

ASTRONICS CORP  
Form 10-K  
March 07, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

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

**For the Fiscal Year Ended December 31, 2011**

**Commission File Number 0-7087**

**Astronics Corporation**

(Exact Name of Registrant as Specified in its Charter)

**New York**  
(State or other jurisdiction of  
incorporation or organization)

**16-0959303**  
(I.R.S. Employer  
Identification No.)

**130 Commerce Way, East Aurora, N.Y. 14052**

(Address of principal executive office)

**Registrant's telephone number, including area code (716) 805-1599**

**Securities registered pursuant to Section 12(b) of the Act: None**

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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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by 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 (§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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. 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):

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 Act). Yes  No

As of February 17, 2012, 12,357,943 shares were outstanding, consisting of 9,571,089 shares of Common Stock \$.01 Par Value and 2,786,854 shares of Class B Stock \$.01 Par Value. The aggregate market value, as of the last business day of the Company's most recently completed second fiscal quarter, of the shares of Common Stock and Class B Stock of Astronics Corporation held by non-affiliates was approximately \$220,175,000 (assuming conversion of all of the outstanding Class B Stock into Common Stock and assuming the affiliates of the Registrant to be its directors, executive officers and persons known to the Registrant to beneficially own more than 10% of the outstanding capital stock of the Corporation).

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company's Proxy Statement for the 2012 Annual Meeting of Shareholders to be held May 2, 2012 are incorporated by reference into Part III of this Report.



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**FORWARD LOOKING STATEMENTS**

This Annual 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, intends, projects, estimates, predicts, potential, outlook, forecast, anticipates, presume and assume, and words of similar import. Readers 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; 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."

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**PART I**

**ITEM 1. BUSINESS**

Astronics is a leading supplier of products to the aerospace and defense industries. Our products include advanced, high-performance lighting systems, electrical power generation systems, aircraft safety systems, electrical power distribution systems and avionics databus products for the global aerospace industry as well as test, training and simulation systems primarily for the military.

We have seven primary locations, six in the United States and one in Canada. We design and build our products through our wholly owned subsidiaries Astronics Advanced Electronic Systems Corp., Ballard Technology, Inc., DME Corporation, Luminescent Systems, Inc. and Luminescent Systems Canada, Inc. We have two reportable segments, Aerospace and Test Systems.

**Products and Customers**

Our Aerospace segment designs and manufactures products for the global aerospace industry. Product lines include Aircraft Lighting, Cabin Electronics, Airframe Power, Avionics Databus Products and Airfield Lighting. Our Aerospace customers are the airframe manufacturers (OEMs) that build aircraft for the commercial, military and general aviation markets, suppliers to those OEMs, aircraft operators such as airlines and branches of the U.S. Department of Defense as well as the Federal Aviation Administration and airport operators. During 2011, this segment's sales were divided 67% to the commercial transport market, 17% to the military aircraft market, 12% to the business jet market and 4% to the FAA/airport market. Most of this segment's sales are a result of contracts or purchase orders received from customers, placed on a day-to-day basis or for single year procurements rather than long-term multi-year contract commitments. On occasion the Company does receive contractual commitments or blanket purchase orders from our customers covering multiple year deliveries of hardware to our customers.

Our Test Systems segment designs, develops, manufactures and maintains communications and weapons test systems and training and simulation devices for military applications. In the Test Systems Segment, Astronics' products are sold primarily to the U.S. military, foreign militaries and manufacturers of military communication systems. During 2011, this segment's sales were all to the military markets. This segment's revenue is a result of long-term, primarily fixed price contracts and is recognized 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. We make significant estimates involving usage of percentage-of-completion accounting to recognize contract revenues. We periodically review contracts in process for estimates-to-completion, and revise estimated gross profit accordingly. While we believe our 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 us to revise our estimated gross profit on one or more of our contracts in process. Accordingly, the ultimate gross profit realized upon completion of such contracts can vary significantly from estimated amounts between accounting periods.

Sales by Segment, Geographic Region, Major Customer and Canadian Operations are provided in Note 18 of Item 8, Financial Statements and Supplementary Data in this report.

We have a significant concentration of business with two major customers, Panasonic Avionics Corporation and to various Department of Defense branches of the U.S. Government. Sales to Panasonic Avionics accounted for 35.7% of sales in 2011, 26.5% of sales in 2010 and 19.4% of sales in 2009. Accounts receivable from this customer at December 31, 2011 and 2010 were \$9.9 million and \$6.5 million, respectively. Sales to the U.S. Government accounted for 9.0% of sales in 2011, 15.0% of sales in 2010 and 19.5% of sales in 2009. Accounts receivable from this customer at December 31, 2011 and 2010 were \$3.8 million and \$7.0 million, respectively.

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### **Strategy**

Our strategy is to develop and maintain positions of technical leadership in our chosen aerospace and defense markets, to leverage those positions to grow the amount of content and volume of product sold to those markets and to selectively acquire businesses with similar technical capabilities that could benefit from our leadership position and strategic direction.

### **Practices as to Maintaining Working Capital**

Liquidity is discussed in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in the Liquidity section of this report.

### **Competitive Conditions**

We experience considerable competition in the market sectors we serve, principally with respect to product performance and price, from various competitors, many of which are substantially larger and have greater resources. Success in the markets we serve depends upon product innovation, customer support, responsiveness, and cost management. We continue to invest in developing the technologies and engineering support critical to competing in our markets.

### **Government Contracts**

All U.S. Government contracts, including subcontracts where the U.S. Government is the ultimate customer, may be subject to termination at the election of the government. Our revenue stream relies on military spending, as a significant portion of the Test Systems' revenue is derived from military applications.

### **Raw Materials**

Materials, supplies and components are purchased from numerous sources. We believe that the loss of any one source, although potentially disruptive in the short-term, would not materially affect our operations in the long-term.

### **Seasonality**

Our business is typically not seasonal.

### **Backlog**

At December 31, 2011, our backlog was approximately \$106.3 million. At December 31, 2010, our backlog was approximately \$99.8 million. Backlog in the Aerospace segment was approximately \$97.9 million and \$91.6 million at December 31, 2011 and 2010, respectively. Approximately \$84.1 million for the December 31, 2011 backlog is expected to be realized in 2012. Backlog in the Test Systems segment was approximately \$8.4 million at December 31, 2011 of which approximately \$8.1 million is expected to be realized in 2012.

### **Patents**

We have a number of patents. While the aggregate protection of these patents is of value, our only material business that is dependent upon the protection afforded by these patents is our cabin power distribution product. Our patents and patent applications relate to electroluminescence, instrument panels, keyboard technology and a broad patent covering the cabin power distribution technology. We regard our expertise and techniques as proprietary and rely upon trade secret laws and contractual arrangements to protect our rights. We have trademark protection in major markets.

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### **Research, Development and Engineering Activities**

We are 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 our existing technologies. These costs are expensed when incurred and included in cost of sales. Research and development and engineering costs amounted to approximately \$36.1 million in 2011, \$28.3 million in 2010 and \$27.0 million in 2009.

### **Employees**

We employed 1,081 employees as of December 31, 2011. We consider our relations with our employees to be good. None of our employees are subject to collective bargaining agreements.

### **Stock Distribution**

On August 2, 2011, we announced a one-for-ten distribution of Class B Stock to holders of both Common and Class B Stock. On or about August 30, 2011, stockholders received one share of Class B Stock for every ten shares of Common and Class B Stock held on the record date of August 16, 2011. All share quantities, share prices and per share data reported throughout this report have been adjusted to reflect the impact of this distribution.

### **Available information**

We file our financial information and other materials as electronically required by the SEC with the SEC. These materials can be accessed electronically via the Internet at [www.sec.gov](http://www.sec.gov). Such materials and other information about the Company are also available through our website at [www.astronics.com](http://www.astronics.com).



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**ITEM 1A. RISK FACTORS**

**The loss of Panasonic Avionics Corporation or the U. S. Government as major customers or a significant reduction in sales to either or both of those two customers would reduce our sales and earnings.** In 2011 we had a concentration of sales to Panasonic representing approximately 35.7% of our sales and to the U.S. Government representing approximately 9.0% of our sales. The loss of one or both of these customers or a significant reduction in sales to them would significantly reduce our sales and earnings.

**The amount of debt we have outstanding, as well as any debt we may incur in the future, could have an adverse effect on our operational and financial flexibility.** As of December 31, 2011, we had \$33.3 million of debt outstanding, of which \$28.0 million is long-term debt. Changes to our level of debt subsequent to December 31, 2011 could have significant consequences to our business, including the following:

Depending on interest rates and debt maturities, a substantial portion of our cash flow from operations could be dedicated to paying principal and interest on our debt, thereby reducing funds available for our acquisition strategy, capital expenditures or other purposes;

A significant amount of debt could make us more vulnerable to changes in economic conditions or increases in prevailing interest rates;

Our ability to obtain additional financing for acquisitions, capital expenditures or for other purposes could be impaired;

The increase in the amount of debt we have outstanding increases the risk of non-compliance with some of the covenants in our debt agreements which require us to maintain specified financial ratios; and

We may be more leveraged than some of our competitors, which may result in a competitive disadvantage.

**We are subject to debt covenant restrictions.** Our credit facility contains several financial and other restrictive covenants. A significant decline in our operating income could cause us to violate our maximum leverage ratio or fixed charge ratio. A covenant violation would require a waiver by the lenders or an alternative financing arrangement to be achieved. This could result in our being unable to borrow under our bank credit facility or being obliged to refinance and renegotiate the terms of our bank indebtedness. Historically both choices have been available to us however it is difficult to predict the availability of these options in the future.

**Our future operating results could be impacted by estimates used to calculate impairment losses on long term assets.** The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires Management to make significant and subjective estimates and assumptions that may affect the reported amounts of long term assets in the financial statements. These estimates are integral in the determination of whether a potential impairment loss exists as well as the calculation of that loss. Actual future results could differ from those estimates.

**A write-off of all or part of our goodwill or other intangible assets could adversely affect our operating results, net worth and cause us to violate covenants in our bank credit facility.** At December 31, 2011, goodwill and purchased intangible assets were approximately 9.8% and approximately 8.0% of our total assets respectively. Our goodwill and other intangible assets may increase in the future since our strategy includes growing through acquisitions. We may have to write off all or part of our goodwill or purchased intangible assets if their value becomes impaired. Although this write-off would be a non-cash charge, it could reduce our earnings and net worth significantly.

**The markets we serve are cyclical and sensitive to domestic and foreign economic conditions and events, which may cause our operating results to fluctuate.** In our Aerospace segment, demand by the business jet markets for our products is dependent upon several factors, including capital investment, product

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innovations, economic growth and wealth creation, and technology upgrades. In addition, the commercial airline industry is highly cyclical and sensitive to fuel price increases, labor disputes, global economic conditions, availability of capital to fund new aircraft purchases and upgrades of existing aircraft and passenger demand. A change in any of these factors could result in a reduction in the amount of air travel and the ability of airlines to invest in new aircraft or to upgrade existing aircraft. These factors would reduce orders for new aircraft and would likely reduce airlines spending for cabin upgrades for which we supply products, thus reducing our sales and profits. A reduction in air travel may also result in our commercial airline customers being unable to pay our invoices on a timely basis or not at all.

We are a supplier on various new aircraft programs just entering or expected to begin production in the future such as the Boeing 787, F-35 Joint Strike Fighter and Lear 85. As with any new program there is risk as to whether the aircraft or program will be successful and accepted by the market. As is customary for our business we purchase inventory and invest in specific capital equipment to support our production requirements generally based on delivery schedules provided by our customer. If a program or aircraft is not successful we may have to write off all or a part of the inventory, accounts receivable and capital equipment related to the program. A write off of these assets could result in a significant reduction of earnings and cause covenant violations relating to our debt agreements. This could result in our being unable to borrow additional funds under our bank credit facility or being obliged to refinance or renegotiate the terms of our bank indebtedness.

In our Test Systems segment, demand for our products is dependent upon several factors, including government funding levels for our products, our ability to compete successfully for those contracts and our ability to develop products to satisfy the demands of our customers. A change in any of these factors could result in a reduction of our sales and profits.

**Our products are sold in highly competitive markets.** Some of our competitors are larger; more diversified corporations and have greater financial, marketing, production and research and development resources. As a result, they may be better able to withstand the effects of periodic economic downturns. Our operations and financial performance will be negatively impacted if our competitors:

Develop products that are superior to our products;

Develop products that are more competitively priced than our products;

Develop methods of more efficiently and effectively providing products and services or

Adapt more quickly than we do to new technologies or evolving customer requirements.

We believe that the principal points of competition in our markets are product quality, price, design and engineering capabilities, product development, conformity to customer specifications, quality of support after the sale, timeliness of delivery and effectiveness of the distribution organization. Maintaining and improving our competitive position will require continued investment in manufacturing, engineering, quality standards, marketing, customer service and support and our distribution networks. If we do not maintain sufficient resources to make these investments, or are not successful in maintaining our competitive position, our operations and financial performance will suffer.

**Our future success depends to a significant degree upon the continued contributions of our management team and technical personnel.**

The loss of members of our management team could have a material and adverse effect on our business. In addition, competition for qualified technical personnel in our industry is intense, and we believe that our future growth and success will depend on our ability to attract, train and retain such personnel.

**Future terror attacks, war, or other civil disturbances could negatively impact our business.** Continued terror attacks, war or other disturbances could lead to further economic instability and decreases in demand for our products, which could negatively impact our business, financial condition and results of operations. Terrorist attacks world-wide have caused instability from time to time in global financial markets and the aviation

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industry. The long-term effects of terrorist attacks on us are unknown. These attacks and the U.S. Government's continued efforts against terrorist organizations may lead to additional armed hostilities or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may further contribute to economic instability.

**If we are unable to adapt to technological change, demand for our products may be reduced.** The technologies related to our products have undergone, and in the future may undergo, significant changes. To succeed in the future, we will need to continue to design, develop, manufacture, assemble, test, market and support new products and enhancements on a timely and cost effective basis. Our competitors may develop technologies and products that are more effective than those we develop or that render our technology and products obsolete or uncompetitive. Furthermore, our products could become unmarketable if new industry standards emerge. We may have to modify our products significantly in the future to remain competitive, and new products we introduce may not be accepted by our customers.

**Our new product development efforts may not be successful, which would result in a reduction in our sales and earnings.** We may experience difficulties that could delay or prevent the successful development of new products or product enhancements, and new products or product enhancements may not be accepted by our customers. In addition, the development expenses we incur may exceed our cost estimates, and new products we develop may not generate sales sufficient to offset our costs. If any of these events occur, our sales and profits could be adversely affected.

**We depend on government contracts and subcontracts with defense prime contractors and sub contractors that may not be fully funded, may be terminated, or may be awarded to our competitors. The failure to be awarded these contracts or failure to receive funding or the termination of one or more of these contracts could reduce our sales.** Sales to the U.S. Government and its prime contractors and subcontractors represent a significant portion of our business. The funding of these programs is generally subject to annual congressional appropriations, and congressional priorities are subject to change. In addition, government expenditures for defense programs may decline or these defense programs may be terminated. A decline in governmental expenditures or the termination of existing contracts may result in a reduction in the volume of contracts awarded to us. We have resources applied to specific government contracts and if any of those contracts were terminated, we may incur substantial costs redeploying those resources.

**If our subcontractors or suppliers fail to perform their contractual obligations, our prime contract performance and our ability to obtain future business could be materially and adversely impacted.** Many of our contracts involve subcontracts with other companies upon which we rely to perform a portion of the services we must provide to our customers. There is a risk that we may have disputes with our subcontractors, including disputes regarding the quality and timeliness of work performed by the subcontractor or customer concerns about the subcontractor. Failure by our subcontractors to satisfactorily provide on a timely basis the agreed-upon supplies or perform the agreed-upon services may materially and adversely impact our ability to perform our obligations with our customer. Subcontractor performance deficiencies could result in a customer terminating our contract for default. A default termination could expose us to liability and substantially impair our ability to compete for future contracts and orders. In addition, a delay in our ability to obtain components and equipment parts from our suppliers may affect our ability to meet our customers' needs and may have an adverse effect upon our profitability.

**Our results of operations are affected by our fixed-price contracts, which could subject us to losses in the event that we have cost overruns.** For the year ended December 31, 2011, fixed-price contracts represented almost all of the Company's sales. On fixed-price contracts, we agree to perform the scope of work specified in the contract for a predetermined price. Depending on the fixed price negotiated, these contracts may provide us with an opportunity to achieve higher profits based on the relationship between our costs and the contract's fixed price. However, we bear the risk that increased or unexpected costs may reduce our profit.

**Some of our contracts contain late delivery penalties.** Failure to deliver in a timely manner due to supplier problems, development schedule slides, manufacturing difficulties, or similar schedule related events could have a material adverse effect on our business.

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**The failure of our products may damage our reputation, necessitate a product recall or result in claims against us that exceed our insurance coverage, thereby requiring us to pay significant damages.** Defects in the design and manufacture of our products may necessitate a product recall. We include complex system design and components in our products that could contain errors or defects, particularly when we incorporate new technology into our products. If any of our products are defective, we could be required to redesign or recall those products or pay substantial damages or warranty claims. Such an event could result in significant expenses, disrupt sales and affect our reputation and that of our products. We are also exposed to product liability claims. We carry aircraft and non-aircraft product liability insurance consistent with industry norms. However, this insurance coverage may not be sufficient to fully cover the payment of any potential claim. A product recall or a product liability claim not covered by insurance could have a material adverse effect on our business, financial condition and results of operations.

**Our facilities could be damaged by catastrophes which could reduce our production capacity and result in a loss of customers.** We conduct our operations in facilities located throughout the United States and Canada. These facilities could be damaged by fire, floods, high winds, earthquakes, power loss, telecommunication and information systems failure or similar events. Although we carry property insurance, including business interruption insurance, our inability to meet customers' schedules as a result of catastrophe may result in a loss of customers or significant additional costs such as penalty claims under customer contracts.

**Changes in discount rates and other estimates could affect our future earnings and equity.** Pension obligations and the related costs are determined using actual results and actuarial valuations that involve several assumptions. The most critical assumption is the discount rate. Other assumptions include salary increases and retirement age. The discount rate assumptions are based on current market conditions and are outside of our control. Changes in these assumptions could affect our future earnings and equity.

**We are subject to financing and interest rate exposure risks that could adversely affect our business, liquidity and operating results.** Changes in the availability, terms and cost of capital, increases in interest rates or a reduction in credit rating could cause our cost of doing business to increase and place us at a competitive disadvantage. At December 31, 2011, approximately 49% of our debt was at fixed interest rates with the remaining percentage subject to variable interest rates.

**We are subject to the risk of loss resulting from our customers defaulting on their obligations to us.** The inability of our customers to pay us due to adverse economic conditions or their inability to access available credit could have an adverse effect on our financial condition and liquidity.

