

ASTRONICS CORP
Form 10-K
March 11, 2009

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

**þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
For the Fiscal Year Ended December 31, 2008**

Commission File Number 0-7087
Astronics Corporation
(Exact Name of Registrant as Specified in its Charter)

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

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

130 Commerce Way, East Aurora, N.Y. 14052
(Address of principal executive office)

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

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

Securities registered pursuant to Section 12 (g) of the Act:
\$.01 par value Common Stock; \$.01 par value Class B Stock
(Title of Class)

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

Yes No

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

Yes No

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

Yes No

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Yes No

As of February 27, 2009, 10,774,522 shares were outstanding, consisting of 7,902,141 shares of Common Stock \$.01 Par Value and 2,872,381 shares of Class B Stock \$.01 Par Value. The aggregate market value, as of the last business day of the Company's most recently completed second fiscal quarter, of the shares of Common Stock and Class B Stock of Astronics Corporation held by non-affiliates was approximately \$105 million (assuming conversion of all of the outstanding Class B Stock into Common Stock and assuming the affiliates of the Registrant to be its directors, executive officers and persons known to the Registrant to beneficially own more than 10% of the outstanding capital stock of the Corporation).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the 2009 Annual Meeting of Shareholders to be held May 5, 2009 are incorporated by reference into Part III of this Report.

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FORWARD LOOKING STATEMENTS

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

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PART I

ITEM 1. BUSINESS

Astronics is a leading supplier of advanced, high-performance lighting, electronics and power distribution systems for the global aerospace industry. We sell our products to airframe manufacturers (OEM s) in the commercial transport, business jet, military markets, OEM suppliers, and aircraft operators around the world. The Company provides its products through its wholly owned subsidiaries Luminescent Systems, Inc., Luminescent Systems Canada, Inc., and Astronics Advanced Electronic Systems Corp. (AES).

Acquisition

On January 30, 2009 Astronics acquired 100% of the stock of DME Corporation (DME). DME is a leading provider of military test, training and simulation equipment as well as commercial aviation safety equipment and airfield lighting systems. Its customers include the U.S. Marine Corps, major defense contractors such as Lockheed Martin, BAE Systems, and Boeing, the Federal Aviation Administration, private and government airfields, major aircraft manufacturers and commercial airlines.

Stock Distribution

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. On or about October 17, 2008, stockholders received 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 adjusted to reflect the impact of this distribution.

Strategy

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

Products and Customers

Astronics products are sold worldwide to manufacturers of business jets, military aircraft, and commercial transports, as well as airlines and suppliers to the OEM s. During 2008 the Company s sales were divided 60% to the commercial transport market, 20% to the military market, 19% to the business jet market, and the balance of 1% to other markets. Most of the Company s sales are a result of contracts or purchase orders received from customers, placed on a day-to-day basis or for single year procurements rather than long-term multi-year contract commitments. On occasion the Company does receive contractual commitments or blanket purchase orders from our customers covering multiple year deliveries of hardware to our customers. Sales by Geographic Region, Major Customer and Canadian Operations are provided in Note 8 of Item 8, Financial Statements and Supplementary Data in this report.

The Company has a significant concentration of business with one major customer. Sales to Panasonic Avionics accounted for 24.9% of sales in 2008, 27.7% of sales in 2007 and 21.2% of sales in 2006. Accounts receivable from this customer at December 31, 2008 and 2007 were \$2.2 million and \$4.0 million, respectively.

Practices as to Maintaining Working Capital

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

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Competitive Conditions

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

Government Contracts

All U.S. Government contracts, including subcontracts where the U.S. Government is the ultimate customer, may be subject to termination at the election of the government. With the January 30, 2009 acquisition of DME, the Company's revenue stream will rely more on U.S. Government spending as a significant portion of DME's revenue is derived from U.S. Government contracts.

Raw Materials

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

Seasonality

Our business is typically not seasonal.

Backlog

At December 31, 2008, the Company's backlog was \$89.0 million. At December 31, 2007, the Company's backlog was \$92.4 million.

Patents

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

Research, Development and Engineering Activities

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 and engineering costs amounted to approximately \$22.9 million in 2008, \$14.8 million in 2007 and \$10.9 million in 2006.

