

ASTRONICS CORP
Form 10-Q
May 06, 2011

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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 2, 2011**

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

As of April 2, 2011, 10,993,501 shares of common stock were outstanding consisting of 8,870,403 shares of common stock (\$.01 par value) and 2,123,098 shares of Class B common stock (\$.01 par value).

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ASTRONICS CORPORATION

Consolidated Condensed Balance Sheets

April 2, 2011 with Comparative Figures for December 31, 2010

(dollars in thousands except per share amounts)

| | April 2, 2011 (Unaudited) | December 31, 2010 |
|--|---------------------------------|----------------------|
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 16,888 | \$ 22,709 |
| Accounts Receivable, net of allowance for doubtful accounts | 37,179 | 30,941 |
| Inventories | 39,875 | 37,763 |
| Other Current Assets | 6,098 | 5,727 |
| Total Current Assets | 100,040 | 97,140 |
| Property, Plant and Equipment net of accumulated depreciation and amortization of \$26,996 and \$25,990 respectively | 30,687 | 30,873 |
| Deferred Income Taxes | 6,664 | 6,883 |
| Other Assets | 3,120 | 3,342 |
| Intangible Assets, net of accumulated amortization | 4,930 | 5,040 |
| Goodwill | 7,712 | 7,610 |
| Total Assets | \$ 153,153 | \$ 150,888 |
| Current Liabilities: | | |
| Current Maturities of Long-term Debt | \$ 5,316 | \$ 5,314 |
| Accounts Payable | 8,803 | 10,583 |
| Accrued Expenses | 9,276 | 10,016 |
| Accrued Income Taxes | 1,928 | |
| Billings in Excess of Recoverable Costs and Accrued Profits on Uncompleted Contracts | 1,304 | 1,519 |
| Customer Advance Payments and Deferred Revenue | 2,913 | 3,853 |
| Total Current Liabilities | 29,540 | 31,285 |
| Long-term Debt | 31,239 | 33,264 |
| Other Liabilities | 8,985 | 9,124 |
| Total Liabilities | 69,764 | 73,673 |
| Shareholders' Equity: | | |
| Common Stock, \$.01 par value Authorized 20,000,000 Shares, issued 9,048,841 in 2011 and 8,972,795 in 2010 | 91 | 89 |

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| | | | |
|---|-------------------------------------|------------|------------|
| Convertible Class B Stock, \$.01 par value | Authorized 5,000,000 Shares, issued | | |
| 2,424,973 in 2011 and 2,454,580 in 2010 | | 24 | 25 |
| Additional Paid-in Capital | | 15,024 | 14,337 |
| Accumulated Other Comprehensive Income (Loss) | | 275 | (2) |
| Retained Earnings | | 70,256 | 65,047 |
| | | 85,670 | 79,496 |
| Less Treasury Stock: 480,313 shares in both 2011 and 2010 | | 2,281 | 2,281 |
| Total Shareholders' Equity | | 83,389 | 77,215 |
| | | | |
| Total Liabilities and Shareholders' Equity | | \$ 153,153 | \$ 150,888 |

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 2, 2011
 With Comparative Figures for 2010
 (Unaudited)
 (in thousands, except per share data)

| | Three Months Ended | |
|---|--------------------|---------------|
| | April 2, 2011 | April 3, 2010 |
| Sales | \$ 55,128 | \$ 46,936 |
| Costs and Expenses: | | |
| Cost of products sold | 40,622 | 35,390 |
| Gross Profit | 14,506 | 11,546 |
| Selling, general and administrative expenses | 6,345 | 5,428 |
| Income from operations | 8,161 | 6,118 |
| Interest expense, net of interest income of \$8 and \$12 for the three months ended 2011 and 2010, respectively | 537 | 599 |
| Income Before Income Taxes | 7,624 | 5,519 |
| Provision for Income Taxes | 2,415 | 2,119 |
| Net Income | 5,209 | 3,400 |
| Retained Earnings: | | |
| Beginning of period | 65,047 | 50,099 |
| End of period | \$ 70,256 | \$ 53,499 |
| Earnings per share: | | |
| Basic | \$ 0.47 | \$ 0.31 |
| Diluted | \$ 0.45 | \$ 0.31 |
| Average Common Shares Outstanding: | | |
| Basic | 10,981 | 10,797 |
| Diluted | 11,628 | 10,966 |

