Topic 230). ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice for certain cash receipts and cash payments. The standard is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those years (Q1 fiscal 2019 for AstroNova), with early adoption permitted. The Company does not believe the adoption of this guidance will have a material impact on the Company's consolidated financial statements.

*Revenue Recognition*

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 completes the joint effort by the FASB and International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. ASU 2014-09 applies to all companies that enter into contracts with customers to transfer goods or services. In August 2015, the FASB modified ASU 2014-09 to be effective for annual reporting periods beginning after December 15, 2017 (Q1 fiscal 2019 for AstroNova), including interim periods within that reporting period. As modified, the FASB permits the adoption of the new revenue standard early, but not before annual periods beginning after December 15, 2016. Entities have the choice to apply ASU 2014-09 either retrospectively to each reporting period presented or by recognizing the cumulative effect of applying ASU 2014-09 at the date of initial application and not adjusting comparative information.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606) Principal versus Agent Consideration. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606) Identifying Performance Obligations and Licensing. In May 2016, the FASB issued ASU 2016-11, Revenue from Contracts with Customers (Topic 606) and Derivatives and Hedging (Topic 815) Rescission of SEC Guidance Because of ASU 2014-09 and 2014-16 and ASU 2016-12, Revenue from Contracts with Customers (Topic 606) Narrow Scope Improvements and Practical Expedients. All of these ASUs do not change the core principle of the guidance in Topic 606 (as amended by ASU 2014-09), but rather provide further guidance to improve the operability and understandability of the implementation guidance included in ASU 2014-09. The effective date for all of these ASUs is the same as the effective date of ASU 2014-09 as amended by ASU 2015-14, for annual reporting periods beginning after December 15, 2017, including interim periods within those years (Q1 fiscal 2019 for AstroNova). The Company is currently evaluating the impact and method of adopting this guidance and while we do not expect that the adoption of these ASUs will have a material impact on the Company's consolidated financial statements, we do expect the adoption to result in a change in timing of recognizing expense for commission earned on the sales of extended service contracts. The Company has not yet decided on the method of adoption to be applied when this new guidance becomes effective.

*Leases*

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 supersedes current guidance related to accounting for leases and is intended to increase transparency and comparability among organizations by requiring lessees to recognize assets and liabilities in the balance sheet for operating leases with lease terms greater than twelve months. The update also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (Q1 fiscal 2020 for AstroNova), with early adoption permitted. At adoption, this update will be applied using a modified retrospective approach. The Company is currently evaluating the effect of this new guidance on the Company's consolidated

financial statements.

*Inventory*

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330). ASU 2015-11 requires inventory to be measured at the lower of cost and net realizable value instead of at lower of cost or market. This guidance does not apply to inventory that is measured using last-in, first out (LIFO) or the retail inventory method but applies to all other inventory, including inventory measured using first-in, first-out (FIFO) or the average cost method. ASU 2015-11 will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years (Q1 fiscal 2018 for AstroNova) and should be applied prospectively. Our adoption of this guidance at the beginning of the first quarter of fiscal 2018 did not have a material effect on our consolidated financial statements.

No other new accounting pronouncements, issued or effective during the first six months of the current year, have had or are expected to have a material impact on our consolidated financial statements.

**(15) Securities Available for Sale**

Pursuant to our investment policy, securities available for sale include state and municipal securities with various contractual or anticipated maturity dates ranging from 1 to 15 months. Securities available for sale are carried at fair value, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss) in shareholders' equity until realized. Realized



**Table of Contents**

gains and losses from the sale of available-for-sale securities, if any, are determined on a specific identification basis. A decline in the fair value of any available-for-sale security below cost that is determined to be other than temporary will result in a write-down of its carrying amount to fair value. No such impairment charges were recorded for any period presented. All short-term investment securities have original maturities greater than 90 days.

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

(In thousands)

		Gross Unrealized			
<b>July 29, 2017</b>	<b>Amortized Cost</b>	<b>Gains</b>	<b>Losses</b>	<b>Fair Value</b>	
State and Municipal Obligations	\$ 5,130	\$ 2	\$ (1)	\$ 5,131	

		Gross Unrealized			
<b>January 31, 2017</b>	<b>Amortized Cost</b>	<b>Gains</b>	<b>Losses</b>	<b>Fair Value</b>	
State and Municipal Obligations	\$ 6,732	\$	\$ (9)	\$ 6,723	

**Table of Contents****(16) Fair Value**

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

The fair value hierarchy is summarized as follows:

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

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

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

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

**Assets and Liabilities Recorded at Fair Value on a Recurring Basis**

Fair value is applied to our financial assets and liabilities including money market funds, available for sale securities, derivative instruments consisting of a cross-currency interest rate swap and a contingent consideration liability relating to an earnout payment on future TrojanLabel operating results.

