

ASTRONICS CORP  
Form 10-Q  
November 07, 2012  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended September 29, 2012

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 0-7087

**ASTRONICS CORPORATION**

(Exact name of registrant as specified in its charter)

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<b>New York</b> (State or other jurisdiction of incorporation or organization)	<b>16-0959303</b> (IRS Employer Identification Number)
<b>130 Commerce Way, East Aurora, New York</b> (Address of principal executive offices)	<b>14052</b> (Zip code)
<b>(716) 805-1599</b> (Registrant's telephone number, including area code)	

**NOT APPLICABLE**

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

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

**\$.01 par value Common Stock, \$.01 par value Class B Stock**

(Title of Class)

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, 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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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, or a non-accelerated filer. See definition of large accelerated filer, an accelerated filer, a non-accelerated filer and a smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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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

As of September 29, 2012, 12,425,869 shares of common stock were outstanding consisting of 9,937,742 shares of common stock (\$.01 par value) and 2,488,127 shares of Class B common stock (\$.01 par value).

**Table of Contents****TABLE OF CONTENTS**

	<b>PAGE</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
<b><u>Item 1</u></b> <u>Financial Statements:</u>	
<u>Consolidated Condensed Balance Sheets as of September 29, 2012 and December 31, 2011</u>	3
<u>Consolidated Condensed Statements of Operations for the Three and Nine Months Ended September 29, 2012 and October 1, 2011</u>	4
<u>Consolidated Condensed Statements of Comprehensive Income for the Three and Nine Months Ended September 29, 2012 and October 1, 2011</u>	5
<u>Consolidated Condensed Statements of Cash Flows for the Nine Months Ended September 29, 2012 and October 1, 2011</u>	6
<u>Notes to Consolidated Condensed Financial Statements</u>	7 - 18
<b><u>Item 2</u></b> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19 - 24
<b><u>Item 3</u></b> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	24
<b><u>Item 4</u></b> <u>Controls and Procedures</u>	24
<b><u>PART II OTHER INFORMATION</u></b>	
<b><u>Item 1</u></b> <u>Legal Proceedings</u>	25
<b><u>Item 1a</u></b> <u>Risk Factors</u>	25
<b><u>Item 2</u></b> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	26
<b><u>Item 3</u></b> <u>Defaults Upon Senior Securities</u>	26
<b><u>Item 4</u></b> <u>Mine Safety Disclosures</u>	26
<b><u>Item 5</u></b> <u>Other Information</u>	26
<b><u>Item 6</u></b> <u>Exhibits</u>	26
<b><u>SIGNATURES</u></b>	27
<b>EX-31.1</b> 302 Certification for CEO	
<b>EX-31.2</b> 302 Certification for CFO	
<b>EX-32.1</b> 906 Certification for CEO and CFO	
<b>EX-101</b> Instance Document	
<b>EX-101</b> Schema Document	
<b>EX-101</b> Calculation Linkbase Document	
<b>EX-101</b> Labels Linkbase Document	
<b>EX-101</b> Presentation Linkbase Document	
<b>EX-101</b> Definition Linkbase Document	

**Table of Contents****Part 1 Financial Information****Item 1. Financial Statements**

## ASTRONICS CORPORATION

**Consolidated Condensed Balance Sheets**

September 29, 2012 with Comparative Figures for December 31, 2011

(In thousands)

	September 29, 2012 (Unaudited)	December 31, 2011
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 7,567	\$ 10,919
Accounts Receivable, net of allowance for doubtful accounts	47,330	35,669
Inventories	46,651	40,094
Other Current Assets	6,132	5,628
<b>Total Current Assets</b>	<b>107,680</b>	<b>92,310</b>
Property, Plant and Equipment, net of accumulated depreciation	48,777	41,122
Deferred Income Taxes	9,003	7,039
Other Assets	2,857	3,249
Intangible Assets, net of accumulated amortization	17,133	14,000
Goodwill	21,948	17,185
<b>Total Assets</b>	<b>\$ 207,398</b>	<b>\$ 174,905</b>
<b>Current Liabilities:</b>		
Current Maturities of Long-term Debt	\$ 8,273	\$ 5,290
Accounts Payable	14,206	10,559
Accrued Expenses	14,517	11,568
Accrued Income Taxes	309	
Billings in Excess of Recoverable Costs and Accrued Profits on Uncompleted Contracts	203	264
Customer Advance Payments and Deferred Revenue	10,251	5,796
<b>Total Current Liabilities</b>	<b>47,759</b>	<b>33,477</b>
Long-term Debt	25,125	27,973
Other Liabilities	16,879	10,592
<b>Total Liabilities</b>	<b>89,763</b>	<b>72,042</b>
<b>Shareholders' Equity:</b>		
Common Stock	148	147
Other Shareholders' Equity	117,487	102,716
<b>Total Shareholders' Equity</b>	<b>117,635</b>	<b>102,863</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 207,398</b>	<b>\$ 174,905</b>

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See notes to consolidated condensed financial statements

**Table of Contents**

## ASTRONICS CORPORATION

**Consolidated Condensed Statements of Operations**

Three and Nine Months Ended September 29, 2012 With Comparative Figures for 2011

(Unaudited)

(In thousands, except per share data)

	Nine Months Ended		Three Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Sales	\$ 199,026	\$ 167,007	\$ 68,899	\$ 56,404
Cost of Products Sold	147,135	123,860	52,182	42,149
Gross Profit	51,891	43,147	16,717	14,255
Selling, General and Administrative Expenses	27,195	19,849	9,062	6,360
Income from Operations	24,696	23,298	7,655	7,895
Interest Expense, Net of Interest Income	803	1,461	274	390
Income Before Income Taxes	23,893	21,837	7,381	7,505
Provision for Income Taxes	7,674	5,415	2,451	840
Net Income	\$ 16,219	\$ 16,422	\$ 4,930	\$ 6,665
Earnings per share:				
Basic	\$ 1.14	\$ 1.18	\$ 0.35	\$ 0.48
Diluted	\$ 1.07	\$ 1.11	\$ 0.33	\$ 0.45

See notes to consolidated condensed financial statements.

**Table of Contents**

## ASTRONICS CORPORATION

**Consolidated Condensed Statements of Comprehensive Income**

Three and Nine Months ended September 29, 2012 With Comparative Figures for 2011

(Unaudited)

(In thousands)

	Nine Months Ended		Three Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net Income	\$ 16,219	\$ 16,422	\$ 4,930	\$ 6,665
Other Comprehensive Income:				
Foreign Currency Translation Adjustments	251	(191)	258	(394)
Mark to Market Adjustments for Derivatives Net of Tax	76	45	26	9
Retirement Liability Adjustment Net of Tax	(3,448)	69	139	24
Other Comprehensive (Loss) Income	(3,121)	(77)	423	(361)
Comprehensive Income	\$ 13,098	\$ 16,345	\$ 5,353	\$ 6,304

See notes to consolidated condensed financial statements.