**Contracting in the defense industry is subject to significant regulation, including rules related to bidding, billing and accounting kickbacks and false claims, and any non-compliance could subject us to fines and penalties or possible debarment.** Like all government contractors, we are subject to risks associated with this contracting. These risks include the potential for substantial civil and criminal fines and penalties. These fines and penalties could be imposed for failing to follow procurement integrity and bidding rules, employing improper billing practices or otherwise failing to follow cost accounting standards, receiving or paying kickbacks or filing false claims. We have been, and expect to continue to be, subjected to audits and investigations by government agencies. The failure to comply with the terms of our government contracts could harm our business reputation. It could also result in suspension or debarment from future government contracts.

**If we fail to meet expectations of securities analysts or investors due to fluctuations in our revenue or operating results, our stock price could decline significantly.** Our revenue and earnings may fluctuate from quarter to quarter due to a number of factors, including delays or cancellations of programs. It is likely that in some future quarters our operating results may fall below the expectations of securities analysts or investors. In this event, the trading price of our stock could decline significantly.

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**Our stock price is volatile.** For the year ended December 31, 2011, our stock price ranged from a low of \$17.91 to a high of \$37.84. The price of our common stock has been and likely will continue to be subject to wide fluctuations in response to a number of events and factors, such as:

quarterly variations in operating results;

variances of our quarterly results of operations from securities analyst estimates;

changes in financial estimates;

announcements of technological innovations, new products; and

news reports relating to trends in our markets.

In addition, the stock market in general, and the market prices for companies in the aerospace industry in particular, have experienced significant price and volume fluctuations that often have been unrelated to the operating performance of the companies affected by these fluctuations. These broad market fluctuations may adversely affect the market price of our common stock, regardless of our operating performance.

**We may incur losses and liabilities as a result of our acquisition strategy.** Growth by acquisition involves risks that could adversely affect our financial condition and operating results, including:

diversion of management time and attention from our core business,

the potential exposure to unanticipated liabilities,

the potential that expected benefits or synergies are not realized and that operating costs increase,

the risks associated with incurring additional acquisition indebtedness, including that additional indebtedness could limit our cash flow availability for operations and our flexibility,

difficulties in integrating the operations and personnel of acquired companies, and

the potential loss of key employees, suppliers or customers of acquired businesses.

In addition, any acquisition, once successfully integrated, could negatively impact our financial performance if it does not perform as planned, does not increase earnings, or does not prove otherwise to be beneficial to us.

**We currently are involved or may become involved in the future, in legal proceedings that, if adversely adjudicated or settled, could materially impact our financial condition.** As an aerospace company, we may become a party to litigation in the ordinary course of our business, including, among others, matters alleging product liability, warranty claims, breach of commercial or government contract or other legal actions. In general, litigation claims can be expensive and time consuming to bring or defend against and could result in settlements or damages that could significantly impact results of operations and financial condition.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None

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On December 31, 2011, we occupied 580,000 square feet of space in the United States and Canada, distributed as follows:

|                                 | Owned          | Leased         | Total          |
|---------------------------------|----------------|----------------|----------------|
| <b>Aerospace</b>                |                |                |                |
| East Aurora, NY                 | 125,000        |                | 125,000        |
| Redmond, WA                     |                | 100,000        | 100,000        |
| Kirkland, WA                    | 92,000         |                | 92,000         |
| Everett, WA                     |                | 16,000         | 16,000         |
| Lebanon, NH                     | 80,000         |                | 80,000         |
| Ft. Lauderdale, FL              | 96,000         |                | 96,000         |
| Montreal, Quebec, Canada        |                | 20,000         | 20,000         |
| <b>Aerospace Square Feet</b>    | <b>393,000</b> | <b>136,000</b> | <b>529,000</b> |
| <b>Test Systems</b>             |                |                |                |
| Orlando, FL                     |                | 51,000         | 51,000         |
| <b>Test Systems Square Feet</b> |                | <b>51,000</b>  | <b>51,000</b>  |
| <b>Total Square Feet</b>        | <b>393,000</b> | <b>187,000</b> | <b>580,000</b> |

Our corporate headquarters is located in East Aurora, New York. The lease in Montreal expires in December, 2012. The lease for the Redmond facility expires in March, 2013. We plan on relocating this operation to the Kirkland facility in late 2012. The lease for the Everett facility expires in September 2012. The lease for the Orlando facility expires in February, 2015 with one renewal option for seven years. Upon the expiration of our current leases, we believe that we will be able to either secure renewal terms or enter into leases for alternative locations at market terms. We believe that our properties have been adequately maintained and are generally in good condition.

**ITEM 3. 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.

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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.

Other than this proceeding, we are not party to any significant pending legal proceedings that management believes will result in material adverse effect on our financial condition or results of operations.

**ITEM 4. *MINE SAFETY DISCLOSURES***

Not Applicable



**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The table below sets forth the range of prices for the Company's Common Stock, traded on the NASDAQ National Market System, for each quarterly period during the last two years. The approximate number of shareholders of record as of February 17, 2012, was 820 for Common Stock and 1,167 for Class B Stock.

| <b>2011</b> | <b>High</b> | <b>Low</b> |
|-------------|-------------|------------|
| First       | \$ 23.12    | \$ 17.91   |
| Second      | 28.86       | 19.26      |
| Third       | 30.83       | 23.97      |
| Fourth      | 37.84       | 27.89      |
| <b>2010</b> | <b>High</b> | <b>Low</b> |
| First       | \$ 9.14     | \$ 6.75    |
| Second      | 16.27       | 9.35       |
| Third       | 16.37       | 12.33      |
| Fourth      | 20.95       | 15.92      |

The Company has not paid any cash dividends in the three-year period ended December 31, 2011. The Company has no plans to pay cash dividends as it plans to retain all cash from operations as a source of capital to finance growth in the business.

On August 2, 2011, we announced a one-for-ten distribution of Class B Stock to holders of both Common and Class B Stock. On or about August 30, 2011, stockholders received one share of Class B Stock for every ten shares of Common and Class B Stock held on the record date of August 16, 2011. All share quantities, share prices and per share data reported throughout this report have been adjusted to reflect the impact of this distribution.

With respect to information regarding our securities authorized for issuance under equity incentive plans, the information contained in the section entitled "Equity Compensation Plan Information" of our definitive Proxy Statement for the 2012 Annual Meeting of Shareholders is incorporated herein by reference.

We did not repurchase any shares of our common stock in 2011. On January 30, 2009, 550,000 shares of the Company's common stock held as treasury shares were issued as part of the consideration paid for the acquisition of DME.

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The following graph charts the annual percentage change in return on the Company's common stock compared to the S&P 500 Index Total Return and the NASDAQ US and Foreign Securities:

**Comparison of 5 Year Cumulative Total Return**

**Assumes Initial Investment of \$100**

**December 2011**

|  |          | 2006   | 2007   | 2008   | 2009  | 2010   | 2011   |
|--|----------|--------|--------|--------|-------|--------|--------|
| ASTRONICS CORPORATION                  | Return % |        | 148.10 | -72.17 | -3.93 | 145.64 | 70.51  |
|  | Cum \$   | 100.00 | 248.10 | 69.05  | 66.33 | 162.94 | 277.83 |
| S&P 500 Index Total Returns            | Return % |        | 5.50   | -36.99 | 26.45 | 15.06  | 2.11   |
|  | Cum \$   | 100.00 | 105.50 | 66.47  | 84.05 | 96.71  | 98.75  |
| NASDAQ US and Foreign Securities Index | Return % |        | 10.54  | -40.04 | 45.33 | 18.29  | -0.84  |
|  | Cum \$   | 100.00 | 110.54 | 66.28  | 96.33 | 113.94 | 112.98 |

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA****Five-Year Performance Highlights**

|  | 2011(4)    | 2010       | 2009(3)     | 2008       | 2007       |
|--|------------|------------|-------------|------------|------------|
| (Amounts in thousands, except for employee and per share data) |            |            |             |            |            |
| <b>PERFORMANCE:</b>  |            |            |             |            |            |
| Sales  | \$ 228,163 | \$ 195,754 | \$ 191,201  | \$ 173,722 | \$ 158,240 |
| Impairment Loss (2)  | \$ (2,500) | \$         | \$ (19,381) | \$         | \$         |
| Net Income (Loss)  | \$ 21,591  | \$ 14,948  | \$ (3,802)  | \$ 8,361   | \$ 15,391  |
| Net Margin   | 9.5%       | 7.6%       | (2.0)%      | 4.8%       | 9.7%       |
| Diluted Earnings (Loss) per Share (1)                          | \$ 1.67    | \$ 1.20    | \$ (0.32)   | \$ 0.72    | \$ 1.31    |
| Weighted Average Shares Outstanding Diluted (1)                | 12,911     | 11,284     | 10,733      | 10,650     | 10,711     |
| Return on Average Assets                                       | 13.3%      | 10.3%      | (3.1)%      | 8.0%       | 16.5%      |
| Return on Average Equity                                       | 24.0%      | 21.8%      | (6.4)%      | 15.6%      | 38.2%      |

**YEAR-END FINANCIAL POSITION:**

|                          |            |            |            |            |            |
|--------------------------|------------|------------|------------|------------|------------|
| Working Capital          | \$ 58,833  | \$ 65,855  | \$ 52,857  | \$ 43,360  | \$ 32,100  |
| Total Assets             | \$ 174,905 | \$ 150,888 | \$ 138,714 | \$ 104,674 | \$ 104,121 |
| Indebtedness             | \$ 33,263  | \$ 38,578  | \$ 44,776  | \$ 14,446  | \$ 22,935  |
| Shareholders' Equity     | \$ 102,863 | \$ 77,215  | \$ 60,113  | \$ 58,255  | \$ 49,232  |
| Book Value Per Share (1) | \$ 8.33    | \$ 6.41    | \$ 5.07    | \$ 5.16    | \$ 4.39    |

**OTHER YEAR-END DATA:**

|                               |           |          |          |          |          |
|-------------------------------|-----------|----------|----------|----------|----------|
| Depreciation and Amortization | \$ 4,943  | \$ 4,881 | \$ 7,342 | \$ 4,142 | \$ 3,440 |
| Capital Expenditures          | \$ 14,281 | \$ 3,568 | \$ 2,466 | \$ 4,325 | \$ 9,592 |
| Shares Outstanding (1)        | 12,347    | 12,042   | 11,852   | 11,292   | 11,204   |
| Number of Employees           | 1,081     | 1,010    | 1,035    | 989      | 967      |

- (1) - Diluted Earnings (Loss) Per-Share, Weighted Average Shares Outstanding-Diluted, Book Value Per-Share and Shares Outstanding have been adjusted for the impact of the August 16, 2011 one-for-ten Class B stock distribution.
- (2) - The Company recorded a \$2.4 million goodwill impairment charge and a \$0.1 million impairment charge to purchased intangible assets during the fourth quarter of 2011. The Company recorded a \$14.2 million goodwill impairment charge and a \$5.2 million impairment charge to purchased intangible assets during the fourth quarter of 2009. Refer to Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition and Notes 4 and 5 of our consolidated financial statements for additional information on Intangible Assets and Goodwill.
- (3) - Information includes the results of DME, acquired on January 30, 2009.
- (4) - Information includes the results of Ballard, acquired on November 30, 2011.

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OVERVIEW**

Astronics Corporation, through its subsidiaries Astronics Advanced Electronic Systems Corp., Luminescent Systems Inc., Luminescent Systems Canada Inc., DME Corporation and Ballard Technology, Inc. designs and manufactures electrical power generation systems, electrical power control and distribution systems, lighting systems and components, aircraft safety products, avionics databus solutions and test, training and simulation systems.

Our strategy is to invest significantly in engineering, research and development to develop and maintain positions of technical leadership. We expect to leverage those positions to increase our ship set content and grow the amount of content and volume of product we sell and to selectively acquire businesses with similar technical capabilities that could benefit from our leadership position and strategic direction.

The Company operates in two reportable segments, Aerospace and Test Systems. Our Aerospace segment has six principal operating facilities located in New York State, two in Washington State, New Hampshire, Florida and Quebec, Canada. Our Test Systems segment has one facility located in 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.

Sales to the commercial transport market totaled approximately 62.8% of our total revenue in 2011. Our cabin electronics products which provide in-seat power for airline passengers as well as power for in-flight entertainment systems (IFE) found on commercial airlines around the world accounted for the majority of our sales to this market. Since 2005 our sales to the commercial transport markets increased from approximately \$31.2 million to approximately \$143.3 million in 2011. In addition to supplying cabin electronics products to this market we also supply lighting products used in the cabin and cockpit of commercial airlines. Maintaining and growing our sales to the commercial transport market will depend on airlines capital spending budgets for cabin up-grades as well as the purchase of new aircraft such as the Boeing 787, Airbus A380 and Airbus A350. This spending by the airlines is impacted by their profits, cash flow and available financing as well as competitive pressures between the airlines to improve the travel experience for their passengers. We expect that these new aircraft, once in production will be equipped with more IFE and in-seat power than previous generation aircraft. Additionally, our ability to maintain and grow sales to this market depends on our ability to maintain our technological advantages over our competitors and maintain our relationships with major in-flight entertainment suppliers and global airlines.

Sales to the military aerospace market include our aircraft lighting, airframe power and avionics databus products. In 2011, Aerospace military sales represented approximately 15.5% of consolidated sales. The military market is dependent on governmental funding which can change from year to year. Risks are that overall spending may be reduced in the future, specific programs may be eliminated or that we fail to win new business through the competitive bid process. Astronics does not have significant reliance on any one program such that cancellation of a particular program will cause material financial loss. We believe that we will continue to have opportunities similar to past years regarding this market.

Sales to the business jet market are primarily aircraft lighting and airframe power products. Sales to the business jet market accounted for approximately 11.4% of our consolidated sales in 2011. Sales to the business jet market are driven by our ship set content on new aircraft and build rates of new aircraft. Business jet OEM build rates continue to be significantly impacted by slow global wealth creation and corporate profitability which have been negatively affected during the past several years by the slow recovery from the global recession. Our sales to the business jet market will continue to be challenged in the upcoming year as business jet aircraft production rates are not expected to increase during 2012 as the global economy continues to struggle. Additionally, there continues to be a large supply of high quality used aircraft in the market competing with new aircraft for customers. Despite the current market conditions, we continue to see opportunities on new aircraft currently in the design phase to employ our power and lighting technology in the business jet market. There is

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risk involved in the development of any new aircraft including the risk that the aircraft will not ultimately be produced or that it will be produced in lower quantities than originally expected and thus impacting our return on our engineering and development efforts.

Sales to the FAA/airport market account for approximately 4.0% of our consolidated sales in 2011 and were comprised of sales of airfield lighting products including navigational lighting aids, providing design-build lighting solutions to simplify lighting installation projects and provide seamless airfield upgrades for airports. Future FAA/airport market sales are dependent on funding availability for airport upgrades and successfully competing for those opportunities.

Our Test Systems segment accounted for 6.3% of our consolidated sales in 2011, all to the military market.

Important 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. New aircraft build rates and aircraft owners spending on upgrades and refurbishments is cyclical and dependant on the strength of the global economy. Once designed into a new aircraft, the spare parts business is frequently retained by the Company.

Each of the markets that we serve presents opportunities that we expect will provide growth for the Company over the long-term. 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.

Challenges which continue to face us include improving shareholder value through increasing profitability. Increasing profitability is dependent on many things, primarily revenue growth and the Company's ability to control operating expenses and to identify means of creating improved productivity. Revenue is driven by increased build rates for existing aircraft, market acceptance and economic success of new aircraft, continued government funding of defense programs, the Company's ability to obtain production contracts for parts we currently supply or have been selected to design and develop for new aircraft platforms and continually identifying and winning new business for our Test Systems segment. Reduced aircraft build rates driven by a weak economy, tight credit markets, reduced air passenger travel and an increasing supply of used aircraft on the market will likely result in reduced demand for our products which will result in lower profits. Reduction of defense spending may result in fewer opportunities for us to compete, which could result in lower profits in the future. Many of our newer development programs are based on new and unproven technology and at the same time we are challenged to develop the technology on a schedule that is consistent with specific programs. We will continue to address these challenges by working to improve operating efficiencies and focusing on executing on the growth opportunities currently in front of us.

## **ACQUISITIONS**

On November 30, 2011 we acquired 100% of the stock of Ballard Technology, Inc. (Ballard) a manufacturer of avionics databus products. Ballard is included in our aerospace reporting segment. The addition of Ballard diversifies the products and technologies that Astronics offers. We purchased the outstanding stock of Ballard for approximately \$23.9 million in cash plus contingent purchase consideration up to a maximum of \$5.5 million subject to meeting certain revenue growth targets over the next five years. The additional purchase consideration was recorded at its estimated fair value of approximately \$0.7 million at the date of acquisition based upon the Company's assessment of the probability of Ballard achieving the revenue growth targets. Acquisition purchase price allocation and pro forma information is provided in Note 19 of Item 8, Financial Statements and Supplementary Data in this report.

On January 30, 2009, the Company acquired 100% of the common stock of DME Corporation (DME) for approximately \$50.0 million. DME is a designer and manufacturer of military test training and simulation equipment, airfield lighting and aviation safety products.

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**CRITICAL ACCOUNTING POLICIES**

Our financial statements and accompanying notes are prepared in accordance with U.S. generally accepted accounting principles. The preparation of the Company's financial statements requires management to make estimates, assumptions and judgments that affect the amounts reported. These estimates, assumptions and judgments are affected by management's application of accounting policies, which are discussed in the Notes to Consolidated Financial Statements, Note 1 of Item 8, Financial Statements and Supplementary Data of this report. The critical accounting policies have been reviewed with the audit committee of our board of directors.

***Revenue Recognition***

In our 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.

In our Test Systems segment, revenue is recognized primarily from its 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. At least each quarter we review contracts in process for estimates-to-completion, and revise estimated gross profit accordingly. While we believe the 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 us to revise our estimated gross profit on one or more of the contracts in process. Accordingly, the ultimate gross profit realized upon completion of such contracts can vary significantly from estimated amounts between accounting periods.

***Accounts Receivable and Allowance for Doubtful Accounts***

We record a valuation allowance to account for potentially uncollectible accounts receivable. The allowance is determined based on Management's knowledge of the business, specific customers, review of receivable aging and a specific identification of accounts where collection is at risk. At December 31, 2011, the allowance for doubtful accounts for accounts receivable was \$0.6 million, or 1.8% of gross accounts receivable. At December 31, 2010, the allowance for doubtful accounts for accounts receivable was \$0.3 million, or 0.9% of gross accounts receivable.

***Inventory Valuation***

We record 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, Management 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 we believe is no longer salable. At December 31, 2011, our reserve for inventory valuation was \$10.6 million, or 20.9% of gross inventory. At December 31, 2010, our reserve for inventory valuation was \$11.2 million, or 22.4% of gross inventory.

***Deferred Tax Asset Valuation Allowances***

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We record a valuation allowance to reduce deferred tax assets to the amount of future tax benefit that we believe is more likely than not to be realized. We consider recent earnings projections, allowable tax carryforward periods, tax planning strategies and historical earnings performance to determine the amount of the valuation allowance. Changes in these factors could cause us to adjust our valuation allowance, which would impact our income tax expense when we determine that these factors have changed.

