ASTRONICS CORP
Form 10-Q
November 04, 2008

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

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 27, 2008

or

o **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	**16-0959303**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

130 Commerce Way, East Aurora, New York	**14052**
(Address of principal executive offices)	(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 þ No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

Yes o No þ

On September 16, 2008, Astronics Corporation announced a one-for-four distribution of Class B Stock to holders of both Common and Class B Stock. Stockholders will receive one share of Class B Stock for every four shares of Common and Class B Stock held on the record date of October 6, 2008. All share quantities, share prices and per share data reported throughout this report have been restated to reflect the impact of this distribution.

As of September 27, 2008 10,262,164 shares of common stock were outstanding consisting of 6,921,804 shares of common stock ($.01 par value) and 3,340,360 shares of Class B common stock ($.01 par value).

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

ASTRONICS CORPORATION
Consolidated Balance Sheet
September 27, 2008
with Comparative Figures for December 31, 2007
(dollars in thousands except per share amounts)

	September 27, 2008 (Unaudited)	December 31, 2007
Current Assets:		
Cash and Cash Equivalents	$ 509	$ 2,818
Accounts Receivable, net of allowance for doubtful accounts of $514 in 2008 and in 2007	27,818	20,720
Inventories	42,661	36,920
Prepaid Expenses	1,443	1,982
Deferred Income Taxes	1,741	1,581
Total Current Assets	74,172	64,021
Property, Plant and Equipment, at cost	49,103	46,078
Less Accumulated Depreciation and Amortization	18,492	15,995
Net Property, Plant and Equipment	30,611	30,083
Deferred Income Taxes	863	991
Intangible Assets, net of accumulated amortization of $1,060 in 2008 and $884 in 2007	1,912	2,088
Other Assets	3,465	3,890
Goodwill	2,929	3,048
Total Assets	$ 113,952	$ 104,121

See notes to consolidated financial statements.

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ASTRONICS CORPORATION

Consolidated Balance Sheet

September 27, 2008

with Comparative Figures for December 31, 2007

(dollars in thousands except per share amounts)

	September 27, 2008 (Unaudited)	December 31, 2007
Current Liabilities:		
Current Maturities of Long-term Debt	$ 943	$ 951
Note Payable	4,000	7,300
Accounts Payable	10,710	7,667
Accrued Payroll and Employee Benefits	5,458	6,140
Customer Advance Payments and Deferred Revenue	7,450	7,822
Other Accrued Expenses	2,368	2,041
Total Current Liabilities	30,929	31,921
Long-term Debt	14,093	14,684
Supplemental Retirement Plan and Other Liabilities for Pension Benefits	6,857	6,808
Other Liabilities	1,396	1,476
Total Liabilities	53,275	54,889
Shareholders Equity:		
Common Stock, $.01 par value, authorized 20,000,000 shares, issued 7,600,242 in 2008, 7,511,744 in 2007	76	75
Class B Stock, $.01 par value, authorized 5,000,000 shares, issued 3,642,234 in 2008, 3,654,486 in 2007	36	36
Additional Paid-in Capital	9,215	7,833
Accumulated Other Comprehensive Loss	(621)	(541)
Retained Earnings	55,690	45,548
	64,396	52,951
Less Treasury Stock: 980,312 shares in 2008 and 2007	3,719	3,719
Total Shareholders Equity	60,677	49,232
Total Liabilities and Shareholders Equity	$ 113,952	$ 104,121

See notes to consolidated financial statements.

ASTRONICS CORPORATION

Consolidated Statement of Income and Retained Earnings

Nine Months Ended September 27, 2008
with Comparative Figures for 2007
(Unaudited)
(dollars in thousands except per share data)

	Nine Months Ended		Three Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Sales	$ 129,341	$ 121,967	$ 40,363	$ 37,724
Costs and Expenses:				
Cost of products sold	100,811	88,740	32,455	27,582
Gross Profit	28,530	33,227	7,908	10,142
Selling, general and administrative expenses	12,552	12,557	4,030	3,877
Interest expense, net of interest income	554	1,072	182	396
Other expense (income)	73	(11)	60	
Income Before Income Taxes	15,351	19,609	3,636	5,869
Provision for Income Taxes	5,209	6,287	1,257	1,743
Net Income	10,142	13,322	$ 2,379	$ 4,126
Retained Earnings:				
Beginning of period	45,548	30,179		
End of period	$ 55,690	$ 43,501		
Earnings per share:				
Basic	$ 0.99	$ 1.32	$ 0.23	$ 0.41
Diluted	$ 0.95	$ 1.25	$ 0.22	$ 0.38

See notes to consolidated financial statements.