**Table of Contents**

## ASTRONICS CORPORATION

**Consolidated Condensed Statements of Cash Flows**

Nine Months ended September 29, 2012

With Comparative Figures for 2011

(Unaudited)

(In thousands)

	September 29, 2012	October 1, 2011
<b>Cash Flows from Operating Activities:</b>		
Net Income	\$ 16,219	\$ 16,422
Adjustments to Reconcile Net Income to Cash Provided By (Used For) Operating Activities:		
Depreciation and Amortization	4,955	3,592
Provisions for Non-Cash Losses on Inventory and Receivables	1,057	450
Stock Compensation Expense	1,078	807
Deferred Tax Expense	(811)	689
Other	115	(359)
Cash Flows from Changes in Operating Assets and Liabilities:		
Accounts Receivable	(9,836)	(6,215)
Inventories	(6,835)	(2,790)
Accounts Payable	3,072	(596)
Other Current Assets and Liabilities	2,071	2,141
Billings in Excess of Recoverable Costs and Accrued Profits on Uncompleted Contracts	(61)	(1,172)
Customer Advanced Payments and Deferred Revenue	4,455	934
Income Taxes	1,014	(832)
Supplemental Retirement and Other Liabilities	642	(150)
Cash Provided By Operating Activities	17,135	12,921
<b>Cash Flows from Investing Activities:</b>		
Acquisition of Business	(10,619)	
Capital Expenditures	(10,570)	(12,875)
Cash Used For Investing Activities	(21,189)	(12,875)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from Note Payable	10,000	
Payments on Note Payable	(1,000)	
Payments for Long-term Debt	(8,898)	(3,897)
Debt Acquisition Costs		(112)
Proceeds from Exercise of Stock Options	205	1,678
Income Tax Benefit from Exercise of Stock Options	391	196
Cash Provided By (Used For) Financing Activities	698	(2,135)
Effect of Exchange Rates on Cash	4	(8)
Decrease in Cash and Cash Equivalents	(3,352)	(2,097)

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Cash and Cash Equivalents at Beginning of Period	10,919	22,709
Cash and Cash Equivalents at End of Period	\$ 7,567	\$ 20,612

See notes to consolidated condensed financial statements.

**Table of Contents**

ASTRONICS CORPORATION

**Notes to Consolidated Condensed Financial Statements**

September 29, 2012

(Unaudited)

***1) Basis of Presentation***

The accompanying unaudited statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included.

**Operating Results**

The results of operations for any interim period are not necessarily indicative of results for the full year. Operating results for the three and nine month periods ended September 29, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The balance sheet at December 31, 2011 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included in Astronics Corporation's 2011 annual report on Form 10-K.

**Description of the Business**

Astronics is a leading supplier of advanced, high-performance lighting systems, electrical power generation and distribution systems, avionics databus solutions, enhanced vision systems and aircraft safety systems for the global aerospace industry as well as test, training and simulation systems primarily for the military. We sell our products to airframe manufacturers (OEMs) in the commercial transport, business jet and military markets as well as FAA/Airport, OEM suppliers and aircraft operators around the world. The Company provides its products through its wholly owned subsidiaries Luminescent Systems, Inc. ( LSI ), Luminescent Systems Canada, Inc. ( LSI Canada ), DME Corporation ( DME ), Ballard Technology, Inc. ( Ballard ), Max-Viz Inc. ( Max-Viz ) and Astronics Advanced Electronic Systems Corp. ( AES ). On November 30, 2011, Astronics acquired 100% of the stock of Ballard. Ballard designs and produces avionics databus solutions for defense and commercial aerospace applications. On July 30, 2012 Astronics acquired by merger, 100% of the stock of Max-Viz, Inc. Max-Viz is a manufacturer of industry-leading enhanced vision systems for defense and commercial aerospace applications for the purpose of improving situational awareness. Both Ballard and Max-Viz are part of our Aerospace segment.

The Company has two reportable segments, Aerospace and Test Systems. The Aerospace segment designs and manufactures products for the global aerospace industry. The Test Systems segment designs, manufactures and maintains communications and weapons test systems and training and simulation devices for military applications.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated. Acquisitions are accounted for under the purchase method and, accordingly, the operating results for the acquired companies are included in the consolidated statements of earnings from the respective dates of acquisition.

**Revenue and Expense Recognition**

In the Aerospace segment, revenue is recognized on the accrual basis at the time of shipment of goods and transfer of title. There are no significant contracts allowing for right of return.

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In the Test Systems segment, revenue of approximately 32% and 58% for the three months ending September 29, 2012 and October 1, 2011 respectively and approximately 37% and 76% for the nine months ending September 29, 2012 and October 1, 2011 respectively, is recognized from long-term, fixed-price contracts using the percentage-of-completion method of accounting, measured by multiplying the estimated total contract value by the ratio of actual contract costs incurred to date to the estimated total contract costs. Substantially all long-term contracts are with U.S. government agencies and contractors thereto. The Company makes significant estimates involving its usage of percentage-of-completion accounting to recognize contract revenues. The Company periodically reviews contracts in process for estimates-to-completion, and revises estimated gross profit accordingly. While the

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## **Table of Contents**

Company believes its estimated gross profit on contracts in process is reasonable, unforeseen events and changes in circumstances can take place in a subsequent accounting period that may cause the Company to revise its estimated gross profit on one or more of its contracts in process. Accordingly, the ultimate gross profit realized upon completion of such contracts can vary significantly from estimated amounts between accounting periods. Revenue not recognized using the percentage-of-completion method is recognized at the time of shipment of goods and transfer of title.

### **Cost of Products Sold, Engineering and Development and Selling, General and Administrative Expenses**

Cost of products sold includes the costs to manufacture products such as direct materials and labor and manufacturing overhead as well as all engineering and developmental costs. The Company is engaged in a variety of engineering and design activities as well as basic research and development activities directed to the substantial improvement or new application of the Company's existing technologies. These costs are expensed when incurred and included in cost of sales. Research and development, design and related engineering amounted to \$12.8 million and \$9.5 million for the three months ended September 29, 2012 and October 1, 2011 respectively and \$33.9 million and \$26.6 million for the nine months ended September 29, 2012 and October 1, 2011, respectively. Selling, general and administrative expenses include costs primarily related to our sales and marketing departments and administrative departments. Interest expense is shown net of interest income. Interest income was insignificant for each of the three and nine months ended for both September 29, 2012 and October 1, 2011.

### **Financial Instruments**

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, notes payable, long-term debt and interest rate swaps. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral and the Company does not hold or issue financial instruments for trading purposes. Due to their short-term nature the carrying value of cash and equivalents, accounts receivable, accounts payable, and notes payable, if any, approximate fair value. The carrying value of the Company's variable rate long-term debt also approximates fair value due to the variable rate feature of these instruments. The Company's interest rate swaps are recorded at fair value as described under Note 16 - Fair Value and Note 17 - Derivative Financial Instruments.

### **Derivatives**

The accounting for changes in the fair value of derivatives depends on the intended use and resulting designation. The Company's use of derivative instruments is limited to cash flow hedges for interest rate risk associated with long-term debt. Interest rate swaps are used to adjust the proportion of total debt that is subject to variable and fixed interest rates. The interest rate swaps are designated as hedges of the amount of future cash flows related to interest payments on variable-rate debt that, in combination with the interest payments on the debt, convert a portion of the variable-rate debt to fixed-rate debt. The Company records all derivatives on the balance sheet at fair value as described under Note 16 - Fair Value and Note 17 - Derivative Financial Instruments. The related gains or losses, to the extent the derivatives are effective as a hedge, are deferred in shareholders' equity as a component of Accumulated Other Comprehensive Income (Loss) (AOCI). Any ineffectiveness is immediately recorded in the statement of operations.

### **Foreign Currency Translation**

The Company accounts for its foreign currency translation in accordance with ASC Topic 830, *Foreign Currency Translation*. The aggregate transaction gain or loss included in operations was insignificant for the periods ending September 29, 2012 and October 1, 2011.

### **Loss contingencies**

Loss contingencies may from time to time arise from situations such as warranty claims and other legal actions. Loss contingencies are recorded as liabilities when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable. Disclosure is required when there is a reasonable possibility that the ultimate loss will exceed the recorded provision. Contingent liabilities are often resolved over long time periods. In recording liabilities for probable losses, management is required to make estimates and judgments regarding the amount or range of the probable loss. Management continually assesses the adequacy of estimated loss contingencies and, if necessary, adjusts the amounts recorded as better information becomes known.

