

ASTRONICS CORP
Form 10-Q
May 07, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q**

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended April 3, 2010**

or

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____**

Commission File Number 0-7087

ASTRONICS CORPORATION

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of
incorporation or organization)

16-0959303

(IRS Employer Identification Number)

130 Commerce Way, East Aurora, New York

(Address of principal executive offices)

14052

(Zip code)

(716) 805-1599

(Registrant's telephone number, including area code)

NOT APPLICABLE

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

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

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

(Title of Class)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting

Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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As of April 3, 2010 10,804,347 shares of common stock were outstanding consisting of 8,565,743 shares of common stock (\$.01 par value) and 2,238,604 shares of Class B common stock (\$.01 par value).

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ASTRONICS CORPORATION

Consolidated Condensed Balance Sheets

April 3, 2010 with Comparative Figures for December 31, 2009

(dollars in thousands except per share amounts)

	April 3, 2010 (Unaudited)	December 31, 2009
Current Assets:		
Cash and Cash Equivalents	\$ 12,678	\$ 14,949
Accounts Receivable, net of allowance for doubtful accounts	30,831	30,560
Inventories	31,716	31,909
Other Current Assets	4,966	5,075
Total Current Assets	80,191	82,493
Property, Plant and Equipment net of accumulated depreciation and amortization of \$24,881 and \$23,859, respectively	31,174	31,243
Deferred Income Taxes	7,916	8,131
Other Assets	3,697	3,763
Intangible Assets, net of accumulated amortization	5,453	5,591
Goodwill	7,610	7,493
Total Assets	\$ 136,041	\$ 138,714
Current Liabilities:		
Current Maturities of Long-term Debt	\$ 5,245	\$ 6,238
Accounts Payable	6,982	7,405
Accrued Expenses	9,344	8,620
Accrued Income Taxes	727	242
Billings in Excess of Recoverable Costs and Accrued Profits on Uncompleted Contracts	1,738	2,179
Customer Advance Payments and Deferred Revenue	2,169	4,952
Total Current Liabilities	26,205	29,636
Long-term Debt	36,523	38,538
Other Liabilities	9,285	10,427
Total Liabilities	72,013	78,601
Shareholders' Equity:		
Common Stock, \$.01 par value Authorized 20,000,000 Shares, issued 8,744,181 in 2010 and 8,684,088 in 2009	87	87

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Convertible Class B Stock, \$.01 par value Authorized 5,000,000 Shares, issued 2,540,479 in 2010 and 2,571,245 in 2009	26	26
Additional Paid-in Capital	12,679	12,340
Accumulated Other Comprehensive Income (Loss)	18	(158)
Retained Earnings	53,499	50,099
	66,309	62,394
Less Treasury Stock: 480,313 shares in both 2010 and 2009	2,281	2,281
Total Shareholders Equity	64,028	60,113
Total Liabilities and Shareholders Equity	\$ 136,041	\$ 138,714

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION
Consolidated Condensed Statements of Operations and Retained Earnings

Three Months Ended April 3, 2010

With Comparative Figures for 2009

(Unaudited)

(dollars in thousands except per share data)

	Three Months Ended	
	April 3, 2010	April 4, 2009
Sales	\$ 46,936	\$ 50,015
Costs and Expenses:		
Cost of products sold	35,390	41,485
Gross Profit	11,546	8,530
Selling, general and administrative expenses	5,466	6,065
Income from operations	6,080	2,465
Interest expense, net of interest income of \$12 in 2010 and \$ in 2009	599	424
Other expense (income)	(38)	(13)
Income Before Income Taxes	5,519	2,054
Provision for Income Taxes	2,119	653
Net Income	\$ 3,400	\$ 1,401
Retained Earnings:		
Beginning of period	50,099	53,901
End of period	\$ 53,499	\$ 55,302
Earnings per share:		
Basic	\$ 0.31	\$ 0.13
Diluted	\$ 0.31	\$ 0.13
Average Common Shares Outstanding:		
Basic	10,797	10,612
Diluted	10,966	10,768

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION
Consolidated Condensed Statements of Cash Flows
 Three Months Ended April 3, 2010
 with Comparative Figures for 2009
 (Unaudited)
 (dollars in thousands)