The following tables provide a summary of the financial assets and liabilities that are measured at fair value as of July 29, 2017 and January 31, 2017:

<i>Assets measured at fair value:</i> (in thousands)	Fair value measurement at July 29, 2017				Fair value measurement at January 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Money Market Funds (included in Cash and Cash Equivalents)	\$ 24	\$	\$	\$ 24	\$ 2	\$	\$	\$ 2
State and Municipal Obligations (included in Securities Available for Sale)		5,131		5,131	6,723			6,723

Total assets	\$ 24	\$ 5,131	\$	\$ 5,155	\$ 2	\$ 6,723	\$	\$ 6,725
	<b>Fair value measurement at</b>			<b>Fair value measurement at</b>				
	<b>July 29, 2017</b>			<b>January 31, 2017</b>				
<i>Liabilities measured at fair value:</i>								
(in thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Swap Contracts (included in Other Liabilities)	\$	\$ 1,066	\$	\$ 1,066	\$	\$	\$	\$
Earnout Liability (included in Other Liabilities)			1,247	1,247				
Total liabilities	\$	\$ 1,066	\$ 1,247	\$ 2,313	\$	\$	\$	\$

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

We also use the market approach to measure fair value of our derivative instruments. Our derivative liability is comprised of a cross-currency interest rate swap. This derivative instrument was measured at fair value using readily observable market inputs, such as quotations on interest rates and foreign exchange rates, and is classified as Level 2 because it is an over-the-counter contract with a bank counterparty that is not traded in an active market.

**Table of Contents**

The fair value of the earnout liability incurred in connection with the Company's acquisition of TrojanLabel was determined using the option approach methodology which includes using significant inputs that are not observable in the market and therefore classified as Level 3. Key assumptions in estimating the fair value of the contingent consideration liability included (1) the estimated earnout targets over the next seven years of \$0.4 million-\$1.3 million, (2) the probability of success (achievement of the various contingent events) from 0.0%-57.9% and (3) a risk-adjusted discount rate of approximately 1.67%-3.22% used to adjust the probability-weighted earnout payments to their present value. At each reporting period, the contingent consideration liability is recorded at its fair value with changes reflected in other income in the condensed consolidated statements of operations.

**Assets and Liabilities Not Recorded at Fair Value on the Consolidated Balance Sheet**

As of July 29, 2017, the Company's long-term debt, including the current portion of long-term debt not reflected in the financial statements at fair value, is reflected in the table below:

(In thousands)	Fair Value Measurement at July 29, 2017				Carrying Value
	Level 1	Level 2	Level 3	Total	
Long-Term debt and related current maturities	\$	\$	\$ 9,953	\$ 9,953	\$ 8,924

On February 28, 2017, the Company entered into a term loan in the amount of \$9.2 million with the Bank of America. The fair value of the Company's long-term debt, including the current portion of long-term debt is estimated by discounting the future cash flows using current interest rates at which similar borrowings with the same maturities would be made to borrowers with similar credit ratings and is classified as a Level 3.

**(17) Accumulated Other Comprehensive Loss**

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

(In thousands)	Net Unrealized Holding Unrealized			Total
	Foreign Currency Translation Adjustments	Gain/(Loss) on Available for Sale Securities	Gain (Losses) on Cash Flow Hedges	
Balance at January 31, 2017	\$ (1,048)	\$ (8)	\$	\$ (1,056)
Other Comprehensive Income (Loss) before reclassification	318	7	(760)	(435)
Amounts reclassified from AOCI to Earnings			704	704
Other Comprehensive Income (Loss)	318	7	(56)	269
Balance at July 29, 2017	\$ (730)	\$ (1)	\$ (56)	\$ (787)

The amounts presented above in other comprehensive income (loss) are net of any applicable taxes.



**Table of Contents**

*Credit Agreement Amendment*

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Business Overview**

This section should be read in conjunction with the AstroNova condensed consolidated financial statements included elsewhere herein and our Annual Report on Form 10-K for the fiscal year ended January 31, 2017.

