Guggenheim Taxable Municipal Managed Duration Trust
Form N-CSR
August 08, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM N-CSR
CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES
Investment Company Act file number 811-22437
Guggenheim Taxable Municipal Managed Duration Trust
(Exact name of registrant as specified in charter)
227 West Monroe, Chicago, IL, 60606
(Address of principal executive offices) (Zip code)
Amy J. Lee
227 West Monroe, Chicago, IL 60606
(Name and address of agent for service)

Registrant's telephone number, including area code: (312) 827-0100
Date of fiscal year end: May 31
Date of reporting period: June 1, 2015 - May 31, 2016

Item 1. Reports to Stockholders.
The registrant's annual report transmitted to shareholders pursuant to Rule 30e-1 under the Investment Company Act of 1940, as amended (the "Investment Company Act"), is as follows:

GUGGENHEIMINVESTMENTS.COM/GBAB
... YOUR LINK TO THE LATEST, MOST UP-TO-DATE
INFORMATION ABOUT THE GUGGENHEIM BUILD
AMERICA BONDS MANAGED DURATION TRUST

The shareholder report you are reading right now is just the beginning of the story.
Online at guggenheiminvestments.com/gbab, you will find:

- Daily, weekly and monthly data on share prices, net asset values, distributions and more
- Monthly portfolio overviews and performance analyses
- Announcements, press releases and special notices
- Fund and adviser contact information

Guggenheim Partners Investment Management, LLC and Guggenheim Funds Investment Advisors, LLC are continually updating and expanding shareholder information services on the Trust's website in an ongoing effort to provide you with the most current information about how your Trust's assets are managed and the results of our efforts. It is just one more small way we are working to keep you better informed about your investment in the Trust.

(Unaudited) May 31, 2016

DEAR SHAREHOLDER

We thank you for your investment in the Guggenheim Build America Bonds Managed Duration Trust (the "Trust"). This report covers the Trust's performance for the 12-month period ended May 31, 2016.

The Trust's primary investment objective is to provide current income with a secondary objective of long-term capital appreciation. Under normal market conditions, the Trust invests at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in a diversified portfolio of taxable municipal securities known as Build America Bonds or BABs. The Trust's nonfundamental investment policy was changed during the period. Please see the Question & Answers section for more information on the modifications.

All Trust returns cited—whether based on net asset value ("NAV") or market price—assume the reinvestment of all distributions. For the 12-month period ended May 31, 2016, the Trust provided a total return based on market price of 10.95% and a total return based on NAV of 7.25%. As of May 31, 2016, the Trust's market price of $22.28 per share represented a discount of 4.38% to its NAV of $23.30 per share. The market value of the Trust's shares fluctuates from time to time and it may be higher or lower than the Trust's NAV. The NAV return includes the deduction of management fees, operating expenses, and all other Trust expenses.

From June 2015 through May 2016, the Trust paid monthly distributions of $0.13817 per share, representing an annualized distribution rate of 7.44% based on the Trust's closing market price of $22.28 on May 31, 2016. The Trust's distribution rate is not constant and the amount of distributions, when declared by the Trust's Board of Trustees, is subject to change based on the performance of the Trust. Please see Note 2(d) on page 46 for more information on distributions for the period.

Guggenheim Funds Investment Advisors, LLC ("GFIA" or the "Adviser") serves as the investment adviser to the Trust. Guggenheim Partners Investment Management, LLC ("GPIM" or the "Sub-Adviser") serves as the Trust's investment sub-adviser and is responsible for the management of the Trust's portfolio of investments. Each of the Adviser and the Sub-Adviser is an affiliate of Guggenheim Partners, LLC ("Guggenheim"), a global diversified financial services firm.

We encourage shareholders to consider the opportunity to reinvest their distributions from the Trust through the Dividend Reinvestment Plan ("DRIP"), which is described in detail on page 65 of this report. When shares trade at a discount to NAV, the DRIP takes advantage of the discount by reinvesting the monthly distribution in common shares of the Trust purchased in the market at a price less than NAV. Conversely, when the market price of the Trust's common shares is at a premium above NAV, the DRIP reinvests participants' distributions in newly-issued common shares at the greater of NAV per share or 95% of the market price per share. The DRIP provides a cost effective means to accumulate additional shares and enjoy the benefits of compounding returns over time. Since the Trust endeavors to maintain a steady monthly distribution rate, the DRIP effectively provides an income averaging technique, which causes shareholders to accumulate a larger number of Trust shares when the share price is lower than when the price is higher.

DEAR SHAREHOLDER (Unaudited) continued May 31, 2016

To learn more about the Trust's performance and investment strategy for the annual period ended May 31, 2016, we encourage you to read the Questions & Answers section of this report, which begins on page 5. We are honored that you have chosen the Guggenheim Build America Bonds Managed Duration Trust as part of your investment portfolio. For the most up-to-date information regarding your investment, please visit the Trust's website at guggenheiminvestments.com/gbab.

Sincerely,
Donald C. Cacciapaglia
President and Chief Executive Officer
Guggenheim Build America Bonds Managed Duration Trust
June 30, 2016

QUESTIONS & ANSWERS (Unaudited) May 31, 2016

Guggenheim Build America Bonds Managed Duration Trust (the "Trust") is managed by a team of seasoned professionals at Guggenheim Partners Investment Management, LLC ("GPIM" or the "Sub-Adviser"). This team includes B. Scott Minerd, Chairman of Investments and Global Chief Investment Officer; Anne B. Walsh, CFA, JD, Senior Managing Director and Assistant Chief Investment Officer; and James E. Pass, Senior Managing Director. In the following interview, the investment team discusses the market environment and the Trust's strategy and performance for the 12-month period ended May 31, 2016.

What were the most important developments in the Trust over the past 12 months?

For the period, the Trust performed well relative to both major equity and fixed income indices, as the search for yield accelerated demand for bonds in the municipal sector. Anemic global economic growth has prompted central banks to move to a more accommodative stance, resulting in yields moving lower globally, even leading to increases in the amount of municipal debt owned by foreign buyers. The Trust experienced strong return for the period, 10.95% on a market price basis (7.25% on an NAV basis), compared with the 7.68% return of the Bank of America Merrill Lynch (BofA/ML) Build America Bond Index. The Trust benefited from lower duration, as rate volatility continued over the period, and spread compression within the fixed income market. The Trust continued holding interest rate swaps over the period to help protect the portfolio from interest rate volatility.

The Trust also made a change in its nonfundamental investment policy. It is discussed further below.

What is the Trust's investment objective and how is it pursued?

The Trust's primary investment objective is to provide current income with a secondary objective of long-term capital appreciation. The Trust seeks to achieve its investment objectives by investing primarily in a diversified portfolio of taxable municipal securities known as BABs. Under normal market conditions, the Trust invests at least 80% of its managed assets (net assets plus leverage) ("Managed Assets") in BABs. The Trust may invest up to 20% of its Managed Assets in securities other than BABs, including taxable municipal securities that do not qualify for federal subsidy payments under the American Recovery and Reinvestment Act of 2009 (the "Act"), municipal securities, the interest income from which is exempt from regular federal income tax (sometimes referred to as "tax-exempt municipal securities"), asset-backed securities ("ABS"), senior loans, and other income-producing securities.

At least 80% of the Trust's Managed Assets are invested in securities that, at the time of investment, are investment grade quality. The Trust may invest up to 20% of its Managed Assets in securities that, at the time of investment, are below investment grade quality. Securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal. The Trust does not invest more than 25% of its Managed Assets in municipal securities in any one state of origin or more than 15% of its Managed Assets in municipal securities that, at the time of investment, are illiquid.

BABs are taxable municipal securities that include bonds issued by state and local governments to finance capital projects such as public schools, roads, transportation infrastructure, bridges, ports, and public buildings, pursuant to the Act. In contrast to traditional municipal bonds, interest received on BABs is subject to federal income tax and may be subject to state income tax. However, issuers of Direct Payment BABs are eligible to receive a subsidy from the U.S. Treasury of up to 35% of the interest paid on the bonds, allowing such issuers to issue BABs that pay interest rates that are competitive with the rates typically paid by private bond issuers in the taxable fixed-income market. In addition, because the relevant provisions of the Act were not extended, bonds issued after December 31, 2010 cannot qualify as BABs. Therefore, the number of BABs available in the market is limited.

The Sub-Adviser employs investment and trading strategies to seek to maintain the leverage-adjusted duration of the Trust's portfolio to generally less than 10 years. At May 31, 2016, the Trust's duration was approximately 7 years. (Duration is a measure of a bond's price sensitivity to changes in interest rates, expressed in years. Duration is a weighted average of the times that interest payments and the final return of principal are received. The weights are the amounts of the payments discounted by the yield to maturity of the bond.)

The Sub-Adviser may seek to manage the duration of the Trust's portfolio through the use of derivative instruments, including U.S. Treasury swaps, credit default swaps, total return swaps, and futures contracts, in an attempt to reduce the overall volatility of the Trust's portfolio to changes in market interest rates. The Sub-Adviser used derivative instruments to manage the duration of the Trust's portfolio during the period. The Sub-Adviser may seek to manage the Trust's duration in a flexible and opportunistic manner based primarily on then-current market conditions and interest rate levels. The Trust may incur costs in implementing the duration management strategy, but such strategy will seek to reduce the volatility of the Trust's portfolio.

Discuss the change in the Trust's nonfundamental investment policy that occurred in the period.

The Trust will continue to pursue its primary investment objective of providing current income with a secondary objective of long-term capital appreciation. However, as a result of investment policy changes approved by the Trust's Board of Trustees (the "Board") in May 2016, the Trust will no longer be required to invest a specific percentage of its managed assets in BABs. The change becomes effective on July 26, 2016.

Given the uncertainty around the continuation of the BABs program at the time of the Trust's commencement of operations in 2010, the Trust's initial public offering prospectus stated that if the BABs program was not extended and there ceased to be new issuances of BABs or other taxable municipal securities with interest payments subsidized by the U.S. Government through direct pay subsidies, the Board intended to evaluate potential actions with respect to the Trust, which could include, among other things, changes to the non-fundamental investment policies of the Trust to permit the Trust to broaden its investment focus, for example to taxable municipal securities generally, merger of the Trust into another fund, or termination of the Trust.

Given that there have been no new issuances of BABs, the investment policy changes described herein reflect the Board's evaluation of the Trust pursuant to its prospectus. The Trust believes that these investment policy changes are appropriate at this time to potentially diversify the Trust's portfolio by broadening its investment universe and providing portfolio management flexibility to take advantage of relative value opportunities in the taxable municipal market as a whole.