**Table of Contents****Accounting Pronouncements Adopted in 2012**

On January 1, 2012, the Company adopted the new provisions of Accounting Standards Update ( ASU ) No. 2011-05, *Comprehensive Income (Topic 220)*. The amendments in this Update require an entity to report all non-owner changes in stockholders' equity either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The ASU prohibits the presentation of the components of comprehensive income in the statement of stockholders' equity. The amendments are effective for annual and interim periods beginning after December 15, 2011 and should be applied retrospectively. In December 2011, the Financial Accounting Standards Board issued ASU No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. The amendments in this Update defer the effective date pertaining only to reclassification adjustments out of accumulated other comprehensive income in Accounting Standards Update 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, until the Financial Accounting Standards Board is able to reconsider those presentation requirements. Other than requiring an additional statement and disclosures, the impact on the Company's financial statements was not significant.

On January 1, 2012, the Company adopted the new provisions of ASU No. 2011-04, *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The amendments provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. The amendments also change certain fair value measurement principles and enhance the disclosure requirements, particularly for Level 3 fair value measurements. The amendments are effective during interim and annual periods beginning after December 15, 2011 and should be applied prospectively. Other than requiring additional disclosures, the adoption of this amendment did not have a material impact on the Company's financial statements.

On January 1, 2012, the Company adopted the new provisions of ASU No. 2011-08, *Intangibles - Goodwill and Other (Topic 350)*. The amendments in this Update will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this pronouncement had no impact on the Company's financial statements.

**2) Inventories**

Inventories are stated at the lower of cost or market, cost being determined in accordance with the first-in, first-out method. Inventories are as follows:

(In thousands)	September 29, 2012	December 31, 2011
Finished Goods	\$ 10,216	\$ 7,420
Work in Progress	8,481	8,477
Raw Material	27,954	24,197
	\$ 46,651	\$ 40,094

The Company records valuation reserves to provide for excess, slow moving or obsolete inventory or to reduce inventory to the lower of cost or market value. In determining the appropriate reserve, the Company considers the age of inventory on hand, the overall inventory levels in relation to forecasted demands as well as reserving for specifically identified inventory that the Company believes is no longer salable.

**Table of Contents****3) Property, Plant and Equipment**

The following table summarizes Property, Plant and Equipment as follows:

(In thousands)	September 29, 2012	December 31, 2011
Land	\$ 2,819	\$ 2,819
Buildings and Improvements	22,797	22,760
Machinery and Equipment	40,286	37,289
Construction in Progress	15,466	7,702
	81,368	70,570
Less Accumulated Depreciation	32,591	29,448
	\$ 48,777	\$ 41,122

**4) Intangible Assets**

The following table summarizes acquired intangible assets as follows:

(In thousands)	Weighted Average Life	September 29, 2012		December 31, 2011	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	12 Years	\$ 1,271	\$ 760	\$ 1,271	\$ 685
Trade Names	10 Years	2,453	115	1,853	7
Completed and Unpatented Technology	11 Years	6,377	1,606	5,277	1,242
Backlog and Customer Relationships	5 Years	13,085	3,572	9,985	2,452
<b>Total Intangible Assets</b>		<b>\$ 23,186</b>	<b>\$ 6,053</b>	<b>\$ 18,386</b>	<b>\$ 4,386</b>

All acquired intangible assets other than goodwill and one trade name are being amortized. Amortization expense for acquired intangibles is summarized as follows:

(In thousands)	Nine Months Ended		Three Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Amortization Expense	\$ 1,667	\$ 320	\$ 1,013	\$ 103

Amortization expense for intangible assets for 2012 and for each of the next five years is summarized as follows:

(In thousands)	
2012	\$ 2,277
2013	1,727
2014	1,518
2015	1,473
2016	1,470

2017

1,462

**5) Goodwill**

The following table summarizes the changes in the carrying amount of goodwill for 2012:

(In thousands)	December 31, 2011	Acquisitions	Foreign Currency Translation	September 29, 2012
Aerospace Segment	\$ 17,185	\$ 4,665	\$ 98	\$ 21,948



**Table of Contents****6) Long-term Debt and Notes Payable**

The Company extended and modified its existing credit facility by entering into a Second Amended and Restated Credit Agreement (the "Credit Agreement"), dated August 31, 2011. The Company's Credit Agreement provides for a revolving credit line in the amount of \$35 million, less outstanding letters of credit, through August 31, 2016 and a \$14 million term loan maturing January 30, 2014, with interest on both loans at a rate of LIBOR plus between 1.50% and 2.50% based on the Company's Leverage Ratio under the credit agreement. The credit facility allocates up to \$20 million of the \$35 million revolving credit line for the issuance of letters of credit, including certain existing letters of credit. The credit facility is secured by substantially all of the Company's assets.

There was \$9.0 million outstanding on our credit facility at September 29, 2012 and nothing outstanding at December 31, 2011. The Company had available on its credit facility \$15.2 million at September 29, 2012. At September 29, 2012, outstanding letters of credit totaled \$10.8 million. In addition, the Company is required to pay a commitment fee quarterly at a rate of between 0.25% and 0.35% per annum on the unused portion of the total revolving credit commitment, also based on the Company's Leverage Ratio.

Prior to the August 31, 2011 amendment of the credit facility, the Company's Credit Agreement provided for a revolving credit line of \$35 million for working capital requirements which was committed through January 2012, with interest at LIBOR plus between 2.75% and 4.50%. In addition, the Company was required to pay a commitment fee of between 0.30% and 0.50% on the unused portion of the total credit commitment for the preceding quarter, based on the Company's leverage ratio under the Credit Agreement.

The Company had outstanding a \$5.0 million subordinated promissory note with interest fixed at 6.0% that was paid in its entirety on January 13, 2012.

**7) Product Warranties**

In the ordinary course of business, the Company warrants its products against defects in design, materials and workmanship typically over periods ranging from twelve to sixty months. The Company determines warranty reserves needed by product line based on experience and current facts and circumstances. Activity in the warranty accrual is summarized as follows:

(In thousands)	Nine Months ended		Three Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Balance at beginning of period	\$ 1,092	\$ 1,699	\$ 1,391	\$ 1,390
Warranties issued	1,872	1,245	1,100	258
Warranties settled	(751)	(1,759)	(278)	(806)
Reassessed warranty exposure	3	87	3	430
Balance at end of period	\$ 2,216	\$ 1,272	\$ 2,216	\$ 1,272

**8) Income Taxes**

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities. Deferred tax assets are reduced, if deemed necessary, by a valuation allowance for the amount of tax benefits which are not expected to be realized. Investment tax credits are recognized on the flow through method.

ASC Topic 740-10 *Overall - Uncertainty in Income Taxes* (ASC Topic 740-10) clarifies the accounting and disclosure for uncertainty in tax positions. ASC Topic 740-10 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The Company is subject to the provisions of ASC Topic 740-10 and has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. Should the Company need to accrue a liability for uncertain tax benefits, any interest associated with that liability will be recorded as interest expense. Penalties, if any, would be recognized as operating expenses. There are no penalties or interest liability accrued as of September 29, 2012 or December 31, 2011, nor are any penalties or interest costs included in expense for the three and nine month periods ending September 29, 2012 and October 1, 2011. The years under which we conducted our evaluation coincided with the tax years currently still subject to examination by major federal and state tax jurisdictions, those being 2010 through 2011 for federal purposes and 2008 through 2011 for state purposes.



**Table of Contents**

The effective tax rate was 32.1% and 24.8% for the nine months and 33.2% and 11.2% for the three months ended September 29, 2012 and October 1, 2011, respectively. The effective tax rate for the three and nine months of 2012 was impacted primarily by the domestic production activity deduction, as well as lower state and foreign taxes. The effective tax rate for the three and nine months of 2011 was impacted primarily by the domestic production activity deduction as well as the impact of domestic R&D tax credits, offset somewhat by higher state and foreign taxes.