Employees

The Company employed 989 employees as of December 31, 2008. The Company considers its relations with its employees to be good. None of our employees are subject to collective bargaining agreements.

Available information

The Company files its financial information and other materials as electronically required by the SEC with the SEC. These materials can be accessed electronically via the Internet at www.sec.gov. Such materials and other information about the Company are also available through the Company's website at www.astronics.com.

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ITEM 1A. RISK FACTORS

The current capital and credit market conditions may adversely affect our access to capital, cost of capital and business operations. Recently, the general economic and capital market conditions in the United States and other parts of the world have deteriorated significantly and have adversely affected access to capital and increased the cost of capital. If these conditions continue or become worse, our future cost of debt and equity capital and access to capital markets could be adversely affected. Any inability to obtain adequate financing from debt and equity sources could force us to self-fund strategic initiatives or even forgo some opportunities, potentially harming our financial position, results of operations and liquidity.

The amount of debt we have outstanding, as well as any debt we may incur in the future, could have an adverse effect on our operational and financial flexibility. As of December 31, 2008, we had \$14.4 million of debt outstanding, of which \$13.5 million is long-term debt. Our revolving credit facility as of December 31, 2008, totaled \$60.0 million and is made available through a group of banks. On January 30, 2009, the Company amended this credit facility by entering into an \$85 million Amended and Restated Credit Agreement dated as of January 30, 2009 with a group of banks. The new Credit Agreement provides for a five-year, \$40 million senior secured term loan with interest at LIBOR plus between 2.25% and 3.50% based on the Company's leverage ratio, payable in quarterly installments of \$2.0 million. The Credit Agreement also provides for a revolving credit line of \$45 million, of which approximately \$30 million is currently available for working capital requirements with interest at LIBOR plus between 2.25% and 3.50%. The credit facility allocates up to \$20 million of the \$45 million revolving credit line for the issuance of letters of credit, including certain existing letters of credit totaling approximately \$15.0 million at December 31, 2008. The Company's obligations under the Credit Agreement are guaranteed by a first priority lien on virtually all the assets of the Company.

In addition, on January 30, 2009, The Company issued to the former shareholders of DME a 6.0% subordinated promissory note due 2014 in the aggregate principal amount of \$5 million. The Company also issued a 6.0% subordinated contingent promissory note due 2014 in the aggregate principal amount of \$2 million, which is due only upon satisfaction of certain revenue performance criteria for 2009.

Changes to our level of debt subsequent to December 31, 2008 could have significant consequences to our business, including the following:

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

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

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

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

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

The markets we serve are cyclical and sensitive to domestic and foreign economic conditions and events, which may cause our operating results to fluctuate. Demand by the business jet markets for our products is dependent upon several factors, including capital investment, product innovations, economic growth, and technology upgrades. In addition, the commercial airline industry is highly cyclical and sensitive to fuel price increases, labor disputes and global economic conditions. A change in any of these factors could result in a reduction in the amount of air travel. A reduction in air travel would reduce orders for new aircraft and reductions in cabin upgrades by airlines for which we supply products and for the sales of spare parts,

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thus reducing our sales and profits. A reduction in air travel may also result in our commercial airline customers being unable to pay our invoices on a timely basis or not at all.

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

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

Develop products that are superior to our products;

Develop products that are more competitively priced than our products;

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

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

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

The loss of Panasonic Avionics Corporation as a major customer or a significant reduction in sales to Panasonic would reduce our sales and earnings. In 2008 we had a concentration of sales to Panasonic representing 24.9% of our sales. The loss of this customer or a significant reduction in sales to this customer would significantly reduce our sales and earnings.

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

Future terror attacks, war, or other civil disturbances could negatively impact our business. Continued terror attacks, war or other disturbances could lead to further economic instability and decreases in demand for our products, which could negatively impact our business, financial condition and results of operations. Terrorist attacks world-wide have caused instability from time to time in global financial markets and the aviation industry. The long-term effects of terrorist attacks on us are unknown. These attacks and the U.S. Government's continued efforts against terrorist organizations may lead to additional armed hostilities or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may further contribute to economic instability.