No other changes to the Trust's other investment agencies or the Trust's portfolio management team are currently anticipated, nor is it currently anticipated that there will be substantial portfolio turnover in conjunction with these changes in the immediate future.

Current Policy

Under normal market conditions, the Trust will invest at least 80% of its Managed Assets in BABs.

Under normal market conditions, the Trust may invest up to 20% of Managed Assets in securities other than BABs, including taxable municipal securities that do not qualify for federal subsidy payments under the American Reinvestment and Recovery Act, municipal securities the interest income from which is exempt from regular federal income tax (sometimes referred to as "tax-exempt municipal securities"), asset-backed securities, senior loans and other income producing securities.

The name of the Trust is Guggenheim Build America Bonds Managed Duration Trust

New Policy (Effective July 26, 2016)

Under normal market conditions, the Trust will invest at least 80% of its Managed Assets in taxable municipal securities, including BABs.

Under normal market conditions, the Trust may invest up to 20% of its Managed Assets in securities other than taxable municipal securities, including tax-exempt municipal securities, asset-backed securities, senior loans and other income producing securities.

The name of the Trust will be Guggenheim Taxable Municipal Managed Duration Trust

QUESTIONS & ANSWERS (Unaudited) continued May 31, 2016

How will the Trust benefit from greater participation in the taxable municipal market?

Issuance of taxable municipal bonds offers issuers—such as states, local governments, and non-profit organizations—an opportunity to diversify bondholders and allows funding of certain projects not eligible for tax-exempt bonds. Prior to the creation of the BABs Program and other federally sponsored programs, taxable municipal issuance had averaged approximately $35 billion per year or roughly 10% of total municipal issuance. During the BAB years (2009 and 2010), over $187 billion of taxable municipal bonds were issued. Today, average annual taxable municipal issuance is approximately $30 billion. Although BABs are no longer issued, they do trade actively in the secondary market. Unlike BABs, a primary market for taxable municipal bonds does exist, creating an investment opportunity for the Trust.

Characteristics for taxable municipal bonds resemble BABs although private higher education institutions and health care organizations, who were not eligible to issue BABs, have been historically active issuers. The Barclays Taxable Municipal Index has twice as many taxable municipals as the BAB Index, indicating a broader investment universe for the Trust.

What is the current outlook for Build America Bonds?

The ongoing effects of federal sequestration—automatic spending cuts that were negotiated as part of the fiscal cliff legislation in 2013—continue to hang over the BABs market. One ongoing impact is reductions in the federal subsidy used to pay the coupon on BABs. It was cut by more than 7% in each of the past two years and is being cut almost 7% for fiscal 2016. The lower subsidy effectively increases the cost of borrowing for issuers. The reduction in the subsidy may allow issuers to redeem bonds early, and certain issuers have begun to refund BABs with municipal bonds, and as we approach 2019 and thereafter, more state and local governments may elect to do the same.

What were the significant events affecting the economy and market environment over the past 12 months?

Much of the 12 months ended May 31, 2016, was marked by heightened market volatility. The macro drivers of this volatility included mixed signals on U.S. economic growth, the vagaries of the oil market, and increased monetary accommodation by global central banks.

Gross Domestic Product (“GDP”) growth in the first quarter of 2016 is now estimated to have been 1.1%, but early estimates were much lower. Net exports and an ongoing inventory adjustment contributed to the number being weaker than prior annual growth figures, but the drag from these components could be transitory. Part of the weakness could be attributed to “residual seasonality,” a statistical quirk that biases GDP growth downward in the winter months while boosting growth in the second and third quarters.

QUESTIONS & ANSWERS (Unaudited) continued May 31, 2016

The New York Federal Reserve's Nowcast and the Atlanta Federal Reserve's GDPNow models are predicting second quarter GDP to be above 2% as of the end of May 2016, thanks in part to the easing of financial conditions since February. But, news that only 38,000 new jobs were added in May rattled the markets and is suggestive that there could still be challenges ahead. While payroll growth has downshifted from an average monthly rate of 282,000 in the fourth quarter of 2015 to 116,000 in the three months through May, this may be a more sustainable pace of net job creation. Guggenheim forecasts further slowdown in payroll growth over the next few months, with rising labor productivity bridging the gap between faster GDP growth and slower job gains.

Guggenheim now expects the U.S. Federal Reserve (the "Fed") to delay its next rate hike until December. In our view, policymakers will be watching slowing Chinese growth, the aftermath of the Brexit vote in June, and the U.S. presidential election in November. Fed officials have given greater weight to global economic developments in their policy framework, which in practice means that the Federal Open Market Committee (FOMC) has become less tolerant of financial market turbulence and more tolerant of inflation at the margin. We see this dovish shift as benefiting U.S. credit markets and inflation-sensitive assets.

A more accommodative Fed outlook has pushed interest rates lower and weakened the U.S. dollar, which depreciated by around 3% on a trade-weighted basis between January and the end of May. Oil prices have benefited from dollar weakness. Our research team's oil model indicates that WTI oil prices will average around $45 per barrel for the remainder of 2016. In sum, solid but unspectacular economic growth, a cautious Fed, and improving oil market supply-demand fundamentals underpin our positive outlook for the U.S. economy, which should continue to support a historically low default environment for credit.

How did the Trust perform for the 12 months ended May 31, 2016?

All Trust returns cited—whether based on net asset value ("NAV") or market price—assume the reinvestment of all distributions. For the 12-month period ended May 31, 2016, the Trust provided a total return based on market price of 10.95% and a total return based on NAV of 7.25%. As of May 31, 2016, the Trust's market price of $22.28 per share represented a discount of 4.38% to its NAV of $23.30 per share. As of May 31, 2015, the Trust's market price of $21.64 per share represented a discount of 7.32% to its NAV of $23.35 per share. The market value of the Trust's shares fluctuates from time to time and it may be higher or lower than the Trust's NAV. The NAV return includes the deduction of management fees, operating expenses, and all other Trust expenses.

From June 2015 through May 2016, the Trust paid monthly distributions of $0.13817 per share, representing an annualized distribution rate of 7.44% based on the Trust's closing market price of $22.28 on May 31, 2016. The Trust's distribution rate is not constant and the amount of distributions, when declared by the Trust's Board of Trustees, is subject to change based on the performance of the Trust. Please see Note 2(d) on page 46 for more information on distributions for the period.

QUESTIONS & ANSWERS (Unaudited) continued May 31, 2016

Why did the Trust accrue excise tax during the period?
As a registered investment company, the Trust is subject to a 4% excise tax that is imposed if the Trust does not distribute by the end of any calendar year at least the sum of (i) 98% of its ordinary income (not taking into account any capital gain or loss) for the calendar year and (ii) 98.2% of its capital gain in excess of its capital loss (adjusted for certain ordinary losses) for a one-year period generally ending on October 31 of the calendar year (unless an election is made to use the trust's fiscal year). The Trust generally intends to distribute income and capital gains in the manner necessary to minimize (but not necessarily eliminate) the imposition of such excise tax. While the Trust's income and capital gains can vary significantly from year to year, the Trust seeks to maintain more stable monthly distributions over time. The Trust may retain income or capital gains and pay excise tax when it is determined that doing so is in the best interest of shareholders. Management, in consultation with the Board, evaluates the costs of the excise tax relative to the benefits of retaining income and capital gains, including that such undistributed amounts (net of the excise tax paid) remain available for investment by the Trust and are available to supplement future distributions, which may facilitate the payment of more stable monthly distributions year over year.

How did other markets perform in this environment for the 12-month period ended May 31, 2016?	
Barclays U.S. Aggregate Bond Index	2.99%
Barclays U.S. Corporate High Yield Index	-0.81%
Credit Suisse Leveraged Loan Index	0.58%
BofA/ML ABS Master BBB-AA Index	1.84%
S&P 500 Index	1.72%

Discuss Trust asset allocation for the 12-month period ended May 31, 2016.
The Trust's asset allocation did not change significantly over the 12-month period. Approximately 90% of the Trust's long-term investments (excluding cash) remain in BABs and Qualified School Construction Bonds (QSCBs), which are qualifying investments given the Trust's policy in effect at the end of the period of investing at least 80% of its Managed Assets in BABs. The rest of the Trust's Managed Assets, approximately 10% of the Trust's long-term investments, were invested in non-BABs securities, such as asset-backed securities (ABS), bank loans, and high yield corporate bonds.
Discuss the Trust's performance and sectors the Trust is most heavily invested in.
The municipal market started the fiscal year strong, with outperformance in both the tax-exempt municipal and taxable municipal sectors. Spread-tightening in the taxable municipal sector (including BABs and QSCBs) and the non-BABs portion of the portfolio contributed to performance for the period.

QUESTIONS & ANSWERS (Unaudited) continued May 31, 2016

The Trust's BABs portfolio performance was driven by favorable security selection and lower interest rate sensitivity than the benchmark amid ongoing rate volatility. The Trust slightly lowered duration over the period and slightly increased credit quality, to help manage risk. In addition, the Trust held interest rate swaps over the period to help manage the cost of leverage and to manage duration. The Trust continued to focus on A-rated taxable municipals in credit selection.

As for the Trust's non-BABs components, ABS performance lagged that of the Build America Bonds Index, but outperformed bank loans and high yield for the period. Much of the non-BABs exposure is floating rate, which acts as a buffer to market volatility.

In its high yield allocation, the Trust continues to favor companies with strong cash flows, recurring revenue streams, and high-quality margins that should remain the focus in the later stages of the credit cycle. The Trust believes in staying up in quality in its high yield holdings, as times of uncertainty have been accompanied by higher volatility in lower-quality assets.

What is the Trust's leverage (borrowing) strategy?

Since leverage adds to performance when the cost of leverage is less than the total return generated by investments, the use of leverage contributed to the Trust's total return during this period. The Trust utilizes leverage as part of its investment strategy, to finance the purchase of additional securities that provide increased income and potentially greater appreciation potential to common shareholders than could be achieved from a portfolio that is not leveraged. Leverage will not exceed 33.33% of the Trust's Managed Assets.

As of May 31, 2016, the Trust's leverage was approximately 27% of Managed Assets, slightly above the level from one year ago. The Trust currently employs leverage through reverse repurchase agreements with at least three different counterparties and a credit facility with a major bank.