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ASTRONICS CORPORATION
Consolidated Statement of Cash Flows
Nine Months Ended September 27, 2008
With Comparative Figures for 2007
(Unaudited)
(dollars in thousands)

	September 27, 2008	September 29, 2007
Cash Flows from Operating Activities:		
Net Income	$ 10,142	$ 13,322
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation and Amortization	2,989	2,447
Provision for Non-Cash Reserves on Inventory and Receivables	664	(76)
Stock Compensation Expense	641	610
Deferred Tax Benefit	(91)	(305)
Other	92	(231)
Cash Flows from Changes in Operating Assets and Liabilities:		
Accounts Receivable	(7,225)	(6,640)
Inventories	(6,505)	(5,645)
Prepaid Expenses	(326)	(652)
Accounts Payable	3,074	(3,742)
Accrued Expenses	(391)	1,583
Customer Advanced Payments and Deferred Revenue	(372)	(351)
Income Taxes	776	943
Supplemental Retirement and Other Liabilities	169	100
Cash Provided By Operating Activities	3,637	1,363
Cash Flows from Investing Activities:		
Capital Expenditures	(3,188)	(7,566)
Other	(88)	(172)
Cash Used For Investing Activities	(3,276)	(7,738)
Cash Flows from Financing Activities:		
New Long-term Debt		6,000
Unexpended Industrial Bond Proceeds	422	(1,282)
Principal Payments on Long-term Debt	(534)	(538)
Proceeds from Note Payable	8,400	20,500
Payments on Note Payable	(11,700)	(18,200)
Proceeds from Exercise of Stock Options	294	332
Income Tax Benefit from Exercise of Stock Options	448	178
Cash (Used For) Provided By Financing Activities	(2,670)	6,990

Net (Decrease) Increase in Cash and Cash Equivalents	(2,309)	615
Cash at Beginning of Period	2,818	222
Cash at End of Period	$ 509	$ 837

See notes to consolidated financial statements.

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ASTRONICS CORPORATION

Notes to Consolidated Financial Statements

September 27, 2008

(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.

The results of operations for any interim period are not necessarily indicative of results for the full year. Operating results for the nine month period ended September 27, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

The balance sheet at December 31, 2007 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.

On September 16, 2008, Astronics Corporation announced a one-for-four distribution of Class B Stock to holders of both Common and Class B Stock. Stockholders will receive one share of Class B Stock for every four shares of Common and Class B Stock held on the record date of October 6, 2008. All share quantities, share prices and per share data reported throughout this report have been restated to reflect the impact of this distribution.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS 157), which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement 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. SFAS 157 defines fair value based upon an exit price model.

Relative to SFAS 157, the FASB issued FASB Staff Positions (FSP) 157-1 and 157-2 and 157-3. FSP 157-1 amends SFAS 157 to exclude SFAS No. 13, Accounting for Leases, (SFAS 13) and its related interpretive accounting pronouncements that address leasing transactions, while FSP 157-2 delays the effective date of the application of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. (FSP) 157-3 addresses considerations in determining fair value of a financial asset when the market for that asset is not active.

We adopted SFAS 157 as of January 1, 2008, with the exception of the application of the statement to nonfinancial assets and nonfinancial liabilities. Nonfinancial assets and nonfinancial liabilities for which we have not applied the provisions of

SFAS 157 include those initially measured at fair value in a business combination. The impact of adopting SFAS 157 was not significant.

SFAS 157 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.

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The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of September 27, 2008(in thousands):

	Asset (Liability)	Level 1	Level 2	Level 3
Interest rate swaps	(114)		(114)	

Interest rate swaps are over-the-counter 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 February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115, (SFAS 159) which is effective for fiscal years beginning after November 15, 2007. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Unrealized gains and losses on items for which the fair value option is elected would be reported in earnings. We have adopted SFAS 159 and have elected not to measure any additional financial instruments and other items at fair value. Therefore, the adoption of SFAS 159 had no effect on our financial statements.

For further information, refer to the financial statements and footnotes thereto included in Astronics Corporation s 2007 annual report on Form 10-K.

2) Stock Based Compensation

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.