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION
Consolidated Condensed Statements of Cash Flows
 Three Months Ended April 2, 2011
 With Comparative Figures for 2010
 (Unaudited)
 (dollars in thousands)

| | April 2, 2011 | April 3, 2010 |
|--|---------------|---------------|
| Cash Flows from Operating Activities: | | |
| Net Income | \$ 5,209 | \$ 3,400 |
| Adjustments to Reconcile Net Income to Cash Provided by Operating Activities: | | |
| Depreciation and Amortization | 1,190 | 1,239 |
| Provision for Non-Cash Losses on Inventory and Receivables | 368 | 502 |
| Stock Compensation Expense | 243 | 212 |
| Deferred Tax Expense | 190 | 801 |
| Other | 37 | (99) |
| Cash Flows from Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | (6,154) | (205) |
| Inventories | (2,363) | (212) |
| Accounts Payable | (1,804) | (441) |
| Other Current Assets and Liabilities | (1,232) | (713) |
| Billings in Excess of Recoverable Costs and Accrued Profits on Uncompleted Contracts | (215) | (441) |
| Customer Advanced Payments and Deferred Revenue | (940) | (2,783) |
| Income Taxes | 2,033 | 494 |
| Supplemental Retirement and Other Liabilities | (17) | (221) |
| Cash (Used For) Provided By Operating Activities | (3,455) | 1,533 |
| Cash Flows from Investing Activities: | | |
| Capital Expenditures | (754) | (875) |
| Cash Used For Investing Activities | (754) | (875) |
| Cash Flows from Financing Activities: | | |
| Net Payments For Long-term Debt | (2,059) | (3,058) |
| Proceeds from Exercise of Stock Options | 289 | 105 |
| Income Tax Benefit from Exercise of Stock Options | 156 | 22 |
| Cash Used For Financing Activities | (1,614) | (2,931) |
| Effect of Exchange Rates on Cash | 2 | 2 |
| Decrease in Cash and Cash Equivalents | (5,821) | (2,271) |

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| | | |
|--|-----------|-----------|
| Cash and Cash Equivalents at Beginning of Period | 22,709 | 14,949 |
| Cash and Cash Equivalents at End of Period | \$ 16,888 | \$ 12,678 |

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION
Notes to Consolidated Condensed Financial Statements

April 2, 2011

(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 periods ended April 2, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The balance sheet at December 31, 2010 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 2010 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 and military markets as well as 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 approximately \$8.3 million and \$7.1 million for the three months ended April 2, 2011 and April 3, 2010, 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 2, 2011 and December 31, 2010:

| (in thousands) | Asset | Liability | Level 1 | Level 2 | Level 3 |
|---------------------|-------|-----------|---------|----------|---------|
| Interest rate swaps | | | | | |
| April 2, 2011 | \$ | \$ (442) | \$ | \$ (442) | \$ |
| December 31, 2010 | | (520) | | (520) | |

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

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

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

At April 2, 2011, 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, 2010.

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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, 2010.

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 undiscounted future cash flows. There was no change in fair value from December 31, 2010.

As of April 2, 2011, the Company concluded that no indicators of goodwill impairment existed and an interim test was not performed.

Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, notes payable, long-term debt and interest rate swaps. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral and the Company does not hold or issue financial instruments for trading purposes. Due to their short-term nature the carrying value of cash and equivalents, accounts receivable, accounts payable, and notes payable 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 as well as the lack of changes in the Company's credit history. 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) and any ineffectiveness is recorded to the income statement. 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 2, 2011, we had interest rate swaps consisting of the following:

- a) An interest rate swap with a notional amount of approximately \$2.6 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 January, 2016.
- b) An interest rate swap with a notional amount of \$11.0 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 2011 are not expected to be significant.

Long-term Debt and Notes Payable

The Company's Credit Agreement provides for a five-year, \$40 million senior secured term loan with interest at LIBOR plus between 2.75% and 4.50%. The proceeds of the term loan were used to finance the DME acquisition. The Credit Agreement also provided for a revolving credit line of \$35 million for working capital requirements and is committed for three years through January 2012, with interest at LIBOR plus between 2.75% and 4.50%.

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.

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The Company had no balance outstanding on its revolving credit facility at April 2, 2011 and December 31, 2010, 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, \$22.4 million and \$22.5 million at April 2, 2011 and December 31, 2010, 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 \$12.6 million at April 2, 2011.