There is no guarantee that the Trust's leverage strategy will be successful. The Trust's use of leverage may cause the Trust's NAV and market price of common shares to be more volatile and could magnify the effect of any losses.

QUESTIONS & ANSWERS (Unaudited) continued May 31, 2016

Index Definitions

Indices are unmanaged and reflect no expenses. It is not possible to invest directly in an index.

The Bank of America Build America Bond Index is designed to track the performance of U.S. dollar-denominated Build America Bonds publicly issued by U.S. states and territories, and their political subdivisions, in the U.S. market.

The Barclays U.S. Aggregate Bond Index represents securities that are U.S. domestic, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

The Barclays U.S. Corporate High Yield Index is an unmanaged index of below investment grade bonds issued by U.S. corporations.

The Credit Suisse Leveraged Loan Index is an index designed to mirror the investable universe of the U.S.-dollar-denominated leveraged loan market.

The BofA/ML ABS Master BBB-AA Index is a subset of The BofA/ML U.S. Fixed Rate Asset Backed Securities Index including all securities rated AA1 through BBB3, inclusive.

The Standard & Poor's ("S&P 500") Index is a capitalization-weighted index of 500 stocks designed to measure the performance of the broad economy, representing all major industries and is considered a representation of U.S. stock market.

Risks and Other Considerations

The views expressed in this report reflect those of the portfolio managers only through the report period as stated on the cover. These views are subject to change at any time, based on market and other conditions, and should not be construed as a recommendation of any kind. The material may also include forward looking statements that involve risk and uncertainty, and there is no guarantee that any predictions will come to pass. There can be no assurance that the Trust will achieve its investment objectives. The value of the Trust will fluctuate with the value of the underlying securities. Historically, closed-end funds often trade at a discount to their net asset value.

Please see guggenheiminvestments.com/gbab for a detailed discussion of the Trust's risks and considerations.

TRUST SUMMARY (Unaudited)	May 31, 2016

Trust Statistics	
Share Price	$22.28
Net Asset Value	$23.30
Discount to NAV	-4.38%
Net Assets ($000)	$405,820

AVERAGE ANNUAL TOTAL RETURNS FOR THE PERIOD ENDED MAY 31, 2016

	One Year	Three Year	Five Year	Since Inception (10/28/10)
Guggenheim Build America Bonds Managed Duration Trust				
NAV	7.25%	7.01%	9.88%	10.90%
Market	10.95%	7.29%	10.53%	9.52%

Performance data quoted represents past performance, which is no guarantee of future results and current performance may be lower or higher than the figures shown. The NAV return includes the deduction of management fees, operating expenses, and all other Trust expenses. The deduction of taxes that a shareholder would pay on Trust distributions or the sale of Trust shares is not reflected in the total returns. For the most recent month-end performance figures, please visit guggenheiminvestments.com/gbab. The investment return and principal value of an investment will fluctuate with changes in market conditions and other factors so that an investor's shares, when sold, may be worth more or less than their original cost.

Portfolio Breakdown	% of Total Net Assets
Municipal Bond	112.1%
Asset Backed Securities	10.6%
Senior Floating Rate Interests	5.3%
Corporate Bonds	4.8%
Preferred Stocks	1.2%
Collateralized Mortgage Obligations	0.5%
Short Term Investments	0.2%
Common Stocks	0.0%*
Total Investments	134.7%
Other Assets & Liabilities, net	-34.7%
Net Assets	100.0%

*Less than 0.1%

Portfolio breakdown and holdings are subject to change daily. For more information, please visit guggenheiminvestments.com/gbab. The above summaries are provided for informational purposes only and should not be viewed as recommendations. Past performance does not guarantee future results.

TRUST SUMMARY (Unaudited) continued May 31, 2016

Ten Largest Holdings	% of Total Net Assets
New Jersey Turnpike Authority Revenue Bonds, 7.10%	3.6%
State of West Virginia, Higher Education Policy Commission, Revenue Bonds, Federally Taxable Build America Bonds 2010, 7.65%	3.6%
Westchester County Health Care Corporation, Revenue Bonds, Taxable Build America Bonds, 8.57%	3.4%
Dallas, Texas, Convention Center Hotel Development Corporation, Hotel Revenue Bonds, Taxable Build America Bonds, 7.09%	3.4%
California, General Obligation Bonds, Various Purpose, Taxable Build America Bonds, 7.70%	3.0%
Noblesville Multi-School Building Corporation, Hamilton County, Indiana, Taxable Unlimited Ad Valorem Property Tax First Mortgage Bonds, Build America Bonds, 6.50%	2.9%
Los Angeles, California, Department of Water & Power Revenue, Taxable Build America Bonds, 7.00%	2.9%
Los Angeles, California, Department of Water & Power Revenue, Taxable Build America Bonds, 7.00%	2.9%
El Paso, Texas, Combination Tax and Revenue Certification of Obligation, Taxable Build America Bonds, 6.70%	2.8%
County of Miami-Dade Florida Transit System Revenue Bonds, 6.91%	2.8%
Top Ten Total	31.3%

“Ten Largest Holdings” exclude any temporary cash or derivative investments.

TRUST SUMMARY (Unaudited) continued May 31, 2016

Portfolio Composition by Quality Rating*

Rating	% of Total Investments
Fixed Income Instruments	
AAA	2.1%
AA	49.9%
A	27.5%
BBB	9.7%
BB	2.9%
B	5.7%
CCC	0.2%
D	0.0%***
NR**	0.9%
Other Instruments	
Preferred Stocks	0.9%
Common Stocks	0.1%
Short Term Investments	0.1%
Total Investments	100.0%

* Source: BlackRock Solutions. Credit quality ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). All securities except for "NR", or not rated, have been rated by Moody's, Standard & Poor's ("S&P"), or Fitch, which are all a Nationally Recognized Statistical Rating Organization ("NRSRO"). For purposes of this presentation, when ratings are available from more than one agency, the highest rating is used. Guggenheim Investments has converted Moody's and Fitch ratings to the equivalent S&P rating. Security ratings are determined at the time of purchase and may change thereafter.

** NR securities do not necessarily indicate low credit quality.

*** Less than 0.1%.

TRUST SUMMARY (Unaudited) continued May 31, 2016

PORTFOLIO OF INVESTMENTS May 31, 2016

	Shares	Value
COMMON STOCKS – 0.0%**		
Technology – 0.0%**		
Aspect Software, Inc*,†††,1	6,275	$ 178,844
Communications – 0.0%**		
Cengage Learning Acquisitions, Inc.*,††	3,457	71,733
Consumer, Non-cyclical – 0.0%**		
Targus Group International Equity, Inc*,†††,1	18,415	28,175
Basic Materials – 0.0%**		
Mirabela Nickel Ltd.*,†††,1	335,401	24
Total Common Stocks		
(Cost $401,140)		278,776
PREFERRED STOCKS – 1.2%		
Industrial – 1.2%		
Seaspan Corp.		
9.50%*,††,2,3	200,000	5,060,000
Financial 0.0%**		
GSC Partners CDO Fund V Ltd.		
11/20/16*,†††,1,5,6	475	–
Total Preferred Stocks		
(Cost $5,024,927)		5,060,000

	Face Amount	Value
SHORT TERM INVESTMENTS†– 0.2%		
Dreyfus Treasury Prime Cash Management Institutional Shares, 0.17%[7]	$ 649,491	649,491
Total Short Term Investments		
(Cost $649,491)		649,491

	Face Amount	Value
MUNICIPAL BONDS†‡ 112.1%		
California – 22.7%		
Los Angeles, California, Department of Water & Power Revenue, Taxable Build America Bonds[8]		
7.00% due 07/01/41	10,000,000	11,767,700
7.00% due 07/01/41	10,000,000	11,748,400
Santa Ana Unified School District, California, General Obligation Bonds, Federal Taxable Build America Bonds[8]		
7.10% due 08/01/40	7,755,000	10,537,649
6.80% due 08/01/30	2,245,000	2,857,009

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2016

	Face Amount	Value
MUNICIPAL BONDS†‡ 112.1% (continued)		
California – 22.7% (continued)		
California, General Obligation Bonds, Various Purpose, Taxable Build America Bonds[8]		
7.70% due 11/01/30[2]	$10,000,000	$ 12,160,899
Oakland Unified School District, County of Alameda, California, Taxable General Obligation Bonds, Election of 2006, Qualified School Construction Bonds, Series 2012B		
6.88% due 08/01/33[2]	10,000,000	11,066,000
Long Beach Unified School District, California, Qualified School Construction Bonds, Federally Taxable, Election of 2008, General Obligation Bonds		
5.91% due 08/01/25	7,500,000	9,008,550
Metropolitan Water District, Southern California, Water Revenue Bonds, 2010 Authorization, Taxable Build America Bonds[8]		
6.95% due 07/01/40	5,000,000	5,893,400
Riverside Community College District, Riverside County, California, Election of 2004 General Obligation Bonds, Taxable Build America Bonds[8]		
7.02% due 08/01/40[2]	5,000,000	5,797,400
Sonoma Valley Unified School District, General Obligation, Federally Taxable Bonds		
7.12% due 08/01/28[2]	3,330,000	3,881,115
Culver City Redevelopment Agency, California, Taxable Tax Allocation Bonds, Culver City Redevelopment Project		
8.00% due 11/01/20	3,000,000	3,247,380
Monrovia Unified School District, Los Angeles County, California, Election of 2006 General Obligation Bonds, Build America Bonds, Federally Taxable[8]		
7.25% due 08/01/28[2]	1,025,000	1,308,587
Placentia-Yorba Linda Unified School District (Orange County, California), General Obligation Bonds, Federally Taxable Direct-Pay Qualified School Construction Bonds, Election of 2008		
5.40% due 02/01/26[2]	1,000,000	1,176,450
Cypress Elementary School District (Orange County, California), General Obligation Bonds, Direct Pay Qualified School Construction Bonds, 2008 Election		
6.65% due 08/01/25[2]	660,000	792,191
6.05% due 08/01/21[2]	340,000	382,344
Alhambra Unified School District, Elementary Schools Improvement District, Los Angeles County, California, Election of 2008 General Obligation Bonds, Federally Taxable		
6.70% due 02/01/26[2]	500,000	633,520
Total California		92,258,594
Illinois – 10.9%		
Northern Illinois University, Auxiliary Facilities System Revenue Bonds,		

Build America Program, Taxable[8]		
8.15% due 04/01/41	5,000,000	5,704,649
7.95% due 04/01/35[2]	4,500,000	5,126,625