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As of December 31, 2011 we had net deferred tax assets of \$10.2 million, net of a \$1.9 million valuation allowance. As of December 31, 2010, we had net deferred tax assets of \$10.4 million, net of a \$0.9 million valuation allowance. These assets principally relate to goodwill and intangible assets, employee benefit liabilities, asset reserves, depreciation and state and foreign general business tax credit carry-forwards.

Due to the uncertainty as to the Company's ability to generate sufficient certain state taxable income in the future and utilize certain of the Company's state net operating loss carry-forwards before they expire, the Company has recorded a valuation allowance accordingly. These certain state net operating loss carryforwards expire at various dates from 2015 through 2031. The excess tax benefits associated with stock option exercises are recorded directly to stockholders' equity only when realized. As a result, the excess tax benefits included in certain state net operating loss carryforwards but not reflected in deferred tax assets was approximately \$3.3 million.

### ***Impairment of long-lived assets***

#### **Goodwill Impairment Testing**

Our goodwill is the result of the excess of purchase price over net assets acquired from acquisitions. As of December 31, 2011, we had approximately \$17.2 million of goodwill. As of December 31, 2010, we had approximately \$7.6 million of goodwill. The change in goodwill is due primarily to the acquisition of Ballard on November 30, 2011, increasing goodwill by \$12.0 million, offset somewhat by a write-down in 2011 of \$2.4 million relating to the Test Systems segment.

We test goodwill for impairment at least annually as of November 1, and more frequently whenever events occur or circumstances change that indicates there may be impairment. These events or circumstances could include a significant long-term adverse change in the business climate, poor indicators of operating performance or a sale or disposition of a significant portion of a reporting unit. The process of evaluating our goodwill for impairment is subjective and requires significant estimates. These estimates include judgments about future cash flows that are dependent on internal forecasts, long-term growth rates and estimates of the weighted average cost of capital used to discount projected cash flows.

We test goodwill at the reporting unit level, which is one level below our operating segments. We identify our reporting units by assessing whether the components of our operating segment constitute businesses for which discrete financial information is available and segment management regularly reviews the operating results of those components. We also aggregate components that have similar economic characteristics into single reporting units (for example, similar products and/or services, similar long-term financial results, product processes, classes of customers, etc.). We currently have five reporting units; four within the Aerospace segment and the fifth being in the Test Systems segment. Three of the five reporting units carry goodwill at December 31, 2011.

The goodwill impairment test consists of comparing the fair value of a reporting unit, determined using an income approach based on discounted cash flow analyses, with the reporting unit's carrying amount including goodwill. If the carrying amount of the reporting unit exceeds the reporting unit's fair value, the implied fair value of goodwill is compared to the carrying amount of goodwill. An impairment loss would be recognized for the amount by which the carrying amount of goodwill exceeds the implied fair value of goodwill. Testing goodwill for impairment requires us to estimate fair values of reporting units using significant estimates and judgmental factors. The key estimates and factors used in our discounted cash flow analysis include revenue growth rates and profit margins based on internal forecasts, terminal value, and the weighted-average cost of capital used to discount future cash flows. We also consider any additional risk of each individual reporting unit achieving its forecasts, and adjust the weighted-average cost of capital applied when determining each reporting unit's estimated fair value for these risks. We also compare the computed fair value to our market capitalization.

Future changes in these estimates and assumptions could materially affect the results of our goodwill impairment tests. All of the reporting units in the Aerospace Segment that had goodwill noted fair values well in excess of the carrying value. If the projected long-term revenue growth rates, profit margins, or terminal rates are considerably lower, and/or the estimated weighted-average cost of capital is considerably higher, future testing may indicate impairment of one or more of the Company's reporting units and, as a result, the related goodwill could possibly be impaired.

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During fiscal 2011, based on the evaluation, we determined that Test Systems segment's reporting unit fair value was less than its carrying value, due to decreases in projected future revenues and cash flows, combined with a higher weighted average cost of capital due to an increased uncertainty regarding our ability to forecast future revenue and cash flows for this reporting unit caused by lack of new orders late in the year and exacerbated by the cancellation of a large multi-year program in the fourth quarter. Therefore, we initiated step two of the goodwill impairment test which involves calculating the implied fair value of goodwill by allocating the fair value of the reporting unit to its assets and liabilities other than goodwill and comparing it to the carrying amount of goodwill. As a result of this evaluation we reduced the carrying value of goodwill for the Test Systems reporting unit to zero resulting in a \$2.4 million impairment charge in the fourth quarter of 2011. The compound annual growth rate for revenue during the first five years of our projections ranged between negative 15.2% and positive 9.0%. The terminal value was calculated assuming projected growth rates of 3.0% after five years. The estimated weighted-average cost of capital for the reporting units ranged from 11.7% to 17.0% based upon an analysis of companies considered to be market participants and their debt to equity mix, their related volatility and the size of their market capitalization.

Each of the reporting units with material goodwill had a fair value which exceeded its carrying value by at least 84%.

**Indefinite-lived Intangible Asset Impairment Testing**

Indefinite-lived intangible assets total \$1.0 million as of December 31, 2011 and \$1.1 million as of 2010. We test our indefinite-lived intangible assets for impairment, on an annual basis as of November 1 or more frequently, if an event occurs or circumstances change that indicate that the fair value of an indefinite-lived intangible asset could be below its carrying amount. The impairment test consists of comparing the fair value determined using an in-lieu of 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.

In the fourth quarter of 2011, the Company recorded an impairment charge relating to its Test Systems reporting unit's indefinite-lived intangible assets amounting to approximately \$0.1 million. The impairment was the result of significant unexpected decreases in forecasted future revenues and cash flows, combined with a higher weighted average cost of capital.

**Amortized and Depreciable Asset Impairment Testing**

Property, plant and equipment and amortizable intangible assets with a carrying value of \$54.1 million at December 31, 2011 are depreciated or amortized over their assigned useful lives. We test these long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. The recoverability test consists of comparing the projected undiscounted cash flows, with its carrying amount. An impairment loss would then be recognized for the carrying amount in excess of its fair value.

***Supplemental Retirement Plan***

We maintain a non-qualified defined benefit supplemental retirement plan for certain executives. Expense recognized for the supplemental retirement plan was \$0.5 million for both 2011 and 2010 and \$0.6 million for 2009. The accounting for this plan is based in part on certain assumptions that may be highly uncertain and may have a material impact on the financial statements if different reasonable assumptions had been used. In 2011, the assumptions for increases in compensation, the discount rate for determining the cost recognized and the discount rate used for the projected benefit obligation were 5.0%, 5.5% and 4.5%, respectively. The assumption for compensation increases takes a long-term view of inflation and performance based salary adjustments based on the Company's approach to executive compensation. For determining the discount rate the Company considers long-term interest rates for high-grade corporate bonds.



**Table of Contents****Stock-Based Compensation**

We have stock-based compensation plans, which include non-qualified stock options as well as incentive stock options. Expense recognized for stock-based compensation was \$1.1 million for the year ended 2011, \$0.9 million for the year ended 2010 and \$0.8 million for the year ended 2009. We determine the fair value of the option awards at the date of grant using a Black-Scholes model. Option pricing models require management to make assumptions and to apply judgment to determine the fair value of the award. These assumptions and judgments include estimating the future volatility of our stock price, expected dividend yield, future employee stock option exercise behaviors and future employee turnover rates. Changes in these assumptions can materially affect the fair value estimate.

**CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK**

| (Dollars in thousands)                 | 2011(2)    | 2010       | 2009(1)    |
|--|------------|------------|------------|
| Sales                                  | \$ 228,163 | \$ 195,754 | \$ 191,201 |
| Gross Margin                           | 26.5%      | 24.3%      | 19.5%      |
| Impairment Loss                        | \$ 2,500   | \$         | \$ 19,381  |
| SG&A Expenses as a Percentage of Sales | 11.9%      | 11.8%      | 12.6%      |
| Interest Expense                       | \$ 1,806   | \$ 2,551   | \$ 2,533   |
| Effective Tax (Benefit) Rate           | 25.6%      | 31.5%      | (50.9)%    |
| Net Earnings (Loss)                    | \$ 21,591  | \$ 14,948  | \$ (3,802) |

- (1) Our results of operations for 2009 include the operations of DME Corporation beginning January 30, 2009, the effective date of the acquisition.
- (2) Our results of operations for 2011 include the operations of Ballard Technology Inc. beginning November 30, 2011, the effective date of the acquisition.

A discussion by segment can be found at [Segment Results of Operations and Outlook](#) in this MD&A.

**CONSOLIDATED OVERVIEW OF OPERATIONS**

Our consolidated sales for 2011 increased by \$32.4 million to \$228.2 million compared with 2010. The increase was a result of a \$34.3 million increase from our Aerospace segment, The Aerospace sales increase was partially offset by a \$1.9 million decrease from our Test Systems segment.

Our consolidated sales for 2010 increased by \$4.6 million to \$195.8 million compared with 2009. The increase was a result of a \$24.0 million increase from our Aerospace segment partially offset by a \$19.4 million decrease from our Test Systems segment.

Gross margins improved in 2011 to 26.5% compared with 2010 at 24.3%. The improved margins were a result of increased margins in the Aerospace segment due to leverage on increased sales volume offset somewhat by lower margins in our Test Systems segment and increased engineering and development ( E&D ) expense.

Gross margins improved in 2010 to 24.3% compared with 2009 at 19.5%. The improved margins were a result of increased margins in the Aerospace segment due to leverage on increased sales volume, a more efficient cost structure and favorable sales mix.

Selling, general and administrative ( SG&A ) expenses were \$27.2 million or 11.9% of sales in 2011, compared to \$23.2 million, or 11.8% of sales in 2010. The SG&A increase in 2011 compared with 2010 was due primarily to higher legal costs of \$1.4 million , increased bad debt expenses of \$0.5 million related to the American Airlines bankruptcy and increased compensation costs as compared with the prior year.

Selling, general and administrative expenses ( SG&A ) decreased approximately \$0.9 million in 2010 compared with 2009 due primarily to a \$2.0 million reduction of amortization expense for purchased intangible assets in our Test Systems segment offset by a small increase in other selling expenses. SG&A expenses were \$23.2 million or 11.9% of sales in 2010, compared to \$24.1 million, or 12.6% of sales in 2009.



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In 2011, as a result of declining sales and low new orders, our forecast future cash flow for our Test Systems segment indicated that its carrying value exceeded its book value. As a result we recorded an impairment charge of \$2.5 million to write down the carrying value of our Test Systems goodwill and certain intangible assets to fair value. There were no impairment charges in 2010. In 2009 we recorded an impairment charge of \$19.4 million to write down the carrying value of our Test Systems goodwill by \$14.2 million, and purchased intangible assets of our Test Systems segment by \$5.2 million.

Interest expense in 2011 decreased when compared to 2010, due to a combination of lower rates and reduced debt levels when compared with the same period last year. There was little change in interest expense in 2010 compared with 2009, due primarily to slightly higher effective interest rates being offset by reduced debt levels.

The effective tax rate for 2011 is lower than 2010 primarily from the reduction of reserves for uncertain tax positions relating to the tax years 2006 through 2010 and a higher domestic production activity deduction. The effective tax rate for 2010 is higher than 2009, primarily due to the impact of the 2009 pre-tax loss.

**2012 Outlook**

We expect consolidated sales in 2012 to be between \$235 million and \$250 million. Our consolidated backlog at December 31, 2011 was \$106.3 million of which approximately \$92.6 million is expected to ship in 2012. We expect our capital equipment spending in 2011 to be in the range of \$13 million to \$16 million and our engineering and development costs to be in the range of \$36 million to \$40 million.

**SEGMENT RESULTS OF OPERATIONS AND OUTLOOK**

Operating profit, as presented below, is sales less cost of sales and other operating expenses excluding interest expense, corporate expenses and other non-operating revenue and expenses. Cost of sales and operating expenses are directly attributable to the respective segment. Operating profit is reconciled to earnings before income taxes in Note 18 of Item 8, Financial Statements and Supplementary Data, of this report.

**AEROSPACE**

|                                      |             |            |            |
|--------------------------------------|-------------|------------|------------|
| (in thousands, except percentages)   | <b>2011</b> | 2010       | 2009       |
| Sales                                | \$ 213,874  | \$ 179,586 | \$ 155,605 |
| Operating Profit                     | \$ 40,400   | \$ 30,112  | \$ 16,274  |
| Operating Margin                     | 18.9%       | 16.8%      | 10.5%      |
| (in thousands)                       | <b>2011</b> | 2010       |            |
| Total Assets                         | \$ 136,930  | \$ 96,787  |            |
| Backlog                              | \$ 97,903   | \$ 91,573  |            |
| Sales by Market (in thousands)       | 2011        | 2010       | 2009       |
| Commercial Transport                 | \$ 143,337  | \$ 109,956 | \$ 88,155  |
| Military                             | 35,394      | 34,867     | 37,791     |
| Business Jet                         | 25,983      | 22,548     | 21,630     |
| FAA/Airport                          | 9,160       | 12,215     | 8,029      |
|                                      | \$ 213,874  | \$ 179,586 | \$ 155,605 |
| Sales by Product Line (in thousands) | 2011        | 2010       | 2009       |
| Cabin Electronics                    | \$ 114,540  | \$ 86,511  | \$ 64,309  |
| Aircraft Lighting                    | 69,653      | 65,009     | 64,347     |
| Airframe Power                       | 20,109      | 15,851     | 18,920     |
| Airfield Lighting                    | 9,160       | 12,215     | 8,029      |
| Avionics Databus                     | 412         |            |            |
|                                      | \$ 213,874  | \$ 179,586 | \$ 155,605 |



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Aerospace sales for 2011 increased by \$34.3 million, or 19.1%, to \$213.9 million from \$179.6 million in 2010. Sales growth was primarily driven by increased sales of cabin electronics in-seat power systems and increased aircraft lighting products to the commercial transport market as volumes increased. Military sales were up slightly due primarily to increased volume of airframe power product sales relating to increased delivery of Tactical Tomahawk missile power control units, offset somewhat by a lower volume of aircraft lighting sales. Sales to the business jet market were higher due primarily to increased volume from our airframe power product line. The sales decrease to the FAA/Airport market was due to lower volume and fewer turn-key programs.

Aerospace sales for 2010 increased by \$24.0 million, or 15.4%, to \$179.6 million from \$155.6 million in 2009. Sales growth was primarily driven by increased sales volume of our cabin electronics products used by the commercial transport market. This volume increase was due to a general improvement of the financial condition of the commercial airlines and their increased installation of in-seat power systems and in-flight entertainment systems that incorporate our cabin electronics products. Military sales were down for the year due primarily to lower airframe power sales as scheduled deliveries of the Tactical Tomahawk power control unit ceased in 2010 which began again in 2011. The increase in sales to the business jet market was a result of increased sales in the airframe power product line to business jet manufacturers. Sales to the FAA/Airport market increased primarily due to the completion of two airfield lighting programs during 2010.

Operating margins for our Aerospace segment increased in 2011 to 18.9% from 16.8% in 2010. The operating margins increased due to the leverage provided on the increased sales volume partially offset by higher E&D costs and increased SG&A costs. SG&A costs increases were related to legal, compensation costs and bad debt expense compared with 2010.

Operating margins for our Aerospace segment increased in 2010 to 16.8% from 10.5% in 2009. Compared with 2010 our operating margins increased due to the leverage provided on the increased sales volume, the effect of cost reductions and favorable product mix as compared with the same periods of 2010.

It is our intention to continue investing in capabilities and technologies as needed that allows us to execute our strategy to increase the ship set content and value we provide on aircraft in all markets that we serve. The rate of spending on these activities, however, will continue to be driven by market opportunities.

The backlog for our Aerospace segment at December 31, 2011 was \$97.9 million compared with \$91.6 million at December 31, 2010.

**2012 Outlook for Aerospace** We expect 2012 Aerospace segment sales to be in the range of \$225 million to \$238 million.

**TEST SYSTEMS**

| (in thousands, except percentages) | 2011       | 2010       | 2009        |
|------------------------------------|------------|------------|-------------|
| Sales                              | \$ 14,289  | \$ 16,168  | \$ 35,596   |
| Operating Loss                     | \$ (4,760) | \$ (1,806) | \$ (18,219) |
| Operating Margin                   | (33.3)%    | (11.2)%    | (51.2)%     |
| (in thousands)                     | 2011       | 2010       |             |
| Total Assets                       | \$ 20,020  | \$ 24,785  |             |
| Backlog                            | \$ 8,409   | \$ 8,216   |             |

Sales in 2011, 2010 and 2009 were all to the military market. The Test Systems segment continues to face headwinds as military spending has slowed and opportunities for large programs are fewer. With the lack of large programs we have continued to utilize our engineering capacity to continue to develop our next generation family of synthetic radio testers which we believe will provide a firm base line of repeating business for the future.

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In 2011, an impairment charge relating to the write-down of goodwill and intangible assets of \$2.5 million is included in our Test Systems operating loss of \$4.8 million for the year. There was no impairment charge for 2010. In 2009, an impairment charge of \$19.4 million is included in our operating loss of \$18.2 million for the year.

The backlog for Test Systems was \$8.4 million at December 31, 2011 compared with \$8.2 million at December 31, 2010.

**2012 Outlook for Test Systems** We expect 2012 Test Systems sales to be in the range of \$10 million to \$12 million.

**OFF BALANCE SHEET ARRANGEMENTS**

We do not have material off-balance sheet arrangements that have or are reasonably likely to have a material future effect on our results of operations or financial condition.

**CONTRACTUAL OBLIGATIONS**

The following table represents contractual obligations as of December 31, 2011:

| (In thousands)                | Payments Due by Period* |           |           |           |            |
|-------------------------------|-------------------------|-----------|-----------|-----------|------------|
|                               | Total                   | 2012      | 2013-2014 | 2015-2016 | After 2016 |
| Purchase Obligations          | \$ 39,629               | \$ 37,970 | \$ 1,642  | \$ 17     | \$         |
| Long-Term Debt                | 33,264                  | 5,290     | 20,519    | 2,409     | 5,046      |
| Operating Leases              | 4,753                   | 2,730     | 1,903     | 120       |            |
| Interest on Long-Term Debt    | 2,554                   | 875       | 961       | 605       | 113        |
| Other Long-Term Liabilities   | 1,602                   | 406       | 840       | 303       | 53         |
| Total Contractual Obligations | \$ 81,802               | \$ 47,271 | \$ 25,865 | \$ 3,454  | \$ 5,212   |

\* This table excludes Supplemental Retirement Plan and related Post Retirement Obligations for which we anticipate making \$0.4 million in annual payments in 2012 through 2016.

**Notes to Contractual Obligations Table**

**Purchase Obligations** Purchase obligations are comprised of the Company's commitments for goods and services in the normal course of business.