	April 3, 2010	April 4, 2009
Cash Flows from Operating Activities:		
Net Income	\$ 3,400	\$ 1,401
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation and Amortization	1,239	1,740
Provision for Non-Cash Losses on Inventory and Receivables	502	230
Stock Compensation Expense	212	185
Deferred Tax Expense (Benefit)	801	(244)
Other	(59)	31
Cash Flows from Changes in Operating Assets and Liabilities:		
Accounts Receivable	(205)	(2,886)
Inventories	(212)	2,738
Accounts Payable	(441)	(451)
Other Current Assets and Liabilities	(713)	(345)
Billings in Excess of Recoverable Costs and Accrued Profits on Uncompleted Contracts	(441)	(596)
Customer Advanced Payments and Deferred Revenue	(2,783)	(89)
Income Taxes	494	868
Supplemental Retirement and Other Liabilities	(221)	334
 Cash Provided by Operating Activities	 1,573	 2,916
 Cash Flows from Investing Activities:		
Acquisition of Business		(40,655)
Capital Expenditures	(875)	(968)
Other	(40)	27
 Cash Used For Investing Activities	 (915)	 (41,596)
 Cash Flows from Financing Activities:		
Net Proceeds (Payments) Long-term Debt	(3,058)	37,943
Net Proceeds from Note Payable		200
Debt Acquisition Costs		(1,342)
Other	127	31
 Cash (Used For) Provided By Financing Activities	 (2,931)	 36,832
 Effect of Exchange Rates on Cash	 2	 (1)

Decrease in Cash and Cash Equivalents	(2,271)	(1,849)
Cash and Cash Equivalents at Beginning of Period	14,949	3,038
Cash and Cash Equivalents at End of Period	\$ 12,678	\$ 1,189

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION
Notes to Consolidated Condensed Financial Statements

April 3, 2010

(Unaudited)

1) Basis of Presentation

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

Operating Results

The results of operations for any interim period are not necessarily indicative of results for the full year. Operating results for the three month period ended April 3, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included in Astronics Corporation's 2009 annual report on Form 10-K.

Description of the Business

Astronics is a leading supplier of advanced, high-performance lighting systems, electrical power generation systems, aircraft safety systems, electronics 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, military markets, FAA/Airport, OEM suppliers, and aircraft operators around the world. 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, develops, manufactures and maintains communications and weapons test systems and training and simulation devices for military applications.

Principles of Consolidation

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

Revenue and Expense Recognition

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

In the Test Systems segment, revenue is recognized from long-term, fixed-price contracts using the percentage-of-completion method of accounting, measured by multiplying the estimated total contract value by the ratio of actual contract costs incurred to date to the estimated total contract costs. Substantially all long-term contracts are with U.S. government agencies and contractors thereto. The Company makes significant estimates involving its usage of percentage-of-completion accounting to recognize contract revenues. The Company periodically reviews contracts in process for estimates-to-completion, and revises estimated gross profit accordingly. While the 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 includes the costs to manufacture products such as direct materials and labor and manufacturing overhead as well as all engineering and developmental costs. Shipping and handling costs are expensed as incurred and are included in costs of products sold. The Company is engaged in a variety of engineering and design activities

as well as basic research and development activities directed to the substantial improvement or new application of the Company's existing technologies. These costs are expensed when incurred and included in cost of sales. Research and development, design and related engineering amounted to \$7.1 million and \$7.4 million for the three months ended April 3, 2010 and April 4, 2009 respectively.

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Selling, general and administrative expenses include costs primarily related to our sales and marketing departments and administrative departments.

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 financial assets and liabilities carried at fair value measured on a recurring basis as of April 3, 2010 and December 31, 2009:

(in thousands)	Asset	Liability	Level 1	Level 2	Level 3
Interest rate swaps					
April 3, 2010	\$	\$ (465)	\$	\$ (465)	\$
December 31, 2009		(373)		(373)	

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.

In accordance with the provisions of ASC Topic 350 Intangibles Goodwill and Other the Company estimates the fair value of reporting units, utilizing unobservable Level 3 inputs. Level 3 inputs require significant management judgment due to the absence of quoted market prices or observable inputs for assets of a similar nature.