The Company accounts for its stock options following SFAS 123(R), Share-Based Payment, applying the modified prospective method. Under the modified prospective method, the Company is required to record equity-based compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards outstanding as of the date of adoption. 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. 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 nine 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 fair value of stock options granted was estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average fair value of the options was $6.82 for options granted during the nine months ended September 27, 2008 and was $6.28 for options granted during the nine months ended September 29, 2007. The following table provides the range of assumptions used to value stock options granted during the nine months ended September 27, 2008 and September 29, 2007.

	Nine Months Ended	
	Sept. 27, 2008	Sept. 29, 2007
Expected volatility	0.376	0.340
Risk-free rate	3.08%	4.50%
Expected dividends	0.00%	0.00%
Expected term (in years)	7 Years	7 Years

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 table below reflects the impact stock compensation expense had on net earnings for the three and nine months ended September 27, 2008 compared to the three and nine months ended September 29, 2007 as follows:

	Nine Months Ended		Three Months Ended	
(in thousands)	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Stock compensation expense	$ 641	$ 610	$ 224	$ 223
Tax benefit	(74)	(100)	(29)	(41)
Stock compensation expense, net of tax	$ 567	$ 510	$ 195	$ 182

A summary of the Company s stock option activity and related information for the nine months ended September 27, 2008 is as follows:

(Aggregate intrinsic value in thousands)	Number of Options	Weighted Average Exercise Price per option	Aggregate Intrinsic Value
Outstanding at December 31, 2007	996,549	$ 7.04	$ 11,537
Options Granted	15,625	15.29	52
Options Exercised	(77,714)	4.29	(1,114)
Outstanding at September 27, 2008	934,460	$ 7.41	$ 10,475
Exercisable at September 27, 2008	700,423	$ 6.10	$ 8,769

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 of $18.62 as of September 27, 2008, which would have been received by the option holders had all option holders exercised their options as of that date.

The fair value of options vested since December 31, 2007 is $0.2 million. At September 27, 2008, total compensation costs related to non-vested awards not yet recognized amounts to $1.0 million and will be recognized over a weighted average period of 2.1 years.

The following is a summary of weighted average exercise prices and contractual lives for outstanding and exercisable stock options as of September 27, 2008:

	Outstanding			Exercisable	
Exercise Price Range	Shares	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$4.07-$6.12	610,530	5.0	$ 4.50	515,270	$ 4.49
7.86-$10.73	179,280	5.6	8.51	125,520	8.79
$13.89-$15.29	110,662	8.5	14.14	59,633	14.36
$31.85	33,988	9.2	31.85		
	934,460			700,423	

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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 $21,000) 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 September 27, 2008, employees had subscribed to purchase approximately 33,799 shares at $29.90 per share on September 30, 2008. The fair value of these options is $9.11 per option. At September 27, 2008, approximately 24,300 of these shares had been withdrawn by the subscribing employees. As of September 30, 2008 all 33,799 shares were withdrawn. As of October 1, 2008, employees had subscribed to purchase 57,704 shares on September 30, 2009 for $15.13 per share. The fair value of these new options is $4.15 per share.

3) Goodwill and Intangible Assets

The following table summarizes the changes in the carrying amount of goodwill for 2008 and 2007:

(in thousands)	September 27, 2008	December 31, 2007
Balance beginning of period	$ 3,048	$ 2,668
Foreign currency translations	(119)	380
Balance end of period	$ 2,929	$ 3,048

The following table summarizes acquired intangible assets as follows:

		September 27, 2008		December 31, 2007	
(in thousands)	Weighted Average Life	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	12 Years	$ 1,271	$ 363	$ 1,271	$ 289
Trade Names	N/A	553		553	
Completed and Unpatented Technology	10 Years	487	179	487	142
Government Contracts	6 Years	347	212	347	168
Backlog	4 Years	314	306	314	285
Total Intangible Assets		$ 2,972	$ 1,060	$ 2,972	$ 884

Amortization is computed on the straight-line method for financial reporting purposes. Amortization expense was $0.1 million and $0.1 million for the three months ended September 27, 2008 and September 29, 2007 respectively and was $0.2 million and $0.2 million for the nine months ended September 27, 2008 and September 29, 2007, respectively. Amortization expense for each of the next five years will amount to approximately $0.2 million for each of the years ending December 31, 2008, 2009, 2010 and 2011 and $0.1 million for 2012.