**Long-Term Debt** See item 8, Financial Statements and Supplementary Data, Note 6, Long-Term Debt and Note Payable in this report.

**Operating Leases** Operating lease obligations are primarily related to facility leases for our Astronics AES, Astronics DME and our Canadian operations.

**LIQUIDITY AND CAPITAL RESOURCES**

| (in thousands)               | 2011      | 2010      | 2009      |
|------------------------------|-----------|-----------|-----------|
| Net cash provided (used) by: |           |           |           |
| Operating Activities         | \$ 27,908 | \$ 16,503 | \$ 31,088 |
| Investing Activities         | (38,132)  | (3,614)   | (42,702)  |
| Financing Activities         | (1,565)   | (5,131)   | 23,520    |



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Our available borrowing capacity and our cash flow from operations provide us with the financial resources needed to run our operations and reinvest in our business.

### ***Operating Activities***

Cash flow provided by operating activities was \$27.9 million in 2011 compared with \$16.5 million in 2010. The increase of \$11.4 million was mainly a result of higher net income and higher non-cash expenses including the \$2.5 million impairment loss, offset by increased cash used for working capital components in 2011.

Cash flow provided by operating activities was approximately \$16.5 million in 2010 compared with approximately \$31.1 million provided by operating activities in 2009. The decrease of \$14.6 million was mainly a result of cash used to invest in working capital components in 2010.

Our cash flows from operations are primarily dependent on our net income adjusted for non-cash expenses and the timing of collections of receivables, level of inventory and payments to suppliers. Sales are influenced significantly by the build rates of new aircraft, which are subject to general economic conditions, airline passenger travel and spending for government and military programs. Over time, sales will also be impacted by our success in executing our strategy to increase ship set content and obtain production orders for programs currently in the development stage. A significant change in new aircraft build rates could be expected to impact our profits and cash flow. A significant change in government procurement and funding and the overall health of the worldwide airline industry could be expected to impact our profits and cash flow as well.

### ***Investing Activities***

Cash used for investing activities in 2011 was approximately \$38.1 million. We acquired Ballard for \$23.9 million. We acquired two buildings for a combined cost of \$10.1 million. One building that currently houses our Fort Lauderdale operation the second is a partially completed building that we plan on completing and moving our Redmond operation into at the end of 2012. Additionally we made investments in machinery and equipment totaling \$4.1 million. Cash used for investing activities in 2010 was approximately \$3.6 million, used primarily for capital expenditures. Cash used for investing activities in 2009 was \$42.7 million for Capital expenditures and including \$40.7 million to acquire DME.

Cash invested for capital expenditures for the last three years ranged between \$2.5 million and \$14.3 million. Our expectation for 2012 is that we will invest between \$13.0 million and \$16.0 million including the completion of the building that will house our Redmond operation. Future capital requirements depend on numerous factors, including expansion of existing product lines and introduction of new products. Management believes that our cash flow from operations and current borrowing arrangements will provide for these necessary capital expenditures.

### ***Financing Activities***

Our ability to maintain sufficient liquidity is highly dependent upon achieving expected operating results. Failure to achieve expected operating results could have a material adverse effect on our liquidity, our ability to obtain financing and our operations in the future. Our obligations under our Credit Agreement are jointly and severally guaranteed by Astronics Advanced Electronic Systems Corp., Luminescent Systems, Inc., DME Corporation and Ballard Technology, Inc., each a wholly-owned domestic subsidiary of the Company. The obligations are secured by a first priority lien on substantially all of the Company's and the guarantors' assets and 100% of the issued and outstanding equity interest of each subsidiary.

The Company extended and modified its existing credit facility by entering into a Second Amended and Restated Credit Agreement (the "Credit Agreement"), dated as of August 31, 2011, with HSBC Bank USA, National Association, Bank of America, N.A. and Manufacturers and Traders Trust Company. The Credit Agreement provides for the continuation of the Company's revolving credit line in the amount of \$35 million, less outstanding letters of credit, for an additional five years through August 31, 2016 and for the continuation of the Company's existing \$18 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.



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The Credit Agreement contains various financial covenants. The covenant for minimum fixed charge coverage, defined as the ratio of the sum of net income, interest expense, provision for taxes based on income, total depreciation expense, total amortization expense, other non-cash items reducing net income minus other non-cash items increasing net income minus capital expenditures, minus cash taxes paid and dividends paid to interest expense plus scheduled principal payments on long-term debt calculated on a rolling four-quarter basis to be not less than 1.25 to 1 for each fiscal quarter ending on or after September 30, 2011. The Company's minimum fixed charge coverage was 4.45 to 1 at December 31, 2011. The covenant for maximum leverage, defined as the ratio of the sum of net income, interest expense, provision for taxes based on income, total depreciation expense, total amortization expense, other non-cash items reducing net income minus other non-cash items increasing net income to funded debt calculated on a rolling four-quarter basis is not to exceed 3.25 to 1 for each fiscal quarter ending on or after September 30, 2011. The Company's maximum leverage was 0.84 to 1 at December 31, 2011. The covenant for maximum capital expenditures is \$15 million annually, excluding \$18.0 million relating to the acquisition and completion of the Ft. Lauderdale and Kirkland properties. The Company's capital expenditures in 2011, excluding the acquisition and completion to date of the Ft. Lauderdale and Kirkland properties, were \$3.5 million.

There was no balance outstanding on our revolving credit facility at December 31, 2011. For working capital requirements, the Company had available on its credit facility \$22.9 million. The credit facility allocates up to \$20 million of the revolving credit line for the issuance of letters of credit, including certain existing letters of credit totaling approximately \$12.1 million at December 31, 2011. 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.

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. At December 31, 2011, we were in compliance with all of the covenants pursuant to the credit facility.

The Company's cash needs for working capital, debt service and capital equipment during 2012 is expected to be met by cash flows from operations and cash balances and if necessary, utilization of the revolving credit facility.

## **DIVIDENDS**

Management believes that it should retain the capital generated from operating activities for investment in advancing technologies, acquisitions and debt retirement. Accordingly, there are no plans to institute a cash dividend program.

## **BACKLOG**

At December 31, 2011, the Company's backlog was approximately \$106.3 million compared with approximately \$99.8 million at December 31, 2010.

## **RELATED-PARTY TRANSACTIONS**

None.

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**RECENT ACCOUNTING PRONOUNCEMENTS**

See Note 1 of the Consolidated Financial Statements at Item 8 of this report.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company has limited exposure to fluctuation in Canadian currency exchange rates to the U.S. dollar. Nearly all of the Company's consolidated sales are transacted in U.S. dollars. Net assets held in or measured in Canadian dollars amounted to \$6.5 million at December 31, 2011. Annual disbursements transacted in Canadian dollars were approximately \$8.6 million in 2011. A 10% change in the value of the U.S. dollar versus the Canadian dollar would impact net income by approximately \$0.6 million.

Risk due to fluctuation in interest rates is a function of the Company's floating rate debt obligations, which total approximately \$28.2 million at December 31, 2011. To offset this exposure, the Company entered into two interest rate swaps to fix the interest rate on a portion of the underlying debt for a set period of time.

- a) An interest rate swap with a notional amount of approximately \$2.2 million at December 31, 2011, entered into in February 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 2016.
  
- b) An interest rate swap with a notional amount of \$9.0 million at December 31, 2011, 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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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**  
**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of Astronics Corporation.

We have audited the accompanying consolidated balance sheets of Astronics Corporation as of December 31, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Astronics Corporation at December 31, 2011 and 2010 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Astronics Corporation's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 7, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Buffalo, New York

March 7, 2012

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**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011 based upon the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting is effective as of December 31, 2011.

We completed an acquisition in 2011, which was excluded from our management's report on internal control over financial reporting as of December 31, 2011. On November 30, 2011, we acquired Ballard Technology, Inc. This acquisition was included in our 2011 consolidated financial statements and constituted \$25.6 million and \$24.4 million of total and net assets, respectively, as of December 31, 2011 and \$0.4 million and \$0.3 million of net sales and net losses, respectively, for the year then ended.

Ernst & Young LLP, independent registered public accounting firm, has audited our consolidated financial statements included in this Annual Report on Form 10-K and, as part of their audit, has issued their report, included herein, on the effectiveness of our internal control over financial reporting.

By: /s/ Peter J. Gundermann                      March 7, 2012  
Peter J. Gundermann  
President & Chief Executive  
Officer  
(Principal Executive Officer)

/s/ David C. Burney                              March 7, 2012  
David C. Burney  
Vice President-Finance, Chief Financial Officer &  
Treasurer  
(Principal Financial and Accounting Officer)

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of Astronics Corporation

We have audited Astronics Corporation's internal control over financial reporting as of December 31, 2011 based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Astronics Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's report on Internal Controls over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Ballard Technology, Inc., which is included in the December 31, 2011 consolidated financial statements of Astronics Corporation and constituted \$25.6 million and \$24.4 million of total and net assets, respectively, as of December 31, 2011 and \$.4 million and \$.3 million of revenues and net loss, respectively, for the year then ended. Our audit of internal control over financial reporting of Astronics Corporation also did not include an evaluation of the internal control over financial reporting of Ballard Technology, Inc.

In our opinion, Astronics Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Astronics Corporation as of December 31, 2011 and 2010 and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2011 of Astronics Corporation and our report dated March 7, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Buffalo, New York

March 7, 2012

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**ASTRONICS CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

| (In thousands, except per share data)                            | Year Ended December 31, |            |            |
|--|-------------------------|------------|------------|
|  | 2011                    | 2010       | 2009       |
| Sales  | \$ 228,163              | \$ 195,754 | \$ 191,201 |
| Cost of Products Sold  | 167,667                 | 148,187    | 153,928    |
| Gross Profit   | 60,496                  | 47,567     | 37,273     |
| Impairment Loss  | 2,500                   |            | 19,381     |
| Selling, General and Administrative Expenses                     | 27,175                  | 23,187     | 24,105     |
| Income (Loss) from Operations                                    | 30,821                  | 24,380     | (6,213)    |
| Interest Expense, Net of Interest Income of \$100, \$32 and \$22 | 1,806                   | 2,551      | 2,533      |
| Contingent Liability Fair Value Adjustment                       |                         |            | (1,000)    |
| Income (Loss) Before Income Taxes                                | 29,015                  | 21,829     | (7,746)    |
| Provision (Benefit) for Income Taxes                             | 7,424                   | 6,881      | (3,944)    |
| Net Income (Loss)  | \$ 21,591               | \$ 14,948  | \$ (3,802) |
| Basic Earnings (Loss) Per Share                                  | \$ 1.78                 | \$ 1.25    | \$ (0.32)  |
| Diluted Earnings (Loss) Per Share                                | \$ 1.67                 | \$ 1.20    | \$ (0.32)  |

See notes to consolidated financial statements.

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**ASTRONICS CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

| (In thousands, except share and per share data)  | December 31,      |                   |
|--|-------------------|-------------------|
|  | 2011              | 2010              |
| <b>ASSETS</b>  |                   |                   |
| Current Assets:  |                   |                   |
| Cash and Cash Equivalents  | \$ 10,919         | \$ 22,709         |
| Accounts Receivable, Net of Allowance for Doubtful Accounts  | 35,669            | 30,941            |
| Inventories  | 40,094            | 37,763            |
| Prepaid Expenses   | 2,421             | 2,167             |
| Deferred Income Taxes  | 3,207             | 3,560             |
| <b>Total Current Assets</b>  | <b>92,310</b>     | <b>97,140</b>     |
| Property, Plant and Equipment, at Cost:  |                   |                   |
| Land   | 2,819             | 1,639             |
| Buildings and Improvements   | 22,760            | 18,775            |
| Machinery and Equipment  | 37,289            | 34,890            |
| Construction in Progress   | 7,702             | 1,559             |
|  | 70,570            | 56,863            |
| Less Accumulated Depreciation  | 29,448            | 25,990            |
| <b>Net Property, Plant and Equipment</b>   | <b>41,122</b>     | <b>30,873</b>     |
| Deferred Income Taxes  | 7,039             | 6,883             |
| Intangible Assets, Net of Accumulated Amortization   | 14,000            | 5,040             |
| Other Assets   | 3,249             | 3,342             |
| Goodwill   | 17,185            | 7,610             |
| <b>Total Assets</b>  | <b>\$ 174,905</b> | <b>\$ 150,888</b> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |                   |                   |
| Current Liabilities:   |                   |                   |
| Current Maturities of Long-term Debt   | \$ 5,290          | \$ 5,314          |
| Accounts Payable   | 10,559            | 10,583            |
| Accrued Payroll and Employee Benefits  | 9,261             | 7,086             |
| Customer Advanced Payments and Deferred Revenue  | 5,796             | 3,853             |
| Billings in Excess of Recoverable Costs and Accrued Profits on Uncompleted Contracts                                   | 264               | 1,519             |
| Other Accrued Expenses   | 2,307             | 2,930             |
| <b>Total Current Liabilities</b>   | <b>33,477</b>     | <b>31,285</b>     |
| Long-term Debt   | 27,973            | 33,264            |
| Supplemental Retirement Plan and Other Liabilities for Pension Benefits  | 7,765             | 6,265             |
| Other Liabilities  | 2,827             | 2,859             |
| <b>Total Liabilities</b>   | <b>72,042</b>     | <b>73,673</b>     |
| Shareholders Equity  |                   |                   |
| Common Stock, \$.01 par value Authorized 20,000,000 Shares, issued 9,680,825 in 2011 and 8,972,795 in 2010             | 97                | 89                |
| Convertible Class B Stock, \$.01 par value Authorized 5,000,000 Shares, issued 3,194,229 in 2011 and 3,597,318 in 2010 | 32                | 36                |
| Additional Paid-in Capital   | 19,279            | 14,326            |
| Accumulated Other Comprehensive Loss   | (886)             | (2)               |

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|  |                   |                   |
|--|-------------------|-------------------|
| Retained Earnings                                    | 86,622            | 65,047            |
|  | 105,144           | 79,496            |
| Less Treasury Stock: 528,341 Shares in 2011 and 2010 | 2,281             | 2,281             |
| <b>Total Shareholders' Equity</b>                    | <b>102,863</b>    | <b>77,215</b>     |
| <b>Total Liabilities and Shareholders' Equity</b>    | <b>\$ 174,905</b> | <b>\$ 150,888</b> |

See notes to consolidated financial statements.



**Table of Contents****ASTRONICS CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS**

| (In thousands)   | Year Ended December 31, |                |                 |
|--|-------------------------|----------------|-----------------|
|  | 2011                    | 2010           | 2009            |
| <b>Cash Flows from Operating Activities</b>  |                         |                |                 |
| Net Income (Loss)  | \$ 21,591               | \$ 14,948      | \$ (3,802)      |
| Adjustments to Reconcile Net Income (Loss) to Cash Provided By Operating Activities: |                         |                |                 |
| Impairment Loss  | 2,500                   |                | 19,381          |
| Depreciation and Amortization  | 4,943                   | 4,881          | 7,342           |
| Provision for Non-Cash Losses on Inventory and Receivables                           | 802                     | 1,134          | 1,014           |
| Stock Compensation Expense   | 1,061                   | 884            | 773             |
| Deferred Tax Expense (Benefit)   | 423                     | 1,385          | (7,914)         |
| Fair Value Adjustment to Contingent Note Payable                                     |                         |                | (1,000)         |
| Other  | (220)                   | 67             | (109)           |
| Cash Flows from Changes in Operating Assets and Liabilities:                         |                         |                |                 |
| Accounts Receivable  | (3,042)                 | (290)          | 12,407          |
| Inventories  | (883)                   | (6,891)        | 6,185           |
| Prepaid Expenses   | 291                     | (650)          | 220             |
| Accounts Payable   | (349)                   | 3,156          | (6,061)         |
| Accrued Expenses   | 638                     | 318            | 943             |
| Customer Advanced Payments and Deferred Revenue                                      | 1,943                   | (1,099)        | (285)           |
| Billings in Excess of Recoverable Costs and Accrued Profits on Uncompleted Contracts | (1,255)                 | (660)          | 900             |
| Income Taxes Payable   | (404)                   | (347)          | 859             |
| Supplemental Retirement Plan and Other Liabilities                                   | (131)                   | (333)          | 235             |
| <b>Cash Provided By Operating Activities</b>   | <b>27,908</b>           | <b>16,503</b>  | <b>31,088</b>   |
| <b>Cash Flows from Investing Activities</b>  |                         |                |                 |
| Acquisition of Business  | (23,926)                |                | (40,655)        |
| Capital Expenditures   | (14,281)                | (3,568)        | (2,466)         |
| Proceeds From Sale of Fixed Assets   |                         |                | 425             |
| Other  | 75                      | (46)           | (6)             |
| <b>Cash Used For Investing Activities</b>  | <b>(38,132)</b>         | <b>(3,614)</b> | <b>(42,702)</b> |
| <b>Cash Flows from Financing Activities</b>  |                         |                |                 |
| Proceeds from Long-term Debt   |                         |                | 40,000          |
| Principal Payments on Long-term Debt   | (5,302)                 | (6,245)        | (14,965)        |
| Proceeds from Note Payable   |                         |                | 4,176           |
| Payments on Note Payable   |                         |                | (4,176)         |
| Debt Acquisition Costs   | (143)                   |                | (1,682)         |
| Use of (Unexpended) Industrial Revenue Bond Proceeds                                 |                         |                | 136             |
| Proceeds from Exercise of Stock Options  | 2,266                   | 1,092          | 16              |
| Income Tax Benefit from Exercise of Stock Options                                    | 1,614                   | 22             | 15              |
| <b>Cash (Used for) Provided By Financing Activities</b>                              | <b>(1,565)</b>          | <b>(5,131)</b> | <b>23,520</b>   |
| Effect of Exchange Rates on Cash   | (1)                     | 2              | 5               |
| <b>(Decrease) Increase in Cash and Cash Equivalents</b>                              | <b>(11,790)</b>         | <b>7,760</b>   | <b>11,911</b>   |
| Cash and Cash Equivalents at Beginning of Year                                       | 22,709                  | 14,949         | 3,038           |

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|   |           |           |           |
|---|-----------|-----------|-----------|
| <b>Cash and Cash Equivalents at End of Year</b> | \$ 10,919 | \$ 22,709 | \$ 14,949 |
| Noncash Investing and Financing Activities :    |           |           |           |
| Subordinated Debt Issued For Acquisition        | \$        | \$        | \$ 6,000  |
| Treasury Stock Issued For Acquisition           | \$        | \$        | 3,585     |
| Disclosure of Cash Payments for:                |           |           |           |
| Interest  | \$ 1,900  | \$ 2,604  | \$ 2,335  |
| Income Taxes, net                               | \$ 5,785  | \$ 5,812  | \$ 3,125  |

See notes to consolidated financial statements.