At December 31, 2009, the fair value of goodwill and intangible assets classified using Level 3 inputs were as follows:

The fair value measurement of goodwill in the Test Systems reporting unit is \$2.4 million. Inputs used to calculate the fair value were a combination of revenue growth rates and profit margins based on internal forecasts, terminal value, and weighted-average cost of capital used to discount future cash flows. There was no change in fair value from December 31, 2009.

The fair value measurement of indefinite-lived trade name intangible assets in the Test Systems reporting unit is \$0.5 million. Inputs used to calculate the fair value were internal forecasts used to estimate discounted future cash flows. There was no change in fair value from December 31, 2009.

The fair value measurement of amortized intangible assets in the Test Systems reporting unit is \$3.5 million. Inputs used to calculate the fair value were internal forecasts used to estimate discounted future cash flows.

There was no change in fair value from December 31, 2009.

As of April 3, 2010, the Company concluded that no indicators of goodwill impairment existed and an interim test was not performed.

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The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, notes payable, long-term debt and interest rate swaps. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral and the Company does not hold or issue financial instruments for trading purposes. Due to their short-term nature the carrying value of cash and equivalents, accounts receivable, accounts payable, and notes payable 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 Company records all derivatives on the balance sheet at fair value with the related gains or losses deferred in shareholders' equity as a component of Accumulated Other Comprehensive Income (Loss) (AOCI). 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. At April 3, 2010, we had interest rate swaps consisting of the following:

- a) An interest rate swap with a notional amount of approximately \$2.9 million, entered into on 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 \$15.0 million. The swap effectively fixes the LIBOR rate at 2.115% 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.

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. All of the Company's cash flow hedges are considered to be highly effective. Amounts to be reclassified to income through the remainder of 2010 are not expected to be significant.

Long-term Debt and Notes Payable

The Company's obligations under the Credit Agreement are jointly and severally guaranteed by Astronics Advanced Electronic Systems Corp., Luminescent Systems, Inc. and DME Corporation, 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 had no balance outstanding on its revolving credit facility at April 3, 2010 and December 31, 2009, respectively. The revolving credit facility provides for borrowing up to \$35.0 million. For working capital requirements, the Company had available on its credit facility, \$32.6 million and \$15.5 million at April 3, 2010 and December 31, 2009, respectively. 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 \$13.5 million at April 3, 2010.

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 determining net income was insignificant for the periods ending April 3, 2010 and April 4, 2009.

Table of Contents**Income Taxes**

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 unrecognized 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 April 3, 2010 and December 31, 2009. The years under which we conducted our evaluation coincided with the tax years currently still subject to examination by major federal and state tax jurisdictions, those being 2005 through 2010.

Accounting Pronouncements Adopted in 2010

On January 1, 2010, the Company adopted the new provisions of ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures about Fair Value Measurements* (ASU No. 2010-06). ASU No. 2010-06 provides revised guidance on improving disclosures about valuation techniques and inputs to fair value measurements. The impact on the Company's disclosures was not significant.

2) Inventories

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

(in thousands)	April 3, 2010	December 31, 2009
Finished Goods	\$ 6,431	\$ 6,075
Work in Progress	5,399	3,275
Raw Material	19,886	22,559
	\$ 31,716	\$ 31,909

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

3) Goodwill and Intangible Assets

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

(in thousands)	December 31, 2009	Foreign Currency Translation	April 3, 2010
Aerospace	\$ 5,093	117	5,210
Test Systems	2,400		2,400
Total	\$ 7,493	117	7,610

The following table summarizes acquired intangible assets as follows:

	April 3, 2010		December 31, 2009	
Weighted	Gross Carrying	Accumulated	Gross Carrying	Accumulated

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(in thousands)	Average Life	Amount	Amortization	Amount	Amortization
Patents	12 Years	\$ 1,271	\$ 513	\$ 1,271	\$ 487
Trade Names	N/A	1,053		1,053	
Completed and Unpatented Technology	10 15 Years	3,177	781	3,177	718
Government Contracts	6 Years	347	298	347	284
Backlog and Customer Relationships	3 20 Years	3,385	2,188	3,385	2,153
Total Intangible Assets		\$ 9,233	\$ 3,780	\$ 9,233	\$ 3,642

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All acquired intangible assets other than goodwill and trade names are being amortized. Amortization expense was approximately \$0.1 million and \$0.6 million for the three months ended April 3, 2010 and April 4, 2009, respectively. Amortization expense for each of the next five years is estimated to be approximately \$0.4 million for the balance of 2010 and \$0.4 million for 2011, 2012, 2013 and 2014.

