

AstroNova, Inc.
Form 10-Q
December 13, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 29, 2016

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)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

Common Stock, \$.05 Par Value 7,472,875 shares
(excluding treasury shares) as of December 2, 2016

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

	October 29, 2016 (Unaudited)	January 31, 2016
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 18,124	\$ 10,043
Securities Available for Sale	7,244	10,376
Accounts Receivable, net	14,698	15,325
Inventories	19,119	14,890
Line of Credit Receivable	115	150
Note Receivable		191
Prepaid Expenses and Other Current Assets	1,266	3,539
Total Current Assets	60,566	54,514
PROPERTY, PLANT AND EQUIPMENT	40,565	39,713
Less Accumulated Depreciation	(31,150)	(29,906)
Property, Plant and Equipment, net	9,415	9,807
OTHER ASSETS		
Intangible Assets, net	5,443	5,980
Goodwill	4,521	4,521
Deferred Tax Assets	2,805	3,049
Other	93	92
Total Other Assets	12,862	13,642
TOTAL ASSETS	\$ 82,843	\$ 77,963
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts Payable	\$ 6,490	\$ 3,192
Accrued Compensation	2,283	3,436
Other Liabilities and Accrued Expenses	2,196	2,209
Deferred Revenue	467	529

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Income Taxes Payable	264	182
Total Current Liabilities	11,700	9,548
Deferred Tax Liabilities	169	78
Other Long Term Liabilities	972	964
TOTAL LIABILITIES	12,841	10,590
SHAREHOLDERS EQUITY		
Common Stock, \$0.05 Par Value, Authorized 13,000,000 shares; Issued 9,829,237 shares and 9,666,290 shares at October 29, 2016 and January 31, 2016, respectively	492	483
Additional Paid-in Capital	47,173	45,675
Retained Earnings	44,114	42,212
Treasury Stock, at Cost, 2,375,076 and 2,323,545 shares at October 29, 2016 and January 31, 2016, respectively	(20,781)	(20,022)
Accumulated Other Comprehensive Loss, net of tax	(996)	(975)
TOTAL SHAREHOLDERS EQUITY	70,002	67,373
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 82,843	\$ 77,963

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 Ended		Nine Months Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Revenue	\$ 23,342	\$ 24,753	\$ 72,791	\$ 70,897
Cost of Sales	13,701	14,601	43,373	41,869
Gross Profit	9,641	10,152	29,418	29,028
Operating Expenses:				
Selling and Marketing	4,578	4,563	14,186	13,555
Research and Development	1,338	1,839	4,538	5,200
General and Administrative	1,891	1,891	5,566	5,132
Operating Expenses	7,807	8,293	24,290	23,887
Operating Income, net	1,834	1,859	5,128	5,141
Other Income (Expense)	(60)	333	(72)	587
Income before Income Taxes	1,774	2,192	5,056	5,728
Income Tax Provision	623	873	1,595	2,031
Net Income	\$ 1,151	\$ 1,319	\$ 3,461	\$ 3,697
Net Income per Common Share Basic:	\$ 0.15	\$ 0.18	\$ 0.47	\$ 0.51
Net Income per Common Share Diluted:	\$ 0.15	\$ 0.18	\$ 0.46	\$ 0.50
Weighted Average Number of Common Shares Outstanding:				
Basic	7,444	7,295	7,407	7,277
Diluted	7,594	7,466	7,572	7,462
Dividends Declared Per Common Share	\$ 0.07	\$ 0.07	\$ 0.21	\$ 0.21

See Notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended		Nine Months Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Net Income	\$ 1,151	\$ 1,319	\$ 3,461	\$ 3,697
Other Comprehensive Income (Loss), Net of Taxes and Reclassification Adjustments:				
Foreign Currency Translation Adjustments	(145)	(7)	(11)	(120)
Unrealized Holding Gain (Loss) on Securities Available for Sale	(17)	6	(10)	(9)
Other Comprehensive Income (Loss)	(162)	(1)	(21)	(129)
Comprehensive Income	\$ 989	\$ 1,318	\$ 3,440	\$ 3,568

See Notes to condensed consolidated financial statements (unaudited).