**Table of Contents****ASTRONICS CORPORATION****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

|  | Common Stock  |           | Class B Stock |           | Treasury Stock |            | Accumulated Other Comprehensive Income |               | Retained Earnings | Comprehensive Income (Loss) |
|--|---------------|-----------|---------------|-----------|----------------|------------|--|---------------|-------------------|-----------------------------|
|  | Shares Issued | Par Value | Shares Issued | Par Value | Shares         | Cost       | Paid-In Capital                        | Income (Loss) |                   |                             |
| (Dollars and shares in thousands)  |               |           |               |           |                |            |  |               |                   |                             |
| Balance at January 1, 2009   | 8,022         | \$ 80     | 4,348         | \$ 44     | 1,078          | \$ (3,719) | \$ 9,379                               | \$ (1,429)    | \$ 53,901         |                             |
| Net Loss for 2009  |               |           |               |           |                |            |  |               | (3,802)           | (3,802)                     |
| Currency Translation Adjustments   |               |           |               |           |                |            |  | 592           |                   | 592                         |
| Retirement Liability Adjustment, Net of Income Taxes of \$392                              |               |           |               |           |                |            |  | 730           |                   | 730                         |
| Mark to Market Adjustments for Derivatives, net of Income Taxes of \$29                    |               |           |               |           |                |            |  | (51)          |                   | (51)                        |
| Total Comprehensive Loss   |               |           |               |           |                |            |  |               |                   | \$ (2,531)                  |
| Adjustment for Issuance of Treasury Shares for Acquisition                                 |               |           |               |           | (550)          | 1,438      | 2,147                                  |               |                   |                             |
| Exercise of Stock Options and Stock Compensation Expense Including Income Taxes of \$15    | 1             |           | 10            |           |                |            | 803                                    |               |                   |                             |
| Class B Stock Converted to Common Stock  | 661           | 7         | (661)         | (7)       |                |            |  |               |                   |                             |
| Balance at December 31, 2009   | 8,684         | \$ 87     | 3,697         | \$ 37     | 528            | \$ (2,281) | \$ 12,329                              | \$ (158)      | \$ 50,099         |                             |
| Net Income for 2010  |               |           |               |           |                |            |  |               | 14,948            | 14,948                      |
| Currency Translation Adjustments   |               |           |               |           |                |            |  | 217           |                   | 217                         |
| Retirement Liability Adjustment, Net of Income Taxes of \$19                               |               |           |               |           |                |            |  | 35            |                   | 35                          |
| Mark to Market Adjustments for Derivatives, net of Income Taxes of \$52                    |               |           |               |           |                |            |  | (96)          |                   | (96)                        |
| Total Comprehensive Income   |               |           |               |           |                |            |  |               |                   | \$ 15,104                   |
| Exercise of Stock Options and Stock Compensation Expense Including Income Taxes of \$22    | 150           | 1         | 39            |           |                |            | 1,997                                  |               |                   |                             |
| Class B Stock Converted to Common Stock  | 139           | 1         | (139)         | (1)       |                |            |  |               |                   |                             |
| Balance at December 31, 2010   | 8,973         | \$ 89     | 3,597         | \$ 36     | 528            | \$ (2,281) | 14,326                                 | \$ (2)        | \$ 65,047         |                             |
| Net Income for 2011  |               |           |               |           |                |            |  |               | 21,591            | 21,591                      |
| Currency Translation Adjustments   |               |           |               |           |                |            |  | (90)          |                   | (90)                        |
| Retirement Liability Adjustment, Net of Income Taxes of \$472                              |               |           |               |           |                |            |  | (876)         |                   | (876)                       |
| Mark to Market Adjustments for Derivatives, net of Income Taxes of \$44                    |               |           |               |           |                |            |  | 82            |                   | 82                          |
| Total Comprehensive Income   |               |           |               |           |                |            |  |               |                   | \$ 20,707                   |
| Adjustment for One-For-Ten Stock Distribution  |               |           |               |           |                |            |  |               | (16)              |                             |
| Exercise of Stock Options and Stock Compensation Expense Including Income Taxes of \$1,614 | 232           | 3         | 73            | 1         |                |            | 4,953                                  |               |                   |                             |
| Class B Stock Converted to Common Stock  | 476           | 5         | (476)         | (5)       |                |            |  |               |                   |                             |

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|                              |       |       |       |       |     |            |           |    |       |           |
|------------------------------|-------|-------|-------|-------|-----|------------|-----------|----|-------|-----------|
| Balance at December 31, 2011 | 9,681 | \$ 97 | 3,194 | \$ 32 | 528 | \$ (2,281) | \$ 19,279 | \$ | (886) | \$ 86,622 |
|------------------------------|-------|-------|-------|-------|-----|------------|-----------|----|-------|-----------|

See notes to consolidated financial statements.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND PRACTICES**

***Description of the Business***

Astronics is a leading supplier of advanced, high-performance lighting systems, electrical power generation and distribution systems, avionics databus solutions, 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 (OEM's) 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) 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. Ballard is 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 acquisition method and, accordingly, the operating results for the acquired companies are included in the consolidated statements of operations 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.

In the Test Systems segment, revenue is recognized primarily 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 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.

***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

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when incurred and included in cost of sales. Research and development, design and related engineering amounted to \$36.1 million in 2011, \$28.3 million in 2010 and \$27.0 million in 2009. Selling, general and administrative expenses include costs primarily related to our sales and marketing departments and administrative departments.

### ***Shipping and Handling***

Shipping and handling costs are expensed as incurred and are included in costs of products sold.

### ***Stock Distribution***

On August 2, 2011, Astronics Corporation announced a one-for-ten distribution of Class B Stock to holders of both Common and Class B Stock. On or about August 30, 2011, stockholders received one share of Class B Stock for every ten shares of Common and Class B Stock held on the record date of August 16, 2011. All share quantities, share prices and per share data reported throughout this report have been adjusted to reflect the impact of this distribution.

### ***Equity-Based Compensation***

The Company accounts for its stock options following ASC Topic 718 *Compensation Stock Compensation* ( ASC Topic 718 ). This Topic requires all equity-based payments to employees, including grants of employee stock options, to be recognized in the statement of earnings based on the grant date fair value of the award. For awards with graded vesting, the Company uses a straight-line method of attributing the value of stock-based compensation expense, subject to minimum levels of expense, based on vesting.

Under ASC Topic 718, stock compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Vesting requirements vary for directors, officers and key employees. In general, options granted to outside directors vest six months from the date of grant and options granted to officers and key employees vest with graded vesting over a five-year period, 20% each year, from the date of grant.

The excess tax benefits from share based payment arrangements were approximately \$1.6 million in 2011 and insignificant in 2010 and 2009. These were classified as cash flows from financing activities.

### ***Cash and Cash Equivalents***

All highly liquid instruments with a maturity of three months or less at the time of purchase are considered cash equivalents.

### ***Accounts Receivable and Allowance for Doubtful Accounts***

In the Aerospace segment, a trade receivable is recorded at the time of shipment of goods and transfer of title. In the Test Systems segment, receivables are recognized from long-term, fixed-price contracts using the percentage-of-completion method of accounting. Test System accounts receivable include billings and costs and estimated earnings in excess of billings on uncompleted contracts. The Company records a valuation allowance to account for potentially uncollectible accounts receivable. The allowance is determined based on Management's knowledge of the business, specific customers, review of the receivable's aging and a specific identification of accounts where collection is at risk. Account balances are charged against the allowance after all means of collections have been exhausted and the potential for recovery is considered remote. The Company typically does not require collateral.

### ***Inventories***

Inventories are stated at the lower of cost or market, cost being determined in accordance with the first-in, first-out method. The Company records valuation reserves to provide for excess, slow moving or obsolete

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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.

### ***Property, Plant and Equipment***

Depreciation of property, plant and equipment is computed on the straight-line method for financial reporting purposes and on accelerated methods for income tax purposes. Estimated useful lives of the assets are as follows: buildings, 25-40 years; machinery and equipment; 4-10 years. Leasehold improvements are amortized over the terms of the lease or the lives of the assets, whichever is shorter.

The cost of properties sold or otherwise disposed of and the accumulated depreciation thereon are eliminated from the accounts, and the resulting gain or loss, as well as maintenance and repair expenses, are reflected in income. Replacements and improvements are capitalized.

Depreciation expense was approximately \$4.0 million, \$3.8 million and \$4.1 million in 2011, 2010 and 2009, respectively.

### ***Long-Lived Assets***

Long-lived assets to be held and used are initially recorded at cost. The carrying value of these assets is evaluated for recoverability whenever adverse effects or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are recognized if future undiscounted cash flows from operations are not expected to be sufficient to recover long-lived assets. The carrying amounts are then reduced to fair value, which is typically determined by the estimated shortfall of the discounted cash flows.

### ***Intangible Assets***

Acquired intangibles are generally valued based upon future economic benefits such as earnings and cash flows. Acquired identifiable intangible assets are recorded at cost and are amortized over their estimated useful lives. Acquired intangible assets with an indefinite life are not amortized, but are reviewed for impairment at least annually or more frequently whenever events or changes in circumstances indicate that the carrying amount of those assets are below its estimated fair value. See Note 4 for further information regarding the impairment charges in 2011 and 2009 relating to intangible assets in our Test Systems reporting unit.

### ***Goodwill***

The Company does not amortize goodwill. The Company tests goodwill at the reporting unit level on an annual basis or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company has five reporting units, however only three reporting units have goodwill and are subject to the goodwill impairment test at December 31, 2011. The impairment test consists of comparing the fair value of the reporting unit, determined using an income approach based on discounted cash flow analyses, with its carrying amount including goodwill, and, if the carrying amount of the reporting unit exceeds its fair value, an impairment loss would be recognized for the carrying amount of goodwill in excess of its implied fair value. See Note 5 for further information regarding the goodwill impairment charges in 2011 and 2009, relating to our Test Systems reporting unit.

### ***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

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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 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 carrying value of the subordinated promissory note approximates its fair value based on management's estimation that a current interest rate would not differ materially from the stated rate. The Company's interest rate swaps are recorded at fair value as described under Fair Value.

### ***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 was limited to a cash flow hedge 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. 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 recorded in the statement of income.

### ***Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities and the reported amounts of revenues and expenses during the reporting periods in the financial statements and accompanying notes. Actual results could differ from those estimates.

### ***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 2011, 2010 and 2009.

### ***Dividends***

The Company has not paid any cash dividends in the three-year period ended December 31, 2011. It has no plans to pay cash dividends as it plans to retain all cash from operations as a source of capital to finance growth in the business.

### ***Loss contingencies***

Loss contingencies may from time to time arise from situations such as 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.

### ***Acquisition and Pro Forma Information***

The Company accounts for its acquisitions under ASC Topic 805 *Business Combinations and Reorganizations* (ASC Topic 805). ASC Topic 805 provides revised guidance on how the acquirer recognizes and measures the consideration transferred, identifiable assets acquired, liabilities assumed, non-controlling



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interests, and goodwill acquired in a business combination. ASC Topic 805 also expands required disclosures surrounding the nature and financial effects of business combinations. Acquisition costs are expensed as incurred. Acquisition expenses in 2011 and 2010 were insignificant. The Company expensed approximately \$0.1 million in 2009. See Note 19 regarding the acquisition of Ballard on November 30, 2011.

### ***Recent Accounting Pronouncements***

On January 1, 2011, the Company adopted the new provisions of ASU No. 2010-29, *Disclosure of Supplementary Pro Forma information for Business Combinations* (Topic 805) ( ASU 2010-29 ). ASC Topic 350 required pro forma revenue and earnings disclosure requirements for business combinations. ASU 2010-29 clarifies the requirements for disclosure of supplementary pro forma information for business combinations. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments in this Update also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. See Note 19 for the pro forma information for the 2011 acquisition of Ballard.

In June 2011, the FASB issued 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. Early adoption is not permitted. We will adopt this standard during the first quarter of 2012. Other than requiring additional disclosures, the adoption of this amendment will not have a material impact on our consolidated financial statements.

In June 2011, the Financial Accounting Standards Board issued 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. Although early adoption is permitted, the Company has elected to adopt these pronouncements in the first quarter of 2012. The impact on the Company's financial statements is not anticipated to be significant.

In September 2011, the Financial Accounting Standards Board issued 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 Company elected to adopt this pronouncement in 2012. The impact on the Company's financial statements is not anticipated to be significant.

**Table of Contents****NOTE 2 ACCOUNTS RECEIVABLE**

Accounts receivable at December 31 consists of:

| (In thousands)                                 | 2011          | 2010          |
|--|---------------|---------------|
| Accounts receivable                            | \$ 33,178     | \$ 24,524     |
| Long-term contract receivables:                |               |               |
| Amounts billed                                 | 1,068         | 3,345         |
| Unbilled recoverable costs and accrued profits | 2,068         | 3,346         |
| <b>Total long-term contract receivables</b>    | <b>3,136</b>  | <b>6,691</b>  |
| <b>Total receivables</b>                       | <b>36,314</b> | <b>31,215</b> |
| Less allowance for doubtful accounts           | (645)         | (274)         |
|  | \$ 35,669     | \$ 30,941     |

**NOTE 3 INVENTORIES**

Inventories at December 31 are as follows:

| (In thousands)   | 2011      | 2010      |
|------------------|-----------|-----------|
| Finished Goods   | \$ 7,420  | \$ 8,437  |
| Work in Progress | 8,477     | 6,274     |
| Raw Material     | 24,197    | 23,052    |
|                  | \$ 40,094 | \$ 37,763 |

At December 31, 2011, the Company's reserve for inventory valuation was \$10.6 million, or 20.9% of gross inventory. At December 31, 2010, the Company's reserve for inventory valuation was \$11.2 million, or 22.8% of gross inventory.

**NOTE 4 INTANGIBLE ASSETS**

The following table summarizes acquired intangible assets as follows:

| (In thousands)                      | Weighted<br>Average Life | December 31, 2011           |                             | December 31, 2010           |                             |
|-------------------------------------|--------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                     |                          | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |
| Government Contracts                | 6 Years                  | \$                          | \$                          | \$ 347                      | \$ 342                      |
| Patents                             | 12 Years                 | 1,271                       | 685                         | 1,271                       | 586                         |
| Trade Names                         | 0 - 10 Years             | 1,853                       | 7                           | 1,053                       |                             |
| Completed and Unpatented Technology | 10 - 15 Years            | 5,277                       | 1,242                       | 3,177                       | 972                         |
| Backlog and Customer Relationships  | 1 - 20 Years             | 9,985                       | 2,452                       | 3,385                       | 2,293                       |
| <b>Total Intangible Assets</b>      |                          | \$ 18,386                   | \$ 4,386                    | \$ 9,233                    | \$ 4,193                    |

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Amortization is computed on the straight-line method for financial reporting purposes based on amounts recorded at December 31, 2011. Amortization expense for intangibles was \$0.5 million, \$0.6 million and \$2.5 million for 2011, 2010 and 2009, respectively. Amortization expense for each of the next five years is expected to amount to approximately \$1.2 million each year from 2012 through 2014, \$1.1 million each for both 2015 and 2016.

For indefinite-lived intangible assets, 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. For the year ended December 31, 2011, the Company recorded a

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\$0.1 million impairment charge related to Trade Names assigned to the Company's Test Systems reporting unit, as of the annual impairment test date of November 1. For the year ended December 31, 2010, the Company recorded no impairment charge to any of its indefinite-lived intangible assets. For the year ended December 31, 2009, the Company recorded a \$0.7 million impairment charge related to Trade Names assigned to the Company's Test Systems reporting unit. The impairment losses are reported on the Impairment Loss line of the Consolidated Statement of Operations. The balance of the indefinite lived intangible assets after the impairment charge is \$1.0 million as of December 31, 2011.

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 years ended December 31, 2011 and 2010, the Company recorded no impairment charge to any of its amortizable intangible assets. For the year ended December 31, 2009, the Company recorded an impairment charge related to its amortizable intangible assets of its test systems reporting unit amounting to approximately \$4.5 million, as of the annual impairment test date of November 1. The impairment loss is reported on the Impairment Loss line of the Consolidated Statement of Operations.

**NOTE 5 GOODWILL**

The following table summarizes the changes in the carrying amount of goodwill for 2011 and 2010:

| (In thousands)                 | 2011      | 2010      |
|--------------------------------|-----------|-----------|
| Balance at Beginning of period | \$ 7,610  | \$ 7,493  |
| Acquisition                    | 12,023    |           |
| Impairment charge              | (2,400)   |           |
| Foreign currency translations  | (48)      | 117       |
| Balance at December 31,        | \$ 17,185 | \$ 7,610  |
| Goodwill                       | \$ 33,727 | \$ 21,752 |
| Accumulated Impairment Losses  | (16,542)  | (14,142)  |
| Goodwill                       | \$ 17,185 | \$ 7,610  |

As discussed in Note 1, goodwill is not amortized but is periodically tested for impairment, in accordance with the provisions of ASC Topic 350 *Intangibles - Goodwill and Other* (ASC Topic 350). Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. The fair value of a reporting unit is determined using an income approach based on discounted cash flow analyses. The Company's reporting units are determined based upon whether discrete financial information is available and regularly reviewed whether those units constitute a business, and the extent of economic similarities between those reporting units for purposes of aggregation. The Company's reporting units identified under ASC Topic 350 are at the component level, or one level below the reporting segment level as defined under ASC Topic 280 *Segment Reporting* (ASC Topic 280). The Company has five reporting units however only three reporting units have goodwill.

Under ASC Topic 350, the measurement of impairment of goodwill consists of two steps. In the first step, we compare the fair value of each reporting unit to its carrying value. As part of our impairment analysis, we determined the fair value of each of our reporting units with goodwill using the income approach. The income approach uses a discounted cash flow methodology to determine fair value. This methodology recognizes value based on the expected receipt of future economic benefits. Key assumptions in the income approach include a free cash flow projection, an estimated discount rate, a long-term growth rate and a terminal value. These assumptions are based upon our experience, current market trends and future expectations.

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During fiscal 2011, the weak economic conditions resulted in a decline in business and a reduction in forecasted cash flows in the Test Systems reporting unit. Based on this evaluation, we determined that the fair value of the Test Systems reporting unit was less than its carrying value. None of the reporting units in the Aerospace Segment indicated impairment. Following this assessment, ASC Topic 350 required us to perform a second step in order to determine the implied fair value of goodwill in the Test Systems reporting unit and to compare it to its carrying value. The activities in the second step included hypothetically valuing all of the tangible and intangible assets of the impaired reporting unit using market participant assumptions, as if the reporting unit had been acquired in a business combination as of the date of the valuation.

As a result of this assessment in 2011, the Company recorded an impairment charge of approximately \$2.4 million in the December 31, 2011 consolidated statement of operations. The impairment loss is reported on the Impairment Loss line of the Consolidated Statements of Operations. None of this loss related to goodwill is immediately deductible for tax purposes. The majority of goodwill is amortized over 15 years for tax purposes.

During fiscal 2009, the weak economic conditions resulted in a decline in business and a reduction in forecasted cash flows. Based on the evaluation, we determined that the fair value of the Test Systems reporting unit was less than its carrying value. Following this assessment, we performed the second step in order to determine the implied fair value of goodwill in this reporting unit and to compare it to its carrying value.