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 2, 2011 and April 3, 2010.

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 2, 2011 and December 31, 2010. 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 through 2010.

Accounting Pronouncements Adopted in 2011

On January 1, 2011, the Company adopted the new provisions of Accounting Standards Update (ASU) No. 2010-28, *Intangibles Goodwill and Other (Topic 350)* (ASU 2010-28). ASU 2010-28 clarifies the requirement to test for impairment of goodwill. ASC Topic 350 has required that goodwill be tested for impairment under Step 2 if the carrying amount of a reporting unit exceeds its fair value. Under ASU 2010-28, when the carrying amount of a reporting unit is zero or negative an entity must assume that it is more likely than not that a goodwill impairment exists, perform an additional Step 2 test to determine whether goodwill has been impaired and calculate the amount of that impairment. The impact on the Company's financial statements was not significant.

On January 1, 2011, the Company adopted the new provisions of ASU No. 2010-29, *Disclosure of Supplementary Pro Forma information for Business Combinations* (Topic 805) (ASU 2010-29). ASC Topic 350 has required pro forma revenue and earnings disclosure requirements for business combinations. ASU 2010-29 clarifies the requirements for disclosure of supplementary pro forma information for business combinations. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments in this Update also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The impact on the Company's disclosures was not significant.

Loss contingencies

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

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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 2, 2011 | December 31, 2010 |
|------------------|------------------|----------------------|
| Finished Goods | \$ 8,351 | \$ 8,437 |
| Work in Progress | 8,298 | 6,274 |
| Raw Material | 23,226 | 23,052 |
| | \$ 39,875 | \$ 37,763 |

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 2011:

| (in thousands) | December 31, 2010 | Foreign Currency Translation | April 2, 2011 |
|----------------|----------------------|------------------------------------|---------------|
| Aerospace | \$ 5,210 | \$ 102 | \$ 5,312 |
| Test Systems | 2,400 | | 2,400 |
| Total | \$ 7,610 | \$ 102 | \$ 7,712 |

The following table summarizes acquired intangible assets as follows:

| (in thousands) | Weighted Average Life | April 2, 2011 | | December 31, 2010 | |
|-------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Patents | 12 Years | \$ 1,271 | \$ 611 | \$ 1,271 | \$ 586 |
| Trade Names | N/A | 1,053 | | 1,053 | |
| Completed and Unpatented Technology | 10 - 15 Years | 3,177 | 1,031 | 3,177 | 972 |
| Government Contracts | 6 Years | 347 | 347 | 347 | 342 |
| Backlog and Customer Relationships | 3 - 20 Years | 3,385 | 2,314 | 3,385 | 2,293 |
| Total Intangible Assets | | \$ 9,233 | \$ 4,303 | \$ 9,233 | \$ 4,193 |

All acquired intangible assets other than goodwill and trade names are being amortized. Amortization expense was approximately \$0.1 million and \$0.1 million for the three months ended April 2, 2011 and April 3, 2010, respectively. Amortization expense for each of the next five years is estimated to be approximately \$0.3 million for the balance of 2011 and \$0.4 million each for 2012, 2013, 2014 and 2016.

Table of Contents**4) Comprehensive Income and Accumulated Other Comprehensive Income**

The components of comprehensive income are as follows:

| (in thousands) | Three Months Ended | |
|---|--------------------|------------------|
| | April 2, 2011 | April 3, 2010 |
| Net income | \$ 5,209 | \$ 3,400 |
| Other comprehensive income: | | |
| Foreign currency translation adjustments | 204 | 214 |
| Accumulated Retirement Liability Adjustment, net of tax of \$12 and \$13 in 2011 and 2010, respectively | 23 | 23 |
| Gain (Loss) on derivatives, net of tax of \$27 and \$31 in 2011 and 2010, respectively | 50 | (61) |
| Comprehensive income | \$ 5,486 | \$ 3,576 |

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

| (in thousands) | April 2, | December 31, |
|---|----------|--------------|
| | 2011 | 2010 |
| Accumulated foreign currency translation | \$ 1,526 | \$ 1,322 |
| Accumulated loss on derivative adjustment | (288) | (338) |
| Accumulated retirement liability adjustment | (963) | (986) |
| Accumulated other comprehensive income (loss) | \$ 275 | \$ (2) |