**9) Shareholders' Equity**

The changes in shareholders' equity for the nine months ended September 29, 2012 are summarized as follows as adjusted to reflect the impact of the three-for-twenty distribution of Class B Stock discussed in Note 20:

	Amount	Number of Shares	
		Common Stock	Convertible Class B Stock
Shares Authorized		20,000,000	5,000,000
Share Par Value		\$ 0.01	\$ 0.01
(Dollars in thousands)			
<b>COMMON STOCK</b>			
Beginning of Period	\$ 147	9,680,825	5,058,109
Conversion of Class B Shares to Common Shares		390,589	(390,589)
Exercise of Stock Options	1	44,874	34,282
End of Period	\$ 148	10,116,288	4,701,802
<b>ADDITIONAL PAID IN CAPITAL</b>			
Beginning of Period	\$ 19,260		
Stock Compensation Expense	1,078		
Exercise of Stock Options	596		
End of Period	\$ 20,934		
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b>			
Beginning of Period	\$ (886)		
Foreign Currency Translation Adjustment	251		
Mark to Market Adjustment for Derivatives	76		
Retirement Liability Adjustment	(3,448)		
End of Period	\$ (4,007)		
<b>RETAINED EARNINGS</b>			
Beginning of Period	\$ 86,622		
Net Income	16,219		
End of Period	\$ 102,841		
<b>TREASURY STOCK</b>			
Beginning of Period	\$ (2,281)	(178,546)	(349,795)
Purchase (disposal)	0	0	0
End of Period	\$ (2,281)	(178,546)	(349,795)

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TOTAL SHAREHOLDERS EQUITY			
Beginning of Period	\$ 102,863	9,502,279	4,708,314
End of Period	\$ 117,635	9,937,742	4,352,007

Actual Class B shares outstanding did not exceed the amount authorized at any time, due to the conversion of Class B shares to common stock prior to the stock distribution. However for presentation purposes the number of Class B shares outstanding has been restated to present the distribution as of the beginning of the period.

**Table of Contents****10) Earnings Per Share**

Basic and diluted weighted-average shares outstanding are as follows:

(In thousands)	Nine Months Ended		Three Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Weighted average shares - Basic	14,246	13,920	14,278	13,944
Net effect of dilutive stock options	857	873	812	921
<b>Weighted average shares - Diluted</b>	<b>15,103</b>	<b>14,793</b>	<b>15,090</b>	<b>14,865</b>

The above information has been adjusted to reflect the impact of the three-for-twenty distribution of Class B Stock discussed in Note 20.

**11) Comprehensive Income and Accumulated Other Comprehensive Income (Loss)**

The components of accumulated other comprehensive income (loss) are as follows:

(In thousands)	September 29, 2012	December 31, 2011
Foreign Currency Translation Adjustments	\$ 1,483	\$ 1,232
Mark to Market Adjustments for Derivatives Before Tax	(278)	(393)
Tax Benefit	98	137
Mark to Market Adjustments for Derivatives After Tax	(180)	(256)
Retirement Liability Adjustment Before Tax	(8,229)	(2,865)
Tax Benefit	2,919	1,003
Retirement Liability Adjustment After Tax	(5,310)	(1,862)
Accumulated Other Comprehensive Loss	\$ (4,007)	\$ (886)

The components of other comprehensive income (loss) are as follows:

(In thousands)	Nine Months Ended		Three Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Foreign Currency Translation Adjustments	\$ 251	\$ (191)	\$ 258	\$ (394)
Reclassification to Interest Expense	163	230	50	76
Mark to Market Adjustments for Derivatives	(48)	(161)	(10)	(62)
Tax Expense	(39)	(24)	(14)	(5)
Mark to Market Adjustments for Derivatives	76	45	26	9
Retirement Liability Adjustment	(5,364)	106	186	37

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Tax (Expense) Benefit	1,916	(37)	(47)	(13)
Retirement Liability Adjustment	(3,448)	69	139	24
Other Comprehensive (Loss) Income	\$ (3,121)	\$ (77)	\$ 423	\$ (361)

**Table of Contents****12) Supplemental Retirement Plan and Related Post Retirement Benefits**

The Company has two non-qualified supplemental retirement defined benefit plans ( SERP and SERP II ) for certain executive officers. The following table sets forth information regarding the net periodic pension cost for the plans.

(In thousands)	Nine Months Ended		Three Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Service cost	\$ 215	\$ 36	\$ 88	\$ 12
Interest cost	400	246	148	82
Amortization of prior service cost	304	81	122	27
Amortization of net actuarial losses	69	9	22	3
<b>Net periodic cost</b>	<b>\$ 988</b>	<b>\$ 372</b>	<b>\$ 380</b>	<b>\$ 124</b>

Participants in the SERP are entitled to paid medical, dental and long-term care insurance benefits upon retirement under the plan. The following table sets forth information regarding the net periodic cost recognized for those benefits:

(In thousands)	Nine Months Ended		Three Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Service cost	\$ 2	\$	\$ 1	\$
Interest cost	18	21	6	7
Amortization of prior service cost	19	18	6	6
Amortization of net actuarial gains		(3)		(1)
<b>Net periodic cost</b>	<b>\$ 39</b>	<b>\$ 36</b>	<b>\$ 13</b>	<b>\$ 12</b>

On March 6, 2012 the Company adopted a second non-qualified supplemental retirement defined benefit plan ( SERP II ) for eligible executive officers. The Company recorded a liability at the date of adoption of \$5.8 million for the projected benefit obligation. Pension cost of the new plan for the year ending December 31, 2012 is estimated to be approximately \$0.8 million. The plan is unfunded and the Company does not expect to make any contributions to the plan, nor does it expect any benefits will be paid from the plan in 2012.

**13) Sales to Major Customers**

The Company has a significant concentration of business with two major customers, Panasonic Aviation Corporation and various departments of the U.S. Government, primarily branches of the Department of Defense and the Federal Aviation Administration. The following is information relating to the activity with those customers:

Percent of consolidated revenue	Nine Months Ended		Three Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Panasonic	38%	36%	40%	39%
U.S. Government	7%	10%	7%	9%

(In thousands)

September 29,  
2012

Dec.  
31,  
2011

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Accounts Receivable			
Panasonic	\$	18,425	\$ 9,878
U.S. Government		2,126	3,866



**Table of Contents****14) Legal Proceedings**

The Company is subject to various legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect these matters will have a material adverse effect on our business, financial position, results of operations, or cash flows. However, the results of these matters cannot be predicted with certainty. Should the Company fail to prevail in any legal matter or should several legal matters be resolved against the Company in the same reporting period, then the financial results of that particular reporting period could be materially adversely affected.

On November 11, 2010, AE Liquidation Inc. filed an action in the United States Bankruptcy Court for the District of Delaware (*AE Liquidation, Inc., et al v. Luminescent Systems Inc., and AE Liquidation, Inc., et al., v Astronics Advanced Electronic Systems Corp.*) seeking to recover \$1.4 million of alleged preferential payments received from Eclipse Aviation Corporation. The Company disputes the Trustee's allegations and believes any loss, as a result of future proceedings would not have a material adverse effect on our business. We intend to defend this claim vigorously.

We are a defendant in an action filed in the Regional State Court of Mannheim, Germany (Lufthansa Technik AG v. Astronics Advanced Electronics Systems Corp.) relating to an allegation of patent infringement. The damages sought include injunctive relief, as well as monetary damages. We dispute the allegation and intend to vigorously defend ourselves in this action. We have filed a nullity action with the Federal Patent Court in Munich Germany, requesting the court to revoke the German part of the European patent that is subject to the claim. In November 2011, the regional state court of Mannheim Germany, issued an interim decision to the effect that the infringement litigation proceedings be stayed until the Federal Patent Court decides on the concurrent nullity action. At this time we are unable to provide a reasonable estimate of our potential liability or the potential amount of loss related to this action, if any. If the outcome of this litigation is adverse to us, our results and financial condition could be materially affected.

**15) Segment Information**

Below are the sales and operating profit by segment for the three and nine months ended September 29, 2012 and October 1, 2011 and a reconciliation of segment operating profit to earnings before income taxes. Operating profit is the net sales less cost of sales and other operating expenses excluding interest and other expenses and corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment.