4) Inventories

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

(in thousands)	September 27, 2008	December 31, 2007
Finished Goods	$ 6,301	$ 7,226
Work in Progress	10,541	8,553
Raw Material	25,819	21,141
	$ 42,661	$ 36,920

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5) Comprehensive Income and Accumulated Other Comprehensive Income

The components of comprehensive income are as follows:

	Nine Months Ended		Three Months Ended	
(in thousands)	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Net income	$ 10,142	$ 13,322	$ 2,379	$ 4,126
Other comprehensive income:				
Foreign currency translation adjustments	(187)	453	(105)	215
Accumulated Retirement Liability Adjustment	84	72	28	24
Gain (Loss) on derivatives	23	(8)	12	(40)
Comprehensive income	$ 10,062	$ 13,839	$ 2,314	$ 4,325

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

(in thousands)	September 27, 2008	December 31, 2007
Accumulated foreign currency translation	$ 1,078	$ 1,265
Accumulated retirement liability adjustment	(1,626)	(1,710)
Accumulated loss on derivative adjustment	(73)	(96)
Accumulated other comprehensive income	$ (621)	$ (541)

6) Earnings Per Share

The following table sets forth the computation of earnings per share:

	Nine Months Ended		Three Months Ended	
(in thousands, except per share data)	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Net Income	$ 10,142	$ 13,322	$ 2,379	$ 4,126
Basic earnings per share weighted average shares	10,227	10,075	10,247	10,081
Net effect of dilutive stock options	454	543	441	588
Diluted earnings per share weighted average shares	10,681	10,618	10,688	10,669
Basic earnings per share	$ 0.99	$ 1.32	$ 0.23	$ 0.41
Diluted earnings per share	$ 0.95	$ 1.25	$ 0.22	$ 0.38

7) 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.

	Nine Months Ended		Three Months Ended	
(in thousands)	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Service cost	$ 36	$ 30	$ 12	$ 10

Interest cost	267	240	89	80
Amortization of prior service cost	81	81	27	27
Amortization of net actuarial losses	21	3	7	1
	$ 405	$ 354	$ 135	$ 118

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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:

	Nine Months Ended		Three Months Ended	
(in thousands)	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Service cost	$ 6	$ 6	$ 2	$ 2
Interest cost	36	33	12	11
Amortization of prior service cost	24	24	8	8
Amortization of net actuarial losses	6	6	2	2
	$ 72	$ 69	$ 24	$ 23

8) Income Taxes

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 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 FIN 48 as of January 1, 2007, 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. The Company believes that its income tax filing positions and deductions will be sustained on audit. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48, and, the Company was not required to record a cumulative effect adjustment related to the adoption of FIN 48.

In the future, 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 September 27, 2008. In years previous, any interest and penalties were insignificant and recorded as income tax expense. 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 2007, 2006 and 2005.

Prior to the adoption of FIN 48, the Company recorded accruals for tax contingencies and related interest when it was probable that a liability had been incurred and the amount of the contingency could be reasonably estimated based on specific events such as an audit or inquiry by a taxing authority.

9) Sales To Major Customers

The Company has a significant concentration of business with one customer. Sales to Panasonic Avionics Corporation amounted to approximately 25.5% and 27.5% of revenue during the nine months ended September 27, 2008 and September 29, 2007, respectively. Accounts receivable from this customer amounted to $4.7 million and $4.0 million as of September 27, 2008 and December 31, 2007, respectively.

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10) 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:

	Nine Months Ended		Three Months Ended	
(in thousands)	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Balance at beginning of period	$ 1,164	$ 823	$ 1,199	$ 1,303
Warranties issued	870	761	389	88
Warranties settled	(811)	(563)	(365)	(370)
Balance at end of period	$ 1,223	$ 1,021	$ 1,223	$ 1,021

11) Contractual Obligations and Commitments

In the second quarter of 2008, the Company finalized the renewal for the Astronics AES building lease. The lease is effective from April 1, 2008 through March 31, 2013. Rent expense under this lease agreement will approximate $1.3 million in 2008, $1.7 million in 2009, $1.8 million each in 2010 and 2011, $1.9 million for 2012 and $0.5 million for 2013. The following table represents future minimum lease payment commitments (2008 amount is for the full year):

(In thousands)	**2008**	**2009**	**2010**	**2011**	**2012**
Minimum Lease Payments	$ 1,935	$ 1,921	$ 1,808	$ 1,800	$ 1,900

Other than the renewal of the building lease discussed above, the 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, 2007.