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2016

	Face Amount	Value
MUNICIPAL BONDS†‡ 112.1% (continued)		
Illinois – 10.9% (continued)		
Chicago, Illinois, Second Lien Wastewater Transmission Revenue Project Bonds, Taxable Build America Bonds[8]		
6.90% due 01/01/40[2]	$ 5,100,000	$ 6,516,932
City of Chicago Illinois General Obligation Unlimited		
5.43% due 01/01/42[2]	4,015,000	3,306,473
6.26% due 01/01/40[2]	3,575,000	3,178,533
Illinois, General Obligation Bonds, Taxable Build America Bonds[8]		
7.35% due 07/01/35	5,000,000	5,655,900
Chicago, Illinois, Second Lien Water Revenue Bonds, Taxable Build America Bonds[8]		
6.74% due 11/01/40[2]	2,990,000	3,787,523
Chicago, Illinois, Board of Education, Unlimited Tax General Obligation Bonds, Dedicated Revenues, Taxable Build America Bonds[8]		
6.52% due 12/01/40[2]	5,000,000	3,758,450
Southwestern Illinois, Development Authority, Taxable Local Government, Program Revenue Bonds, Flood Prevention District Council Project, Recovery Zone Economic Development Bonds		
7.23% due 10/15/35[2]	3,000,000	3,349,140
Southwestern Illinois, Development Authority, Taxable Local Government, Program Revenue Bonds, Flood Prevention District Project, Build America Bonds[8]		
7.03% due 04/15/32[2]	2,000,000	2,242,920
State of Illinois General Obligation Unlimited		
6.63% due 02/01/35	930,000	1,015,030
6.73% due 04/01/35	200,000	219,788
Chicago Board of Education General Obligation Unlimited		
6.14% due 12/01/39[2]	195,000	149,764
Total Illinois		44,011,727
Washington – 10.4%		
Washington State University, Housing and Dining System Revenue Bonds, Taxable Build America Bonds[8]		
7.40% due 04/01/41[2]	6,675,000	9,716,264
7.10% due 04/01/32	3,325,000	4,432,657
Public Hospital District No. 1, King County, Washington, Valley Medical Center, Hospital Facilities Revenue Bonds		
8.00% due 06/15/40[2]	5,800,000	6,730,030
Washington State Convention Center Public Facilities District, Lodging Tax Bonds, Taxable Build America Bonds[8]		
6.79% due 07/01/40	5,000,000	6,640,450
Central Washington University, System Revenue Bonds, 2010, Taxable Build America Bonds[8]		
6.50% due 05/01/30[2]	5,000,000	6,184,800
City of Anacortes Washington Utility System Revenue Revenue Bonds		

6.48% due 12/01/30[2]	5,000,000	5,729,250

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2016

	Face Amount	Value
MUNICIPAL BONDS†‡ 112.1% (continued)		
Washington – 10.4% (continued)		
City of Auburn Washington Utility System Revenue Revenue Bonds		
6.40% due 12/01/30[2]	$ 2,000,000	$ 2,209,360
Total Washington		41,642,811
New Jersey – 6.5%		
New Jersey Turnpike Authority Revenue Bonds		
7.10% due 01/01/41	10,000,000	14,786,500
Camden County Improvement Authority, Camden County, New Jersey,		
Lease Revenue Bonds, Cooper Medical School of Rowan University Project		
7.75% due 07/01/34[2]	8,000,000	9,324,160
7.85% due 07/01/35[2]	2,000,000	2,331,120
Total New Jersey		26,441,780
New York – 6.5%		
Westchester County Health Care Corporation,		
Revenue Bonds, Taxable Build America Bonds[8]		
8.57% due 11/01/40[2]	10,000,000	13,703,400
Metropolitan Transportation Authority, New York, Transportation		
Revenue Bonds, Taxable Build America Bonds[8]		
6.55% due 11/15/31	5,000,000	6,694,900
7.13% due 11/15/30	5,000,000	6,040,700
Total New York		26,439,000
Pennsylvania – 6.3%		
School District of Philadelphia, Pennsylvania, General Obligation Bonds,		
Series 2011A, Qualified School Construction Bonds –		
(Federally Taxable – Direct Subsidy)		
6.00% due 09/01/30[2]	10,720,000	10,925,181
Pittsburgh, Pennsylvania, School District, Taxable Qualified School Construction Bonds		
6.85% due 09/01/29[2]	6,870,000	9,056,996
Lebanon, Pennsylvania, Sewer Revenue Bonds, Taxable Build America Bonds[8]		
7.14% due 12/15/35[2]	4,865,000	5,466,265
Total Pennsylvania		25,448,442
Texas – 6.2%		
Dallas, Texas, Convention Center Hotel Development Corporation,		
Hotel Revenue Bonds, Taxable Build America Bonds[8]		
7.09% due 01/01/42[2]	10,000,000	13,696,700
El Paso, Texas, Combination Tax and Revenue Certification of Obligation,		
Taxable Build America Bonds[8]		
6.70% due 08/15/36[2]	10,000,000	11,473,400
Total Texas		25,170,100

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2016

	Face Amount	Value
MUNICIPAL BONDS†‡ 112.1% (continued)		
Indiana – 6.2%		
Noblesville Multi-School Building Corporation, Hamilton County, Indiana, Taxable Unlimited Ad Valorem Property Tax First Mortgage Bonds, Build America Bonds[8]		
6.50% due 07/15/30	$10,000,000	$ 11,776,100
Evansville-Vanderburgh Independent School Building Corporation, Unlimited Taxable Ad Valorem Property Tax First Mortgage Bonds		
6.50% due 01/15/30[2]	8,690,000	10,147,748
Knox County, Indiana, Good Samaritan Hospital Project, Taxable Economic Development Revenue Bonds, Qualified Energy Conservation Bonds – Direct Payment, Series 2012B		
5.90% due 04/01/34[2]	2,920,000	3,210,569
Total Indiana		25,134,417
Michigan – 5.7%		
Detroit, Michigan, School District, School Building and Site Bonds, Unlimited Tax General Obligation Bonds, Taxable Build America Bonds[,8]		
6.85% due 05/01/40[2]	5,000,000	5,221,300
Whitehall District Schools, Muskegon County, Michigan, 2010 School Building and Site Bonds, General Obligation, Unlimited Tax Bonds, Taxable Qualified School Construction Bonds		
6.10% due 05/01/26[2]	2,500,000	2,703,050
6.50% due 05/01/29[2]	2,000,000	2,153,240
Fraser Public School District, Macomb County, Michigan, General Obligation Federally Taxable School Construction Bonds, 2011 School Building and Site Bonds		
6.05% due 05/01/26[2]	3,000,000	3,369,510
Detroit City School District General Obligation Unlimited		
7.75% due 05/01/39[2]	2,640,000	3,310,348
Detroit, Michigan, School District, School Building and Site Bonds, Unlimited Tax General Obligation Bonds, Taxable Qualified School Construction Bonds		
6.65% due 05/01/29[2]	2,640,000	2,940,722
City of Detroit Michigan Water Supply System Revenue Revenue Bonds		
5.00% due 07/01/41	1,555,000	1,702,119
Oakridge, Michigan, Public Schools, Unlimited Tax General Obligation Bonds		
6.75% due 05/01/26[2]	1,000,000	1,127,150
Comstock Park Public Schools, Kent County, Michigan, 2011 School Building and Site Bonds, General Obligation – Unlimited Tax, Federally Taxable – Qualified School Construction Bonds – Direct Payment		
6.30% due 05/01/26[2]	415,000	465,589
Total Michigan		22,993,028

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2016

	Face Amount	Value
MUNICIPAL BONDS†‡ 112.1% (continued)		
Florida – 4.2%		
County of Miami-Dade Florida Transit System Revenue Bonds		
6.91% due 07/01/39[2]	$10,000,000	$ 11,299,900
Orlando, Florida, Community Redevelopment Agency, Taxable Tax Increment Revenue Build America Bonds[8]		
7.78% due 09/01/40[2]	5,000,000	5,919,350
Total Florida		17,219,250
West Virginia – 3.6%		
State of West Virginia, Higher Education Policy Commission, Revenue Bonds, Federally Taxable Build America Bonds 2010[8]		
7.65% due 04/01/40[2]	10,000,000	14,744,600
Ohio – 3.3%		
American Municipal Power, Inc., Combined Hydroelectric Projects Revenue Bonds, New Clean Renewable Energy Bonds		
7.33% due 02/15/28[2]	5,000,000	6,747,450
Madison Local School District, Richland County, Ohio, School Improvement, Taxable Qualified School Construction Bonds		
6.65% due 12/01/29[2]	2,500,000	2,919,750
Cuyahoga County, Ohio, Hospital Revenue Bonds, The Metrohealth System, Build America Bonds, Taxable[8]		
8.22% due 02/15/40[2]	1,950,000	2,478,314
Toronto City School District, Ohio, Qualified School Construction Bonds General Obligation Bonds		
7.00% due 12/01/28	1,230,000	1,339,851
Total Ohio		13,485,365
Colorado – 3.0%		
Colorado, Building Excellent Schools Today, Certificates of Participation, Taxable Build America Bonds[8]		
7.02% due 03/15/31[2]	7,500,000	8,876,625
Colorado, Building Excellent Schools Today, Certificates of Participation, Taxable Qualified School Construction		
6.82% due 03/15/28[2]	2,500,000	3,383,825
Total Colorado		12,260,450
Vermont – 2.7%		
Vermont State Colleges, Revenue Bonds, Taxable Build America Bonds[8]		
7.21% due 07/01/40[2]	7,500,000	8,484,075
6.10% due 07/01/25[2]	2,155,000	2,421,574
Total Vermont		10,905,649