As a result of this assessment in 2009, the Company recorded an impairment charge of approximately \$14.2 million in the December 31, 2009 consolidated statement of operations. The impairment loss is reported on the Impairment Loss line of the Consolidated Statements of Operations.

At December 31, 2011, the Test Systems segment has no recorded goodwill, as a result of impairment charges recorded in 2009 and 2011.

**NOTE 6 LONG-TERM DEBT AND NOTE PAYABLE**

Long-term debt consists of the following:

| (In thousands)  | 2011      | 2010      |
|---|-----------|-----------|
| Senior Term Notes, payable \$1.0 million quarterly from January 2012 through October 2012, \$2.0 million quarterly in 2013 with a balloon payment of \$5.0 million in January 2014. Interest is at LIBOR plus between 1.50% and 2.50% (1.77% at December 31, 2011). | \$ 17,000 | \$ 21,000 |
| Subordinated promissory note with interest fixed at 6.0% payable in 2014.   | 5,000     | 5,000     |
| Series 2008 Industrial Revenue Bonds issued through the Erie County, New York Industrial Development Agency payable \$340 from 2012 through 2027 with interest reset weekly (1.9% at December 31, 2011).  | 5,400     | 5,740     |
| Series 1999 Industrial Revenue Bonds issued through the Erie County, New York Industrial Development Agency payable \$350 annually through 2019 with interest reset weekly (1.9% at December 31, 2011).   | 2,245     | 2,595     |
| Series 1998 Industrial Revenue Bonds issued through the Business Finance Authority of the State of New Hampshire payable \$400 annually through 2018 with interest reset weekly (1.9% at December 31, 2011).  | 2,850     | 3,250     |
| Note Payable at Canadian Prime payable \$14 monthly through 2016 plus interest (Canadian Prime was 3.0 % at December 31, 2011).   | 733       | 906       |
| Capital Lease Obligations and Other   | 35        | 87        |
|   | 33,263    | 38,578    |
| Less current maturities   | 5,290     | 5,314     |
|   | \$ 27,973 | \$ 33,264 |

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Principal maturities of long-term debt are approximately:

|                |                  |
|----------------|------------------|
| (In thousands) |                  |
| 2012           | \$ 5,290         |
| 2013           | 9,261            |
| 2014           | 11,258           |
| 2015           | 1,258            |
| 2016           | 1,151            |
| Thereafter     | 5,045            |
|                | <b>\$ 33,263</b> |

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 Credit Agreement provides for the continuation of the Company's revolving credit line in the amount of \$35 million, less outstanding letters of credit, for an additional five years through August 31, 2016 and for the continuation of the Company's existing \$18 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. 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.

The Credit Agreement contains various financial covenants. The covenant for minimum fixed charge coverage, defined as the ratio of the sum of net income, interest expense, provision for taxes based on income, total depreciation expense, total amortization expense, other non-cash items reducing net income minus other non-cash items increasing net income minus capital expenditures, minus cash taxes paid and dividends paid to interest expense plus scheduled principal payments on long-term debt calculated on a rolling four-quarter basis to be not less than 1.25 to 1 for each fiscal quarter ending on or after September 30, 2011. The Company's minimum fixed charge coverage was 4.45 to 1 at December 31, 2011. The covenant for maximum leverage, defined as the ratio of the sum of net income, interest expense, provision for taxes based on income, total depreciation expense, total amortization expense, other non-cash items reducing net income minus other non-cash items increasing net income to funded debt calculated on a rolling four-quarter basis is not to exceed 3.25 to 1 for each fiscal quarter ending on or after September 30, 2011. The Company's maximum leverage was 0.84 to 1 at December 31, 2011. The covenant for maximum capital expenditures is \$15 million annually, excluding \$18.0 million relating to the acquisition and completion of the Ft. Lauderdale and Kirkland properties. The Company's capital expenditures in 2011, excluding the acquisition and completion to date of the Ft. Lauderdale and Kirkland properties, were \$3.5 million.

There was nothing outstanding on our revolving credit facility at December 31, 2011. The Company had available on its credit facility \$22.9 million. The credit facility allocates up to \$20 million of the revolving credit line for the issuance of letters of credit. At December 31, 2011, outstanding letters of credit totaled \$12.1 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 \$5.0 million subordinated promissory note with interest fixed at 6.0% was paid in its entirety in January, 2012.

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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.

The Industrial Revenue Bonds are held by institutional investors and are guaranteed by a bank letter of credit, which is collateralized by certain property, plant and equipment assets, the carrying value of which approximates the principal balance on the bonds. The Company has a standby unsecured bank letter of credit guaranteeing the note payable in Canada, the carrying value of which approximates the principal balance on the note.

**NOTE 7 WARRANTY**

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)               | 2011     | 2010     | 2009     |
|------------------------------|----------|----------|----------|
| Balance at beginning of year | \$ 1,699 | \$ 3,147 | \$ 1,212 |
| Warranties issued            | 1,446    | 2,259    | 3,419    |
| Reassessed warranty exposure | (95)     | (1,144)  |          |
| Warranties settled           | (1,958)  | (2,563)  | (1,484)  |
| Balance at end of the year   | \$ 1,092 | \$ 1,699 | \$ 3,147 |

**NOTE 8 SHAREHOLDERS EQUITY*****Reserved Common Stock***

At December 31, 2011, approximately 4.7 million shares of common stock were reserved for issuance upon conversion of the Class B stock, exercise of stock options and purchases under the Employee Stock Purchase Plan. Class B Stock is identical to Common Stock, except Class B Stock has ten votes per share, is automatically converted to Common Stock on a one for one basis when sold or transferred, and cannot receive dividends unless an equal or greater amount of dividends is declared on Common Stock.

***Comprehensive Income***

Comprehensive income consists primarily of net income (loss) and the after-tax impact of currency translation adjustments, mark to market adjustments for derivatives and retirement liability adjustments. Income taxes related to derivatives and retirement liability adjustments within other comprehensive income are generally recorded based on an effective tax rate of approximately 35%. No income tax effect is recorded for currency translation adjustments.

The accumulated balances of the components of other comprehensive loss net of tax, at December 31, 2011 and 2010 are as follows:

| (In thousands)  | 2011     | 2010     |
|---|----------|----------|
| Accumulated foreign currency translation  | \$ 1,232 | \$ 1,322 |
| Accumulated loss on derivative adjustment net of tax benefit of approximately \$0.1 million and \$0.2 million for December 31, 2011 and 2010, respectively  | (256)    | (338)    |
| Accumulated retirement liability adjustment net of tax benefit of approximately \$1.0 million and \$0.5 million at December 31, 2011 and 2010, respectively | (1,862)  | (986)    |
|   | \$ (886) | \$ (2)   |





**Table of Contents****NOTE 9 EARNINGS PER SHARE**

Earnings per share computations are based upon the following table:

| (In thousands, except per share data)    | 2011      | 2010      | 2009       |
|--|-----------|-----------|------------|
| Net Income (Loss)                        | \$ 21,591 | \$ 14,948 | \$ (3,802) |
| Basic earnings weighted average shares   | 12,138    | 11,924    | 11,806     |
| Net effect of dilutive stock options     | 773       | 488       |            |
| Diluted earnings weighted average shares | 12,911    | 12,412    | 11,806     |
| Basic earnings (loss) per share          | \$ 1.78   | \$ 1.25   | \$ (0.32)  |
| Diluted earnings (loss) per share        | \$ 1.67   | \$ 1.20   | \$ (0.32)  |

There is no dilutive effect of the stock options for the year ended December 31, 2009 since the impact would be anti-dilutive.

**NOTE 10 STOCK OPTION AND PURCHASE PLANS**

The Company has stock option plans that authorize the issuance of options for shares of Common Stock to directors, officers and key employees. Stock option grants are designed to reward long-term contributions to the Company and provide incentives for recipients to remain with the Company. The exercise price, determined by a committee of the Board of Directors, may not be less than the fair market value of the Common Stock on the grant date. Options become exercisable over periods not exceeding ten years. The Company's practice has been to issue new shares upon the exercise of the options.

Stock compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Vesting requirements vary for directors, officers and key employees. In general, options granted to outside directors vest six months from the date of grant and options granted to officers and key employees straight line vest over a five-year period from the date of grant.

The weighted average fair value of the options was \$17.46, \$9.34 and, \$3.58 for options granted during the year ended December 31, 2011, 2010 and 2009, respectively.

The weighted average fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

|                         | 2011          | 2010          | 2009          |
|-------------------------|---------------|---------------|---------------|
| Risk-free interest rate | 1.55% - 2.82% | 2.33% - 3.04% | 2.50% - 2.87% |
| Dividend yield          | 0.0%          | 0.0%          | 0.0%          |
| Volatility factor       | 0.52 - 0.53   | 0.41 0.53     | 0.40 0.41     |
| Expected life in years  | 7.0 8.0       | 7.0 8.0       | 7.5 8.0       |

To determine expected volatility, the Company uses historical volatility based on weekly closing prices of its Common Stock and considers currently available information to determine if future volatility is expected to differ over the expected terms of the options granted. The risk-free rate is based on the United States Treasury yield curve at the time of grant for the appropriate term of the options granted. Expected dividends are based on the Company's history and expectation of dividend payouts. The expected term of stock options is based on vesting schedules, expected exercise patterns and contractual terms.

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The following table provides compensation expense information based on the fair value of stock options for the years ended December 31, 2011, 2010 and 2009:

| (In thousands)                                | 2011          | 2010          | 2009          |
|---|---------------|---------------|---------------|
| Stock compensation expense                    | \$ 1,061      | \$ 884        | \$ 773        |
| Tax benefit                                   | (93)          | (84)          | (74)          |
| <b>Stock compensation expense, net of tax</b> | <b>\$ 968</b> | <b>\$ 800</b> | <b>\$ 699</b> |

A summary of the Company's stock option activity and related information for the years ended December 31 follows:

| (Aggregate intrinsic value in thousands) | Options          | 2011                            |                           | 2010             |                                 |                           | 2009             |                                 |                           |
|--|------------------|---------------------------------|---------------------------|------------------|---------------------------------|---------------------------|------------------|---------------------------------|---------------------------|
|  |                  | Weighted Average Exercise Price | Aggregate Intrinsic Value | Options          | Weighted Average Exercise Price | Aggregate Intrinsic Value | Options          | Weighted Average Exercise Price | Aggregate Intrinsic Value |
| Outstanding at January 1                 | 1,379,878        | \$ 7.71                         | \$ 38,778                 | 1,356,659        | \$ 6.89                         | \$ 16,551                 | 1,165,662        | \$ 6.80                         | \$ 1,134                  |
| Options Granted                          | 61,550           | 30.97                           | 299                       | 101,145          | 16.24                           | 289                       | 220,462          | 7.11                            | 147                       |
| Options Exercised                        | (237,483)        | 5.86                            | (7,112)                   | (77,926)         | 4.53                            | (1,135)                   | (22,866)         | 4.25                            | (80)                      |
| Options Forfeited                        |                  |                                 |                           |                  |                                 |                           | (6,600)          | 6.68                            | (7)                       |
| <b>Outstanding at December 31</b>        | <b>1,203,946</b> | <b>\$ 9.26</b>                  | <b>\$ 31,965</b>          | <b>1,379,878</b> | <b>\$ 7.71</b>                  | <b>\$ 15,706</b>          | <b>1,356,659</b> | <b>\$ 6.89</b>                  | <b>\$ 1,194</b>           |
| <b>Exercisable at December 31</b>        | <b>928,076</b>   | <b>\$ 7.54</b>                  | <b>\$ 26,237</b>          | <b>1,040,043</b> | <b>\$ 6.64</b>                  | <b>\$ 12,953</b>          | <b>962,463</b>   | <b>\$ 6.15</b>                  | <b>\$ 1,557</b>           |

The aggregate intrinsic value in the preceding table represents the total pretax option holder's intrinsic value, based on the Company's closing stock price of Common Stock which would have been received by the option holders had all option holders exercised their options as of that date. The Company's closing stock price of Common Stock was \$35.81, \$19.09 and \$7.77 as of December 31, 2011, 2010 and 2009, respectively.

The weighted average fair value of options vested during 2011, 2010 and 2009 was \$4.89, \$4.28 and \$7.40, respectively. At December 31, 2011, total compensation costs related to non-vested awards not yet recognized amounts to \$2.3 million and will be recognized over a weighted average period of 2.4 years.

The following is a summary of weighted average exercise prices and contractual lives for outstanding and exercisable stock options as of December 31, 2011:

| Exercise Price Range | Shares  | Outstanding                              |                                 | Exercisable                              |                                 |                                 |
|----------------------|---------|--|---------------------------------|--|---------------------------------|---------------------------------|
|                      |         | Weighted Average Remaining Life in Years | Weighted Average Exercise Price | Weighted Average Remaining Life in Years | Weighted Average Exercise Price | Weighted Average Exercise Price |
| \$3.70-\$5.56        | 447,494 | 2.4                                      | \$ 4.09                         | 447,494                                  | 2.4                             | \$ 4.09                         |
| \$6.68-\$9.75        | 471,130 | 6.7                                      | 7.34                            | 309,452                                  | 6.2                             | 7.44                            |
| \$12.63-\$13.90      | 112,742 | 5.2                                      | 12.87                           | 112,742                                  | 5.2                             | 12.87                           |
| \$19.33-\$34.24      | 172,580 | 8.6                                      | 25.56                           | 58,388                                   | 7.5                             | 24.32                           |

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|           |     |      |         |     |      |
|-----------|-----|------|---------|-----|------|
| 1,203,946 | 5.2 | 9.26 | 928,076 | 4.3 | 7.54 |
|-----------|-----|------|---------|-----|------|

The Company established Incentive Stock Option Plans for the purpose of attracting and retaining executive officers and key employees, and to align management's interest with those of the shareholders. Generally, the options must be exercised within ten years from the grant date and vest ratably over a five-year period. The

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exercise price for the options is equal to the fair market value at the date of grant. At December 31, 2011, the Company had options outstanding for 1,006,799 shares under the plans. At December 31, 2011, there were 502,200 options available for future grant under the plan established in 2001.

The Company established the Directors Stock Option Plans for the purpose of attracting and retaining the services of experienced and knowledgeable outside directors, and to align their interest with those of the shareholders. The options must be exercised within ten years from the grant date. The exercise price for the option is equal to the fair market value at the date of grant and vests six months from the grant date. At December 31, 2011, the Company had options outstanding for 197,147 shares under the plans. At December 31, 2011, there were 133,518 options available for future grants under the plan established in 2006.

In addition to the options discussed above, the Company has established the Employee Stock Purchase Plan to encourage employees to invest in Astronics Corporation. The plan provides employees that have been with the Company for at least a year the opportunity to invest up to 20% of their cash compensation (up to an annual maximum of approximately \$22,000) in Astronics common stock at a price equal to 85% of the fair market value of the Astronics common stock, determined each October 1. Employees are allowed to enroll annually. Employees indicate the number of shares they wish to obtain through the program and their intention to pay for the shares through payroll deductions over the annual cycle of October 1 through September 30. Employees can withdraw anytime during the annual cycle, and all money withheld from the employees pay is returned with interest. If an employee remains enrolled in the program, enough money will have been withheld from the employees pay during the year to pay for all the shares that the employee opted for under the program. At December 31, 2011, employees had subscribed to purchase 48,737 shares at \$23.76 per share. The weighted average fair value of the options was approximately \$5.46, \$3.79 and \$1.90 for options granted during the year ended December 31, 2011, 2010 and 2009, respectively.

The fair value for the options granted under the Employee Stock Purchase Plan was estimated at the date of grant using a Black- Scholes option pricing model with the following weighted-average assumptions:

|                         | 2011  | 2010  | 2009  |
|-------------------------|-------|-------|-------|
| Risk-free interest rate | 0.10% | 0.25% | 0.41% |
| Dividend yield          | 0.0%  | 0.0%  | 0.0%  |
| Volatility factor       | .52   | .40   | .40   |
| Expected life in years  | 1.0   | 1.0   | 1.0   |

**NOTE 11 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.

The FASB issued ASC Topic 740-10 *Overall Uncertainty in Income Taxes* ( ASC Topic 740-10 ) which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. 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 December 31, 2011 or 2010, nor are any penalties or interest costs included in expense for each of the years ended December 31, 2011, 2010 and 2009. The years under which

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we conducted our evaluation coincided with the tax years currently still subject to examination by major federal and state tax jurisdictions, those being 2010 and 2011 for federal purposes and 2008 through 2011 for state purposes.

Pretax income from the Company's foreign subsidiary amounted to \$0.9 million, \$0.1 million and \$0.3 million for 2011, 2010 and 2009, respectively. The balances of pretax earnings for each of those years were domestic.

The provision (benefit) for income taxes consists of the following:

| (In thousands) | 2011     | 2010     | 2009       |
|----------------|----------|----------|------------|
| <b>Current</b> |          |          |            |
| US Federal     | \$ 6,840 | \$ 5,327 | \$ 3,840   |
| State          | 114      | 131      | 198        |
| Foreign        | 47       | 38       | (68)       |
| Deferred       | 423      | 1,385    | (7,914)    |
|                | \$ 7,424 | \$ 6,881 | \$ (3,944) |

The effective tax rates differ from the statutory federal income tax as follows:

|  | 2011         | 2010         | 2009           |
|--|--------------|--------------|----------------|
| Statutory Federal Income Tax (Benefit) Rate                    | 35.0%        | 35.0%        | (35.0)%        |
| Permanent Items, Net   | (2.1)%       | (1.3)%       | (0.8)%         |
| Foreign Tax Benefits   | (1.0)%       | (0.1)%       | (2.4)%         |
| State Income Tax (Benefits), Net of Federal Income Tax Benefit | 1.4%         | 0.6%         | (2.7)%         |
| Research and Development Tax Credits                           | (6.1)%       | (3.0)%       | (10.5)%        |
| Other  | (1.6)%       | 0.3%         | 0.5%           |
| <b>Effective tax rates</b>                                     | <b>25.6%</b> | <b>31.5%</b> | <b>(50.9)%</b> |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2011 and 2010 are as follows:

| (In thousands)   | 2011          | 2010          |
|--|---------------|---------------|
| <b>Deferred tax assets:</b>  |               |               |
| Goodwill and Intangible Assets   | \$ 7,226      | \$ 6,487      |
| Asset Reserves   | 3,633         | 3,259         |
| Deferred Compensation  | 3,907         | 3,363         |
| State Investment Tax Credit Carryforwards, net of Federal Tax  | 657           | 890           |
| Customer Advanced Payments and Deferred Revenue  | 476           | 342           |
| State Net Operating Loss Carryforwards and Other   | 567           | 342           |
| <b>Total gross deferred tax assets</b>   | <b>16,466</b> | <b>14,683</b> |
| Valuation allowance for state and foreign deferred tax assets and tax credit carryforwards, net of federal tax | (1,898)       | (890)         |
| <b>Deferred tax assets</b>   | <b>14,568</b> | <b>13,793</b> |

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|                           |           |           |
|---------------------------|-----------|-----------|
| Deferred tax liabilities: |           |           |
| Depreciation              | 4,322     | 3,350     |
| Deferred tax liabilities  | 4,322     | 3,350     |
| Net deferred tax asset    | \$ 10,246 | \$ 10,443 |

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The net deferred tax assets and liabilities are presented in the consolidated balance sheet as follows at December 31, 2011 and 2010:

| (In thousands)                | 2011             | 2010             |
|-------------------------------|------------------|------------------|
| Deferred tax asset current    | \$ 3,207         | \$ 3,560         |
| Deferred tax asset long-term  | 7,039            | 6,883            |
| <b>Net deferred tax asset</b> | <b>\$ 10,246</b> | <b>\$ 10,443</b> |

At December 31, 2011, state and foreign tax credit carryforwards amounted to approximately \$1.2 million. These state and foreign tax credit carryforwards will expire between 2015 through 2025.