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

	Nine Months Ended	
	October 29, 2016	October 31, 2015
Cash Flows from Operating Activities:		
Net Income	\$ 3,461	\$ 3,697
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,829	1,467
Share-Based Compensation	731	834
Deferred Income Tax Provision (Benefit)	335	(814)
Changes in Assets and Liabilities, net of acquisition:		
Accounts Receivable	587	(756)
Inventories	(4,257)	457
Income Taxes	818	2,101
Accounts Payable and Accrued Expenses	2,232	1,856
Other	1,599	(597)
Net Cash Provided by Operating Activities	7,335	8,245
Cash Flows from Investing Activities:		
Proceeds from Sales/Maturities of Securities Available for Sale	3,517	7,693
Purchases of Securities Available for Sale	(400)	(3,692)
Acquisition of RITEC's Ruggedized Printer Business		(7,360)
Net Proceeds Received for Sales of Assets Held for Sale		1,698
Payments Received on Line of Credit and Note Receivable	226	270
Additions to Property, Plant and Equipment	(897)	(2,173)
Net Cash Provided (Used) by Investing Activities	2,446	(3,564)
Cash Flows from Financing Activities:		
Proceeds from Common Shares Issued Under Employee Benefit Plans and Employee Stock Option Plans, Net of Payment of Minimum Tax Withholdings	16	231
Dividends Paid	(1,559)	(1,534)
Net Cash Used by Financing Activities	(1,543)	(1,303)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(157)	(40)
Net Increase in Cash and Cash Equivalents	8,081	3,338
Cash and Cash Equivalents, Beginning of Period	10,043	7,958

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Cash and Cash Equivalents, End of Period	\$ 18,124	\$ 11,296
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Supplemental Disclosures of Cash Flow Information:

Cash Paid During the Period for Income Taxes, Net of Refunds	\$ 296	\$ 711
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See Notes to condensed consolidated financial statements (unaudited).

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ASTRONOVA, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(1) Overview

On September 25, 2015, Astro-Med, Inc. announced it would immediately begin doing business as AstroNova on a worldwide basis. The name change is part of the plan to modernize the Company and effectively communicate our strategy. The AstroNova name and brand emphasizes our traditional strengths in aerospace and acknowledges our expanding presence in test & measurement, product identification and other new areas where we can apply our data visualization technology. On May 18, 2016, the name change was formally approved by the Company's shareholders, and the Company's Restated Articles of Incorporation were amended to officially change the Company's name to AstroNova, Inc. The Company's common stock trades on the NASDAQ Global Market stock exchange under its new name, AstroNova, Inc., using the ticker symbol, ALOT.

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 used 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 (previously known as our QuickLabel segment), which includes products sold under the QuickLabel® brand name, and Test & Measurement which includes products sold under the AstroNova brand name.

Products sold under the QuickLabel brand 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 printers for use in airborne applications.

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, 2016.

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's financial statements have been reclassified to conform to the current year's presentation.

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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 June 19, 2015, the Company completed the acquisition of the aerospace printer product line for civil and commercial aircraft from Rugged Information Technology Equipment Corporation (RITEC) under the terms of an Asset Purchase Agreement dated June 18, 2015. The products of RITEC consist of aerospace printers for use in commercial aircraft sold primarily to aircraft manufacturers, tier one contractors and directly to airlines around the world. AstroNova's aerospace printer product line is part of the Test & Measurement (T&M) product group and is reported as part of the T&M segment. The Company began shipment of the RITEC products in the third quarter of fiscal 2016.

The purchase price of the acquisition was \$7,360,000 which was funded using available cash and investment securities. The Company withheld \$750,000 of the purchase price in escrow for twelve months following the acquisition date to support sellers' indemnifications in the event of any breach in the representations, warranties or covenants of RITEC. The Company retained \$99,000 from the escrow, which was recorded as other income in the condensed consolidated statements of income for the nine-month period ended October 29, 2016.

The assets acquired from RITEC consist principally of accounts receivable and certain intangible assets. Acquisition-related costs of approximately \$109,000 were included in the general and administrative expenses in the Company's consolidated statements of income for fiscal year ended January 31, 2016. The acquisition was accounted for under the acquisition method in accordance with the guidance provided by FASB ASC 805, Business Combinations.

AstroNova also entered into a Transition Services Agreement (TSA) with RITEC, under which RITEC provided transition services and continued to manufacture products in the acquired product line until the Company transitioned the manufacturing to its West Warwick, Rhode Island facility. The TSA concluded in the third quarter of fiscal 2017, and AstroNova agreed to purchase the remaining inventory held by RITEC at its book value (net of reserves), which the Company estimates will be approximately \$175,000.

Also as part of the Asset Purchase Agreement, the Company entered into a 5-year License Agreement with RITEC, which grants RITEC certain rights to use the intellectual property acquired by the Company in the design, development, marketing, manufacture, sale and servicing of aerospace printers for aircraft sold to the military end-user market and printers sold to other non-aircraft market segments. RITEC will pay royalties equal to 7.5% of the selling price on all products sold into the military end-user aircraft market during the License Agreement period.

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

(In thousands)	
Accounts Receivable	\$ 50
Identifiable Intangible Assets	3,780
Goodwill	3,530

Total Purchase Price

\$ 7,360

The