12) Long Term Debt and Notes Payable

Long-term debt consists of the following:

(In thousands)	September 27, 2008	December 31, 2007
Note Payable at Canadian Prime payable $15 monthly through 2016 plus interest (Canadian prime was 4.75% and 6.00% at September 27, 2008 and December 31, 2007, respectively)	$ 1,258	$ 1,438
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 (8.9% and 3.65% at September 27, 2008 and December 31, 2007, respectively)	4,050	4,450
Series 1999 Industrial Revenue Bonds issued through the Erie County, New York Industrial Development Agency payable $350 annually through 2019 with interest reset weekly (8.4% and 3.55% at September 27, 2008 and December 31, 2007, respectively)	3,645	3,645
Series 2007 Industrial Revenue Bonds issued through the Erie County, New York Industrial Development Agency payable $260 in 2010 and $340 from 2011 through 2027 with interest reset weekly (8.15% and 3.55% at September 27, 2008 and December 31, 2007, respectively)	6,000	6,000
Other	83	102

		15,036		15,635
Less current maturities		943		951
	$	14,093	$	14,684

Full year principal maturities of long-term debt are expected to be approximately $1.0 million in 2008 and 2009, $1.2 million in 2010 thru 2012.

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.

The Company entered into a $60 million Senior Secured Revolving Credit Facility Agreement between the Company and HSBC Bank USA National Association dated as of May 13, 2008. This revolving credit facility replaces the Company s previously existing credit facility entered into on January 5, 2007, which was amended on July 25, 2007 increasing the borrowing capacity of the facility to $25 million.

Pursuant to the Revolving Credit Facility, which matures on May 13, 2013, the Company s borrowing availability was increased from $25 million to $60 million. At September 27, 2008 the Company had $4.0 million outstanding on the Revolving Credit Facility. At the option of the Company, the outstanding loans under the Revolving Credit Facility bear interest at (i) LIBOR plus between 0.75% and 1.50% or (ii) the prime rate plus between negative 0.25% and 0.0%. The applicable interest rate is based upon the ratio of the Company s total funded debt as of a calculation date to consolidated earnings before interest, taxes, depreciation and amortization, calculated on a rolling four-quarter basis as of such calculation date (the Leverage Ratio). In addition, the Company is required to pay a commitment fee of between 0.125% and 0.25% on the unused portion of the Line Limit borrowing availability for the preceding quarter, also based on the Company s Leverage Ratio. The Facility will allow the Company to allocate up to $5.0 million of its availability under the Loan Agreement for the issuance of letters of credit. At September 27, 2008, the interest rate on the Revolving Credit Facility s outstanding $4.0 million balance consisted of the following, $2.4 million of the line is at the defined LIBOR rate (3.20%) and $1.6 million of the line is at the defined Prime rate (4.75%).

The Company s obligations under the Revolving Credit Facility are jointly and severally guaranteed by the Company s domestic subsidiaries as well as secured by a first priority lien on all of the Company s and domestic subsidiary s assets except for project assets financed with and which currently secure either of the letters of credit issued by the Agent in connection with existing bonds or directly secure the existing bonds. The Company believes it will continue to be compliant in the foreseeable future with all the credit facility covenants.

13) New Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(revised 2007), Business Combinations (SFAS No. 141R). SFAS No. 141R provides revised guidance on how acquirers recognize and measure the consideration transferred, identifiable assets acquired, liabilities assumed, non-controlling interests, and goodwill acquired in a business combination. SFAS No. 141R also expands required disclosures surrounding the nature and financial effects of business combinations. SFAS No. 141R is effective, on a prospective basis, for fiscal years beginning after December 15, 2008. Absent an acquisition, the Company believes that SFAS No. 141R will have no impact on its consolidated financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 expands quarterly disclosure requirements in

SFAS No. 133 about an entity s derivative instruments and hedging activities. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008. The Company is currently assessing the impact SFAS No. 161 will have on its financial statement disclosures.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles, or SFAS 162. This standard reorganizes the GAAP hierarchy in order to improve financial reporting by providing a consistent framework for determining what accounting principles should be used when preparing U.S. GAAP financial statements. SFAS 162 is scheduled to become effective 60 days after the SEC s approval of the Public Company Accounting Oversight Board s amendments to Interim Auditing Standard, AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The Company believes that this pronouncement will have no impact on its consolidated financial position and results of operations.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(The following should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations contained in the Company s Form 10-K for the year ended December 31, 2007.)