Due to the uncertainty as to the Company's ability to generate sufficient taxable income in certain states in the future and utilize certain of the Company's state operating loss carryforwards before they expire, the Company has recorded a valuation allowance accordingly. These certain state net operating loss carryforwards amount to approximately \$11.8 million and expire at various dates from 2015 through 2031. The excess tax benefits associated with stock option exercises are recorded directly to shareholders' equity only when realized. As a result, the excess tax benefits included in certain state net operating loss carryforwards but not reflected in deferred tax assets was approximately \$3.3 million.

We have unrecognized tax benefits which, if ultimately recognized, will reduce our annual effective tax rate. Reserves for uncertain income tax positions have been recorded pursuant to ASC Topic 740-10. An estimate of the range of possible change during 2012 to the reserves cannot be made as of December 31, 2011. A reconciliation of the total amounts of unrecognized tax benefits, excluding interest and penalties which are insignificant, is as follows:

| (in thousands)   | 2011          | 2010            | 2009          |
|--|---------------|-----------------|---------------|
| Balance at beginning of period                               | \$ 1,470      | \$ 940          | \$ 130        |
| Decreases as a result of tax positions taken in prior years  | (1,090)       | (270)           | (130)         |
| Increases as a result of tax positions taken in current year | 500           | 800             | 940           |
| <b>Balance at end of period</b>                              | <b>\$ 880</b> | <b>\$ 1,470</b> | <b>\$ 940</b> |

**NOTE 12 PROFIT SHARING/401(K) PLAN**

The Company and all its subsidiaries, excluding Ballard, participate in the ATRO Profit Sharing/401K Plan. This plan is a qualified profit sharing/401(k) Plan for the benefit of eligible full-time employees. The plan provides for annual contributions based on percentages of pretax income. In addition, employees may contribute a portion of their salary to the 401(k) plan which is partially matched by the Company. The plan may be amended or terminated at any time. Total charges to income before income taxes for the plan were \$2.6 million, \$1.9 million and \$1.0 million in 2011, 2010 and 2009, respectively. The DME Profit Sharing/401(k) Savings Plan and Trust was merged into the ATRO Profit Sharing/401K Plan for the benefit of its eligible full-time employees on January 1, 2011. Total charges to income before income taxes for the DME Profit Sharing/401(k) Savings Plan and Trust were \$0.2 million in both 2010 and 2009.

Ballard has a qualified 401(k) Savings Plan (the Plan) for the benefit of its eligible full-time employees. Employees may contribute from 1% to 15% of their eligible salary to the Plan. The plan provides for annual contributions of 3% of total eligible salaries, regardless of whether the employee contributes to the Plan. The plan may be amended or terminated at any time. Total charges to income before income taxes for the plan were insignificant in 2011.

**Table of Contents****NOTE 13 SUPPLEMENTAL RETIREMENT PLAN AND RELATED POST RETIREMENT BENEFITS**

The Company has a nonqualified supplemental retirement defined benefit plan (the Plan) for certain current and retired executives. The Plan provides for benefits based upon average annual compensation and years of service, less offsets for Social Security and Profit Sharing benefits. It is the Company's intent to fund the benefits as they become payable, since no plan assets exist at December 31, 2011 or 2010.

The Company accounts for the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plan in accordance with the recognition and disclosure provisions of ASC Topic 715 *Compensation, Retirement Benefits* (ASC Topic 715), which requires the Company to recognize the funded status in its balance sheet, with a corresponding adjustment to AOCI, net of tax. These amounts will be subsequently recognized as net periodic pension cost pursuant to the Company's historical policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of AOCI. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in AOCI.

Unrecognized prior service costs of \$0.5 million (\$0.3 million net of tax) and unrecognized actuarial losses \$2.2 million (\$1.4 million net of tax) are included in AOCI at December 31, 2011 and have not yet been recognized in net periodic pension cost. The prior service cost included in AOCI and expected to be recognized in net periodic pension cost during the fiscal year-ended December 31, 2012 is \$0.1 million (\$0.1 million net of tax). The actuarial loss included in AOCI expected to be recognized in net periodic pension cost during the fiscal year-ended December 31, 2012 is \$0.1 million (\$0.1 million net of tax).

The reconciliation of the beginning and ending balances of the projected benefit obligation for the year ended December 31, 2011 and 2010 is as follows:

| (In thousands)               | December 31,<br>2011 | December 31,<br>2010 |
|------------------------------|----------------------|----------------------|
| Funded Status                |                      |                      |
| Projected Benefit Obligation |                      |                      |
| Beginning of Year January 1  | \$ 6,141             | \$ 5,669             |
| Service Cost                 | 46                   | 38                   |
| Interest Cost                | 328                  | 330                  |
| Actuarial Loss               | 1,421                | 452                  |
| Benefits Paid                | (348)                | (348)                |
| End of Year December 31      | \$ 7,588             | \$ 6,141             |

The increase in the 2011 projected benefit obligation is due primarily to the decrease in the discount rate and differences between estimated and actual salaries. The increase in the 2010 projected benefit obligation is due primarily to the decrease in the discount rate, differences between estimated and actual salaries and changes in beneficiary status.

The assumptions used to calculate the benefit obligation as of December 31, 2011 and 2010 are as follows:

|                                       | 2011  | 2010  |
|---------------------------------------|-------|-------|
| Discount Rate                         | 4.50% | 5.50% |
| Future Average Compensation Increases | 5.00% | 5.00% |



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The unfunded status of the plan of \$7.6 million at December 31, 2011 is recognized in the accompanying consolidated balance sheet as a current accrued pension liability of \$0.4 million and a long-term accrued pension liability of \$7.2 million. This also is the expected Company contribution to the plan, since the plan is unfunded.

The following table summarizes the components of the net periodic cost for the years ended December 31, 2011, 2010 and 2009:

| (In thousands)                             | 2011       | 2010       | 2009       |
|--|------------|------------|------------|
| <b>Net Periodic Cost</b>                   |            |            |            |
| Service Cost Benefits Earned During Period | \$ 46      | \$ 38      | \$ 51      |
| Interest Cost                              | 328        | 330        | 365        |
| Amortization of Prior Service Cost         | 109        | 109        | 108        |
| Amortization of Losses                     | 11         |            | 33         |
| <br>Net Periodic Cost                      | <br>\$ 494 | <br>\$ 477 | <br>\$ 557 |

The assumptions used to determine the net periodic cost are as follows:

|                                       | 2011  | 2010  | 2009  |
|---------------------------------------|-------|-------|-------|
| Discount Rate                         | 5.50% | 6.00% | 5.75% |
| Future Average Compensation Increases | 5.00% | 5.00% | 5.00% |

The Company expects the benefits to be paid in each of the next five years to be \$0.3 million and \$1.7 million in the aggregate for the next five years after that. This also is the expected Company contribution to the plan.

Participants in the nonqualified supplemental retirement plan are entitled to paid medical, dental and long-term care insurance benefits upon retirement under the plan. The measurement date for determining the plan obligation and cost is December 31.

The reconciliation of the beginning and ending balances of the projected benefit obligation for the year ended December 31, 2011 and 2010 is as follows:

| (In thousands)               | December 31,<br>2011 | December 31,<br>2010 |
|------------------------------|----------------------|----------------------|
| <b>Funded Status</b>         |                      |                      |
| Projected Benefit Obligation |                      |                      |
| Beginning of Year January 1  | \$ 511               | \$ 871               |
| Service Cost                 | 2                    | 4                    |
| Interest Cost                | 27                   | 50                   |
| Actuarial Loss (Gain)        | 68                   | (361)                |
| Benefits Paid                | (40)                 | (53)                 |
| <br>End of Year December 31  | <br>\$ 568           | <br>\$ 511           |

The decrease in the projected benefit obligation in 2011 was result of a change from a traditional medical insurance plan to a medical plan supplemented by Medicare.

The assumptions used to calculate the post retirement benefit obligation as of December 31, 2011 and 2010 are as follows:

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|               | 2011  | 2010  |
|---------------|-------|-------|
| Discount Rate | 4.50% | 5.50% |

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The following table summarizes the components of the net periodic cost for the years ended December 31, 2011, 2010 and 2009:

| (In thousands)                             | 2011  | 2010  | 2009   |
|--|-------|-------|--------|
| Net Periodic Cost                          |       |       |        |
| Service Cost Benefits Earned During Period | \$ 2  | \$ 4  | \$ 7   |
| Interest Cost                              | 27    | 50    | 50     |
| Amortization of Prior Service Cost         | 25    | 25    | 34     |
| Amortization of (Gains) Losses             | (4)   | 11    | 11     |
| Net Periodic Cost                          | \$ 50 | \$ 90 | \$ 102 |

The assumptions used to determine the net periodic cost are as follows:

|   | 2011  | 2010   | 2009   |
|---|-------|--------|--------|
| Discount Rate                               | 5.50% | 6.00%  | 5.75%  |
| Future Average Healthcare Benefit Increases | 9.00% | 10.00% | 10.00% |

The Company estimates that the prior service costs and net losses in AOCI for medical, dental and long-term care insurance benefits as of December 31, 2011, that will be recognized as components of net periodic benefit cost during the year ended December 31, 2011 for the Plan will be insignificant. For measurement purposes, an 8.0% annual increase in the cost of health care benefits was assumed for 2012 gradually decreasing to 5.0% in 2015 and years thereafter. A one percentage point increase or decrease in this rate would change the post retirement benefit obligation insignificantly. The Company expects the benefits to be paid in each of the next five years to be approximately forty-two thousand per year and \$0.2 million in the aggregate for the next five years after that. This also is the expected Company contribution to the plan, as it is unfunded.

**NOTE 14 DERIVATIVE FINANCIAL INSTRUMENTS**

At December 31, 2011, we had interest rate swaps consisting of the following:

- a) An interest rate swap with a notional amount of approximately \$2.2 million at December 31, 2011, entered into in February 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 2016.
- b) An interest rate swap with a notional amount of \$9.0 million at December 31, 2011, 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.

At December 31, 2011 and 2010, the fair value of interest rate swaps was a liability of \$0.4 million and \$0.5 million, respectively, which is included in other long-term liabilities.

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 was not significant in 2011, 2010 or 2009. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period of change. The Company classifies the cash flows from hedging transactions in the same category as the cash flows from the respective hedged items. The Company reclassified \$0.2 million, \$0.4 million and \$0.2 million from AOCI to interest expense during 2011, 2010 and 2009, respectively. Amounts expected to be reclassified during 2012 are not expected to be significant.



**Table of Contents****NOTE 15 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.

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.

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 assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2011 and 2010:

| (in thousands)      | Asset | Liability | Level 1 | Level 2  | Level 3 |
|---------------------|-------|-----------|---------|----------|---------|
| Interest rate swaps |       |           |         |          |         |
| 2011                | \$    | \$ (393)  | \$      | \$ (393) | \$      |
| 2010                |       | (520)     |         | (520)    |         |

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.

A contingent \$2.0 million subordinated promissory note payable (as part of the acquisition of DME on January 30, 2009) did not have Level 1 or Level 2 inputs and therefore was measured at fair value at the acquisition date and on a recurring basis, based upon the Company's assumptions regarding the likelihood of meeting the revenue performance criteria. The Company's assumptions (inputs) consider projected revenue for DME for 2009, including consideration of existing contracts, backlog and current economic conditions impacting the business. Therefore this fair value measurement was classified as Level 3 inputs. The \$2.0 million contingent subordinated note payable was recorded at its estimated fair value of \$1.0 million at the date of acquisition based on the requirements of ASC Topic 805. During 2009, the Company recognized as income, a \$1.0 million fair value adjustment based on DME not meeting the performance criterion.

During 2011, in accordance with the provisions of ASC Topic 350 *Intangibles - Goodwill and Other*, the Company recorded a \$2.4 million goodwill impairment charge related to the Test System reporting unit to write down goodwill to its implied fair value of zero. 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 goodwill impairment test are classified as Level 3 inputs. There were no impairment charges to goodwill in any of the Company's reporting units in 2010.

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During 2009, the Company recorded a \$14.2 million goodwill impairment charge related to the Test System reporting unit to write down goodwill to its implied fair value of \$2.4 million. The fair value measurement of the reporting unit under the step-one and step-two analysis of the goodwill impairment test are classified as Level 3 inputs.

During 2011, the Company recorded an impairment charge to write down to fair value indefinite-lived trade name intangible assets of its Test System reporting unit. The impairment charge for the trade names was \$0.1 million based on the determined fair value of \$0.4 million. This impairment charges is the result of the revised downward estimates of future revenues and cash flows of the Test Systems reporting unit. The fair value measurements are calculated using unobservable inputs classified as Level 3 inputs, requiring significant management judgment due to the absence of quoted market prices or observable inputs for assets of a similar nature. There were no impairment charges to any of the Company's intangible assets in either of the Company's segments in 2010.

During 2009, the Company recorded an impairment charge to write down to fair value indefinite-lived trade name intangible assets and amortizing intangible assets consisting of technology and customer relationships of its Test System reporting unit. The impairment charge for the trade names was \$0.7 million based on the determined fair value of \$0.5 million. The impairment charges for the technology and customer relationships were based on an undiscounted cash flow analysis at the asset group level, consisting of the Test System reporting unit. As a result of the projected undiscounted cash flows being less than the carrying value of the net assets of the reporting unit, the intangible assets were written down to fair value based on a discounted cash flow analysis. The impairment charge was \$3.6 million for technology and \$0.9 million for customer relationships.

During 2011, the Company acquired Ballard and valued the acquired assets and liabilities at fair value using a discounted cash flow methodology and are classified as Level 3 inputs.

**NOTE 16 SELECTED QUARTERLY FINANCIAL INFORMATION**

The following table summarizes selected quarterly financial information for 2011 and 2010:

| (In thousands, except for per share data)       | Quarter Ended<br>(Unaudited) |                 |                 |                  |                  |                 |                 |                  |
|---|------------------------------|-----------------|-----------------|------------------|------------------|-----------------|-----------------|------------------|
|   | Dec. 31,<br>2011             | Oct. 1,<br>2011 | July 2,<br>2011 | April 2,<br>2011 | Dec. 31,<br>2010 | Oct. 2,<br>2010 | July 3,<br>2010 | April 3,<br>2010 |
| Sales   | \$ 61,156                    | \$ 56,404       | \$ 55,475       | \$ 55,128        | \$ 51,823        | \$ 49,906       | \$ 47,089       | \$ 46,936        |
| Gross Profit (sales less cost of products sold) | 17,349                       | 14,255          | 14,386          | 14,506           | 12,443           | 12,893          | 10,685          | 11,546           |
| Impairment Loss                                 | 2,500                        |                 |                 |                  |                  |                 |                 |                  |
| Income before Tax                               | 7,178                        | 7,505           | 6,708           | 7,624            | 5,850            | 6,573           | 3,887           | 5,519            |
| Net Income                                      | 5,169                        | 6,665           | 4,548           | 5,209            | 4,471            | 4,647           | 2,430           | 3,400            |
| Basic Earnings per Share                        | 0.42                         | 0.55            | 0.37            | 0.43             | 0.37             | 0.39            | 0.20            | 0.28             |
| Diluted Earnings per Share                      | 0.40                         | 0.52            | 0.35            | 0.41             | 0.35             | 0.37            | 0.20            | 0.28             |

**Table of Contents****NOTE 17 COMMITMENTS AND CONTINGENCIES**

The Company leases certain office and manufacturing facilities as well as equipment under various lease contracts with terms that meet the accounting definition of operating leases. These arrangements may include fair value renewal or purchase options. Rental expense for the years ended December 31, 2011, 2010 and 2009 was \$3.0 million, \$3.5 million and \$3.3 million, respectively. The following table represents future minimum lease payment commitments as of December 31, 2011:

|                |          |
|----------------|----------|
| (In thousands) |          |
| 2012           | \$ 2,730 |
| 2013           | 1,169    |
| 2014           | 734      |
| 2015           | 119      |
| 2016           | 1        |
| Thereafter     |          |
|                | \$ 4,753 |

From time to time the Company may enter into purchase agreements with suppliers under which there is a commitment to buy a minimum amount of product. Purchase commitments outstanding at December 31, 2011 were \$39.7 million. These commitments are not reflected as liabilities in the Company's Balance Sheet.

**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.

**Table of Contents****NOTE 18 SEGMENTS**

Segment information for the years ended 2011, 2010 and 2009 and reconciliations to consolidated amounts are as follows:

| (In thousands)                                  | 2011              | 2010              | 2009              |
|---|-------------------|-------------------|-------------------|
| <b>Sales:</b>                                   |                   |                   |                   |
| Aerospace                                       | \$ 213,874        | \$ 179,586        | \$ 155,605        |
| Test Systems                                    | 14,289            | 16,168            | 35,596            |
| <b>Total Sales</b>                              | <b>\$ 228,163</b> | <b>\$ 195,754</b> | <b>\$ 191,201</b> |
| <b>Operating profit (loss) and margins:</b>     |                   |                   |                   |
| Aerospace                                       | \$ 40,400         | \$ 30,112         | \$ 16,274         |
|   | 18.9%             | 16.8%             | 10.5%             |
| Test Systems                                    | (4,760)           | (1,806)           | (18,219)          |
|   | (33.3)%           | (11.2)%           | (51.2)%           |
| <b>Total operating profit (loss)</b>            | <b>35,640</b>     | <b>28,306</b>     | <b>(1,945)</b>    |
|   | 15.6%             | 14.5%             | (1.0)%            |
| <b>Deductions from operating profit (loss):</b> |                   |                   |                   |
| Interest expense                                | (1,806)           | (2,551)           | (2,533)           |
| Corporate and other expenses, net               | (4,819)           | (3,926)           | (3,268)           |
| <b>Earnings (loss) before income taxes</b>      | <b>\$ 29,015</b>  | <b>\$ 21,829</b>  | <b>\$ (7,746)</b> |
| <b>Depreciation and amortization:</b>           |                   |                   |                   |
| Aerospace                                       | \$ 3,929          | \$ 3,695          | \$ 4,053          |
| Test Systems                                    | 584               | 659               | 2,585             |
| Corporate                                       | 430               | 527               | 704               |
| <b>Total depreciation and amortization</b>      | <b>\$ 4,943</b>   | <b>\$ 4,881</b>   | <b>\$ 7,342</b>   |
| <b>Identifiable assets:</b>                     |                   |                   |                   |
| Aerospace                                       | \$ 136,930        | \$ 96,787         | \$ 95,422         |
| Test Systems                                    | 20,020            | 24,785            | 24,256            |
| Corporate                                       | 17,955            | 29,316            | 19,036            |
| <b>Total assets</b>                             | <b>\$ 174,905</b> | <b>\$ 150,888</b> | <b>\$ 138,714</b> |
| <b>Capital expenditures:</b>                    |                   |                   |                   |
| Aerospace                                       | \$ 14,195         | \$ 2,438          | \$ 2,116          |
| Test Systems                                    | 86                | 619               | 350               |
| Corporate                                       |                   | 511               |                   |
| <b>Total capital expenditures</b>               | <b>\$ 14,281</b>  | <b>\$ 3,568</b>   | <b>\$ 2,466</b>   |

Operating profit is sales less cost of products 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.