(Dollars in thousands)	Nine Months Ended		Three Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
<b>Sales</b>				
Aerospace	\$ 190,212	\$ 155,650	\$ 65,788	\$ 53,509
Test Systems	8,814	11,357	3,111	2,895
<b>Total Sales</b>	<b>\$ 199,026</b>	<b>\$ 167,007</b>	<b>\$ 68,899</b>	<b>\$ 56,404</b>
<b>Operating Profit (Loss) and Margins</b>				
Aerospace	\$ 33,358	\$ 28,223	\$ 10,577	\$ 9,897
	17.5%	18.1%	16.1%	18.5%
Test Systems	(3,525)	(1,360)	(1,132)	(832)
	(40.0)%	(12.0)%	(36.4)%	(28.7)%
<b>Total Operating Profit</b>	<b>29,833</b>	<b>26,863</b>	<b>9,445</b>	<b>9,065</b>
	15.0%	16.1%	13.7%	16.1%
<b>Deductions from Operating Profit</b>				
Interest Expense	803	1,461	274	390
Corporate Expenses and Other	5,137	3,565	1,790	1,170
<b>Income Before Income Taxes</b>	<b>\$ 23,893</b>	<b>\$ 21,837</b>	<b>\$ 7,381</b>	<b>\$ 7,505</b>



**Table of Contents**Identifiable Assets

(In thousands)	September 29, 2012	December 31, 2011
Aerospace	\$ 173,261	\$ 136,930
Test Systems	18,349	20,020
Corporate	15,788	17,955
Total Assets	\$ 207,398	\$ 174,905

**16) Fair Value**

ASC Topic 820, *Fair Value Measurements and Disclosures*, (ASC Topic 820) defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. This statement applies under other accounting pronouncements that require or permit fair value measurements. The statement indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. ASC Topic 820 defines fair value based upon an exit price model. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and involves consideration of factors specific to the asset or liability.

ASC Topic 820 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value.

On a Recurring Basis:

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The following table provides the financial assets and liabilities carried at fair value measured on a recurring basis as of September 29, 2012 and December 31, 2011:

(In thousands)	Classification	Total	Level 1	Level 2	Level 3
Interest rate swaps	Other Liabilities				
September 29, 2012		\$ (278)	\$	\$ (278)	\$
December 31, 2011		(393)		(393)	
Acquisition contingent consideration	Other Liabilities				
September 29, 2012		\$ (841)	\$	\$	\$ (841)
December 31, 2011		(720)			(720)

Interest rate swaps are securities with no quoted readily available Level 1 inputs, and therefore are measured at fair value using inputs that are directly observable in active markets and are classified within Level 2 of the valuation hierarchy, using the income approach (See Note 17).

Our Level 3 fair value liabilities represent contingent consideration recorded related to the Ballard acquisition to be paid up to a maximum of \$5.5 million if certain revenue growth targets are met over the next five years and the Max-Viz acquisition to be paid up to a maximum of \$8.0 million if certain revenue growth targets are met over the next three years. The amounts recorded were calculated using an estimate of the probability of the future cash outflows. The varying contingent payments were then discounted to the present value utilizing a discounted cash flow methodology. The contingent consideration liabilities have no observable Level 1 or Level 2 inputs. There was no significant change in the

fair value of the liability related to the Ballard acquisition from December 31, 2011.

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## **Table of Contents**

### **On a Non-recurring Basis:**

In accordance with the provisions of ASC Topic 350 Intangibles Goodwill and Other the Company estimates the fair value of reporting units, utilizing unobservable Level 3 inputs. Level 3 inputs require significant management judgment due to the absence of quoted market prices or observable inputs for assets of a similar nature. The Company utilizes a discounted cash flow analysis to estimate the fair value of reporting units utilizing unobservable inputs. The fair value measurement of the reporting unit under the step-one and step-two analysis of the quantitative goodwill impairment test are classified as Level 3 inputs.

Intangible assets that are amortized are evaluated for recoverability whenever adverse effects or changes in circumstances indicate that the carrying value may not be recoverable. The recoverability test consists of comparing the undiscounted projected cash flows with the carrying amount. Should the carrying amount exceed undiscounted projected cash flows, an impairment loss would be recognized to the extent the carrying amount exceeds fair value. For the Company's indefinite-lived intangible asset, the impairment test consists of comparing the fair value, determined using the relief from royalty method, with its carrying amount. An impairment loss would be recognized for the carrying amount in excess of its fair value.

At September 29, 2012, the fair value of goodwill and intangible assets classified using Level 3 inputs are as follows:

Beginning January 1, 2012, previously unamortized trade names in the Test Systems segment with a fair value of \$0.4 million are now being amortized over 10 years. The fair value measurement of total amortized intangible assets in the Test Systems reporting unit is \$3.9 million. Inputs used to calculate the fair value were internal forecasts used to estimate undiscounted future cash flows. There was no change in fair value from December 31, 2011.

The Ballard goodwill and intangible assets acquired on November 30, 2011, were valued at fair value using a discounted cash flow methodology and are classified as Level 3 inputs.

The Max-Viz goodwill and intangible assets acquired on July 30, 2012, were valued at fair value using a discounted cash flow methodology and are classified as Level 3 inputs.

As of September 29, 2012, the Company concluded that no indicators of impairment relating to intangible assets or goodwill existed and an interim test was not performed.

Due to their short-term nature, the carrying value of cash and equivalents, accounts receivable, accounts payable, and notes payable approximate fair value. The carrying value of the Company's variable rate long-term debt instruments also approximates fair value due to the variable rate feature of these instruments.

### ***17) Derivative Financial Instruments***

At September 29, 2012, we had interest rate swaps consisting of the following:

- a) An interest rate swap with a notional amount of approximately \$2.2 million at September 29, 2012, entered into on February 6, 2006, related to the Company's Series 1999 New York Industrial Revenue Bond which effectively fixes the rate at 3.99% plus a spread based on the Company's leverage ratio on this obligation through February 1, 2016.
- b) An interest rate swap with a notional amount of \$6.0 million at September 29, 2012, entered into on March 19, 2009 related to the Company's term note issued January 30, 2009. The swap effectively fixes the rate at 2.115% plus a spread based on the Company's leverage ratio on the notional amount (which decreases in concert with the scheduled note repayment schedule). The swap agreement became effective October 1, 2009 and expires January 30, 2014.

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At September 29, 2012 and December 31, 2011, the fair value of interest rate swaps was a liability of \$0.3 million and \$0.4 million respectively, which is included in other long-term liabilities (See Note 16). Amounts expected to be reclassified to earnings in the next 12 months is approximately \$0.1 million.

To the extent the interest rate swaps are not perfectly effective in offsetting the change in the value of the payments being hedged; the ineffective portion of these contracts is recognized in earnings immediately as interest expense. Ineffectiveness, if any, was not significant for the three and nine months ended September 29, 2012 and October 1, 2011, respectively. The Company classifies the cash flows from hedging transactions in the same category as the cash flows from the respective hedged items. Amounts from ineffectiveness, if any, to be reclassified during 2012 are not expected to be significant.

**Table of Contents**

Activity in accumulated other comprehensive income ( AOCI ) related to these derivatives is summarized below:

(In thousands)	Nine Months Ended		Three Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Derivative balance at the beginning of the period in AOCI	\$ (256)	\$ (338)	\$ (206)	\$ (302)
Net deferral in AOCI of derivatives:				
Net (increase) decrease in fair value of derivatives	(48)	(161)	(10)	(62)
Tax effect	17	57	4	22
	(31)	(104)	(6)	(40)
Net reclassification from AOCI into earnings:				
Reclassification from AOCI into earnings interest expense	163	230	50	76
Tax effect	(56)	(81)	(18)	(27)
	107	149	32	49
Net change in derivatives for the period	76	45	26	9
Derivative balance at the end of the period in AOCI	\$ (180)	\$ (293)	\$ (180)	\$ (293)

**18) Recent Accounting Pronouncements**

The Company's management has reviewed recent accounting pronouncements issued through the date of the issuance of financial statements. In management's opinion, none of these new pronouncements apply or will have a material effect on the Company's financial statements.