AstroNova is a multi-national enterprise that leverages its proprietary data visualization technologies to design, develop, manufacture, distribute and service 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 the following two segments:

Product Identification offers product identification and label printer hardware, software, servicing contracts, and parts and supplies. Parts and supplies refer to the media (substrate) and ink, toner, ribbon, etc., used with the Company's printers and the various parts used to maintain the printers.

Test and Measurement (T&M) offers a suite of products and services that acquire and record visual and electronic signal data from local and networked data stream and sensors as well as wired and wireless networks. The recorded data is processed and analyzed and then stored and presented in various visual output formats. The T&M segment also includes a line of aerospace printers that are used to print hard copies of data required for the safe and efficient operation of aircraft, including navigation maps, arrival and departure procedures, flight itineraries, weather maps, performance data, passenger data, and various air traffic control data. Other aerospace products include airborne and rugged networking devices. The Company also markets the media for use with the printers and other devices sold by the T&M segment.

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

On February 1, 2017, AstroNova completed its acquisition of TrojanLabel ApS (TrojanLabel), a European manufacturer of digital color label presses and specialty printing systems for a broad range of end markets. TrojanLabel is being reported as part of our Product Identification segment beginning with the first quarter of fiscal year 2018. Refer to Note 4, Acquisition, in our condensed consolidated financial statements included elsewhere in this report for additional details.

**Results of Operations**

**Three Months Ended July 29, 2017 vs. Three Months Ended July 30, 2016**

Edgar Filing: AstroNova, Inc. - Form 10-Q

Revenue by segment and current quarter percentage change over prior year for the three months ended July 29, 2017 and July 30, 2016 were:

<b>(Dollars in thousands)</b>	<b>July 29, 2017</b>	<b>As a % of Revenue</b>	<b>July 30, 2016</b>	<b>As a % of Revenue</b>	<b>% Change Over Prior Year</b>
Product Identification	\$ 20,841	75.8%	\$ 17,628	69.6%	18.2%
T&M	6,642	24.2%	7,711	30.4%	(13.9)%
<b>Total</b>	<b>\$ 27,483</b>	<b>100.0%</b>	<b>\$ 25,339</b>	<b>100.0%</b>	<b>8.5%</b>

Revenue for the second quarter of the current year was \$27.5 million, an 8.5% increase compared to the previous year second quarter revenue of \$25.3 million. Revenue through domestic channels for the current year second quarter was \$17.2 million, a decrease of 2.3% over the prior year's second quarter. International revenue for the second quarter of the current year was \$10.3 million, a 33.8% increase over the previous year second quarter and represents 37.5% of AstroNova's second quarter's revenue. Current year second quarter international revenue includes an unfavorable foreign exchange rate impact of \$0.1 million.

**Table of Contents**

Hardware revenue in the current quarter was \$8.6 million, a decrease compared to prior year's second quarter revenue of \$8.9 million, primarily due to the decrease in hardware revenue in the Test & Measurement segment. Parts and supplies revenue in the current quarter was \$16.3 million, a 13.0% increase over prior year's second quarter parts and supplies revenue of \$14.4 million. The current quarter increase in parts and supplies revenue compared to the second quarter of the prior year is attributable to increases in revenue of both digital color printer supplies and label and tag products within the Product Identification segment.

Service and other revenues of \$2.6 million in the current quarter increased 30.0% from prior year second quarter service and other revenues of \$2.0 million, primarily due to an increase in customer demand for parts and repair services during the current year second quarter.

Current year second quarter gross profit of \$10.3 million was unchanged from prior year second quarter gross profit. The Company's current quarter gross profit margin of 37.3% reflects a 3.4 percentage point decrease from the prior year second quarter gross profit margin of 40.7%. The lower gross profit margin for the current quarter compared to the prior year is primarily attributable to product mix, costs associated with the product line integration related to TrojanLabel and lower factory absorption in our manufacturing operations.

Operating expenses for the current quarter were \$9.3 million, an increase compared to prior year second quarter operating expenses of \$8.6 million. Specifically, selling and marketing expenses for the current quarter increased to \$5.3 million compared to \$4.8 million in the second quarter of the prior year due primarily to increases in compensation expense and the addition of the TrojanLabel operations, as well as an increase in advertising and trade show expenditures.