If we are unable to adapt to technological change, demand for our products may be reduced. The technologies related to our products have undergone, and in the future may undergo, significant changes. To succeed in the future, we will need to continue to design, develop, manufacture, assemble, test, market and support new products and enhancements on a timely and cost effective basis. Our competitors may develop

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technologies and products that are more effective than those we develop or that render our technology and products obsolete or uncompetitive. Furthermore, our products could become unmarketable if new industry standards emerge. We may have to modify our products significantly in the future to remain competitive, and new products we introduce may not be accepted by our customers.

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

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

Our results of operations are affected by our fixed-price contracts, which could subject us to losses in the event that we have cost overruns. For the year ended December 31, 2008, fixed-price contracts represented 100% of our sales. On fixed-price contracts, we agree to perform the scope of work specified in the contract for a predetermined price. Depending on the fixed price negotiated, these contracts may provide us with an opportunity to achieve higher profits based on the relationship between our costs and the contract's fixed price. However, we bear the risk that increased or unexpected costs may reduce our profit.

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

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

Our facilities could be damaged by catastrophes which could reduce our production capacity and result in a loss of customers. We conduct our operations in facilities located in the United States and Canada. Any of these facilities could be damaged by fire, floods, earthquakes, power loss, telecommunication and information systems failure or similar events. Although we carry property insurance, including business interruption insurance, our

inability to meet customers' schedules as a result of catastrophe may result in a loss of customers or significant additional costs such as penalty claims under customer contracts.

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

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

We are subject to financing and interest rate exposure risks that could adversely affect our business, liquidity and operating results. Changes in the availability, terms and cost of capital, increases in interest rates or a reduction in credit rating could cause our cost of doing business to increase and place us at a competitive disadvantage. At December 31, 2008, 23% of our debt was at fixed interest rates with the remaining 77% subject to variable interest rates.

On January 30, 2009, in conjunction with an acquisition of DME, the Company entered into a new credit facility, causing 83% of our debt to be variable and 17% of our debt to be fixed. In addition, our new debt financing contains various financial covenants. If our financial performance differs from our expectation we may violate one or more of those covenants. A covenant violation would require a waiver by the lenders or an alternative financing arrangement be achieved. Historically both choices have been available to us however in the current credit market environment it is difficult to predict the availability of these options in the future.

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

Our international operations pose currency and other risks that may adversely impact sales and earnings. We have manufacturing and sales operations in foreign countries. In addition, our domestic operations have sales to foreign customers. Our financial results may be adversely affected by fluctuations in foreign currencies and by the translation of the financial statements of our foreign subsidiaries from local currencies into U.S. dollars. The translation of our sales in foreign currencies, which are primarily the Canadian Dollar to the U.S. dollar had an insignificant impact on both sales for 2008 using average exchange rates for 2008 compared to average exchange rates for 2007 and on sales for 2007 using average exchange rates for 2007 compared to average exchange rates for 2006.

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

Government regulations could limit our ability to sell our products outside the United States and otherwise adversely affect our business. Our failure to obtain the requisite licenses, meet registration standards or comply with other government export regulations would hinder our ability to generate revenues from the sale of our products outside the United States. Compliance with these government regulations may

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also subject us to additional fees and operating costs. The absence of comparable restrictions on competitors in other countries may adversely affect our competitive position. In order to sell our products in European Union countries, we must satisfy certain technical requirements. If we are unable to comply with those requirements with respect to a significant quantity of our products, our sales in Europe would be restricted. Doing business internationally also subjects us to numerous U.S. and foreign laws and regulations, including, without limitation, regulations relating to import-export control, technology transfer restrictions, foreign corrupt practices and anti-boycott provisions. Failure by us or our sales representatives or consultants to comply with these laws and regulations could result in administrative, civil or criminal liabilities and could, in the extreme case, result in suspension or debarment from government contracts or suspension of our export privileges, which would have a material adverse effect on us.

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

Our sales and earnings may be reduced if we cannot successfully integrate DME s business. If we are unable to successfully integrate DME s businesses subsequent to the acquisition on January 30, 2009, into our existing operations or if DME s business is unsuccessful in winning new government programs, our sales and earnings could be impacted.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

The Company owns manufacturing and office facilities of approximately 125,000 square feet in the Buffalo, New York area. The Company owns manufacturing and office facilities of approximately 80,000 square feet in Lebanon, New Hampshire. Astronics AES leases approximately 100,000 square feet of space, located in Redmond, Washington. In the third quarter of 2008, the Company finalized a renewal for the Redmond, Washington building lease. The lease expires in March of 2013. The Montreal, Quebec, Canada operations are located in a leased facility of approximately 16,000 square feet. The lease expires in November, 2009. Upon expiration of its current lease, the Company believes that it will be able to secure renewal terms or enter into a lease for an alternative location.