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2016

	Face Amount	Value
MUNICIPAL BONDS†‡ 112.1% (continued)		
Alabama – 2.7%		
Alabama State University, General Tuition and Fee Revenue Bonds, Taxable Direct-Pay Build America Bonds[8]		
7.20% due 09/01/38[2]	$ 5,000,000	$ 5,424,800
7.10% due 09/01/35[2]	3,000,000	3,236,370
7.25% due 09/01/40[2]	2,000,000	2,184,100
Total Alabama		10,845,270
Nevada – 2.6%		
Nevada System of Higher Education University, Revenue Bonds, Build America Bonds[8]		
7.90% due 07/01/40	5,050,000	5,958,545
7.60% due 07/01/30	1,500,000	1,765,380
Clark County, Nevada, Airport Revenue Bonds, Build America Bonds[8]		
6.88% due 07/01/42[2]	1,425,000	1,596,656
Las Vegas Valley Water District, Nevada, Limited Tax General Obligation Water Bonds, Taxable Build America Bonds[8]		
7.10% due 06/01/39[2]	1,200,000	1,367,472
Total Nevada		10,688,053
Louisiana – 2.4%		
Orleans Parish, School Board of the Parish of Orleans, Louisiana		
4.40% due 02/01/21[2]	8,000,000	8,716,960
Tangipahoa Parish Hospital Service District No. 1, Louisiana, Taxable Hospital Revenue Bonds, North Oaks Health System Project, Build America Bonds[8]		
7.20% due 02/01/42[2]	1,055,000	1,125,833
Total Louisiana		9,842,793
Mississippi – 1.9%		
Medical Center Educational Building Corporation, Taxable Build America Bonds, University of Mississippi Medical Center Facilities Expansion and Renovation Project[8]		
6.84% due 06/01/35[2]	5,000,000	5,694,250
Mississippi, Hospital Equipment and Facilities Authority, Taxable Build America Revenue Bonds, Forrest County General Hospital Project[8]		
7.27% due 01/01/32	1,000,000	1,108,500
7.39% due 01/01/40[2]	905,000	999,048
Total Mississippi		7,801,798
South Carolina – 1.7%		
County of Horry South Carolina Airport Revenue Revenue Bonds		
7.33% due 07/01/40[2]	5,000,000	6,739,700
Georgia – 1.4%		
Georgia Municipal Association, Inc., Certificates of Participation, DeKalb County Public Schools Project		
5.21% due 12/01/22[2]	5,000,000	5,656,850

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2016

	Face Amount	Value
MUNICIPAL BONDS†‡ 112.1% (continued)		
South Dakota – 0.9%		
Pierre, South Dakota, Taxable Electric Revenue Bonds, Recovery Zone Economic Development Bonds		
7.50% due 12/15/40	$ 3,490,000	$ 3,756,462
Puerto Rico – 0.3%		
Puerto Rico Electric Power Authority Revenue Bonds		
5.25% due 07/01/32	1,000,000	1,027,360
0.94% due 07/01/29[4]	400,000	288,416
Total Puerto Rico		1,315,776
Total Municipal Bonds		
(Cost $380,927,954)		454,801,915
ASSET BACKED SECURITIES†‡ 10.6%		
Collateralized Loan Obligations – 9.1%		
Churchill Financial Cayman Ltd.		
2007-1A, 1.88% due 07/10/19[2,4,6]	2,000,000	1,956,322
2007-1A, 8.37% due 07/10/19[2,6]	1,000,000	1,003,957
2007-1A, 3.23% due 07/10/19[2,4,6]	1,000,000	985,139
OCP CLO Ltd.		
2012-2A, 6.35% due 11/22/23[4,6]	1,000,000	849,202
2014-6A, 5.58% due 07/17/26[4,6]	1,000,000	704,930
2015-9A, 4.33% due 07/15/27[4,6]	250,000	219,083
2014-6A, 4.28% due 07/17/26[4,6]	250,000	217,274
2013-4A, 5.64% due 10/24/25[4,6]	250,000	184,618
CIFC Funding Ltd.		
2014-1A, 5.88% due 04/18/25[4,6]	750,000	435,207
2014-1A, 3.70% due 08/14/24[4,6]	400,000	394,742
2013-2A, 5.23% due 04/21/25[4,6]	500,000	366,962
2014-2A, 3.51% due 05/24/26[4,6]	250,000	244,583
2007-1A, 2.13% due 05/10/21[4,6]	200,000	188,281
2013-2A, 4.23% due 04/21/25[4,6]	200,000	170,170
KVK CLO Ltd.		
2014-3A, 3.63% due 10/15/26[4,6]	1,000,000	890,762
2012-2A, 4.98% due 02/10/25[4,6]	750,000	709,006
KKR Financial CLO Ltd.		
2007-1A, 5.63% due 05/15/21[4,6]	750,000	747,558
2007-1A, 2.88% due 05/15/21[2,4,6]	500,000	496,880
Atlas Senior Loan Fund IV Ltd.		
2014-2A, 3.33% due 02/17/26[2,4,6]	1,000,000	966,879
Anchorage Capital CLO Ltd.		
2012-1A, 3.43% due 01/13/25[2,4,6]	1,000,000	963,130
Fortress Credit Investments IV Ltd.		
2015-4A, 4.13% due 07/17/23[4,6]	1,000,000	904,548
Ocean Trails CLO IV		

2013-4A, 6.53% due 08/13/25[4,6]	1,000,000	657,850
2013-4A, 3.63% due 08/13/25[4,6]	250,000	239,723

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2016

	Face Amount	Value
ASSET BACKED SECURITIES†† 10.6% (continued)		
Collateralized Loan Obligations – 9.1% (continued)		
Saranac CLO III Ltd.		
2014-3A, 4.27% due 06/22/25[4,6]	$ 1,000,000	$ 807,868
Dryden XXXI Senior Loan Fund		
2014-31A, 4.13% due 04/18/26[4,6]	900,000	794,971
Jamestown CLO VI Ltd.		
2015-6A, 5.89% due 02/20/27[4,6]	1,250,000	782,930
Catamaran CLO Ltd.		
2012-1A, 6.87% due 12/20/23[4,6]	1,250,000	734,450
THL Credit Wind River CLO Ltd.		
2014-2A, 3.83% due 07/15/26[4,6]	750,000	716,934
Longfellow Place CLO Ltd.		
2013-1A, 6.38% due 01/15/24[4,6]	750,000	581,808
Venture XX CLO Ltd.		
2015-20A, 6.93% due 04/15/27[4,6]	900,000	580,394
Avery		
2014-1X, 5.63% due 04/25/26[4]	1,000,000	554,107
Eastland CLO Ltd.		
2007-1A, 0.97% due 05/01/22[2,4,6]	550,000	521,343
North End CLO Limited		
2013-1A, 5.23% due 07/17/25[4,6]	750,000	509,324
Neuberger Berman CLO XV		
2013-15A, 3.48% due 10/15/25[4,6]	500,000	495,008
ALM VII R Ltd.		
2013-7RA, 4.09% due 04/24/24[4,6]	250,000	238,462
2013-7R2A, 4.09% due 04/24/24[4,6]	250,000	238,460
Marathon CLO VII Ltd.		
2014-7A, 4.13% due 10/28/25[4,6]	500,000	473,809
Shackleton I CLO Ltd.		
2012-1A, 5.38% due 08/14/23[4,6]	500,000	473,544
COA Summit CLO Limited		
2014-1A, 3.43% due 04/20/23[4,6]	500,000	471,827
Silver Spring CLO Ltd.		
2014-1A, 3.63% due 10/15/26[4,6]	500,000	428,807
Octagon Investment Partners XVII Ltd.		
2013-1A, 5.79% due 10/25/25[4,6]	750,000	427,971
Galaxy XVI CLO Ltd.		
2013-16A, 3.98% due 11/16/25[4,6]	500,000	419,496
MCF CLO I LLC		
2013-1A, 6.38% due 04/20/23[4,6]	500,000	415,959
OHA Credit Partners VIII Ltd.		
2013-8A, 4.13% due 04/20/25[4,6]	250,000	210,863
2013-8A, 5.03% due 04/20/25[4,6]	275,000	200,118

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2016

	Face Amount	Value
ASSET BACKED SECURITIES†† 10.6% (continued)		
Collateralized Loan Obligations – 9.1% (continued)		
Saranac CLO II Ltd.		
2014-2A, 4.29% due 02/20/25[4,6]	$ 500,000	$ 406,141
TICP CLO II Ltd.		
2014-2A, 3.63% due 07/20/26[4,6]	400,000	390,127
Ocean Trails CLO V		
2014-5A, 5.98% due 10/13/26[4,6]	500,000	381,199
Gramercy Park CLO Ltd.		
2014-1A, 4.68% due 07/17/23[2,4,6]	250,000	240,583
2012-1A, 07/17/23[5,6]	250,000	125,468
WhiteHorse X Ltd.		
2015-10A, 5.93% due 04/17/27[4,6]	500,000	359,430
NewMark Capital Funding CLO Ltd.		
2014-2A, 5.43% due 06/30/26[4,6]	500,000	340,076
Cratos CLO Ltd.		
2007-1A, 1.73% due 05/19/21[2,4,6]	300,000	292,563
Venture XII CLO Ltd.		
2013-12A, 4.17% due 02/28/24[4,6]	250,000	250,207
Regatta V Funding Ltd.		
2014-1A, 3.79% due 10/25/26[4,6]	250,000	250,031
DIVCORE CLO Ltd.		
2013-1A, 4.33% due 11/15/32[2,4,6]	250,000	247,244
Cerberus Onshore II CLO LLC		
2014-1A, 4.63% due 10/15/23[4,6]	250,000	246,008
Black Diamond CLO Delaware Corp.		
2005-2A, 2.43% due 01/07/18[4,6]	250,000	245,450
Blue Hill CLO Ltd.		
2013-1A, 3.63% due 01/15/26[4,6]	250,000	245,354
Race Point V CLO Ltd.		
2014-5A, 4.38% due 12/15/22[4,6]	250,000	244,257
Greywolf CLO III Ltd.		
2014-1A, 3.49% due 04/22/26[4,6]	250,000	243,303
Oaktree EIF II Series Ltd.		
2014-A2, 3.83% due 11/15/25[4,6]	250,000	242,480
AMMC CLO XIII Ltd.		
2013-13A, 6.39% due 01/26/26[4,6]	400,000	241,513
Battalion CLO Ltd.		
2007-1A, 2.78% due 07/14/22[4,6]	250,000	240,261
Monroe Capital CLO 2014-1 Ltd.		
2014-1A, 4.19% due 10/22/26[4,6]	250,000	239,815
NewStar Arlington Senior Loan Program LLC		
2014-1A, 3.94% due 07/25/25[4,6]	250,000	236,438