G&A expenses increased in the second quarter to \$2.3 million compared to \$2.0 million in the prior year second quarter. The increase is primarily due to an increase in compensation, as well as professional service costs, including costs to the TrojanLabel acquisition. R&D expenses were \$1.7 million in the current quarter, compared to \$1.8 million in the prior year second quarter. The R&D spending as a percentage of revenue for the current quarter is 6.1% compared to 6.9% for the same period of the prior year.

Other income during the second quarter was \$16 thousand compared to \$40 thousand in the second quarter of the previous year. Current year second quarter other income consists primarily of investment income and foreign exchange gain, partially offset by interest expense on debt. Prior year second quarter other income consists primarily of a recovery of a portion of the funds held in escrow related to the Company's 2015 RITEC acquisition and investment income, partially offset by foreign exchange loss.



**Table of Contents**

The provision for federal, state and foreign income taxes for the second quarter of the current year was \$0.2 million which includes \$12 thousand of windfall tax benefits related to the Company's stock. The second quarter effective tax rate of 24.1% was impacted by updated forecasted income and updated lower foreign tax rates for the Company's foreign subsidiaries. This compares to the prior year's second quarter tax provision on income of \$0.5 million, which included benefits of \$97 thousand related to filing of amended returns and \$39 thousand related to disqualifying dispositions of the Company's stock and reflected an effective tax rate of 27.7%.

The Company reported net income of \$0.7 million for the second quarter of the current year, and earnings of \$0.11 per diluted share, compared to the prior year second quarter net income of \$1.3 million and related earnings of \$0.17 per diluted share. Return on revenue was 2.6% for the second quarter of fiscal 2018 compared to 5.1% for the second quarter in fiscal 2017.

**Six Months Ended July 29, 2017 vs. Six Months Ended July 30, 2016**

Revenue by product group and current quarter percentage change over prior year for the six months ended July 29, 2017 and July 30, 2016 were:

(Dollars in thousands)	July 29, 2017	As a % of Revenue	July 30, 2016	As a % of Revenue	% Change Over Prior Year
Product Identification	\$ 39,487	76.0%	\$ 34,234	69.2%	15.3%
T&M	12,454	24.0%	15,215	30.8%	(18.1)%
<b>Total</b>	<b>\$ 51,941</b>	<b>100.0%</b>	<b>\$ 49,449</b>	<b>100.0%</b>	<b>5.0%</b>

Revenue for the first six months of the current year was \$51.9 million, representing a 5.0% increase compared to the previous year's first six months of revenue of \$49.4 million. Revenue through domestic channels for the first half of the current year was \$32.9 million, a decrease of 4.4% from the prior year. International revenue for the first six months of the current year was \$19.0 million, a 26.7% increase from the previous year. The current year's first six months international revenue included an unfavorable foreign exchange rate impact of \$0.4 million

Hardware revenue in the first six months of the current year was \$15.9 million, a decrease compared to prior year first six months of revenue of \$17.6 million primarily due to a decrease in hardware revenue in the T&M segment.

Parts and supplies revenue in the first half of the current year were \$31.1 million, representing an 11.9% increase over prior year's first six months revenue of \$27.8 million. The current year increase in parts and supplies revenue is due primarily to the increase in label and tag revenue, as well as digital color printer supplies product revenue in the Product Identification segment.

Service and other revenues of \$4.9 million in the first six months of the current year, an increase compared to prior year's first six months service and other revenues of \$4.0 million, primarily due to the increased parts and repairs revenue in both product groups.

**Table of Contents**

Current year first six months gross profit was \$19.6 million, a 1.0% decline from prior year's first six months gross profit of \$19.8 million. The Company's gross profit margin of 37.7% in the current year reflects a decrease from the prior year's first six months gross profit margin of 40.0%. The lower gross profit and related margin for the current year compared to the prior year is primarily due to unfavorable product mix, cost associated with the product line integration related to the TrojanLabel acquisition and lower factory absorption in our manufacturing operations.

Operating expenses for the first six months of the fiscal year were \$17.9 million, an 8.5% increase compared to prior year's first six months operating expenses of \$16.5 million. Selling and marketing expenses for the current year of \$10.4 million increased 8.3% compared to the previous year's first six months due primarily to increases in compensation and travel expenditures, as well as outside service fees. G&A expenses increased to \$4.2 million in the first six months of the current year compared to prior year's first six months G&A expenses of \$3.7 million primarily due to an increase in compensation and professional and outside service fees. R&D spending in the first six months of the current year of \$3.3 million increased slightly compared to prior year's first six months spending of \$3.2 million. Current year spending on R&D represents 6.4% of revenue compared to prior year's first six months level of 6.5%.