On January 30, 2009, the Company s acquisition of DME added leased manufacturing and office facilities of approximately 51,000 square feet in Orlando, Florida and approximately 72,000 square feet in Ft. Lauderdale, Florida. The lease for the Orlando facility expires in February, 2015 with one renewal option for seven years. The lease for the Ft. Lauderdale facility expires in April, 2016 with one renewal option of five years.

We believe that our properties have been adequately maintained and are generally in good condition.

ITEM 3. LEGAL PROCEEDINGS

We are not party to any pending legal proceedings that management believes will result in material adverse effect on our financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

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The table below sets forth the range of prices for the Company's Common Stock, traded on the NASDAQ National Market System, for each quarterly period during the last two years. The approximate number of shareholders of record as of February 27, 2009, was 741 for Common Stock and 853 for Class B Stock.

| 2008 | High | Low |
|--------------|-------------|------------|
| (In dollars) | | |
| First | \$ 33.50 | \$ 15.28 |
| Second | 16.38 | 12.06 |
| Third | 20.60 | 10.16 |
| Fourth | 18.86 | 7.32 |
| 2007 | High | Low |
| First | \$ 16.87 | \$ 13.54 |
| Second | 26.10 | 13.05 |
| Third | 34.86 | 23.40 |
| Fourth | 43.10 | 30.64 |

The Company has not paid any cash dividends in the three-year period ended December 31, 2008. It has no plans to pay cash dividends as it plans to retain all cash from operations as a source of capital to finance growth in the business. The Company's ability to pay dividends is limited by Minimum Net Worth and Minimum Fixed Charge Coverage Ratio covenants contained in the Company's Credit Agreement.

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. On or about October 17, 2008, stockholders received 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.

With respect to information regarding our securities authorized for issuance under equity incentive plans, the information contained in the section entitled "Equity Compensation Plan Information" of our definitive Proxy Statement for the 2009 Annual Meeting of Shareholders is incorporated herein by reference.

We did not repurchase any shares of our common stock in 2008.

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

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Assumes Initial Investment of \$100

December 2008

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| ASTRONICS CORP | 100.00 | 102.67 | 216.31 | 344.65 | 855.08 | 237.97 |
| S&P 500 Index Total Return | 100.00 | 110.87 | 116.31 | 134.66 | 142.05 | 89.51 |
| NASDAQ Composite Index | 100.00 | 109.15 | 111.47 | 123.04 | 136.15 | 81.72 |
| NASDAQ US and Foreign Securities | 100.00 | 108.81 | 111.28 | 122.75 | 135.69 | 65.06 |

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| | 2008(1) | 2007(1) | 2006(1) | 2005(1) | 2004 |
|---|------------|------------|------------|-----------|-----------|
| (Dollars in thousands, except for per share data) | | | | | |
| PERFORMANCE | | | | | |
| Sales | \$ 173,722 | \$ 158,240 | \$ 110,767 | \$ 74,354 | \$ 34,696 |
| Income (Loss) | \$ 8,361 | \$ 15,391 | \$ 5,736 | \$ 2,237 | \$ (734) |
| Net Margin | 4.80% | 9.70% | 5.20% | 3.00% | (2.10)% |
| Diluted Earnings (Loss) per Share(2) | \$ 0.79 | \$ 1.44 | \$ 0.55 | \$ 0.22 | \$ (0.07) |
| Weighted Average | | | | | |
| Shares Outstanding Diluted(2) | 10,650 | 10,711 | 10,336 | 10,048 | 9,708 |
| Return on Average Assets | 8.00% | 16.50% | 7.70% | 4.00% | (1.60)% |
| Return on Average Equity | 15.60% | 38.20% | 20.20% | 9.30% | (3.20)% |
| YEAR-END FINANCIAL POSITION | | | | | |
| Working Capital | \$ 43,360 | \$ 32,100 | \$ 17,437 | \$ 13,349 | \$ 18,104 |
| Total Assets | \$ 104,674 | \$ 104,121 | \$ 82,538 | \$ 66,439 | \$ 45,236 |
| Indebtedness | \$ 14,446 | \$ 22,935 | \$ 18,449 | \$ 18,218 | \$ 12,062 |
| Shareholders Equity | \$ 58,255 | \$ 49,232 | \$ 31,348 | \$ 25,418 | \$ 22,660 |
| Book Value Per Share(2) | \$ 5.68 | \$ 4.83 | \$ 3.14 | \$ 2.58 | \$ 2.33 |
| OTHER YEAR-END DATA | | | | | |
| Depreciation and Amortization | \$ 4,142 | \$ 3,440 | \$ 2,929 | \$ 2,373 | \$ 1,273 |
| Capital Expenditures | \$ 4,325 | \$ 9,592 | \$ 5,400 | \$ 2,498 | \$ 1,136 |
| Shares Outstanding(2) | 10,265 | 10,186 | 10,033 | 9,876 | 9,750 |
| Number of Employees | 989 | 967 | 787 | 702 | 424 |

