

ASTRONICS CORP  
Form 10-Q  
May 06, 2013  
Table of Contents

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

Washington, D.C. 20549

**Form 10-Q**

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended March 30, 2013 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)

Edgar Filing: ASTRONICS CORP - Form 10-Q

**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 March 30, 2013, 14,508,323 shares of common stock were outstanding consisting of 11,153,230 shares of common stock (\$.01 par value) and 3,355,093 shares of Class B common stock (\$.01 par value).

**Table of Contents**

**TABLE OF CONTENTS**

	<b>PAGE</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
<b><u>Item 1 Financial Statements:</u></b>	
<u>Consolidated Condensed Balance Sheets as of March 30, 2013 and December 31, 2012</u>	3
<u>Consolidated Condensed Statements of Operations for the Three Months Ended March 30, 2013 and March 31, 2012</u>	4
<u>Consolidated Condensed Statements of Comprehensive Income for the Three Months Ended March 30, 2013 and March 31, 2012</u>	5
<u>Consolidated Condensed Statements of Cash Flows for the Three Months Ended March 30, 2013 and March 31, 2012</u>	6
<u>Notes to Consolidated Condensed Financial Statements</u>	7 17
<b><u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	18 22
<b><u>Item 3 Quantitative and Qualitative Disclosures about Market Risk</u></b>	22
<b><u>Item 4 Controls and Procedures</u></b>	22
<b><u>PART II OTHER INFORMATION</u></b>	
<b><u>Item 1 Legal Proceedings</u></b>	23
<b><u>Item 1a Risk Factors</u></b>	23
<b><u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	25
<b><u>Item 3 Defaults Upon Senior Securities</u></b>	25
<b><u>Item 4 Mine Safety Disclosures</u></b>	25
<b><u>Item 5 Other Information</u></b>	25
<b><u>Item 6 Exhibits</u></b>	25
<b><u>SIGNATURES</u></b>	25
<b>EX-31.1</b> 302 Certification for CEO	
<b>EX-31.2</b> 302 Certification for CFO	
<b>EX-32.1</b> 906 Certification for CEO and CFO	
<b>EX-101</b> Instance Document	
<b>EX-101</b> Schema Document	
<b>EX-101</b> Calculation Linkbase Document	
<b>EX-101</b> Labels Linkbase Document	
<b>EX-101</b> Presentation Linkbase Document	
<b>EX-101</b> Definition Linkbase Document	

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

## ASTRONICS CORPORATION

**Consolidated Condensed Balance Sheets**

March 30, 2013 with Comparative Figures for December 31, 2012

(In thousands)

	March 30, 2013 (Unaudited)	December 31, 2012
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 17,798	\$ 7,380
Accounts Receivable, net of allowance for doubtful accounts	39,421	45,473
Inventories	49,649	48,624
Other Current Assets	5,614	6,533
<b>Total Current Assets</b>	<b>112,482</b>	<b>108,010</b>
Property, Plant and Equipment, net of accumulated depreciation	54,125	53,537
Deferred Income Taxes	8,929	9,019
Other Assets	3,396	2,977
Intangible Assets, net of accumulated amortization	16,056	16,523
Goodwill	21,850	21,923
<b>Total Assets</b>	<b>\$ 216,838</b>	<b>\$ 211,989</b>
<b>Current Liabilities:</b>		
Current Maturities of Long-term Debt	\$ 12,260	\$ 9,268
Accounts Payable	12,318	10,592
Accrued Expenses	13,016	15,634
Accrued Income Taxes	1,172	
Billings in Excess of Recoverable Costs and Accrued Profits on Uncompleted Contracts	304	188
Customer Advance Payments and Deferred Revenue	9,965	12,286
<b>Total Current Liabilities</b>	<b>49,035</b>	<b>47,968</b>
Long-term Debt	15,672	20,715
Other Liabilities	17,989	18,172
<b>Total Liabilities</b>	<b>82,696</b>	<b>86,855</b>
<b>Shareholders' Equity:</b>		
Common Stock	145	145
Accumulated Other Comprehensive Loss	(4,859)	(4,783)
Other Shareholders' Equity	138,856	129,772
<b>Total Shareholders' Equity</b>	<b>134,142</b>	<b>125,134</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 216,838</b>	<b>\$ 211,989</b>

Edgar Filing: ASTRONICS CORP - Form 10-Q

See notes to consolidated condensed financial statements

**Table of Contents**

ASTRONICS CORPORATION

**Consolidated Condensed Statements of Operations**

Three Months Ended March 30, 2013 With Comparative Figures for 2012

(Unaudited)

(In thousands, except per share data)

	Three Months Ended	
	March 30, 2013	March 31, 2012
Sales	\$ 73,967	\$ 65,138
Cost of Products Sold	53,748	47,018
<b>Gross Profit</b>	<b>20,219</b>	<b>18,120</b>
Selling, General and Administrative Expenses	9,157	8,855
<b>Income from Operations</b>	<b>11,062</b>	<b>9,265</b>
Interest Expense, Net of Interest Income	218	263
<b>Income Before Income Taxes</b>	<b>10,844</b>	<b>9,002</b>
Provision for Income Taxes	2,280	2,907
<b>Net Income</b>	<b>\$ 8,564</b>	<b>\$ 6,095</b>
<b>Earnings per share:</b>		
Basic	\$ 0.59	\$ 0.43
Diluted	\$ 0.56	\$ 0.40

See notes to consolidated condensed financial statements.