4) Comprehensive Income and Accumulated Other Comprehensive Income

The components of comprehensive income are as follows:

(in thousands)	Three Months Ended	
	April 3, 2010	April 4, 2009
Net income	\$ 3,400	\$ 1,401
Other comprehensive income:		
Foreign currency translation adjustments	214	57
Accumulated Retirement Liability Adjustment, net of tax of \$13 and \$17 in 2010 and 2009, respectively	23	30
Loss on derivatives, net of tax of \$31 in 2010 and \$14 in 2009	(61)	(25)
Comprehensive income	\$ 3,576	\$ 1,463

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

(in thousands)	April 3, 2010	December 31, 2009
Accumulated foreign currency translation	\$ 1,319	\$ 1,105
Accumulated loss on derivative adjustment	(303)	(242)
Accumulated retirement liability adjustment	(998)	(1,021)
Accumulated other comprehensive income	\$ 18	\$ (158)

5) Supplemental Retirement Plan and Related Post Retirement Benefits

The Company has a non-qualified supplemental retirement defined benefit plan for certain executives. The following table sets forth information regarding the net periodic pension cost for the plan.

(in thousands)	Three Months Ended	
	April 3, 2010	April 4, 2009
Service cost	\$ 10	\$ 13
Interest cost	82	91
Amortization of prior service cost	27	27
Amortization of net actuarial losses		8
Net periodic cost	\$ 119	\$ 139

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

Three Months Ended	
April 3,	April 4,

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(in thousands)	2010	2009
Service cost	\$ 1	\$ 2
Interest cost	13	13
Amortization of prior service cost	6	8
Amortization of net actuarial losses	3	3
Net periodic cost	\$ 23	\$ 26

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The Company has a significant concentration of business with two customers.

Sales to Panasonic Avionics Corporation amounted to approximately 31% and 18% of revenue during the first quarter 2010 and 2009, respectively. Accounts receivable from this customer amounted to \$5.7 and \$2.4 million as of April 3, 2010 and December 31, 2009, respectively.

Sales to the United States Government amounted to approximately 12% and 18% of revenue during the first quarter 2010 and 2009, respectively. Accounts receivable from this customer amounted to \$2.8 and \$4.7 million as of April 3, 2010 and December 31, 2009, respectively.

7) Product Warranties

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

(in thousands)	Three Months Ended	
	April 3, 2010	April 4, 2009
Balance at beginning of period	\$ 3,147	\$ 1,212
Warranties issued	217	20
Warranties settled	(306)	(28)
Reassessed warranty exposure	(613)	
Balance at end of period	\$ 2,445	\$ 1,204

8) Segment Information

Below are the sales and operating profit by segment for the three months ended April 3, 2010 and April 4, 2009 and a reconciliation of segment operating profit to earnings before income taxes. Operating profit is the net sales less cost of sales and other operating expenses excluding interest and other expenses and corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment.

(in thousands)	Three Months Ended	
	April 3, 2010	April 4, 2009
Sales		
Aerospace	\$ 43,190	\$ 41,818
Test Systems	3,746	8,197
Sales	\$ 46,936	\$ 50,015
Operating Profit and Margins		
Aerospace	\$ 6,742	\$ 3,395
	15.6%	8.1%
Test Systems	187	198
	5.0%	2.4%
Total Operating Profit	6,929	3,593

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Deductions from Operating Profit	14.8%	7.2%
Interest Expense	599	424
Corporate Expenses and Other	811	1,115
Income Before Income Taxes	\$ 5,519	\$ 2,054

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(in thousands)	April 3, 2010	December 31, 2009
Aerospace	\$ 93,009	\$ 92,472
Test Systems	15,168	16,073
Corporate	27,864	30,169
 Total Assets	 \$ 136,041	 \$ 138,714

9) Earnings Per Share

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

(in thousands)	Three Months Ended April 3, 2010	April 4, 2009
Basic earnings per share weighted average shares	10,797	10,612
Net effect of dilutive stock options	169	156
 Diluted earnings per share weighted average shares	 10,966	 10,768

10) Income Taxes

The effective tax rate was approximately 38.4% for the first quarter of 2010 and 31.8% for the first quarter of 2009. The effective tax rate for the first quarter of 2010 was impacted by an increase in the reserve against R&D tax credits in the amount of \$0.1 million. The lower effective rate in 2009 was due primarily to decreased foreign taxes of approximately \$0.1 million offset slightly by increases in state taxes.