First six months operating income of \$1.6 million for the current year resulted in an operating profit margin of 3.2%, compared to the prior year's first six months operating income of \$3.3 million and related operating margin of 6.7%. The decrease in operating profit and related margin for the current year is due to product mix, lower factory absorption and an increase in operating expenses.

Other expense during the first six months of the current year was \$33 thousand compared to \$12 thousand in the first six months of the previous year. The current year increase in other expense is due to interest expense on debt, partially offset by the increase in foreign exchange gain. Other expense for fiscal 2017 included the partial recovery of escrow funds related to the Company's 2015 RITEC acquisition.

The Company recognized \$0.4 million of income tax expense for the first six months of the current fiscal year. The effective tax rate for the six months ended July 29, 2017 was 23.4%, impacted by updated projected forecasted income and lower foreign tax rates for the Company's foreign subsidiaries, as well as a \$71 thousand tax benefit related to the statute of limitations expiring on a previously uncertain tax position and a \$27 thousand benefit arising from windfall tax benefits related to the Company's stock. The prior year's first six months income tax expense of \$1.0 million included a \$97 thousand tax benefit relating to the filing of amended returns; a \$52 thousand tax benefit related to the statute of limitations expiring on a previously uncertain tax position and a \$39 thousand tax benefit related to disqualifying dispositions of Company stock. The effective tax rate for the six months ended July 28, 2016 was 29.6%.

The Company reported net income of \$1.2 million for the first six months of the current year, reflecting a return on revenue of 2.4% and generating EPS of \$0.17 per diluted share. In the prior year's first six months, the Company recognized net income of \$2.3 million, reflecting a return on revenue of 4.7% and EPS of \$0.31 per diluted share.

**Table of Contents****Segment Analysis**

The Company reports two segments: Product Identification and Test & Measurement (T&M) and evaluates segment performance based on the segment profit before corporate and administrative expenses. Summarized below are the Revenue and Segment Operating Profit for each reporting segment:

(In thousands)	Three Months Ended				Six Months Ended			
	Revenue		Segment Operating Profit		Revenue		Segment Operating Profit	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Product Identification	\$ 20,841	\$ 17,628	\$ 2,612	\$ 2,632	\$ 39,487	\$ 34,234	\$ 5,104	\$ 4,628
T&M	6,642	7,711	657	1,141	12,454	15,215	728	2,343
<b>Total</b>	<b>\$ 27,483</b>	<b>\$ 25,339</b>	<b>3,269</b>	<b>3,773</b>	<b>\$ 51,941</b>	<b>\$ 49,449</b>	<b>5,832</b>	<b>6,971</b>
Corporate Expenses			2,327	2,025			4,183	3,676
Operating Income			942	1,748			1,649	3,295
Other Income (Expense) Net			16	40			(33)	(12)
Income Before Income Taxes			958	1,788			1,616	3,283
Income Tax Provision			231	496			378	972
<b>Net Income</b>			<b>\$ 727</b>	<b>\$ 1,292</b>			<b>\$ 1,238</b>	<b>\$ 2,311</b>

**Product Identification**

Revenue from the Product Identification segment increased 18.2% to \$20.8 million in the second quarter of the current year, from \$17.6 million in the same period of the prior year. Hardware revenue increased 40.4% compared to prior year due primarily to revenue from TrojanLabel printers and the Company's new QL800 printers. Parts and supplies revenue increased 13.8% from the same period in the prior year due to increased demand for labels and tags and digital color printer supplies. The Product Identification segment current quarter segment operating profit was \$2.6 million, a profit margin of 12.5%, compared to prior year's second quarter segment profit of \$2.6 million and profit margin of 14.9%. The decrease in Product Identification current year second quarter segment operating margin is primarily due to unfavorable product mix and increased manufacturing and operating costs.

Revenues from the Product Identification segment increased 15.3% to \$39.5 million in the first six months of the current year from \$34.2 million in the same period of the prior year, attributable to an increase in parts and supplies revenue of 11.6% due to increased demand for label and tag products and digital color printer supplies products, as well as a 29.5% increase in revenue from the hardware product group for the current year. Product Identification current year segment operating profit of \$5.1 million and profit margin of 12.9% declined from the prior year segment operating profit of \$4.6 million and related profit margin of 13.5%. The increase in current year segment operating profit is primarily due to higher revenue, while the decrease in segment operating profit margin is primarily due to product mix and higher manufacturing and operating expenses.