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2016

	Face Amount	Value
ASSET BACKED SECURITIES†† 10.6% (continued)		
Collateralized Loan Obligations – 9.1% (continued)		
Black Diamond CLO Ltd.		
2014-1A, 3.48% due 02/06/26[4,6]	$ 250,000	$ 234,971
Rockwall CDO Ltd.		
2007-1A A1LB, 1.19% due 08/01/24[4,6]	250,000	234,714
GoldenTree Loan Opportunities III Ltd.		
2007-3A, 3.84% due 05/01/22[4,6]	250,000	233,561
Mountain Hawk I CLO Ltd.		
2013-1A, 3.35% due 01/20/24[4,6]	250,000	233,526
Golub Capital Partners CLO 21M Ltd.		
2014-21A, 3.94% due 10/25/26[4,6]	250,000	232,790
WhiteHorse VIII Ltd.		
2014-1A, 3.39% due 05/01/26[4,6]	250,000	231,956
Fortress Credit Opportunities V CLO Ltd.		
2014-5A, 4.18% due 10/15/26[4,6]	250,000	231,581
Newstar Commercial Loan Funding LLC		
2013-1A, 5.17% due 09/20/23[4,6]	250,000	219,040
Golub Capital Partners CLO 18 Ltd.		
2014-18A, 4.64% due 04/25/26[2,4,6]	250,000	213,959
Octagon Investment Partners XXI Ltd.		
2014-1A, 7.23% due 11/14/26[4,6]	250,000	212,238
TICP CLO I Ltd.		
2014-1A, 5.14% due 04/26/26[4,6]	300,000	209,376
Octagon Investment Partners XV Ltd.		
2013-1A, 5.38% due 01/19/25[4,6]	250,000	199,328
Regatta Funding Ltd.		
2007-1X, 3.93% due 06/15/20[4]	200,000	194,021
KVK CLO 2013-2 Ltd.		
2013-2A, 4.28% due 01/15/26[4,6]	250,000	193,198
Staniford Street CLO Ltd.		
2014-1A, 4.13% due 06/15/25[4,6]	250,000	192,972
Octagon Investment Partners XX Ltd.		
2014-1A, 5.88% due 08/12/26[4,6]	250,000	192,423
Gallatin CLO VII Ltd.		
2014-1A, 4.39% due 07/15/23[2,4,6]	200,000	187,700
Pinnacle Park CLO Ltd.		
2014-1A, 6.18% due 04/15/26[4,6]	300,000	176,710
Mountain Hawk II CLO Ltd.		
2013-2A, 3.78% due 07/22/24[4,6]	250,000	175,647
Jamestown CLO III Ltd.		
2013-3A, 5.23% due 01/15/26[4,6]	250,000	165,489
Octagon Investment Partners XXII Ltd.		
2014-1A, 6.94% due 11/25/25[4,6]	250,000	162,769

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2016

	Face Amount	Value
ASSET BACKED SECURITIES†† 10.6% (continued)		
Collateralized Loan Obligations – 9.1% (continued)		
Octagon Investment Partners XIV Ltd.		
2012-1A, 7.13% due 01/15/24[4,6]	$ 250,000	$ 161,921
AIMCO CLO		
2014-AA, 5.88% due 07/20/26[4,6]	250,000	146,936
Carlyle Global Market Strategies CLO Ltd.		
2012-3A, 10/04/24[2,5,6]	250,000	139,905
Ares XXVI CLO Ltd.		
2013-1A, 04/15/25[2,5,6]	250,000	115,763
Atlas Senior Loan Fund II Ltd.		
2012-2A, 01/30/24[2,5,6]	250,000	115,155
Great Lakes CLO Ltd.		
2012-1A, 01/15/23[2,5,6]	250,000	104,935
Finn Square CLO Ltd.		
2012-1A, 12/24/23[5,6]	250,000	104,426
Ares XXV CLO Ltd.		
2013-3A, 01/17/24[2,5,6]	250,000	98,117
West CLO Ltd.		
2013-1A, 11/07/25[5,6]	250,000	65,786
BlackRock Senior Income Series Corp.		
2004-1A,09/15/16[†††,1,2,5,6]	99,289	–
Total Collateralized Loan Obligations		36,664,120
Collateralized Debt Obligations – 1.5%		
Gramercy Real Estate CDO Ltd.		
2007-1A, 0.91% due 08/15/56[4,6]	1,665,644	1,529,257
N-Star REL CDO VIII Ltd.		
2006-8A, 0.82% due 02/01/41[2,4,6]	1,500,000	1,409,655
FDF I Ltd.		
2015-1A, 7.50% due 11/12/30[6]	1,000,000	999,482
Putnam Structured Product Funding		
2008-1A, 0.88% due 10/15/38[2,4,6]	599,195	595,762
SRERS Funding Ltd.		
2011-RS A1B1, 0.69% due 05/09/46[4,5,6]	250,000	483,396
Putnam Structured Product CDO Ltd.		
2002-1A, 1.12% due 01/10/38[2,4,6]	355,254	342,459
Wrightwood Capital Real Estate CDO Ltd.		
2005-1A, 1.08% due 11/21/40[4,6]	250,000	237,770
Highland Park CDO I Ltd.		
2006-1A, 1.06% due 11/25/51[4,6]	226,642	217,905
Pasadena CDO Ltd.		
2002-1A, 1.47% due 06/19/37[4,6]	213,793	209,129
Diversified Asset Securitization Holdings II, LP		
2000-1X, 1.12% due 09/15/35[4]	15,176	14,994
Total Collateralized Debt Obligations		6,039,809

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2016

	Face Amount	Value
ASSET BACKED SECURITIES†† 10.6% (continued)		
Transportation – 0.0%**		
Raspro Trust		
2005-1A, 1.02% due 03/23/24[2,4,6]	$ 57,148	$ 55,148
Bush Truck Leasing LLC		
2011-AA, 5.00% due 09/25/18[2,9]	9,774	9,702
Total Transportation		64,850
Credit Cards – 0.0%**		
Credit Card Pass-Through Trust		
2012-BIZ, 0.00% due 12/15/49[2,6]	65,457	51,286
Total Asset Backed Securities		
(Cost $42,816,848)		42,820,065
SENIOR FLOATING RATE INTERESTS††,4 5.3%		
Technology – 2.2%		
EIG Investors Corp.		
6.00% due 02/09/23	5,034,828	4,694,977
Greenway Medical Technologies		
6.00% due 11/04/20	735,375	700,445
TIBCO Software, Inc.		
6.50% due 12/04/20	691,250	629,038
Avaya, Inc.		
6.25% due 05/29/20	815,656	594,205
Advanced Computer Software		
6.50% due 03/18/22	493,750	471,531
Aspect Software, Inc.		
10.50% 05/25/20	446,158	439,466
GlobalLogic Holdings, Inc.		
6.25% due 05/31/19	342,125	337,849
Sabre, Inc.		
4.00% due 02/19/19	291,240	291,665
First Data Corp.		
4.43% due 03/24/21	282,549	283,727
Micron Technology, Inc.		
6.46% due 04/26/22	250,000	252,125
Quorum Business Solutions		
5.75% due 08/07/21	216,836	213,584
Wall Street Systems		
4.50% due 04/30/21	89,008	88,785
Total Technology		8,997,397

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2016

	Face Amount	Value
SENIOR FLOATING RATE INTERESTS††,4 5.3% (continued)		
Industrial – 1.2%		
NVA Holdings, Inc.		
4.75% due 08/14/21	$ 1,091,018	$ 1,090,299
Transdigm, Inc.		
3.75% due 06/04/21	491,250	490,882
Springs Industries, Inc.		
7.50% due 06/01/21†††,1	500,000	488,627
LSF9 Cypress		
7.25% due 10/09/22	498,750	483,788
NaNa Development Corp.		
8.00% due 03/15/18	400,000	368,000
Hunter Defense Technologies		
8.00% due 08/04/19	375,000	300,000
Prolamina		
5.75% due 08/18/22	299,176	299,364
Data Device Corp.		
7.00% due 07/15/20	290,306	288,129
Quanex Building Products Corp.		
5.00% due 11/01/22	249,375	250,622
Amber Bidco Foster + Partners		
4.28% due 06/30/21†††,1	250,000	246,345
SIRVA Worldwide, Inc.		
7.50% due 03/27/19	237,282	224,824
SI Organization		
5.75% due 11/22/19	172,394	171,532
Hunter Fan Co.		
6.50% due 12/20/17	74,646	74,087
Total Industrial		4,776,499
Consumer, Cyclical – 0.6%		
Ceridian Corp.		
4.50% due 09/15/20	710,669	686,386
LA Fitness International LLC		
5.50% due 07/01/20	482,011	478,097
Neiman Marcus Group, Inc.		
4.25% due 10/25/20	244,987	224,367
BJ's Wholesale Club, Inc.		
4.50% due 09/26/19	196,652	195,668
Sears Holdings Corp.		
5.50% due 06/30/18	199,234	189,272
Minimax Viking		
4.00% due 08/14/20	148,504	148,226
Life Time Fitness		
4.25% due 06/10/22	99,749	99,250

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2016

	Face Amount	Value
SENIOR FLOATING RATE INTERESTS††,4 5.3% (continued)		
Consumer, Cyclical – 0.6% (continued)		
Navistar, Inc.		
6.50% due 08/07/20	$ 99,500	$ 93,966
J. Crew Group, Inc.		
4.00% due 03/05/21	98,246	72,892
Container Store, Inc.		
4.25% due 04/06/19	79,000	71,100
Total Consumer, Cyclical		2,259,224
Consumer, Non-cyclical – 0.5%		
Albertson's (Safeway) Holdings LLC		
5.50% due 08/25/21	792,000	791,754
5.50% due 12/21/22	464,740	464,935
American Seafoods Group LLC / American Seafoods Finance, Inc.		
6.00% due 08/19/21	493,750	480,172
American Tire Distributors, Inc.		
5.25% due 09/24/21	294,866	286,298
Targus Group International, Inc.		
15.00% due 12/31/19†††,1,10	76,008	111,549
13.75% due 06/07/16†††,1	213,346	–
ABG Intermediate Holdings 2 LLC		
5.50% due 05/27/21	98,002	97,022
Total Consumer, Non-cyclical		2,231,730
Financial – 0.5%		
Magic Newco, LLC		
5.00% due 12/12/18	962,533	966,382
12.00% due 06/12/19	100,000	104,500
Safe-Guard		
6.25% due 08/19/21	493,857	464,226
Integro Parent, Inc.		
6.75% due 10/08/22	233,674	222,574
6.75% due 10/31/22	12,731	12,127
6.76% due 10/31/22	3,009	2,866
Expert Global Solutions		
8.50% due 04/03/18	100,000	99,750
Cunningham Lindsey U.S., Inc.		
9.25% due 06/10/20	155,909	80,033
Expert Global Solutions, Inc.		
8.50% due 04/03/18	2,371	2,366
Total Financial		1,954,824