**19) Acquisition**

On July 30, 2012 we completed a business combination within our aerospace segment. We acquired by merger, 100% of the stock of Max-Viz, Inc. ( Max-Viz ), a manufacturer of industry-leading Enhanced Vision Systems for defense and commercial aerospace applications for the purpose of improving situational awareness. The addition of Max-Viz diversifies the products and technologies that Astronics offers. We purchased the outstanding stock of Max-Viz for \$10.6 million in cash plus contingent purchase consideration up to a maximum of \$8.0 million subject to meeting certain revenue growth targets over the next three years. Max-Viz's unaudited 2012 revenue through the acquisition date was approximately \$5.4 million.

The additional contingent purchase consideration of \$0.1 million is recorded at its estimated fair value at the date of acquisition based upon the Company's assessment of the probability of Max-Viz achieving the revenue growth targets. The goodwill recognized is comprised primarily of intangible assets that do not require separate recognition. Substantially all of the goodwill and purchased intangible assets are expected to be deductible for tax purposes over 15 years.

The purchase price allocation for the 2012 acquisition is substantially complete. The allocation for the 2012 acquisition is subject to subsequent adjustment as we obtain additional information for our estimates during the respective measurement periods.

**20) Subsequent Events**

On October 15, 2012, the Company announced a three-for-twenty distribution of Class B Stock to holders of both Common and Class B Stock. Stockholders will receive three shares of Class B Stock for every twenty shares of Common and Class B Stock held on the record date of October 29, 2012. Fractional shares will be paid in cash. The Company expects the new shares to be distributed on or about November 12, 2012. Share information and earnings per share computations for the three and nine months ended September 29, 2012 and October 1, 2011 have been calculated assuming the stock distribution had occurred at the beginning of the earliest period presented.





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

(The following should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Form 10-K for the year ended December 31, 2011.)

**OVERVIEW**

Astronics Corporation, through its subsidiaries Astronics Advanced Electronic Systems Corp., Ballard Technology, DME Corporation, Luminescent Systems Inc., Luminescent Systems Canada Inc., and Max-Viz, Inc. designs and manufactures electrical power generation systems, control and distribution systems, lighting systems and components, aircraft safety products, avionics databus solutions, enhanced vision systems and test, training and simulation systems. The Company operates in two distinct segments, Aerospace and Test Systems and has eight principal facilities. The Company has one location in each of New York State, New Hampshire, Oregon and Quebec, Canada, and two facilities in each of Washington State, and Florida.

Our Aerospace segment serves four primary markets. They are the military, commercial transport, business jet and FAA/airport markets. We serve one primary market in the Test Systems segment, which is the military. Our strategy is to develop and maintain positions of technical leadership in chosen aerospace and test system markets, to leverage those positions to grow the amount of content and volume of product it sells to the markets in those segments and to selectively acquire businesses with similar technical capabilities that could benefit from our leadership position and strategic direction.

Key factors affecting our growth and profitability are the rate at which new aircraft are produced, government funding of military programs, our ability to have our products designed into the plans for new aircraft and the rates at which aircraft owners, including commercial airlines, refurbish or install upgrades to their aircraft. Once designed into a new aircraft, the spare parts business is frequently retained by the Company. We continue to look for opportunities in all of our markets to capitalize on our core competencies to expand our existing business and to grow through strategic acquisitions.

**ACQUISITIONS**

On July 30, 2012 we acquired by merger, 100% of the stock of Max-Viz, Inc. ( Max-Viz ) a manufacturer of industry-leading enhanced vision systems for defense and commercial aerospace applications for the purpose of improving situational awareness. Max-Viz will be included in our aerospace reporting segment. The addition of Max-Viz diversifies the products and technologies that Astronics offers. We acquired Max-Viz for \$10.6 million in cash plus contingent purchase consideration up to a maximum of \$8.0 million subject to meeting certain revenue growth targets over the next three years. The additional purchase consideration is recorded at its estimated fair value of \$0.1 million at the date of acquisition based upon the Company's assessment of the probability of Max-Viz achieving the revenue growth targets.

**CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK**

(Dollars in thousands)	Nine Months Ended		Three Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Sales	\$ 199,026	\$ 167,007	\$ 68,899	\$ 56,404
Gross Profit	\$ 51,891	\$ 43,147	\$ 16,717	\$ 14,255
Gross Profit Percentage	26.1%	25.8%	24.3%	25.3%
SG&A Expenses as a Percentage of Sales	13.7%	11.9%	13.2%	11.3%
Interest Expense, net of interest income	\$ 803	\$ 1,461	\$ 274	\$ 390
Effective Tax Rate	32.1%	24.8%	33.2%	11.2%
Net Earnings	\$ 16,219	\$ 16,422	\$ 4,930	\$ 6,665

A discussion by segment can be found at Segment Results of Operations and Outlook in this MD&A.

Our consolidated sales for the third quarter of 2012 increased by 22.2% to \$68.9 million compared with \$56.4 million for the same period last year. Aerospace sales increased by \$12.3 million and Test Systems sales increased by \$0.2 million. Consolidated sales for the first nine months of 2012 increased by 19.2% to \$199.0 million compared with \$167.0 million for the same period last year. Aerospace sales increased by \$34.5 million while Test Systems sales decreased by \$2.5 million in the first nine months of 2012.



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**Table of Contents**

Consolidated gross margin decreased to 24.3% in the third quarter of 2012 compared with 25.3% in the third quarter of 2011. The lower gross margin was a result of increased engineering and development ( E&D ) costs and increases to our inventory and warranty reserves partially offset by the leverage achieved from the increased sales as compared with the 2011 third quarter. E&D costs were \$12.8 million in the third quarter of 2012 compared with \$9.5 million in the same period of 2011, an increase of \$3.3 million. Expense relating to warranty and inventory reserves resulted in an increase of \$1.0 million for these costs compared with the 2011 third quarter. Year-to-date consolidated gross margin improved slightly to 26.1% in the first nine months of 2012 compared with 25.8% in the first nine months of 2011. The improved margins for the first nine months were a result of leverage that was achieved from increased sales volumes partially offset by increased E&D costs and increases to our inventory and warranty reserves. E&D costs were \$33.9 million in the first nine months of 2012 compared with \$26.6 million in the same period of 2011, an increase of \$7.3 million. Expense relating to warranty and inventory reserves resulted in an increase of \$1.1 million for these costs compared with the same period of 2011. We expect our full year consolidated E&D expenses for 2012 to be in the range of \$44 million to \$46 million.

Selling, general and administrative ( SG&A ) expenses were approximately \$9.1 million, or 13.2% of sales in the third quarter of 2012 compared with \$6.4 million, or 11.3% of sales in the same period last year. The increase was due primarily to the November 2011 acquisition of Ballard Technology ( Ballard ) and the July 30, 2012 acquisition of Max-Viz, which added \$1.0 million and \$0.9 million respectively, to SG&A as well as increased compensation costs. Amortization expense relating to the purchased intangible assets of Max-Viz and Ballard totaled \$0.9 million in the third quarter of 2012. For the first nine months of 2012, SG&A expenses were approximately \$27.2 million, or 13.7% of sales, compared with \$19.8 million, or 11.9% of sales in the same period last year. The increase was due primarily to the acquisition of Ballard and Max-Viz, which added \$3.5 million and \$0.9 million respectively, to SG&A in the first nine months of 2012 as well as increased compensation and legal costs in the period. Amortization expense relating to the purchased intangible assets of Max-Viz and Ballard totaled \$1.3 million in the first nine months of 2012.

Interest expense, net of interest income for the third quarter decreased by \$0.1 million from \$0.4 million to \$0.3 million and for the first nine months decreased by \$0.7 million from \$1.5 million to \$0.8 million. The decrease in interest for both the third quarter and the nine months of 2012 was due primarily to a combination of lower interest rates and reduced average debt levels when compared with the same periods last year.