---

**Table of Contents**

**Test & Measurement T&M**

Revenue from the T&M segment was \$6.6 million for the second quarter of the current fiscal year, a 13.9% decrease from revenue of \$7.7 million for the same period in the prior year. The decrease is due primarily to the decline in revenue in the Aerospace product group as a result of timing on fulfilling orders placed and decreased revenue from certain legacy data recorders. T&M second quarter segment operating profit of \$0.7 million and 9.9% profit margin compared to the prior year segment operating profit of \$1.1 million and related operating margin of 14.8%. The lower segment operating profit and related margin were due to lower revenue and unfavorable product mix.

Revenue from the T&M segment was \$12.5 million for the first six months of the current fiscal year, a 19.5% decrease compared to sales of \$15.2 million for the same period in the prior year. The current year decrease is attributable to a 26.2% decrease in Aerospace hardware product line revenue, compared to the same period of the prior year. The segment's first six months operating profit of \$0.7 million resulted in a 5.8% profit margin compared to prior year segment operating profit of \$2.3 million and related operating margin of 15.4%. The lower segment operating profit and related profit margin for the current year is due to lower revenue, unfavorable product mix and higher operating costs.

**Financial Condition and Liquidity**

Based upon our current working capital position, current operating plans and expected business conditions, we expect to fund our short and long-term working capital needs, capital expenditures and acquisition requirements primarily using internal funds, and we believe that cash provided by operations will be sufficient to meet our operating and capital needs for at least the next 12 months.

We may also utilize amounts available under our secured credit facility, as described below, to fund a portion of our capital expenditures, contractual contingent consideration obligations, and future acquisitions.

On February 28, 2017, we entered into a credit agreement with Bank of America, N.A., which provided for a secured credit facility consisting of a \$9.2 million term loan and a \$10.0 million revolving credit facility. No amount has been drawn under the revolving credit facility as of the filing date of this report, and the entire revolving credit facility is currently available. Refer to Note 11, Debt, to our condensed consolidated financial statements included elsewhere in this quarterly report for additional information regarding our new secured credit facility.

The term loan bears interest at a rate per annum equal to the LIBOR rate plus a margin that varies within a range of 1.0% to 1.5% based on the Company's consolidated leverage ratio. In connection with our entry into the credit agreement, a subsidiary of the Company entered into a hedging arrangement to manage the variable interest rate risk and currency risk associated with its payments in respect of the term loan. Under these arrangements, payments of principal and interest in respect of approximately \$8.9 million of the principal of the term loan will be made in Danish Krone, and interest on such principal amount will be payable at a fixed rate of 0.67% per annum for the entire term, subject only to potential increases of 0.25% or 0.50% per annum based on the Company's consolidated leverage ratio.

Refer to Note 12, Derivative Financial Instruments and Risk Management, to our condensed consolidated financial statements included elsewhere in this quarterly report for additional information regarding our hedging arrangements.

The Company's statements of cash flows for the six months ended July 29, 2017 and July 30, 2016 are included on page 6 of this report. Net cash flows provided by operating activities were \$1.7 million for the first six months of fiscal 2018 compared to \$4.4 million for the same period of the previous year. The decrease in operating cash flow is related to lower net income and higher working capital requirements for the first six months of the current year

compared to the same period in the previous year.

---

## **Table of Contents**

Excluding the impact of the TrojanLabel acquisition, the accounts receivable balance increased to \$16.2 million at the end of the second quarter from \$15.7 million at year-end, and the accounts receivable collection cycle was 50 days sales outstanding at both the end of the second quarter of fiscal 2018 and fiscal 2017 year-end. Inventory decreased to \$18.9 million after excluding the TrojanLabel acquisition at the end of the second quarter compared to \$ 19.5 million at year-end. Inventory days on hand decreased to 106 days on hand at the end of the second quarter from 114 days at year-end.

The Company's cash, cash equivalents and investments at the end of the second quarter were \$14.0 million, compared to \$24.8 million at year-end. The decreased cash and investment position at July 29, 2017, resulted from \$11.2 million of cash used for the purchase of the Company's common stock from the Ondis trust, dividends paid of \$1.0 million and cash used to acquire property, plant and equipment of \$1.0 million.