11) Acquisition

On January 30, 2009, the Company acquired 100% of the common stock of DME Corporation (DME). DME is a designer and manufacturer of military test training and simulation equipment and aviation safety products. The following summary, prepared on a pro forma basis, combines the consolidated results of operations of the Company with those of the acquired business as if the acquisition took place on January 1, 2009. 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)	April 4, 2009 as reported	April 4, 2009 Proforma
Sales	\$ 50,015	\$ 54,764
Net Income	1,401	1,432
Basic earnings per share	0.13	0.13
Diluted earnings per share	0.13	0.13

The pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been in effect for the three months ended April 4, 2009. The pro forma results not intended to be a projection of future results.

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(The following should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Form 10-K for the year ended December 31, 2009.)

OVERVIEW

Astronics Corporation, through its subsidiaries Astronics Advanced Electronic Systems Corp., Luminescent Systems Inc., Luminescent Systems Canada Inc. and DME Corporation designs and manufactures electrical power generation systems, control and distribution systems, lighting systems and components, aircraft safety products and test, training and simulation systems. The Company operates in two distinct segments, Aerospace and Test Systems and has six principal facilities located in New York State, Washington State, New Hampshire, two in Florida and one in Quebec, Canada.

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

Key factors affecting our growth and profitability are the rate at which new aircraft are produced, government funding of military programs, our ability to have our products designed into the plans for new aircraft and the rates at which aircraft owners, including commercial airlines, refurbish or install upgrades to their aircraft. Once designed into a new aircraft, the spare parts business is frequently retained by the Company. Each of the markets that we serve is presenting opportunities for our product lines 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.

CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK

	Three Months Ended	
	April 3, 2010	April 4, 2009
Sales	\$ 46,936	\$ 50,015
Gross Margin	24.6%	17.1%
SG&A Expenses as a Percentage of Sales	11.6%	12.1%
Interest Expense	599	424
Effective Tax Rate	38.4%	31.8%
Net Earnings	3,400	1,401

Consolidated sales for the first quarter of 2010 decreased 6.2% to \$46.9 million compared to \$50.0 million for the same period last year. Increased Aerospace sales of \$1.4 million were more than offset by decreased Test Systems sales of \$4.5 million. Revenue in 2009 includes only two months of revenue from DME, which was acquired on January 30, 2009.

Consolidated gross margins improved from 17.1% in the first quarter of 2009 to 24.6% in the first quarter of 2010. The improved margins were a result of improved margins in our Aerospace segment as leverage was achieved from increased sales volumes and reductions to our cost structure as well as a favorable sales mix as compared with the first quarter of last year.

Selling, general and administrative and other (SG&A) expenses were approximately \$5.4 million, or 11.5% of sales in the first quarter of 2010, when compared to \$6.1 million, or 12.1% of sales in the same period last year. Last year's first quarter included higher amortization costs relating to the acquired DME intangible assets of \$0.5 million and costs related to that acquisition of \$0.2 million.

Net interest expense increased by \$0.2 million from \$0.4 million to \$0.6 million, due to increased interest rates and higher deferred financing fees when compared with the same period last year.

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The effective tax rate was approximately 38.4% for the first quarter of 2010 and 31.8% for the first quarter of 2009. The effective tax rate for the first quarter of 2010 was impacted by an increase in the reserve against R & D tax credits in the amount of \$0.1 million. The lower effective rate in 2009 was due primarily to decreased foreign taxes of approximately \$0.1 million offset slightly by increases in state taxes and the 2010 tax rate includes an increase to our reserve for research and development tax credits.

Net income for the first quarter of 2010 was \$3.4 million or \$0.31 per diluted share, an increase of \$2.0 million from \$1.4 million, or \$0.13 per diluted share in the first quarter of 2009. The earnings per share increase in 2010 was due to the increased net income compared with last year's first quarter.