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 2, 2011 | April 3, 2010 |
| Service cost | \$ 12 | \$ 10 |
| Interest cost | 82 | 82 |
| Amortization of prior service cost | 27 | 27 |
| Amortization of net actuarial losses | 3 | |
| Net periodic cost | \$ 124 | \$ 119 |

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 2, | April 3, |

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| (in thousands) | 2011 | 2010 |
|--|-------|-------|
| Service cost | \$ | \$ 1 |
| Interest cost | 7 | 13 |
| Amortization of prior service cost | 6 | 6 |
| Amortization of net actuarial (gains) losses | (1) | 3 |
| Net periodic cost | \$ 12 | \$ 23 |

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

Sales to Panasonic Avionics Corporation amounted to approximately 36% and 31% of consolidated sales for the three months ended April 2, 2011 and April 3, 2010, respectively. Accounts receivable from this customer amounted to \$10.4 million and \$6.5 million as of April 2, 2011 and December 31, 2010, respectively.

Sales to the United States Government amounted to approximately 12.1% and 11.6% of consolidated sales for the three months ended April 2, 2011 and April 3, 2010, respectively. Accounts receivable from this customer amounted to \$5.8 million and \$7.0 million as of April 2, 2011 and December 31, 2010, 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 2, 2011 | April 3, 2010 |
| Balance at beginning of period | \$ 1,699 | \$ 3,147 |
| Warranties issued | 535 | 217 |
| Warranties settled | (545) | (306) |
| Reassessed warranty exposure | (32) | (613) |
| Balance at end of period | \$ 1,657 | \$ 2,445 |

8) Segment Information

Below are the sales and operating profit by segment for the three months ended April 2, 2011 and April 3, 2010 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 2, 2011 | April 3, 2010 |
| Sales | | |
| Aerospace | \$ 50,199 | \$ 43,190 |
| Test Systems | 4,929 | 3,746 |
| Sales | \$ 55,128 | \$ 46,936 |
| Operating Profit and Margins | | |
| Aerospace | \$ 9,319 18.6% | \$ 6,742 15.6% |
| Test Systems | 17 0.3% | 187 5.0% |

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| | | |
|----------------------------------|----------------|----------------|
| Total Operating Profit | 9,336 16.9% | 6,929 14.8% |
| Deductions from Operating Profit | | |
| Interest Expense | 537 | 599 |
| Corporate Expenses and Other | 1,175 | 811 |
| Income Before Income Taxes | \$ 7,624 | \$ 5,519 |

Table of Contents**Identifiable Assets**

| (in thousands) | April 2, 2011 | December 31, 2010 |
|------------------|------------------|----------------------|
| Aerospace | \$ 104,533 | \$ 96,393 |
| Test Systems | 17,914 | 17,752 |
| Corporate | 30,706 | 36,743 |
| Total Assets | \$ 153,153 | \$ 150,888 |

9) Earnings Per Share

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

| (in thousands) | Three Months Ended April 2, 2011 | April 3, 2010 |
|--|--|------------------|
| Basic earnings per share weighted average shares | 10,981 | 10,797 |
| Net effect of dilutive stock options | 647 | 169 |
| Diluted earnings per share weighted average shares | 11,628 | 10,966 |

10) Income Taxes

The effective tax rate was approximately 31.7% and 38.4% for the three months ended April 2, 2011 and April 3, 2010, respectively. The effective tax rate for the first quarter of 2011 was impacted primarily by lower state and foreign taxes as well as the impact of R&D tax credits in the net amount of \$0.1 million.

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.

11) Legal Proceedings

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

On November 11, 2010, AE Liquidation Inc. filed an action in the Bankruptcy Court seeking to recover \$1.4 million of alleged preferential payments received from Eclipse Aviation Corporation. The Company disputes the Trustee's allegations and believes any loss, as a result of future proceedings is neither probable nor estimable at April 2, 2011, and we intend to defend this claim vigorously.

12) Recent Accounting Pronouncements

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

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

(The following should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Form 10-K for the year ended December 31, 2010.)