The Company's backlog increased 7.4% from year-end to \$18.9 million at the end of the second quarter of fiscal 2018.

## **Contractual Obligations, Commitments and Contingencies**

Except as set forth below, there have been no material changes to our contractual obligations as disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2017, other than those which occur in the ordinary course of business.

On February 28, 2017, the Company and the Company's wholly-owned subsidiary, ANI ApS, entered into a Credit Agreement with Bank of America, N.A. which provides for a term loan in the amount of \$9.2 million. Future minimum principal and interest payments are approximately \$9.4 million through the term loan's maturity date of January 31, 2022.

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

In the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2017, the Company's most critical accounting policies and estimates upon which our financial status depends were identified as those relating to revenue recognition, warranty claims, bad debts, inventories, income taxes, long-lived assets, goodwill and share-based compensation. We considered the disclosure requirements of Financial Release ( FR ) 60 regarding critical accounting policies and FR-61 regarding liquidity and capital resources, certain trading activities and related party disclosures, and concluded that nothing materially changed during the quarter that would warrant further disclosure under these releases.

## **Forward-Looking Statements**

This Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not statements of historical fact, but rather reflect our current expectations concerning future events and results. We generally use the words believes, expects, intends, plans, anticipates, likely, continues, may, will, and similar expressions to identify forward-looking statements. Such forward-looking statements, including those concerning our expectations, involve risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors which could cause actual results to differ materially from those anticipated include, but are not limited to (a) general economic, financial and business conditions; (b) declining demand in the test and measurement markets, especially defense and aerospace; (c) competition in the specialty printer industry; (d) ability to develop market acceptance of our products and effective design of customer required features; (e) competition in the data acquisition industry; (f) the impact of changes in

foreign currency exchange rates on the results of operations; (g) the ability to successfully integrate acquisitions and realize benefits from divestitures; (h) the business abilities and judgment of personnel and changes in business strategy; (i) the efficacy of research and development investments to develop new products; (j) the launching of significant new products which could result in unanticipated expenses; (k) bankruptcy or other financial problems at major suppliers or customers that could cause disruptions in the Company's supply chain or difficulty in collecting amounts owed by such customers; and (l) other risks included under Item 1A-Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2017. We assume no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law.



---

**Table of Contents**

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

We have exposure to financial market risks, including changes in foreign currency exchange rates and interest rates.

*Foreign Currency Exchange Risk*

The functional currencies of our foreign subsidiaries and branches are the local currencies – the British Pound in the UK, the Canadian Dollar in Canada, the Danish Krone in Denmark and the Euro in France and Germany.

Accordingly, the effects of exchange rate fluctuations on the net assets of these foreign subsidiaries' operations are accounted for as translation gains or losses in accumulated other comprehensive income (loss) within stockholders' equity. We do not believe that a change of 10% in such foreign currency exchange rates would have a material impact on our consolidated financial position or results of operations.

The Company is also subject to risk from the effects of exchange rate movements in foreign currency through its borrowings, specifically our U.S. dollar borrowing at our Danish Krone functional currency subsidiary. We entered into a cross-currency interest rate swap to hedge the foreign currency cash flow and interest rate exposures related to the U.S. Dollar floating-rate debt included on the books of our Danish subsidiary (functional currency is Danish Krone). A 10% increase in the rate of exchange of Danish Krone to U.S. Dollars would result in an increase in our debt balance of approximately \$0.8 million, and a 10% decrease in the rate of exchange of Danish Krone to U.S. Dollars would result in a decrease of our debt balance of approximately \$1.0 million.

*Interest Rate Risk*

As of July 29, 2017, the Company's debt portfolio was comprised of U.S. Dollar, floating-rate borrowings on the books of our Danish subsidiary. We entered into a cross-currency interest rate swap to convert the floating-rate foreign currency debt on our foreign subsidiary, to a fixed-rate functional currency debt. Generally, the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. If Danish Krone interest rates were to decrease by 50 basis points, the fair value of the Company's debt would increase by approximately \$0.2 million. If interest rates were to increase by 50 basis points, the fair value of the Company's debt would decrease by approximately \$ 0.2 million.