SEGMENT RESULTS OF OPERATIONS AND OUTLOOK

Operating profit, as presented below, is sales less cost of sales and other operating expenses, excluding interest expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment. Operating profit is reconciled to earnings before income taxes in Note 8 of the Notes to Consolidated Condensed Financial Statements included in this report.

AEROSPACE

(In thousands)	Three Months Ended	
	April 3, 2010	April 4, 2009
Sales	\$ 43,190	\$ 41,818
Operating profit	\$ 6,742	\$ 3,395
Operating Margin	15.6%	8.1%
Total Assets	\$ 93,009	\$ 102,130
Backlog	\$ 83,116	\$ 85,400

Aerospace Sales by Market

(In thousands)	Three Months Ended	
	April 3, 2010	April 4, 2009
Commercial Transport	\$ 27,445	\$ 23,006
Military	8,398	10,486
Business Jet	5,592	6,522
FAA/Airport	1,755	1,804
	\$ 43,190	\$ 41,818

Aerospace Sales by Product Line

(In thousands)	Three Months Ended	
	April 3, 2010	April 4, 2009
Cabin Electronics	\$ 21,496	\$ 16,502
Aircraft Lighting	15,733	18,051
Airframe Power	4,206	5,461
Airfield Lighting	1,755	1,804
	\$ 43,190	\$ 41,818

The sales increase to the commercial transport market was a result of increased volume due in part to the timing of shipments and in part to a general improvement of the commercial transport market, as airlines increased their procurement and installation of in-flight entertainment and in-seat power systems. Sales to the business jet market were lower due to lower volumes, as the business jet manufacturers build rates were lower than last year and demand for our products decreased. Military sales are lower primarily as a result of the conclusion of shipments of our power conditioning unit for the Tactical Tomahawk missile in the third quarter of 2009 and lower shipment rates for lighting products.

Aerospace operating profit for the first quarter of 2010 was \$6.7 million, or 15.6% of sales, compared with \$3.4 million, or 8.1% of sales, in the same period last year. Margin improvement was due to the leverage provided on the increased sales volume, the effect of cost reductions and favorable product mix.

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2010 Outlook for Aerospace We are maintaining our sales forecast for 2010 for our Aerospace segment to be in the range of \$145 million to \$155 million.

TEST SYSTEMS

(In thousands)	Three Months Ended	
	April 3, 2010	April 4, 2009
Net sales	\$ 3,746	\$ 8,197
Operating profit	\$ 187	\$ 198
Operating Margin	5.0%	2.4%
Total Assets	\$ 15,168	\$ 49,104
Backlog	\$ 9,644	\$ 26,300

All of the Test Systems segment revenue is from the Military market. Sales for our Test Systems segment were \$3.7 million in the first quarter of 2010 compared to \$8.2 million in the first quarter of 2009. The decrease in the Test Systems segment sales reflects the low rate of new orders received during the past year and the resulting low backlog level compared to last year.

Operating profit was \$0.2 million in the first quarter of 2010 or 5.0% compared to \$0.2 million in the first quarter of 2009 or 2.4% of sales. Amortization costs decreased by \$0.4 million as compared with the same period last year and savings have been realized by cost reductions. Additionally, the operating profit reflects a reduction in our estimated warranty liability of \$0.7 million.

2010 Outlook for Test Systems We are maintaining our sales forecast for 2010 for our Test Systems segment to be in the range of \$25 million to \$35 million. Bookings improved over the fourth quarter of 2009 to \$3.6 million but remain low. The backlog at the end of the first quarter of 2010 is \$9.6 million. We remain hopeful that the opportunities we have identified will become part of our backlog during the year but the new order rate has been slower than expected. To achieve this level of sales for 2010 new sales orders need to increase during the next two quarters as compared with the first quarter of 2010. Our 2010 sales forecast for the Test Systems segment includes \$6.3 million of our backlog at the end of the first quarter and an additional \$10.0 million to \$20.0 million for new orders yet to be received.

LIQUIDITY

Cash provided by operating activities totaled \$1.6 million during the first three months of 2010, as compared with \$2.9 million of cash provided by operations during the first three months of 2009. The change was due primarily to the increased net income being offset by increased investment in net working capital components.