The effective tax rates for the three and nine month periods ended September 29, 2012 were 33.2% and 32.1 %, respectively, lower than would be expected by applying the U.S. federal statutory tax rate to earnings before income taxes. The effective tax rates for third quarter and first nine months of 2012 were lower than the federal statutory rate, due to the domestic production activity deduction, lower tax rates on foreign income and foreign Research & Development ( R&D ) tax credits. The effective tax rates for the three and nine month periods ended October 1, 2011 were 11.2% and 24.8 % respectively, lower than the federal statutory rate, due to the domestic production activity deduction, a lower tax rate on foreign income and the impact of domestic R&D tax credits.

Net income for the third quarter of 2012 was \$4.9 million or \$0.33 per diluted share, a decrease of \$1.8 million from \$6.7 million, or \$0.45 per diluted share in the third quarter of 2011. For the first nine months of 2012, net income was \$16.2 million or \$1.07 per diluted share which is a decrease of \$0.2 million when compared to \$16.4 million, or \$1.11 per diluted share in the first nine months of 2011. The earnings per share decrease in the third quarter and first nine months of 2012 when compared with the same periods in 2011 is due to the change in net income. Earnings per share for all periods presented have been calculated reflecting the effect of the 15% Class B share distribution for shareholders of record on October 29, 2012.

**Table of Contents****SEGMENT RESULTS OF OPERATIONS AND OUTLOOK**

Operating profit, as presented below, is sales less cost of sales and other operating expenses, excluding interest expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment. Operating profit is reconciled to earnings before income taxes in Note 15 of the Notes to Consolidated Condensed Financial Statements included in this report.

**AEROSPACE**

(In thousands)	Nine Months Ended		Three Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Sales	\$ 190,212	\$ 155,650	\$ 65,788	\$ 53,509
Operating profit	\$ 33,358	\$ 28,223	\$ 10,577	\$ 9,897
Operating Margin	17.5%	18.1%	16.1%	18.5%

	September 29, 2012	December 31, 2011
Total Assets	\$ 173,261	\$ 136,930
Backlog	\$ 110,045	\$ 97,903

**Aerospace Sales by Market**

(In thousands)	Nine Months Ended		Three Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Commercial Transport	\$ 133,220	\$ 102,456	\$ 47,933	\$ 35,259
Military	27,813	25,916	8,733	8,737
Business Jet	21,773	20,425	6,835	6,363
FAA/Airport	7,406	6,853	2,287	3,150
	\$ 190,212	\$ 155,650	\$ 65,788	\$ 53,509

**Aerospace Sales by Product Line**

(In thousands)	Nine Months Ended		Three Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Cabin Electronics	\$ 104,056	\$ 81,352	\$ 37,802	\$ 28,403
Aircraft Lighting	54,520	52,657	17,221	16,936
Airframe Power	14,077	14,788	4,366	5,020
Avionics	10,153		4,112	
Airfield Lighting	7,406	6,853	2,287	3,150
	\$ 190,212	\$ 155,650	\$ 65,788	\$ 53,509

In the third quarter, sales to the Commercial Transport market increased primarily on higher demand for cabin electronics products as global demand for passenger power systems continued to be strong. Increased sales of aircraft lighting and airframe power to the Commercial Transport market as well as the addition of Ballard's avionics databus products also contributed to the increased sales to this market. Military sales were flat when compared with the prior year's third quarter as databus sales from the Ballard acquisition offset lower aircraft lighting and airframe power sales to this market. Sales to the Business Jet market were up slightly when compared with last year's third quarter as higher

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aircraft lighting sales and the addition of Max-Viz's enhanced vision systems sales were partially offset by a decrease in airframe power sales to this market. The decrease in third quarter FAA/Airport sales was due to decreased volume from the FAA during the quarter. The avionics product line is comprised of Max-Viz, acquired on July 30, 2012 and Ballard, acquired on November 30, 2011.

In the first nine months of 2012, sales to the Commercial Transport market increased primarily on higher demand for cabin electronics products as global demand for passenger power systems continued to be strong. Additionally, increased sales of aircraft lighting, airframe power and the addition of Ballard's avionics databus products all contributed to the increased sales to this market. Military sales in the first nine months were up compared with last year primarily as a result of the addition of avionics databus

**Table of Contents**

products offset by lower sales of aircraft lighting products and airframe power products to this market. Sales to the Business Jet market were up when compared with the first nine months of last year as increased aircraft lighting sales and the addition of enhanced vision systems sales were partially offset by lower airframe power sales to this market. FAA/Airport sales in the first nine months were higher as compared with last year from increased volume.

Aerospace operating profit for the third quarter of 2012 was \$10.6 million, or 16.1% of sales, compared with \$9.9 million, or 18.5% of sales, in the same period last year. The increase in the operating profit was due to leverage from the increased sales volume partially offset by increased E&D costs and increased compensation costs. SG&A expense increased from 2011 primarily due to the acquisitions of Ballard and Max-Viz, which added \$1.9 million to SG&A in the third quarter of 2012 as well as increased compensation costs when compared with the prior year's third quarter.

Aerospace operating profit for the first nine months of 2012 was \$33.4 million, or 17.5% of sales, compared with \$28.2 million, or 18.1% of sales, in the same period last year. The decrease in the operating profit was due to leverage from the increased sales volume partially offset by increased E&D costs and increased compensation and legal expense. The increased SG&A expense for the first nine months of 2012 was due primarily to the acquisitions of Ballard and Max-Viz, which added \$4.4 million, as well as increased compensation expenses and increased legal expenses. Legal expenses increased by \$0.4 million when compared with the prior year.

**2012 Outlook for Aerospace** We expect 2012 sales for our Aerospace segment to be in the range of \$257 million to \$263 million. The Aerospace segment's backlog at the end of the third quarter of 2012 was \$110.0 million with approximately \$64.5 million expected to be shipped over the remaining part of 2012 and \$96.7 million is expected to ship over the next 12 months.

**TEST SYSTEMS**

(In thousands)	Nine Months Ended		Three Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Sales	\$ 8,814	\$ 11,357	\$ 3,111	\$ 2,895
Operating loss	\$ (3,525)	\$ (1,360)	\$ (1,132)	\$ (832)
Operating Margin	(40.0)%	(12.0)%	(36.4)%	(28.7)%

	September 29, 2012	December 31, 2011
Total Assets	\$ 18,349	\$ 20,020
Backlog	\$ 5,537	\$ 8,409

All sales for the Test Systems segment are from the Military Market.

Sales in the 2012 third quarter increased slightly by \$0.2 million to \$3.1 million when compared with sales of \$2.9 million for the same period in 2011. Sales for the first nine months of 2012 decreased \$2.6 million to \$8.8 million when compared with sales of \$11.4 million for the same period in 2011.

Test Systems operating loss for the third quarter of 2012 was \$1.1 million or (36.4)%, compared with \$0.8 million or (28.7)% in the same period last year. The operating loss for the first nine months of 2012 was \$3.5 million or (40.0)%, compared with a loss of \$1.4 million or (12.0)% in the same nine month period last year. The margins for both the third quarter and first nine months of 2012 from the low sales volumes were not sufficient to cover fixed operating costs.

**2012 Outlook for Test Systems** We expect sales for the Test Systems segment for 2012 to be in the range of \$10 million to \$12 million. The Test Systems segment's backlog at the end of the third quarter of 2012 was \$5.5 million with approximately \$2.7 million scheduled to be shipped over the remaining part of 2012 and \$5.5 million scheduled to ship over the next 12 months.

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**Table of Contents**

***LIQUIDITY AND CAPITAL RESOURCES***

Cash provided by operating activities totaled \$17.1 million during the first nine months of 2012, as compared with \$12.9 million during the first nine months of 2011. Cash flow from operating activities improved primarily as cash used to increase net operating assets for the first nine months of 2012 was lower than the same period of 2011. Additionally, non cash expense items increased as compared with the same period of 2011.