At July 29, 2017, we had cash and cash equivalents of \$8.8 million, of which \$2.3 million is held in US bank accounts, \$6.1 million is held in foreign bank accounts and \$0.4 million is held in highly liquid money market funds with original maturities of 90 days or less. We also have \$5.1 million of securities available for sale, which include state and municipal securities with maturities ranging from one month to two years. We do not enter into investments for trading or speculative purposes. All funds are available for working capital and other operating requirements. We do not believe that we have material exposure to changes in fair value of these investments as a result of changes in interest rates due to the short-term nature of these investments.

**Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (Exchange Act). Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in ensuring that

information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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

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

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Table of Contents****Item 1A. Risk Factors**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, one should carefully consider the factors discussed in Part I, Item 1A Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2017, which could materially affect our business, financial condition or future operating results. The risks described in our Annual Report on 10-K are not the only risks that could affect our business, as additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results as well as adversely affect the value of our common stock.

There have been no material updates to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2017.

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

During the second quarter of fiscal 2018, the Company made the following repurchases of its common stock:

		Total Number of Shares Repurchased	Average Price paid Per Share	Maximum Number of Shares That May Be Purchased Under The Plans or Programs
				Shares Purchased as Part of Publicly Announced Plans or Programs
May 1	May 31	832,880(a)(b)(c)	\$ 13.60 (a)(b)(c)	390,000
June 1	June 30	4,719(d)	\$ 13.83(d)	390,000
July 1	July 29		\$	390,000

- (a) Pursuant to a stock repurchase agreement with a trust established by Albert W. Ondis, the Company repurchased 826,305 shares of common stock held by the trust at a per share price of \$13.60.
- (b) Employees of the Company delivered 6,313 shares of the Company's common stock toward the satisfaction of taxes due with respect to vesting of restricted shares. The shares delivered were valued at an average market value of \$14.10 per share and are included with treasury stock in the consolidated balance sheet. This transaction did not impact the number of shares authorized for repurchase under the Company's current repurchase program.
- (c) An employee of the Company delivered 262 shares of the Company's common stock to satisfy the exercise price for 600 stock options exercised. The shares delivered were valued at an average market value of \$14.28 per share and are included with treasury stock in the consolidated balance sheet. This transaction did not impact the number of shares authorized for repurchase under the Company's current repurchase program.
- (d) Employees of the Company delivered 4,719 shares of the Company's common stock to satisfy the exercise price for 8,275 stock options exercised. The shares delivered were valued at an average market value of \$13.83 per share and are included with treasury stock in the consolidated balance sheet. This transaction did not impact the number of shares authorized for repurchase under the Company's current repurchase program.

**Item 5. Other Information**

Edgar Filing: AstroNova, Inc. - Form 10-Q

We are providing the following information under this item 5 in lieu of reporting the information under Item, 5.02, Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers, of a Current Report on Form 8-K with a due date on or after the date hereof:

On August 30, 2017, in connection with the appointment of Joseph O. Connell as our interim Chief Financial Officer and Treasurer, the Compensation Committee of our Board of Directors approved an increase to Mr. O. Connell's annual salary to \$257,000, effective as of September 1, 2017.

---

**Table of Contents**

**Item 6. Exhibits**

- 3A Restated Articles of Incorporation of the Company and all amendments thereto (incorporated by reference to Exhibit 3A to the Company's Quarterly Report on Form 10-Q for the quarter ended April 30, 2016).
- 3B By-laws of the Company as amended to date (incorporated by reference to Exhibit 3B to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2008 (File no. 000-13200)).
- 10.1 Stock Purchase Agreement, dated as of May 1, 2017, by and among AstroNova, Inc. and the trust established by Albert W. Ondis by Declaration of Trust dated December 4, 2003, as amended (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, event date May 1, 2017, filed with the SEC on May 5, 2017).
- 10.2 Consent under Credit Agreement, dated as of May 1, 2017, by and among AstroNova, Inc., ANI ApS, Trojanlabel ApS, and Bank of America, N.A. (incorporated by referenced to Exhibit 10.2 to the Company's Current Report on Form 8-K, event date May 1, 2017, filed with the SEC on May 5, 2017).
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from Registrant's Quarterly Report on Form 10-Q for the period ended July 29, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, and (vi) the Notes to the Condensed Consolidated Financial Statements. Filed electronically herein.

**Table of Contents**

SIGNATURES

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

**ASTRONOVA, INC.**

**(Registrant)**

Date: August 31, 2017

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

By /s/ John P. Jordan  
John P. Jordan,  
Vice President, Chief Financial Officer and  
Treasurer (Principal Accounting Officer and  
Principal Financial Officer)