Cash used in investing activities was \$0.9 million in the first three months of 2010, a decrease in use of \$40.7 million when compared to \$41.6 million used in the first three months of 2009. This decrease was primarily due to the acquisition of DME in the prior year.

In the first three months of 2010 cash used by financing activities totaled \$2.9 million compared to cash provided by financing activities of \$36.8 million in the first three months of 2009. The change was due primarily to the additional debt in 2009 used to acquire DME and the use of cash in 2010 to pay down debt.

Our expectation for 2010 is that capital equipment expenditures will approximate \$2.5 million to \$3.5 million. Future capital requirements depend on numerous factors, including expansion of existing product lines and introduction of new products. Management believes that the Company's cash flow from operations and revolving credit facility will be sufficient to provide funding for future capital requirements.

The Company's obligations under its Credit Agreement are jointly and severally guaranteed by Astronics Advanced Electronic Systems Corp., Luminescent Systems, Inc. and DME Corporation, 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 had no balance outstanding on its revolving credit facility at April 3, 2010 and December 31, 2009, respectively. For working capital requirements, the Company had available on its credit facility, \$32.6 million and \$15.5 million at April 3, 2010 and December 31, 2009, respectively. 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 \$13.5 million at April 3, 2010. At April 3, 2010, the Company was in compliance with all of the covenants pursuant to the credit facility.

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BACKLOG

The Company's backlog at April 3, 2010 was \$92.8 million compared with \$85.4 million at December 31, 2009 and \$111.7 million at April 4, 2009.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Company's contractual obligations and commercial commitments have not changed materially from those disclosed in the Company's Form 10-K for the year ended December 31, 2009.

MARKET RISK

The Company believes that there have been no material changes in the current year regarding the market risk information for its exposure to currency exchange rates or interest rate fluctuations. Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 for a complete discussion of the Company's market risk.

CRITICAL ACCOUNTING POLICIES

Refer to the Company's annual report on Form 10-K for the year ended December 31, 2009 for a complete discussion of the Company's critical accounting policies.

RECENT ACCOUNTING PRONOUNCEMENTS

See Part 1, Note 1 to the Financial Statements Basis of Presentation, Accounting Pronouncements Adopted in 2010

FORWARD-LOOKING STATEMENTS

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Market Risk in Item 2, above.

Item 4. Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of April 3, 2010. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of April 3, 2010.

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None.

Item 1a Risk Factors.

In addition to other information set forth in this report, you should carefully consider the factors discussed in Part 1, Item 1A. Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2009, which could materially affect our business, financial condition or results of operations. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations.

In the Test Systems segment, revenue is recognized from long-term, fixed-price contracts using the percentage-of-completion method of accounting, measured by multiplying the estimated total contract value by the ratio of actual contract costs incurred to date to the estimated total contract costs. Substantially all long-term contracts are with U.S. government agencies and contractors thereto. The Company has significant estimates involving its usage of percentage-of-completion accounting to recognize contract revenues. 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 prospectively 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.

The Company has a significant concentration of business with two customers, Panasonic Avionics Corporation and the US Government, where a significant reduction in sales would negatively impact our sales and earnings. We provide Panasonic with cabin electronics products which, in total were approximately 31% of revenue during the 1st quarter of 2010. We provide the US Government with military products which, in total were approximately 12% of revenue during the 1st quarter of 2010.

Item 2. Unregistered sales of equity securities and use of proceeds.

(c) The following table summarizes the Company's purchases of its common stock for the quarter ended April 3, 2010:

Period	(a) Total number of shares Purchased	(b) Average Price Paid per Share	(c) Total number of shares Purchased as part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 - January 30, 2010				541,195
January 31 - February 27, 2010				541,195
February 28 - April 3, 2010				541,195
Total				541,195

Item 3. Defaults Upon Senior Securities.

None.

Item 5. Other Information.

None.

Item 6 Exhibits.

Exhibit 31.1 Section 302 Certification Chief Executive Officer

Exhibit 31.2 Section 302 Certification Chief Financial Officer

Exhibit 32. Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

ASTRONICS CORPORATION

(Registrant)

Date: May 7, 2010

By: /s/ David C. Burney
David C. Burney
Vice President-Finance and Treasurer
(Principal Financial Officer)