(1) Information includes the effects of the acquisition of AES on February 3, 2005.

(2) Diluted Earnings (Loss) Per-Share, Weighted Average Shares Outstanding-Diluted, Book Value Per-Share and Shares Outstanding have been adjusted for the impact of the October 6, 2008 one-for-four Class B stock distribution.

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

Astronics Corporation, through its subsidiaries Astronics Advanced Electronic Systems Corp., Luminescent Systems Inc. and Luminescent Systems Canada Inc. designs and manufactures electrical power generation, control and distribution systems and lighting systems and components, for the aerospace industry. We operate four principal facilities located in New York State, New Hampshire, Washington State and Quebec, Canada. We serve the three primary aircraft markets which are the military, commercial transport and the business jet markets. In 2008, the breakdown of sales to the commercial transport market, the military market and the business jet market were 59.9%, 19.9% and 19.5%, respectively, miscellaneous sales to non-aerospace markets accounted for 0.7% of sales.

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

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In January 2009 Astronics acquired DME Corporation (DME), a designer and manufacturer of military test, training and simulation equipment and aviation safety products. Astronics purchased 100 percent of the outstanding stock of DME for approximately \$51 million. The acquisition was financed with a \$40 million, five year term note with quarterly principal payments of \$2 million beginning in the second quarter of 2009, 500,000 shares of unregistered Astronics Common stock and seller financing for \$5 million to \$7 million depending on achieving a revenue target of \$82 million in 2009. The seller notes are due in 2014.

Key factors affecting Astronics' growth, revenue 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.

Sales to the Commercial transport market totaled approximately 59.9% of our total revenue in 2008. Our cabin electronics products which provide in-seat power for passengers and power to in-flight entertainment systems (IFE) found on Commercial Airlines around the world accounted for the majority of our sales to this market. Since 2005 we have seen our sales to the commercial transport markets increase from \$30 million to over \$100 million in 2008. Most of this growth has been driven by increased installations of our cabin electronics products used to power in-flight entertainment systems and in-seat power systems by airlines around the world. Maintaining and growing our sales to the Commercial transport market will depend on airlines capital spending budgets for cabin up-grades as well as for new aircraft such as the Boeing 787 and Airbus A380. We expect these new aircraft, once in production will be equipped with more IFE and in-seat power than previous generation aircraft. Additionally, our ability to maintain and grow sales to this market depends on our ability to maintain our technological advantages over our competitors and maintain our relationships with major in-flight entertainment suppliers and global airlines.

Our military market sales are typically comprised of several significant programs such as providing a power conversion unit for the Tactical Tomahawk and Taurus missiles and lighting and fire suppression units for V-22 Osprey programs complemented by many spare parts orders covering many aircraft platforms. Products sold to the military market include our cockpit, exterior and cabin lighting and airframe power products. The military market is dependent on governmental funding which can change from year to year. Risks are that overall spending may be reduced in the future, specific programs may be eliminated or that we fail to win new business through the competitive bid process. Astronics does not have significant reliance on any one program such that cancellation of a particular program will cause material financial loss. We believe that we will continue to have opportunities similar to past years regarding this market.