Cash used for investing activities was \$21.1 million in the first nine months of 2012 compared with \$12.9 million used in the first nine months of 2011. On July 30, 2012, we acquired Max-Viz for approximately \$10.6 million, net of Max-Viz's cash. Capital expenditures for the first nine months of 2012 were \$10.6 million, of which approximately \$7.3 million relates to the completion of our Kirkland Washington building. Astronics Advanced Electronic Systems plans on moving into that building near the end of 2012. In the first nine months of 2011 we acquired real estate in Fort Lauderdale, Florida where our Fort Lauderdale facility is located as well as the aforementioned Kirkland Washington property for approximately \$10.1 million.

In the first nine months of 2012 cash provided by financing activities totaled \$0.7 million compared with cash used by financing activities of \$2.1 million in the first nine months of 2011. The change was due primarily to net proceeds from the use of our revolving credit facility of \$9 million for the purchase of Max-Viz and the early payoff of the \$5.0 million subordinated promissory note in January, 2012.

The Company expects capital spending in 2012 to be approximately \$20 million to \$21 million including the completion of the build out and occupation of the Kirkland property. Management believes that the Company's cash flow from operations and revolving credit facility will be sufficient to provide funding for future capital requirements.

There was \$9.0 million balance outstanding on our revolving credit facility at September 29, 2012. The revolving credit facility provides for borrowing up to \$35.0 million. The credit facility allocates up to \$20 million of the revolving credit line for the issuance of letters of credit. At September 29, 2012 letters of credit totaling approximately \$10.8 million were supported by the credit facility. The Company had available borrowing capacity on its credit facility totaling \$15.2 million and \$22.9 million at September 29, 2012 and December 31, 2011, respectively. At September 29, 2012, we were in compliance with all of the covenants pursuant to the credit facility.

In the event of voluntary or involuntary bankruptcy of the Company or any subsidiary, all unpaid principal and other amounts owing under the Credit Agreement automatically become due and payable. Other events of default, such as failure to make payments as they become due and breach of financial and other covenants, give the Agent the option to declare all such amounts immediately due and payable.

***BACKLOG***

The Company's backlog at September 29, 2012 was \$115.6 million compared with \$106.3 million at December 31, 2011 and \$110.2 million at October 1, 2011.

***CONTRACTUAL OBLIGATIONS AND COMMITMENTS***

Company's contractual obligations and commercial commitments have not changed materially from those disclosed in the Company's Form 10-K for the year ended December 31, 2011.

***MARKET RISK***

The Company believes that there have been no material changes in the current year regarding the market risk information for its exposure to currency exchange rates or interest rate fluctuations. Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2011 for a complete discussion of the Company's market risk.

***CRITICAL ACCOUNTING POLICIES***

Refer to the Company's annual report on Form 10-K for the year ended December 31, 2011 for a complete discussion of the Company's critical accounting policies.

***RECENT ACCOUNTING PRONOUNCEMENTS***

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See Part 1, Note 1 and Note 18 to the Financial Statements Basis of Presentation, Accounting Pronouncements Adopted in 2012.



**Table of Contents**

***FORWARD-LOOKING STATEMENTS***

This Quarterly Report contains certain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involves uncertainties and risks. These statements are identified by the use of the may, will, should, believes, expects, expected, intentions, plans, projects, estimates, predicts, potential, outlook, forecast, anticipates, presume and assume, and words of similar import. We cautioned not to place undue reliance on these forward looking statements as various uncertainties and risks could cause actual results to differ materially from those anticipated in these statements. These uncertainties and risks include the success of the Company with effectively executing its plans; successfully integrating its acquisitions; the timeliness of product deliveries by vendors and other vendor performance issues; changes in demand for our products from the U.S. government and other customers; the acceptance by the market of new products developed; our success in cross-selling products to different customers and markets; changes in government contracts; the state of the commercial and business jet aerospace market; the Company's success at increasing the content on current and new aircraft platforms; the level of aircraft build rates; as well as other general economic conditions and other factors. Certain of these factors, risks and uncertainties are discussed in the sections of this report entitled Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

See Market Risk in Item 2, above.

**Item 4. Controls and Procedures**

- a) The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of September 29, 2012. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 29, 2012.
  
- b) Changes in Internal Control over Financial Reporting - There have been no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

The Company is subject to various legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect these matters will have a material adverse effect on our business, financial position, results of operations, or cash flows. However, the results of these matters cannot be predicted with certainty. Should the Company fail to prevail in any legal matter or should several legal matters be resolved against the Company in the same reporting period, then the financial results of that particular reporting period could be materially adversely affected.

On November 11, 2010, AE Liquidation Inc. filed an action in the United States Bankruptcy Court for the District of Delaware (*AE Liquidation, Inc., et al v. Luminescent Systems Inc., and AE Liquidation, Inc., et al., v Astronics Advanced Electronic Systems Corp.*) seeking to recover \$1.4 million of alleged preferential payments received from Eclipse Aviation Corporation. The Company disputes the Trustee's allegations and believes any loss, as a result of future proceedings would not have a material adverse effect on our business. We intend to defend this claim vigorously.

We are a defendant in an action filed in the Regional State Court of Mannheim, Germany (Lufthansa Technik AG v. Astronics Advanced Electronics Systems Corp.) relating to an allegation of patent infringement. The damages sought include injunctive relief, as well as monetary damages. We dispute the allegation and intend to vigorously defend ourselves in this action. We have filed a nullity action with the Federal Patent Court in Munich Germany, requesting the court to revoke the German part of the European patent that is subject to the claim. In November 2011, the regional state court of Mannheim Germany, issued an interim decision to the effect that the infringement litigation proceedings be stayed until the Federal Patent Court decides on the concurrent nullity action. At this time we are unable to provide a reasonable estimate of our potential liability or the potential amount of loss related to this action, if any. If the outcome of this litigation is adverse to us, our results and financial condition could be materially affected.

**Item 1a Risk Factors**

In addition to other information set forth in this report, you should carefully consider the factors discussed in Part 1, Item 1A. Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or results of operations. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations.

The Company has a significant concentration of business with two customers, Panasonic Avionics Corporation and the US Government, where a significant reduction in sales would negatively impact our sales and earnings. We provide Panasonic with cabin electronics products which, in total were approximately 38% of revenue during the first nine months of 2012. We provide the US Government with military products which, in total were approximately 7% of revenue during the first nine months of 2012.

**Table of Contents****Item 2. Unregistered sales of equity securities and use of proceeds**

(c) The following table summarizes the Company's purchases of its common stock for the quarter ended September 29, 2012:

Period	(a) Total number of shares Purchased(1)	(b) Average Price Paid per Share	(c) Total number of shares Purchased as part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2012 - July 28, 2012				
July 29, 2012 - August 25, 2012				
August 26, 2012 - September 29, 2012	3,833	29.20		
Total				

(1) In connection with the exercise of stock options, we accept, from time to time, delivery of shares to pay the exercise price of stock options. August 27, 2012, we accepted delivery of 3,833 shares at \$29.20 in connection with the exercise of stock options.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

**Item 6 Exhibits**

Exhibit 31.1	Section 302 Certification - Chief Executive Officer
Exhibit 31.2	Section 302 Certification - Chief Financial Officer
Exhibit 32.	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.1*	Instance Document
Exhibit 101.2*	Schema Document
Exhibit 101.3*	Calculation Linkbase Document
Exhibit 101.4*	Labels Linkbase Document
Exhibit 101.5*	Presentation Linkbase Document
Exhibit 101.6*	Definition Linkbase Document

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\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

**Table of Contents**

**SIGNATURES**

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

**ASTRONICS CORPORATION**  
(Registrant)

Date: November 7, 2012

By: /s/ David C. Burney  
David C. Burney

Vice President-Finance and Treasurer

(Principal Financial Officer)