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2016

	Face Amount	Value
SENIOR FLOATING RATE INTERESTS[††,4] 5.3% (continued)		
Communications – 0.3%		
Cengage Learning Acquisitions, Inc.		
7.00% due 03/31/20	$ 989,411	$ 987,818
Univision Communications, Inc.		
4.00% due 03/01/20	98,171	98,048
Total Communications		1,085,866
Energy – 0.0%[*]		
PSS Companies		
5.50% due 01/28/20	195,922	127,349
Jonah Energy LLC		
7.50% due 05/12/21	100,000	77,250
Total Energy		204,599
Total Senior Floating Rate Interests		
(Cost $22,087,828)		21,510,139
CORPORATE BONDS[††] 4.8%		
Energy – 1.5%		
EQT Corp.		
8.13% due 06/01/19[2]	1,200,000	1,309,853
4.88% due 11/15/21[2]	250,000	253,459
Antero Resources Corp.		
5.63% due 06/01/23[2]	600,000	585,000
6.00% due 12/01/20[2]	305,000	302,713
5.38% due 11/01/21[2]	100,000	97,500
Comstock Resources, Inc.		
10.00% due 03/15/20[6]	1,100,000	808,499
Hess Corp.		
8.13% due 02/15/19[2]	650,000	721,869
Husky Energy, Inc.		
3.95% due 04/15/22[2]	250,000	252,583
4.00% due 04/15/24[2]	195,000	193,887
Sabine Pass Liquefaction LLC		
5.63% due 02/01/21	300,000	306,375
Approach Resources, Inc.		
7.00% due 06/15/21[2]	500,000	285,000
Halcon Resources Corp.		
8.63% due 02/01/20[6]	300,000	283,125
Buckeye Partners, LP		
4.35% due 10/15/24	250,000	236,984
Summit Midstream Holdings LLC / Summit Midstream Finance Corp.		
7.50% due 07/01/21	200,000	185,500
SandRidge Energy, Inc.		
8.75% due 06/01/20[6,10]	450,000	177,750

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2016

Face Amount		
	752,534	886,039
	$ 1,807,675	$ 1,750,515

41

Note 6 Line of Credit

The Company has a $5,000,000 revolving bank line of credit with Wells Fargo Bank. Borrowings under this line of credit bear interest at either a fluctuating 75 basis points below the base rate, as defined in the agreement, or at a fixed rate 150 basis points above LIBOR. At January 31, 2012, there were no borrowings against this line and the entire line is currently available.

Note 7 Shareholders Equity

Common Stock: During fiscal 2012, the Company did not repurchase any shares of its common stock. The Company repurchased 138,200 shares of its common stock for $975,682 in fiscal 2011. As of January 31, 2012, the Company s Board of Directors has authorized the purchase of up to an additional 500,000 shares Company s common stock on the open market.

During fiscal 2012 and 2011, certain of the Company s employees delivered a total of 139,895 and 132,475 shares respectively, of the Company s common stock to satisfy the exercise price for stock options exercised and related taxes. The shares delivered were valued at a total of $1,037,903 and $982,640 respectively and are included with the treasury stock in the accompanying consolidated balance sheet at January 31, 2012 and 2011. These transactions did not impact the number of shares authorized for repurchase under the Company s current repurchase program.

Astro-Med maintains the following benefit plans involving its common stock:

Stock Plans: As of January 31, 2012, Astro-Med has one equity incentive plan (2007 Equity Incentive Plan) under which incentive stock options, non-qualified stock options, restricted stock and other equity-based awards may be granted to directors, officers and certain employees. To date, only options have been granted under this plan. Options granted to employees vest over four years. An aggregate of 1,000,000 shares were authorized for awards under the 2007 Equity Incentive Plan. The exercise price of each stock option will be established at the discretion of the Compensation Committee; however, any incentive stock options granted under the 2007 Equity Incentive Plan must be at an exercise price of not less than fair market value at the date of grant. The 2007 Equity Incentive Plan provides for an automatic annual grant of ten-year options to purchase 5,000 shares of stock to each non-employee director upon the adjournment of each shareholders meeting. Each such option is exercisable at the fair market value as of the grant date and vests immediately prior to the next succeeding shareholders meeting. During fiscal 2012 and 2011, 20,000 and 15,000 shares, respectively, were awarded each year to non-employee directors. At January 31, 2012, 683,444 shares were available for grant under the 2007 Equity Incentive Plan.

Summarized option data for all plans is as follows:

	Number of Shares	Option Price Per Share	Weighted Average Option Price Per Share
Options Outstanding, January 31, 2011	1,219,183	$ 2.40 11.90	$ 7.03
Options Granted	55,000	$ 7.36 8.10	$ 7.91
Options Exercised	(289,417)	$ 2.40 7.36	$ 2.85
Options Expired	(96,669)	$ 3.14 11.90	$ 8.64
Options Outstanding, January 31, 2012	888,097	$ 2.40 11.90	$ 8.27
Options Exercisable, January 31, 2012	737,839	$ 2.40 11.90	$ 8.43

Table of Contents

Set forth below is a summary of options outstanding at January 31, 2012:

Range of Exercise prices	Outstanding Options	Weighted Average Exercise Price	Remaining Contractual Life	Exercisable Options	Weighted Average Exercise Price
$ 2.40 - 5.78	52,885	$ 3.46	3	52,885	$ 3.46
$ 6.22 - $9.59	681,106	$ 7.92	5	530,848	$ 8.04
$ 9.81 - $11.90	154,106	$ 11.49	5	154,106	$ 11.47
	888,097			737,839	

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

	Years Ended January 31, 2012		2011	
Risk-free interest rate	0.94%	2.00%	2.11%	2.42%
Expected life (years)	5		5	
Expected volatility	39.07%	39.43%	40.66%	41.46%
Expected dividend yield	3.50%	3.89%	3.35%	3.67%

The weighted average fair value of options granted during fiscal 2012 and 2011 was $2.02 and $2.11, respectively. As of January 31, 2012, there was $183,841 of unrecognized compensation expense related to the unvested stock options granted under the plans. The expense is to be recognized over a weighted average of two years. Share-based compensation expense has been recognized as follows:

	Years Ended January 31, 2012	2011
Cost of Sales	$ 35,749	$ 60,457
Operating Expenses	172,135	272,783
Total	$ 207,884	$ 333,240

As of January 31, 2012, the aggregate intrinsic value (the aggregate difference between the closing stock price of the Company s common stock on January 31, 2012, and the exercise price of the outstanding options) that would have been received by the option holders if all options had been exercised was $447,710 for all exercisable options and $547,874 for all options outstanding. The weighted average remaining contractual terms for these options are 4.0 years for options that are exercisable and 4.7 years for all options outstanding. The total aggregate intrinsic value of options exercised during fiscal 2012 and 2011 was $1,320,485 and $1,094,579, respectively.

Employee Stock Purchase Plan (ESPP): Astro-Med s ESPP allows eligible employees to purchase shares of common stock at a 15% discount from fair market value on the date of purchase. A total of 247,500 shares were initially reserved for issuance under this plan. Summarized plan activity is as follows:

	Years Ended January 31, 2012	2011
Shares reserved, beginning	77,008	84,518
Shares purchased	(6,801)	(7,510)

Shares reserved, ending	70,207	77,008

43

Table of Contents

Employee Stock Ownership Plan: Astro-Med has an Employee Stock Ownership Plan (ESOP) providing retirement benefits to all eligible employees. Annual contributions in amounts determined by the Company s Board of Directors are invested by the ESOP s Trustees in shares of common stock of Astro-Med. Contributions may be in cash or stock. Astro-Med s contributions (paid or accrued) amounted to $100,000 and $80,000 in fiscal 2012 and 2011, respectively which were recorded as compensation expense. All shares owned by the ESOP have been allocated to participants.

During the first quarter of fiscal 2011, the Company purchased approximately 200,000 stock options held by certain key executives. The options had an exercise price of $5.45 and were due to expire on March 20, 2010. The purchase price paid by the Company for the options was approximately $250,000, representing the closing price for the Astro-Med s common stock on March 3, 2010, less a 10% discount and the exercise price for each of the options. The original underlying stock options were granted during fiscal 2000 and there was no unrecognized compensation expense associated with the options. This transaction was charged to equity. The cash settlement of these options during the prior year was a one-time event, as the Company has not historically settled any options for cash and has no plans to do so again in the future.

Note 8 Income Taxes

The components of income before income taxes are as follows:

	Years Ended January 31, 2012	2011
Domestic	$ 2,485,615	$ 1,772,680
Foreign	1,746,878	1,010,934
	$ 4,232,493	$ 2,783,614

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

	Years Ended January 31, 2012	2011
Current:		
Federal	$ 707,637	$ 699,622
State	84,579	170,930
Foreign	516,312	(14,321)
	1,308,528	856,231
Deferred:		
Federal	(216,322)	(191,938)
State	(15,056)	(27,024)
Foreign	23,652	84,576
	(207,726)	(134,386)
	$ 1,100,802	$ 721,845

44

Table of Contents

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

	Years Ended January 31, 2012	2011
Income tax provision at statutory rate	$ 1,439,048	$ 946,428
State taxes, net of federal tax effect	77,330	201,992
Officers life insurance	(93,100)	12,466
Change in valuation allowance	34,990	65,202
Change in reserves related to ASC 740 liability	60,957	(241,098)
Meals and entertainment	41,063	59,580
Domestic product deduction	(78,135)	(44,162)
Share-based compensation	53,656	76,162
Tax-exempt income	(26,949)	(21,983)
Prior year tax filing true up adjustment	(156,615)	(143,014)
R&D credits	(175,059)	(108,093)
Other, net	(76,384)	(81,635)
	$ 1,100,802	$ 721,845

The components of deferred income tax expense arise from various temporary differences and relate to items included in the statement of operations. The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and liabilities are as follows:

	January 31, 2012	2011
Deferred Tax Assets:		
Inventory Reserves	$ 1,692,247	$ 1,507,591
Stock-Based Compensation	380,221	360,883
R&D Credits	279,938	244,948
Vacation Accrual	355,046	400,343
Deferred Service Contract Revenue	239,503	300,844
Reserve for Doubtful Accounts	150,555	190,578
Other	806,987	554,397
	3,904,497	3,559,584
Deferred Tax Liabilities:		
Accumulated Tax Depreciation in Excess of Book Depreciation	911,255	980,925
Deferred Tax Gain on Sale of Real Estate	1,235,098	1,235,098
Intangibles/Amortization	465,906	420,182
Currency Translation Adjustment	155,392	157,572
Other	132,434	4,111
	2,900,085	2,797,888
Subtotal	1,004,412	761,696
Valuation Allowance	(279,938)	(244,948)
Net Deferred Tax Assets	$ 724,474	$ 516,748

At January 31, 2012, we have state net operating loss carryforwards of $417,000, which can be used to offset future tax liabilities and expire at various dates beginning in fiscal 2015. At January 31, 2012 we have state research and development credit carryforwards of approximately $424,000, which can be used to offset future tax liabilities and expire at various dates beginning in fiscal 2012.