On September 16, 2008, Astronics Corporation announced a one-for-four distribution of Class B Stock to holders of both Common and Class B Stock. Stockholders will receive one share of Class B Stock for every four shares of Common and Class B Stock held on the record date of October 6, 2008. All share quantities, share prices and per share data reported throughout this report have been restated to reflect the impact of this distribution.

The following table sets forth income statement data as a percent of net sales:

	Nine Months Ended		Three Months Ended	
	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	77.9	72.8	80.4	73.1
Gross Profit	22.1	27.2	19.6	26.9
Selling, general and administrative and other expense	9.8	10.3	10.1	10.3
Interest expense	0.4	0.9	0.5	1.0
Total Selling, general and administrative, interest and other expense	10.2	11.2	10.6	11.3
Income before taxes	11.9%	16.0%	9.0%	15.6%

SALES

Sales for the third quarter of 2008 increased 7.0% to $40.4 million compared with $37.7 million for the same period last year. Sales to the commercial transport market were $25.5 million, as compared to $23.1 million for the same period of 2007, an increase of $2.4 million or 10.3%. This increase was due to increased volume primarily of our cabin electronics product line. Sales to the business jet market were $7.1 million, down $0.5 million, or 7.5%, compared with sales of $7.6 million for the same period in 2007. Decreased sales to the business jet market were due primarily to reduced shipments for the Eclipse 500 aircraft as the customer reduced its production rates during the third quarter. Revenue from the Eclipse program totaled $1.5 million in the third quarter of 2008 and $3.2 million in the third quarter of 2007. Sales to the military market were $7.6 million as compared to $6.7 million last year, an increase of $0.9 million or 12.2%. The increased sales to the military market were primarily due to increased volume.

Year to date sales in 2008 increased 6.0% to $129.3 million compared with $122.0 million for the same period last year. The sales growth was primarily attributable to increased military and business jets sales offset by a slight decrease in sales to the commercial transport market. Sales to the commercial transport market were down $1.8 million, or 2.3% to $77.6 million compared with $79.4 million last year. The decrease was a result of lower retro-fit sales to global airlines for in-flight entertainment systems and in-seat power systems that utilize our cabin electronics products. Demand for our cabin electronic products by the commercial transport market during the past several years has been driven by an extremely robust global retro fit market as international fleets upgraded their cabins installing in-flight entertainment and in-seat power systems as part of those upgrades. It is our expectation that over the next several years our cabin electronics sales will shift from aftermarket retro-fits increasingly to new aircraft. Sales to the business jet market were $26.7 million, up $4.7 million, or 21.6%, compared with $22.0 million for the same period in 2007. The increase was due primarily to increased volume driven by increased production rates of the

business jet airframe manufacturers. During the third quarter Eclipse Aviation significantly reduced their production schedule for the third quarter and balance of 2008. Astronics year to date sales to Eclipse through three quarters totaled $8.4 million in 2008 and $5.5 million in 2007. Sales to the military market were $24.2 million, up from $19.7 million in the same period of 2007. The increase is due primarily to increased volume for both new build aircraft and government spare parts deliveries.

EXPENSES AND MARGINS

Cost of products sold as a percentage of sales increased to 80.4% for the third quarter of 2008 as compared to 73.1% for the same period last year. The increased cost of goods sold as a percent of sales was primarily the result of increased engineering and development spending of $1.8 million as compared to the third quarter of 2007, product mix and increased costs relating to increases in infrastructure and capacity offset somewhat by the increased operating leverage from the $2.6 million sales increase as compared to the third quarter of 2007. Engineering and development expenses were $5.7 million in the third quarter of 2008 compared with $3.9 million in the third quarter of 2007. Additionally, cost of products sold in the third quarter of 2007 was positively impacted by an adjustment made during that quarter relating to year to date 2007 estimated manufacturing overhead cost absorption. The adjustment had the impact of reducing cost of goods sold for the third quarter of 2007 by $0.9 million.

Year to date cost of products sold as a percentage of sales increased to 77.9% as compared to 72.8% for the same period last year. The increase was primarily the result of increased engineering and development spending of $5.5 million compared to last year, product mix and increased operating costs primarily relating to increases in infrastructure and capacity offset somewhat by the increased operating leverage from the $7.3 million sales increase as compared to 2007.

Selling, general and administrative and other (SG&A) expenses were $4.1 million in the third quarter of 2008, remaining relatively flat when compared to $3.9 million in the same period last year. As a percent of sales, SG&A expense remained flat at 10.1% for the third quarter of 2008 as compared to 10.3% for the same period in 2007.