OVERVIEW

Astronics Corporation, through its subsidiaries Astronics Advanced Electronic Systems Corp., DME Corporation, Luminescent Systems Inc. and Luminescent Systems Canada Inc. 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

| (in thousands) | Three Months Ended | |
|--|--------------------|------------------|
| | April 2, 2011 | April 3, 2010 |
| Sales | \$ 55,128 | \$ 46,936 |
| Gross Margin | 26.3% | 24.6% |
| SG&A Expenses as a Percentage of Sales | 11.5% | 11.6% |
| Interest Expense, net of interest income | \$ 537 | \$ 599 |
| Effective Tax Rate | 31.7% | 38.4% |
| Net Earnings | \$ 5,209 | \$ 3,400 |

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

Our consolidated sales for the first quarter of 2011 increased by 17.5% to \$55.1 million compared to \$46.9 million for the same period last year. Aerospace sales increased by \$7.0 million while Test Systems revenue increased by \$1.2 million.

Consolidated gross margins improved to approximately 26.3% in the first quarter of 2011 compared to approximately 24.6% in the first quarter of 2010. The improved margins were a result of leverage that was achieved from increased sales volumes in the Aerospace segment, somewhat offset by decreased margins in the test system segment.

Selling, general and administrative (SG&A) expenses were approximately \$6.3 million, or 11.5% of sales in the first quarter of 2011, compared to \$5.4 million, or 11.6% of sales in the same period last year. The increase was due primarily to increased compensation costs and increased information technology spending incurred during the first quarter of 2011.

Interest Expense, net of interest income for the first quarter decreased by \$0.1 million from \$0.6 million to \$0.5 million, due primarily to reduced debt levels when compared with the same period last year.

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The effective tax rate was approximately 31.7% and 38.4% for the first quarter of 2011 and 2010 respectively. The effective tax rate for the first quarter of 2011 was impacted primarily by lower state and foreign taxes as well as the impact of R&D tax credits in the net amount of \$0.1 million.

Net income for the first quarter of 2011 was \$5.2 million or \$0.45 per diluted share, an increase of \$1.8 million from \$3.4 million, or \$0.31 per diluted share in the first quarter of 2010. The earnings per share increase in 2011 compared to 2010 is due to the increase in net income.

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 2, 2011 | April 3, 2010 |
| Sales | \$ 50,199 | \$ 43,190 |
| Operating profit | \$ 9,319 | \$ 6,742 |
| Operating Margin | 18.6% | 15.6% |
| | April 2, 2011 | Dec 31, 2010 |
| Total Assets | \$ 104,533 | \$ 93,009 |
| Backlog | \$ 90,056 | \$ 83,116 |

Aerospace Sales by Market

| (in thousands) | Three Months Ended | |
|----------------------|--------------------|------------------|
| | April 2, 2011 | April 3, 2010 |
| Commercial Transport | \$ 32,926 | \$ 27,445 |
| Military | 9,259 | 8,398 |
| Business Jet | 6,637 | 5,592 |
| FAA/Airport | 1,377 | 1,755 |
| | \$ 50,199 | \$ 43,190 |

Aerospace Sales by Product Line

| (in thousands) | Three Months Ended | |
|-------------------|--------------------|------------------|
| | April 2, 2011 | April 3, 2010 |
| Cabin Electronics | \$ 26,075 | \$ 21,496 |
| Aircraft Lighting | 18,171 | 15,733 |
| Airframe Power | 4,576 | 4,206 |
| Airfield Lighting | 1,377 | 1,755 |

\$ 50,199 \$ 43,190

Sales to the Commercial Transport market increased in the first quarter as a result of increased volume, due primarily to the increased installation of in-flight entertainment and in-seat power systems which increased demand for our Cabin Electronics products as well as increased demand for our Aircraft Lighting products. Military sales were up for the quarter, due primarily to higher volume of Aircraft Lighting sales to that market. Sales to the Business Jet market were higher due to increased volume from our Airframe Power product line. The sales decrease to the FAA/Airport market was due to lower volume.

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Aerospace operating profit for the first quarter of 2011 was \$9.3 million, or 18.6% of sales, compared with \$6.7 million, or 15.6% of sales, in the same period last year. Margin improvement was due to the leverage provided on the increased sales volume.

2011 Outlook for Aerospace We are increasing our sales forecast for 2011 for our Aerospace segment to be in the range of \$190 million to \$202 million. The Aerospace segment's backlog at the end of the first quarter of 2011 was \$90.1 million with approximately \$71.0 million expected to be shipped over the remaining part of 2011.