For the year ended December 31, 2011, the operating loss in the Test Systems segment includes a goodwill impairment loss of approximately \$2.4 million and a purchased intangible impairment loss of approximately \$0.1 million. For the year ended December 31, 2010, there was no goodwill or purchased intangible impairment losses in either the Aerospace or Test System segment. For the year ended December 31, 2009, the



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operating loss in the Test Systems segment includes a goodwill impairment loss of approximately \$14.2 million and a purchased intangible impairment loss of approximately \$5.2 million. In the Aerospace segment, goodwill amounted to \$17.2 million and \$5.2 million at December 31, 2011 and 2010, respectively. In the Test Systems segment there was no goodwill as of December 31, 2011. Test Systems goodwill amounted to \$2.4 million at 2010.

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The following table summarizes the Company's sales by geographic region:

| (In thousands) | 2011       | 2010       | 2009       |
|----------------|------------|------------|------------|
| North America  | \$ 196,447 | \$ 168,556 | \$ 165,123 |
| Asia           | 12,544     | 13,026     | 10,867     |
| Europe         | 16,238     | 11,294     | 13,391     |
| South America  | 2,678      | 2,457      | 1,659      |
| Other          | 256        | 421        | 161        |
|                | \$ 228,163 | \$ 195,754 | \$ 191,201 |

Sales recorded by the Company's Canadian operations were \$12.2 million in 2011, \$9.1 million in 2010 and \$10.1 million in 2009. Net income from this location was \$0.9 million in 2011, \$0.1 million in 2010 and \$0.4 million in 2009. Net Assets held outside of the United States total \$6.6 million at December 31, 2011 and \$5.3 million at December 31, 2010. The exchange loss included in determining net income was \$0.1 million, \$0.1 million and \$0.3 million in 2011, 2010 and 2009, respectively. Cumulative translation adjustments amounted to \$1.2 million and \$1.3 million at December 31, 2011 and 2010, respectively.

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. Sales to Panasonic Avionics in the Aerospace segment accounted for approximately 38.1% of sales in 2011, 26.5% of sales in 2010 and 19.4% of sales in 2009. Accounts receivable from this customer at December 31, 2011 and 2010 were approximately \$9.9 million and \$6.5 million, respectively. In the Aerospace segment sales to the U.S. Government accounted for approximately 6.2% of Aerospace segment sales in 2011, 10.9% of sales in 2010 and 8.1% of sales in 2009. In the Test Systems segment sales to the U.S. Government accounted for approximately 51.7% of the Test System segment's sales in 2011 and 61.2% of sales in 2010 and 69.4% of sales in 2009. Accounts receivable from this customer at December 31, 2011 and 2010 were \$3.9 million and \$7.0 million, respectively.

The Company's property, plant and equipment are all located in North America.

**NOTE 19 ACQUISITIONS**

In 2011, we completed one business combination. On November 30, 2011 we acquired Ballard Technology, Inc. (Ballard) a manufacturer of avionics interface solutions. The Ballard business is included in our aerospace reporting segment. The addition of Ballard diversifies the products and technologies that Astronics offers. We purchased 100% of the outstanding stock of Ballard for approximately \$23.9 million in cash plus an additional purchase consideration of a maximum of \$5.5 million subject to meeting certain revenue growth targets over the next five years. The additional purchase consideration was recorded at its estimated fair value of approximately \$0.7 million at the date of acquisition based upon the Company's assessment of the probability of Ballard achieving the revenue growth targets. There was no change in the fair value estimate of the contingent consideration, from the date of acquisition to December 31, 2011.

The allocation of the purchase price paid for Ballard is based on fair values of the acquired assets and liabilities assumed of Ballard as of November 30, 2011.

The allocation of purchase price based on appraised fair values was as follows:

| (In thousands)              |           |
|-----------------------------|-----------|
| Current Assets              | \$ 4,173  |
| Fixed Assets                | 106       |
| Purchased Intangible Assets | 9,600     |
| Goodwill                    | 12,023    |
| Current Liabilities         | (1,256)   |
| Total Purchase Price        | \$ 24,646 |



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The amounts allocated to the purchased intangible assets consist of the following:

| (In thousands)                     | Weighted<br>Average Life | Acquisition<br>Fair Value |
|------------------------------------|--------------------------|---------------------------|
| Trade Names                        | 10 Years                 | \$ 900                    |
| Technology                         | 10 Years                 | 2,100                     |
| Backlog and Customer Relationships | 1-14 Years               | 6,600                     |
|                                    |                          | \$ 9,600                  |

Substantially all of the goodwill and purchased intangible assets are expected to be deductible for tax purposes over 15 years. The goodwill of \$12.0 million is all attributable to the Aerospace segment at the acquisition date. The goodwill recognized is comprised primarily of intangible assets that do not require separate recognition. The goodwill balance has remained unchanged at December 31, 2011 from the date of acquisition.

The following is a summary of the results of operations of Ballard included in the consolidated financial statements, in the Aerospace segment from the date of acquisition to December 31, 2011:

| (in thousands) | 2011     |
|----------------|----------|
| Sales          | \$ 412   |
| Operating Loss | \$ (390) |

The following summary combines the consolidated results of operations of the Company with those of the acquired business for the year ended December 31, 2011 and 2010 as if the acquisition took place at the beginning of 2010. The pro forma consolidated results include the impact of certain adjustments, including increased interest expense on acquisition debt, amortization of purchased intangible assets and income taxes.

| (in thousands, except earnings per share) | 2011       | 2010       |
|---|------------|------------|
| Sales                                     | \$ 239,223 | \$ 204,637 |
| Net income (loss)                         | 24,067     | 15,993     |
| Basic earnings (loss) per share           | 1.98       | 1.34       |
| Diluted earnings (loss) per share         | 1.86       | 1.29       |

The pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been in effect for the year ended December 31, 2011 and 2010. In addition, they are not intended to be a projection of future results.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES****Disclosure Controls and Procedures**

The Company carried out an evaluation, under the supervision and with the participation of Company Management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and

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procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures are effective as of the end of the period covered by this report, to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is made known to them on a timely basis, and that these disclosure controls and procedures are effective to ensure such information is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

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**Management's report on Internal Control over Financial Reporting**

See the report appearing under item 8, Financial Statements and Supplemental Data, Management's Report on Internal Control Over Financial Reporting.

**Changes in Internal Control over Financial Reporting**

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

**ITEM 9B. OTHER INFORMATION**

On March 6, 2012 the Company adopted the Astronics Corporation Supplemental Retirement Plan II.

See Exhibit 10.18 of Item 15, Exhibits and Financial Statement Schedule.

**Table of Contents****PART III****ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information regarding directors is contained under the captions Election of Directors and Security Ownership of Certain Beneficial Owners and Management is incorporated herein by reference to the 2012 Proxy to be filed within 120 days of the end of our fiscal year is incorporated herein by reference.

The executive officers of the Company, their ages, their positions and offices with the Company, and the date each assumed their office with the Company, are as follows:

| <b>Name and Age</b>                                | <b>Positions and Offices with Astronics</b>   | <b>Year First Elected Officer</b> |
|--|---|-----------------------------------|
| <b>of Executive Officer</b><br>Peter J. Gundermann | President, Chief Executive Officer and Director of the Company                          | 2001                              |
| Age 49<br>David C. Burney                          | Vice President-Finance, Treasurer, Secretary and Chief Financial Officer of the Company | 2003                              |
| Age 49<br>Mark A. Peabody                          | Astronics Advanced Electronic Systems Executive Vice President                          | 2010                              |
| Age 52<br>James S. Kramer                          | Luminescent Systems Inc. Executive Vice President                                       | 2010                              |

Age 48  
The principal occupation and employment for all executives listed above for the past five years has been with the Company.

The Company has adopted a Code of Business Conduct and Ethics that applies to the Chief Executive Officer, Chief Financial Officer as well as other directors, officers and employees of the Company. This Code of Business Conduct and Ethics is available upon request without charge by contacting Astronics Corporation, Investor Relations at (716) 805-1599. The Code of Business Conduct and Ethics is also available on the Investor Relations section of the Company's website at [www.astronics.com](http://www.astronics.com)

**ITEM 11. EXECUTIVE COMPENSATION**

The information contained under the caption Executive Compensation and Summary Compensation Table in the Company's definitive Proxy Statement to be filed within 120 days of the end of our fiscal year is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information contained under the captions Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters and Executive Compensation in the Company's definitive Proxy Statement to be filed within 120 days of the end of our fiscal year is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS AND DIRECTOR INDEPENDENCE**

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The information contained under the captions Certain Relationships and Related Party Transactions and Director Independence and Proposal One: Election of Directors Board Independence in the Company's definitive Proxy Statement to be filed within 120 days of the end of our fiscal year is incorporated herein by reference.

### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information contained under the caption Audit and Non-Audit Fees in the Company's definitive Proxy Statement to be filed within 120 days of the end of our fiscal year is incorporated herein by reference.



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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE**

(a) The documents filed as a part of this report are as follows:

1. *The following financial statements are included:*
  - (i) Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009
  - (ii) Consolidated Balance Sheets as of December 31, 2011 and 2010
  - (iii) Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009
  - (iv) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2011, 2010 and 2009
  - (v) Notes to Consolidated Financial Statements
  - (vi) Reports of Independent Registered Public Accounting Firm
  - (vii) Management's Report on Internal Control Over Financial Reporting

2. *Financial Statement Schedule*

Schedule II. Valuation and Qualifying Accounts

All other consolidated financial statement schedules are omitted because they are inapplicable, not required, or the information is included elsewhere in the consolidated financial statements or the notes thereto.

3. Exhibits

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 3 (a)              | Restated Certificate of Incorporation, as amended; filed March 3, 2011   |
| (b)                | By-Laws, as amended, incorporated by reference to the registrant's 2008 Annual Report on Form 10-K, Exhibit 3(b), filed March 11, 2009                         |
| 4.1 (a)            | \$60,000,000 Credit Agreement with HSBC Bank USA, dated May 13, 2008, incorporated by reference to the registrant's Form 8-K, Exhibit 10.1, filed May 16, 2008 |
| (b)                |  |

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Amended and Restated Credit Agreement with HSBC Bank USA, dated January 27, 2009, incorporated by reference to the registrant's Form 8-K, Exhibit 10.1, filed January 30, 2009

- (c) Amendment No. 2 to the Amended and Restated Credit Agreement dated as of December 23, 2009 among Astronics Corporation, the Lenders party thereto, HSBC Bank USA, National Association., incorporated by reference to the registrant's Form 8-K, Exhibit 10.1, filed December 28, 2009
- (d) Second Amended and Restated Credit Agreement, dated as of August 31, 2011, among Astronics Corporation, HSBC Bank USA, National Association, Bank of America, N.A. and Manufacturers and Traders Trust Company, incorporated by reference to the registrant's Form 8-K, Exhibit 10.1, filed September 1, 2011
- 10.1\* Restated Thrift and Profit Sharing Retirement Plan, incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.1, filed March 3, 2011
- 10.2\* 1992 Incentive Stock Option Plan, incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.2, filed March 3, 2011
- 10.3\* 1997 Director Stock Option Plan, incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.3, filed March 3, 2011
- 10.4\* 2001 Stock Option Plan, incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.4, filed March 3, 2011

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| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 10.5*              | Non-Qualified Supplemental Retirement Plan, incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.5, filed March 3, 2011   |
| 10.6*              | Employment Termination Benefits Agreement dated December 16, 2003 between Astronics Corporation and Peter J. Gundermann, President and Chief Executive Officer of Astronics Corporation, incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.6, filed March 3, 2011  |
| 10.7*              | Employment Termination Benefits Agreement dated December 16, 2003 between Astronics Corporation and David C. Burney, Vice President and Chief Financial Officer of Astronics Corporation, incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.7, filed March 3, 2011                                       |
| 10.8*              | 2005 Director Stock Option Plan, incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.8, filed March 3, 2011  |
| 10.9               | Stock Purchase Agreement By and Among Astronics Corporation, DME Corporation and the Shareholders of DME Corporation dated January 28, 2009, incorporated by reference to the registrant's Form 8-K, Exhibit 10.1, filed January 30, 2009  |
| 10.10*             | Supplemental Retirement Plan Amended and Restated, March 6, 2012, filed herewith.  |
| 10.11*             | First Amendment of the Employment Termination Benefits Agreement dated December 30, 2008 between Astronics Corporation and Peter J. Gundermann, President and Chief Executive Officer of Astronics, incorporated by reference to the registrant's 2008 Annual Report on Form 10-K, Exhibit 10.11, filed March 11, 2009 of Astronics Corporation. |
| 10.12*             | First Amendment of the Employment Termination Benefits Agreement dated December 30, 2008 between Astronics Corporation and David C. Burney, Vice President and Chief Financial Officer of Astronics Corporation, incorporated by reference to the registrant's 2008 Annual Report on Form 10-K, Exhibit 10.12, filed March 11, 2009              |
| 10.13*             | Employment Termination Benefits Agreement Dated February 18, 2005 between Astronics Corporation and Mark A. Peabody, Executive Vice President of Astronics Advanced Electronic Systems, Inc., incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.13, filed March 3, 2011                                  |
| 10.14*             | First Amendment of the Employment Termination Benefits Agreement dated December 31, 2008 between Astronics Corporation and Mark A. Peabody, Executive Vice President of Astronics Advanced Electronic Systems, Inc., incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.14, filed March 3, 2011           |
| 10.15*             | Form of Indemnification Agreement as executed by each of Astronics Corporation's Directors and Executive Officers, incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.15, filed March 3, 2011   |
| 10.16              | Stock Purchase Agreement by and among Ballard Technology, Inc. and its Shareholders (the Sellers) and Astronics Corporation (Purchaser) Dated as of November 30, 2011, incorporated by reference to the registrant's Form 8-K, Exhibit 10.1, filed November 30, 2011.  |
| 10.17*             | 2011 Employee Stock Option Plan, incorporated by reference to the registrant's Form S-8, Exhibit 4.1 filed on August 4, 2011.  |
| 10.18*             | Supplemental Retirement Plan II, filed herewith.   |
| 21**               | Subsidiaries of the Registrant; filed herewith.  |
| 23**               | Consent of Independent Registered Public Accounting Firm; filed herewith.  |

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| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 31.1**             | Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002; filed herewith |
| 31.2**             | Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002; filed herewith |
| 32**               | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002; filed herewith                                  |
| 101.INS**          | XBRL Instance Document   |
| 101.SCH**          | XBRL Taxonomy Extension Schema Document  |
| 101.CAL**          | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF**          | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB**          | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE**          | XBRL Taxonomy Extension Presentation Linkbase Document   |

\* Identifies a management contract or compensatory plan or arrangement as required by Item 15(a) (3) of Form 10-K.

\*\* Submitted electronically herewith

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## SCHEDULE II Valuation and Qualifying Accounts

**SCHEDULE II****Valuation and Qualifying Accounts**

| <b>Year</b><br>(In thousands) | <b>Description</b>               | <b>Balance at the<br/>Beginning<br/>of<br/>Period</b> | <b>Acquisitions</b> | <b>Charged to<br/>Cost and<br/>Expense</b> | <b>(Write-Offs)<br/>Recoveries<br/>/<br/>Other</b> | <b>Balance at<br/>End of<br/>Period</b> |
|-------------------------------|----------------------------------|---|---------------------|--|--|---|
| 2011                          | Allowance for Doubtful Accounts  | \$ 274  | \$                  | \$ 466                                     | \$ (95)  | \$ 645                                  |
|                               | Reserve for Inventory Valuation  | 11,183  |                     | 336  | (920)  | 10,599                                  |
|                               | Deferred Tax Valuation Allowance | 890   |                     | 531  | 477  | 1,898                                   |
| 2010                          | Allowance for Doubtful Accounts  | 372   |                     | 17   | (115)  | 274                                     |
|                               | Reserve for Inventory Valuation  | 11,621  |                     | 1,117                                      | (1,555)  | 11,183                                  |
|                               | Deferred Tax Valuation Allowance | 731   |                     | 264  | (105)  | 890                                     |
| 2009                          | Allowance for Doubtful Accounts  | 305   | 20                  | (22)                                       | 69   | 372                                     |
|                               | Reserve for Inventory Valuation  | 10,465  | 443                 | 1,036                                      | (323)  | 11,621                                  |
|                               | Deferred Tax Valuation Allowance | 680   |                     | 62   | (11)   | 731                                     |

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned; thereunto duly authorized, on March 7, 2012.

**Astronics Corporation**

By /s/ Peter J. Gundermann  
Peter J. Gundermann President

By /s/ David C. Burney

David C. Burney, Vice President-Finance, Chief Financial  
Officer and Treasurer

and Chief Executive Officer

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

| <b>Signature</b>                               | <b>Title</b>   | <b>Date</b>   |
|--|--|---------------|
| /s/ Peter J. Gundermann<br>Peter J. Gundermann | President and Chief Executive Officer<br>(Principal Executive Officer)   | March 7, 2012 |
| /s/ David C. Burney<br>David C. Burney         | Vice President-Finance, Chief Financial<br>Officer and Treasurer (Principal Financial<br>and Accounting Officer) | March 7, 2012 |
| /s/ Raymond W. Boushie<br>Raymond W. Boushie   | Director   | March 7, 2012 |
| /s/ Robert T. Brady<br>Robert T. Brady         | Director   | March 7, 2012 |
| /s/ John B. Drenning<br>John B. Drenning       | Director   | March 7, 2012 |
| /s/ Peter J. Gundermann<br>Peter J. Gundermann | Director   | March 7, 2012 |
| /s/ Kevin T. Keane<br>Kevin T. Keane           | Director   | March 7, 2012 |
| /s/ Robert J. McKenna<br>Robert J. McKenna     | Director   | March 7, 2012 |