Year to date SG&A expenses were $12.6 million, remaining relatively flat when compared to $12.5 million in the same period last year. As a percent of sales, year to date SG&A expense was 9.8% in 2008 as compared to 10.3% for the same period in 2007 as sales grew at a faster pace than SG&A costs.

Net interest expense for the third quarter of 2008 was $0.2 million compared to 2007 which was $0.4 million. The decrease was a result of lower average interest rates and reduced borrowing on the revolving credit facility during the period.

Year to date net interest expense for the first nine months of 2008 was $0.6 million compared to 2007 which was $1.1 million. Net interest expense decreased due primarily to decreases in interest rates and reduced borrowing on the revolving credit facility during the period.

TAXES

The effective income tax rate for the third quarter of 2008 was 34.6% compared to 29.7% last year. The lower effective rate in 2007 was primarily due to an increase in the Qualified Production Activities Deduction for 2007 and lower foreign and state taxes.

The year to date effective income tax rate for 2008 was 33.9% compared to 32.1% last year. The lower effective rate in 2007 was primarily due to a higher Qualified Production Activities Deduction and lower foreign and state taxes for 2007.

NET INCOME AND EARNINGS

Net income for the third quarter of 2008 was $2.4 million or $0.22 per diluted share, a decrease of $1.7 million from $4.1 million, or $0.38 per diluted share in the third quarter of 2007. Year to date net income was $10.1 million or $0.95 per diluted share, a decrease of $3.2 million from net income of $13.3 million, or $1.25 per diluted share. The year to date earnings per share decrease is due primarily to the decrease in net income and was not significantly impacted by a change in shares outstanding.

LIQUIDITY

Cash provided by operating activities totaled $3.6 million during the first nine months of 2008, as compared with $1.4 million during the first nine months of 2007. The improvement in 2008 cash flow from operations as compared with last year was a result of reduced increases in net operating assets during 2008. Year to date 2008 the Company increased its investment in operating assets by $10.8 million compared to $14.4 million for the same period last year. This was offset by lower net income for the period of $10.1 million compared to $13.3 million for the same period last year.

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Cash used by investing activities was $3.3 million in the first nine months of 2008, a decrease of $4.4 million compared to $7.7 million used by investing activities in the first nine months of 2007. The 2008 decrease as compared to 2007 was due primarily to reduced capital expenditures. During 2007 the Company completed an expansion of its East Aurora New York facility which accounted for $3.1 million of the year to date capital expenditures during the first nine months of 2007.

In the first nine months of 2008 cash used by financing activities totaled $2.7 million as the Company used cash generated by operations to pay down debt by $3.8 million. During the first nine months of 2007 the Company borrowed $2.3 million on its line of credit to finance working capital growth and borrowed $6.0 million related to the long-term financing of its New York facility expansion.

On May 13, 2008 the Company entered into a five year, $60 million Senior Secured Revolving Credit Facility Agreement between the Company and HSBC Bank as lead bank. This new credit facility replaced the Company s $25 million revolving credit facility.

Pursuant to the Revolving Credit Facility, which matures on May 13, 2013, the Company s borrowing availability was increased from $25 million to $60 million. At September 27, 2008 the Company had $4.0 million outstanding on the Revolving Credit Facility. At the option of the Company, the outstanding loans under the Revolving Credit Facility bear interest at (i) LIBOR plus between 0.75% and 1.50% or (ii) the prime rate plus between negative 0.25% and 0.0%. The applicable interest rate is based upon the ratio of the Company s total funded debt as of a calculation date to consolidated earnings before interest, taxes, depreciation and amortization, calculated on a rolling four-quarter basis as of such calculation date (the Leverage Ratio). In addition, the Company is required to pay a commitment fee of between 0.125% and 0.25% on the unused portion of the Line Limit borrowing availability for the preceding quarter, also based on the Company s Leverage Ratio. The Facility will allow the Company to allocate up to $5.0 million of its availability under the Loan Agreement for the issuance of letters of credit. At September 27, 2008, the interest rate on the Revolving Credit Facility s outstanding $4.0 million balance consisted of the following, $2.4 million of the line is at the defined LIBOR rate (3.20%) and $1.6 million of the line is at the defined Prime rate (4.75%).

The Company s cash needs for working capital, capital equipment and debt service during 2008 and the foreseeable future, are expected to be met by cash flows from operations, and if necessary, utilization of its revolving credit facility.