Another market we serve is the business jet market. Sales to the business jet market are driven by our increasing content on new aircraft and build rates of new aircraft. In 2008 we saw volume and average ship set value increase in the business jet market as the production rates for new business jets increased during the year. Products sold to the business jet market include our cockpit lighting, airframe power and exterior lighting products. Our sales to the business jet market will be particularly challenged in the upcoming years as aircraft production rates are expected to be reduced significantly from 2008 levels as the global economy struggles. Additionally, there is a large supply of used aircraft in the market and financing of new aircraft has become more challenging for prospective buyers. Our largest business jet customer during 2008, Eclipse Aviation Corporation filed for bankruptcy protection in November of 2008. In 2008 Astronics had revenue totaling approximately \$9 million from Eclipse. Relating to this, in the fourth quarter Astronics took a pre-tax charge to income for \$10.0 million for outstanding accounts receivable, inventory, tooling and fixed assets relating to the Eclipse 500 aircraft. Despite the current market conditions, we continue to see a wide range of opportunities to employ our technology in the business jet markets, however there is risk involved in the development of any new aircraft.

Each of the markets that we serve is presenting opportunities for our product lines that we expect will provide continued growth for the Company over the long-term. We continue to look for opportunities in all three markets to capitalize on our core competencies to expand our existing business and to grow through strategic acquisitions.

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In 2009 we expect our revenue to increase as a result of the January 30, 2009 acquisition of DME Corporation. We are projecting 2009 revenues to be in the range of \$230 million to \$245 million. Impacted by current economic conditions, the aerospace market is extremely difficult to predict at this time as new aircraft production rates are modified frequently by the airframe manufacturers creating a very fluid and difficult to predict revenue stream over the next twelve months. Excluding DME revenue we expect organic Astronics revenue to be in the range of \$155 million to \$165 million based on information available at this time. We expect fairly flat sales to the commercial transport market and military markets and a decrease in the business jet market. We expect 2009 DME revenue to be in the range of \$75 million to \$80 million for the eleven month period after closing of the acquisition as we await the results on several significant contract awards that could impact 2009 revenue. Revenue for 2009 can be affected by not only the ultimate award of the contract, but the timing of when the contract is awarded and when delivery begins. Despite expected lower organic 2009 revenue as compared with 2008, we still see many opportunities for long term growth and expect to continue to invest in developmental programs to expand our products and technologies. In addition, we expect that the next generation of commercial transports such as the Boeing 787 and Airbus A380 will be equipped with more in-seat power and in-flight entertainment than the aircraft they will be replacing. We expect this will provide a significant opportunity for us as these aircraft enter and ramp up production over the next several years.

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

2009 ACQUISITION

On January 30, 2009, the Company acquired 100% of the common stock of DME. The purchase price was approximately \$51 million, comprised of approximately \$40 million in cash, 500,000 shares of the Company's common stock previously held as treasury shares, valued at \$3.6 million, or \$7.17 per share, a \$5.0 million subordinated note payable to the former shareholders plus an additional \$2.0 million subject to meeting revenue performance criteria in 2009. DME Corporation is a provider of weapons and communications test equipment, training and simulation devices and aviation safety solutions.

Audited financial statements for DME and pro-forma combined financial information for Astronics and DME will be available and included in a Form 8-K filing expected to be filed in April 2009.

In connection with the funding of this Acquisition, the Company amended its existing \$60 million credit facility by entering into an \$85 million Amended and Restated Credit Agreement dated January 30, 2009, with HSBC Bank USA, National Association, Bank of America, N.A. and KeyBank National Association. The Credit Agreement provides for a five-year, \$40 million senior secured term loan with interest at LIBOR plus between 2.25% and 3.50% based on the Company's leverage ratio. The proceeds of the term loan were used to finance the Acquisition. The Credit Agreement also provides for a revolving credit line of \$45 million, of which approximately \$30 million is currently available for working capital requirements and is committed for three years through January 2012, with interest at

LIBOR plus between 2.25% and 3.50%. In addition, the Company is required to pay a commitment fee of between 0.30% and 0.50% on the unused portion of the total credit commitment for the preceding quarter, based on the Company's leverage ratio under the Credit

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Agreement. The credit facility allocates up to \$20 million of the \$45 million revolving credit line for the issuance of letters of credit, including certain existing letters of credit.