Table of Contents

The valuation allowance at January 31, 2012 relates to certain state research and development tax credit carryforwards which are expected to expire unused. The change in the valuation allowance is approximately $35,000 and represents a reserve against the additional state research and development credits generated during the current year net of federal benefit.

The Company reasonably believes that it is possible that some unrecognized tax benefits, accrued interest and penalties could decrease income tax expense in the next year due to either the review of previously filed tax returns or the expiration of certain statutes of limitation. The Company estimates the reversal of the unrecognized tax benefit to be approximately $241,000, excluding interest and penalties. A reconciliation of unrecognized tax benefits, excluding interest and penalties follows:

	2012	2011
Balance at February 1	$ 726,661	$ 875,225
Increases in prior period tax positions	30,839	26,788
Increases in current period tax positions	78,571	72,140
Reductions related to lapse of statute of limitations	(56,528)	(247,492)
Balance at January 31	$ 779,543	$ 726,661

If the $779,543 is recognized, $443,337 would decrease the effective tax rate in the period in which each of the benefits is recognized and the remainder would be offset by a reversal of deferred tax assets.

During fiscal 2012 and 2011 the Company recognized $32,839 and $60,127, respectively, of potential interest and penalties, which are included as a component of income tax expense in the accompanying statement of operations. At January 31, 2012 and 2011, the Company had accrued potential interest and penalties of $453,000 and $420,000, respectively.

The Company and its subsidiaries file income tax returns in U.S. federal jurisdictions, various state jurisdictions, and various foreign jurisdictions. The Company is no longer subject to U.S. federal examinations prior to 2008.

At January 31, 2012, the Company has indefinitely reinvested $2,632,000 of the cumulative undistributed earnings of its foreign subsidiary in Germany, all of which would be subject to U.S. taxes if repatriated to the U.S. Through January 31, 2012, the Company has not provided deferred income taxes on the undistributed earnings of this subsidiary because such earnings are considered to be indefinitely reinvested. Non-U.S. income taxes are, however, provided on these undistributed earnings.

Note 9 Contractual Obligations

The following table summarizes our contractual obligations:

	Total	2013	2014	2015	2016	2017 and Thereafter
Purchase Commitments*	$ 8,746,353	$ 6,212,976	$ 1,533,377	$ 1,000,000		
Operating Lease Obligations	$ 726,007	$ 335,145	$ 245,356	$ 110,688	$ 34,818	
	$ 9,472,360	$ 6,548,121	$ 1,778,733	$ 1,110,688	$ 34,818	$

* Purchase commitments consists primarily of inventory and equipment purchase orders made in the ordinary course of business, including the purchase commitment agreement interest into with Buyer of the Asheboro operations as described in Note 2.

The Company incurred rent and lease expenses in the amount of $706,000 and $641,000 for the fiscal years 2012 and 2011, respectively.

46

Table of Contents

Note 10 Nature of Operations, Segment Reporting and Geographical Information

The Company s operations consist of the design, development, manufacture and sale of specialty data recorder and acquisition systems, label printing and applicator systems, neuropsychological instrumentation systems and consumable supplies. The Company organizes and manages its business as a portfolio of products and services designed around a common theme of data acquisition and information output. The Company reports three reporting segments consistent with its sales product groups: Test & Measurement (T&M), QuickLabel Systems (QuickLabel), and Grass Technologies (Grass).

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

Business is conducted in the United States and through foreign affiliates in Canada and Europe. Manufacturing activities are primarily conducted in the United States. Sales and service activities outside the United States are conducted through wholly-owned entities and, to a lesser extent, through authorized distributors and agents. Transfer prices are intended to produce gross profit margins as would be associated with an arms-length transaction.

Summarized below are the Net Sales and Segment Operating Profit (both in dollars and as a percentage of Net Sales) for each reporting segment:

($ in thousands)	Net Sales		Segment Operating Profit		Segment Operating Profit % of Net Sales	
	2012	2011	2012	2011	2012	2011
T&M	$ 17,138	$ 14,837	$ 2,425	$ 1,200	14.1%	8.1%
QuickLabel	43,586	39,500	2,553	1,847	5.9%	4.7%
Grass	18,469	16,679	3,592	3,358	19.5%	20.1%
Total	$ 79,193	$ 71,016	8,570	6,405	10.8%	9.0%
Corporate Expenses			3,972	3,749		
Loss on Sale of Asheboro*			(681)			
Gain on Legal Settlement				104		
Operating Income			3,917	2,760		
Other Income, Net			316	24		
Income Before Income Taxes			4,233	2,784		
Income Tax Provision			1,101	722		
Net Income			$ 3,132	$ 2,062		

* The Asheboro operations were part of the QuickLabel Systems segment.
No customer accounted for greater than 10% of net sales in fiscal 2012 and 2011.

Table of Contents

Other information by segment is presented below:

($ in thousands)	Assets	
	2012	2011
T&M	$ 10,300	$ 10,205
QuickLabel	21,260	21,714
Grass	11,054	11,780
Corporate*	24,448	21,300
Total	$ 67,062	$ 64,999

* *Corporate assets consist of cash and cash equivalents, securities available for sale, income tax accounts and miscellaneous fixed assets.*

($ in thousands)	Depreciation and Amortization		Capital Expenditures	
	2012	2011	2012	2011
T&M	$ 567	$ 455	$ 497	$ 324
QuickLabel	806	751	535	1,664
Grass	203	370	123	102
Total	$ 1,576	$ 1,576	$ 1,155	$ 2,090

Geographical Data

Presented below is selected financial information by geographic area:

($ in thousands)	Net Sales		Long-Lived Assets	
	2012	2011	2012	2011
United States	$ 55,004	$ 50,614	$ 10,031	$ 11,352
Europe	14,915	12,016	646	705
Asia	3,882	3,450		
Canada	3,145	3,014	494	485
Central and South America	1,406	1,059		
Other	841	863		
Total	$ 79,193	$ 71,016	$ 11,171	$ 12,542

Long-lived assets excludes goodwill assigned to the following segments: T&M $0.7 million and Grass $1.6 million at January 31, 2012 and 2011.

Note 11 Profit-Sharing Plan

Along with the ESOP described in Note 7, Astro-Med sponsors a Profit-Sharing Plan (the Plan) which provides retirement benefits to all eligible domestic employees. The Plan allows participants to defer a portion of their cash compensation and contribute such deferral to the Plan through payroll deductions. The Company makes matching contributions up to specified levels. The deferrals are made within the limits prescribed by Section 401(k) of the Internal Revenue Code.

All contributions are deposited into trust funds. It is the policy of the Company to fund any contributions accrued. The Company s annual contribution amounts are determined by the Board of Directors. Contributions paid or accrued amounted to $259,290 and $253,362 in fiscal 2012 and 2011, respectively.

48

Table of Contents

Note 12 Product Warranty Liability

Astro-Med offers a manufacturer s warranty for the majority of its hardware products. The specific terms and conditions of warranty vary depending upon the product sold and country in which the Company does business. For products sold in the United States, the Company provides a basic limited warranty, including parts and labor. The Company estimates the warranty costs based on historical claims experience and records a liability in the amount of such estimates at the time product revenue is recognized. The Company regularly assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Activity in the product warranty liability is as follows:

	January 31, 2012	January 31, 2011
Balance, beginning of the year	$ 258,082	$ 260,235
Warranties issued	660,756	499,906
Settlements made	(575,736)	(502,059)
Balance, end of the year	$ 343,102	$ 258,082

Note 13 Concentration of Risk

Credit is generally extended on an uncollateralized basis to almost all customers after review of credit worthiness. Concentration of credit and geographic risk with respect to accounts receivable is limited due to the large number and general dispersion of accounts which constitute the Company s customer base. The Company periodically performs on-going credit evaluations of its customers. The Company has not historically experienced significant credit losses on collection of its accounts receivable.

Excess cash is invested principally in investment grade government and state municipal securities. The Company has established guidelines relative to diversification and maturities that maintain safety of principal, liquidity and yield. These guidelines are periodically reviewed and modified to reflect changes in market conditions. The Company has not historically experienced any significant losses on its cash equivalents or investments.

Note 14 Commitments and Contingencies

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

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

Table of Contents

Note 15 Fair Value Measurements

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

The fair value hierarchy is summarized as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities;
Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Assets measured at fair value on a recurring basis are summarized below:

January 31, 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market funds (included in cash and cash equivalents)	$ 5,922,179	$	$	$ 5,922,179
State and municipal obligations (included in Securities available for sale)	11,335,924			11,335,924
Note Receivable		969,700		969,700
Total	$ 17,258,103	$ 969,700	$	$ 18,227,803

January 31, 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market funds (included in cash and cash equivalents)	$ 4,926,983	$	$	$ 4,926,983
State and municipal obligations (included in Securities available for sale)	12,910,232			12,910,232
Total	$ 17,837,215	$	$	$ 17,837,215

We did not have any transfers of investments into or out of Level 1 or Level 2 during fiscal 2012.

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

For our Note Receivable we utilized the income approach to measure fair value by discounting the present value of the Note. The discount rate used is based on similar rates used for high credit ratings and highly collateralized lending.

Note 16 Life Insurance Proceeds

During the second quarter of fiscal 2012, we recognized income on key-man life insurance proceeds of $300,000. This income is included in other income in the accompanying consolidated statements of operations for the year end January 31, 2012.

Table of Contents

ASTRO-MED, INC.

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Description	Balance at Beginning of Year	Provision Charged to Operations	Deductions(2)	Balance at End of Year
Allowance for Doubtful Accounts(1):				
Year Ended January 31,				
2012	$ 546,870	$ 22,272	$ (140,733)	$ 428,409
2011	$ 518,789	$ 81,981	$ (53,900)	$ 546,870

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