**Table of Contents**

ASTRONICS CORPORATION

**Consolidated Condensed Statements of Comprehensive Income**

Three Months Ended March 30, 2013 With Comparative Figures for 2012

(Unaudited)

(In thousands)

	Three Months Ended	
	March 30, 2013	March 31, 2012
Net Income	\$ 8,564	\$ 6,095
Other Comprehensive Income:		
Foreign Currency Translation Adjustments	(197)	110
Mark to Market Adjustments for Derivatives Net of Tax	15	23
Retirement Liability Adjustment Net of Tax	106	(3,727)
Other Comprehensive Loss	(76)	(3,594)
Comprehensive Income	\$ 8,488	\$ 2,501

See notes to consolidated condensed financial statements.

**Table of Contents**

## ASTRONICS CORPORATION

**Consolidated Condensed Statements of Cash Flows**

Three Months Ended March 30, 2013

With Comparative Figures for 2012

(Unaudited)

(In thousands)

	March 30, 2013	March 31, 2012
<b>Cash Flows from Operating Activities:</b>		
Net Income	\$ 8,564	\$ 6,095
Adjustments to Reconcile Net Income to Cash Provided By (Used For) Operating Activities:		
Depreciation and Amortization	1,749	1,447
Provisions for Non-Cash Losses on Inventory and Receivables	116	437
Stock Compensation Expense	326	318
Deferred Tax Expense	1,015	94
Other	(277)	(61)
Cash Flows from Changes in Operating Assets and Liabilities:		
Accounts Receivable	5,863	(4,218)
Inventories	(1,115)	(2,530)
Accounts Payable	1,737	1,576
Other Current Assets and Liabilities	(2,937)	(1,422)
Billings in Excess of Recoverable Costs and Accrued Profits on Uncompleted Contracts	116	(204)
Customer Advanced Payments and Deferred Revenue	(2,321)	503
Income Taxes	1,208	2,673
Supplemental Retirement and Other Liabilities	282	81
Cash Provided By Operating Activities	14,326	4,789
<b>Cash Flows from Investing Activities:</b>		
Capital Expenditures	(1,828)	(1,665)
Cash Used For Investing Activities	(1,828)	(1,665)
<b>Cash Flows from Financing Activities:</b>		
Payments for Long-term Debt	(2,035)	(6,052)
Debt Acquisition Costs	(160)	
Acquisition Earnout Payments	(81)	
Proceeds from Exercise of Stock Options	137	99
Income Tax Benefit from Exercise of Stock Options	57	144
Cash Used For Financing Activities	(2,082)	(5,809)
Effect of Exchange Rates on Cash	2	1
Increase (Decrease) in Cash and Cash Equivalents	10,418	(2,684)
Cash and Cash Equivalents at Beginning of Period	7,380	10,919



Edgar Filing: ASTRONICS CORP - Form 10-Q

Cash and Cash Equivalents at End of Period

\$ 17,798    \$ 8,235

See notes to consolidated condensed financial statements.

---

**Table of Contents**

ASTRONICS CORPORATION

**Notes to Consolidated Condensed Financial Statements**

March 30, 2013

(Unaudited)

***1) Basis of Presentation***

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

**Operating Results**

The results of operations for any interim period are not necessarily indicative of results for the full year. Operating results for the three month period ended March 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

The balance sheet at December 31, 2012 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 2012 annual report on Form 10-K.

**Description of the Business**

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

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

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated. Acquisitions are accounted for under the 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 of approximately 27% and 40% for the three months ending March 30, 2013 and March 31, 2012 respectively, is recognized from long-term, fixed-price contracts using the percentage-of-completion method of accounting, measured by multiplying the estimated total contract value by the ratio of actual contract costs incurred to date to the estimated total contract costs.

## Edgar Filing: ASTRONICS CORP - Form 10-Q

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. Revenue not recognized using the percentage-of-completion method is recognized at the time of shipment of goods and transfer of title.

## **Table of Contents**

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

Cost of products sold includes the costs to manufacture products such as direct materials and labor and manufacturing overhead as well as all engineering and developmental costs. The Company is engaged in a variety of engineering and design activities as well as basic research and development activities directed to the substantial improvement or new application of the Company's existing technologies. These costs are expensed when incurred and included in cost of products sold. Research and development, design and related engineering amounted to \$12.8 million and \$10.0 million for the three months ended March 30, 2013 and March 31, 2012 respectively. Selling, general and administrative expenses include costs primarily related to our sales and marketing departments and administrative departments. Interest expense is shown net of interest income. Interest income was insignificant for the three months ended March 30, 2013 and March 31, 2012.

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

### **Derivatives**

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