TEST SYSTEMS

| (in thousands) | Three Months Ended | |
|------------------|--------------------|------------------|
| | April 2, 2011 | April 3, 2010 |
| Sales | \$ 4,929 | \$ 3,746 |
| Operating profit | \$ 17 | \$ 187 |
| Operating Margin | 0.3% | 5.0% |
| | April 2, 2011 | Dec 31, 2010 |
| Total Assets | \$ 17,914 | \$ 17,752 |
| Backlog | \$ 9,043 | \$ 8,216 |

Sales in the 2011 first quarter were \$4.9 million compared to \$3.7 million for the same period in 2010.

Test Systems operating profit for the first quarter of 2011 was \$0.01 million, or 0.3% of sales, compared with an operating profit of \$0.2 million or 5.0% of sales, in the same period last year. The 2010 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 \$20 million to \$23 million. The Test Systems segment's backlog at the end of the first quarter of 2011 was \$9.0 million with approximately \$6.6 million expected to be shipped over the remaining part of 2011. New orders received during the quarter for the Test Systems segment totaled \$5.7 million.

LIQUIDITY

Cash used by operating activities totaled \$3.5 million during the first three months of 2011, as compared with \$1.5 million of cash provided by operations during the first three months of 2010. The change was due primarily to increased investment in net working capital components offset by increased net income.

Cash used in investing activities was \$0.8 million in the first three months of 2011, a decrease in use of \$0.1 million when compared to \$0.9 million used in the first three months of 2010. This decrease was primarily due to the timing of capital expenditures.

In the first three months of 2011 cash used for financing activities totaled \$1.6 million compared to cash used by financing activities of \$2.9 million in the first three months of 2010. The change was due primarily to lower principal payments on long term debt.

The Company has agreed on terms to purchase its leased manufacturing facility in Fort Lauderdale, Florida, as well as a new facility in Redmond, Washington. The purchases are expected to close in the second quarter and will cost a total of approximately \$10.3 million. The Company expects to spend an additional \$5 million to \$8 million over the next 18 months to build-out and occupy the Redmond building. The company currently pays \$2.6 million to lease facilities for these two operations, and considers the real estate purchases to be opportunistic given the current environment. The Company expects capital spending in 2011 to be approximately \$17 million to \$21 million including \$12 million to \$13 million related to the acquisition and build out of the Fort Lauderdale and Redmond properties. Management believes that the Company's cash flow from operations and revolving credit facility will be sufficient to provide funding for future capital requirements.

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Our obligations under our 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.

There was no balance outstanding on our revolving credit facility at April 2, 2011. The revolving credit facility provides for borrowing up to \$35.0 million. The credit facility allocates up to \$20 million of the revolving credit line for the issuance of letters of credit, including certain existing letters of credit totaling approximately \$12.6 million at April 2, 2011. For working capital requirements, the Company had available on its credit facility, \$22.4 million and \$22.5 million at April 2, 2011 and December 31, 2010, respectively. At April 2, 2011, we were in compliance with all of the covenants pursuant to the credit facility.

BACKLOG

The Company's backlog at April 2, 2011 was \$99.1 million compared with \$99.8 million at December 31, 2010 and \$92.8 million at April 3, 2010.

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, 2010.

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, 2010 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, 2010 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 2011.

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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, presumes 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

- a) The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of April 2, 2011. 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 2, 2011.
- b) **Changes in Internal Control over Financial Reporting** There have been no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

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

On November 11, 2010, AE Liquidation Inc. filed an action in the Bankruptcy Court seeking to recover \$1.4 million of alleged preferential payments received by the Company from Eclipse Aviation Corporation. The Company disputes the Trustee's allegations and believes any loss, as a result of future proceedings is neither probable nor estimable at April 2, 2011, and we intend to defend this claim vigorously.

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, 2010, which could materially affect our business, financial condition or results of operations. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations.

The Company has a significant concentration of business with two customers, Panasonic Avionics Corporation and the US Government, where a significant reduction in sales would negatively impact our sales and earnings. We provide Panasonic with cabin electronics products which, in total were approximately 36% of revenue during the first quarter of 2011. We provide the US Government with military products which, in total were approximately 12% of revenue during the first quarter of 2011.

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 2, 2011:

| 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 29, 2011 | | | | |
| January 30 - February 26, 2011 | | | | |
| February 27 - April 2, 2011 | | | | |
| Total | | | | |

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 6, 2011

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