BACKLOG AND OUTLOOK

The Company s backlog at September 27, 2008 was $92.1 million compared with $90.0 million at September 29, 2007.

Approximately $47 million of our $92 million backlog is scheduled to be shipped by the end of the current fiscal year. Each of the markets that we serve continues to present opportunities that we expect will provide continued growth for the Company. We are projecting 2008 sales to be approximately $175 million.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

In the third quarter of 2008, the Company finalized a renewal for the Redmond Washington building lease. The lease is effective from April 1, 2008 through March 31, 2013. Rent expense under this lease agreement will approximate $1.3 million for the full year of 2008, $1.7 million in 2009, $1.8 million each in 2010 and 2011, $1.9 million for 2012 and $0.5 million for 2013. Other than the renewal of the building lease discussed above, the 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, 2007.

MARKET RISK

Risk due to fluctuation in interest rates is a function of the Company s floating rate debt obligations, which total approximately $19.0 million at September 27, 2008 and $22.9 million at December 31, 2007. To offset a portion of the exposure to interest rate fluctuations, the Company entered into an interest rate swap in February 2006, on its Series 1999 New York Industrial Revenue Bond which effectively fixes the rate at 3.99% on this $3.6 million obligation through January 2016. As a result, a change of 1% in interest rates would impact annual net income by approximately $0.2 million.

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There have been no material changes in the current year regarding the market risk information for its exposure to currency exchange rates. The Company believes it has limited exposure to fluctuation in Canadian currency exchange rates to the U.S. dollar.

Refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2007 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, 2007 for a complete discussion of the Company s critical accounting policies. Other than the adoption of SFAS No. 157, Fair Value Measurements and
SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, (see Note 1 of the Notes to Consolidated Financial Statements) there have been no significant changes in the current year regarding critical accounting policies.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued SFAS No. 141(revised 2007), Business Combinations (SFAS No. 141R). SFAS No. 141R provides revised guidance on how acquirors recognize and measure the consideration transferred, identifiable assets acquired, liabilities assumed, non-controlling interests, and goodwill acquired in a business combination. SFAS No. 141R also expands required disclosures surrounding the nature and financial effects of business combinations. SFAS No. 141R is effective, on a prospective basis, for fiscal years beginning after December 15, 2008. Absent an acquisition, the Company believes that SFAS No. 141R will have no impact on its consolidated financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 expands quarterly disclosure requirements in
SFAS No. 133 about an entity s derivative instruments and hedging activities. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008. The Company is currently assessing the impact SFAS No. 161 will have on its financial statement disclosures.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles, or SFAS 162. This standard reorganizes the GAAP hierarchy in order to improve financial reporting by providing a consistent framework for determining what accounting principles should be used when preparing U.S. GAAP financial statements. SFAS 162 is scheduled to become effective 60 days after the SEC s approval of the Public Company Accounting Oversight Board s amendments to Interim Auditing Standard, AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The Company believes that this pronouncement will have no impact on its consolidated financial position and results of operations.

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 words believes, expects, intends, anticipates, may, will, estimate, potential and words of similar import 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; 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.

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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 September 27, 2008. Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of September 27, 2008. There were no changes in the Company s internal control over financial reporting during the third quarter of 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

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, 2007, 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.

Due to the general weakening of the national economy, certain of the lenders in our senior credit facility may have a weakened financial condition related to their lending and other financial relationships. As a result, they may tighten their lending standards, which could make it more difficult for us to borrow under our credit facility or to obtain other financing on favorable terms or at all. Also, any cash balances with our bank are insured only up to $250,000 by the FDIC, and any deposits in excess of this limit are also subject to risk. In addition, the weakening of the national economy and the recent reduced availability of credit may have decreased the financial stability of our major customers and suppliers. As a result, it may become more difficult for us to collect our accounts receivable and outsource products and services from our suppliers. If any of these conditions were to occur, our financial condition and results of operations would be adversely affected.

The Company has a significant concentration of business with Panasonic Avionics Corporation. A significant reduction in sales would negatively impact our sales and earnings. We provide Panasonic with cabin electronics products which, in total were approximately 25.5% of revenue during the nine months ended September 27, 2008.

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

(c) The following table summarizes the Company s purchases of its common stock for the quarter ended September 27, 2008:

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
June 28, 2008 July 26, 2008				541,195
July 27 August 23, 2008				541,195
August 24 September 27, 2008				541,195
Total				541,195

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Securities Holders.

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: November 4, 2008

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

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EXHIBIT INDEX

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