A portion of the purchase price was funded by the issuance to the former shareholders of DME a 6.0% subordinated promissory note due 2014 in the aggregate principal amount of \$5 million. To evidence its obligations related to the Contingent Payment, the Company also issued a 6.0% subordinated contingent promissory note due 2014 in the aggregate principal amount of \$2 million. Payment under the contingent promissory note is due depending on achieving a revenue target for DME of \$82 million in 2009.

The Company's obligations under the Credit Agreement are jointly and severally guaranteed by Astronics Advanced Electronic Systems Corp., Luminescent Systems, Inc. and DME, 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.

In the event of voluntary or involuntary bankruptcy of the Company, all unpaid principal and any other amounts due under the Credit Agreement automatically become due and payable without presentation, demand or notice of any kind to the Company. Other Events of Default, including failure to make payments as they become due, give the Agent the option to declare all unpaid principal and any other amounts then due, immediately due and payable.

CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition

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. The Company does evaluate and record an allowance for any potential returns based on experience and any known circumstances. For the years ended December 31, 2008 and 2007, no allowances were recorded for contracts allowing for right of return. A trade receivable is recorded at the value of the sale. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral.

Accounts Receivable and Allowance for Doubtful Accounts

The Company records a valuation allowance to account for potentially uncollectible accounts receivable. The allowance is determined based on Management's knowledge of the business, specific customers, review of receivable aging and a specific identification of accounts where collection is at risk. At December 31, 2008, the Company's allowance for doubtful accounts for accounts receivable was \$0.3 million, or 1.4% of gross accounts receivable. At December 31, 2007, the Company's allowance for doubtful accounts for accounts receivable was \$0.5 million, or 2.4% of gross accounts receivable.

In the fourth quarter of 2008, the Company wrote off all receivables amounting to approximately \$1.0 million from Eclipse Aviation Corporation, a customer that declared bankruptcy during the fourth quarter of 2008. The impact amounts to approximately a \$0.6 million reduction in net income or \$.06 per diluted share.

Inventory Valuation

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, Management

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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. At December 31, 2008, the Company's reserve for inventory valuation was \$10.5 million, or 22.7% of gross inventory. At December 31, 2007, the Company's reserve for inventory valuation was \$4.1 million, or 10.0% of gross inventory.

In the fourth quarter of 2008, the Company recorded a reserve for inventory on hand used exclusively for the Eclipse 500 aircraft. Eclipse Aviation Corporation, the manufacturer of the aircraft has filed for bankruptcy protection, ceased production, terminated its workforce and petitioned the bankruptcy court to liquidate its assets. The pre-tax charge relating to the Eclipse inventory amounted to approximately \$7.4 million, reducing net income by approximately \$4.8 million or \$0.45 per diluted share.

Deferred Tax Asset Valuation Allowances

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

As of December 31, 2008, the Company had net deferred tax assets of \$6.1 million, net of a \$0.7 million valuation allowance. These assets relate principally to liabilities or asset valuation reserves that result in timing difference between generally acceptable accounting principles recognition and treatment for income tax purposes, as well as a state investment tax credit carry-forwards and foreign research and development tax credit carryforwards.

Goodwill

The Company's goodwill is the result of the excess of purchase price over net assets acquired from acquisitions. As of December 31, 2008, the Company had \$2.6 million of goodwill. The Company tests goodwill for impairment at least annually during the fourth quarter, and whenever events occur or circumstances change that indicates there may be impairment. The process of evaluating the Company's goodwill for impairment is subjective and requires significant estimates. These estimates include judgments about future cash flows that are dependent on internal forecasts, long-term growth rates and estimates of the weighted average cost of capital used to discount projected cash flows. Based on the discounted projected cash flows, management has concluded that there is no impairment of the Company's goodwill.

Supplemental Retirement Plan

The Company maintains a supplemental retirement plan for certain executives. The accounting for this plan is based in part on certain assumptions that may be highly uncertain and may have a material impact on the financial statements if different reasonable assumptions had been used. The assumptions for increases in compensation and the discount rate for determining the cost recognized in 2008 were 5.0% and 5.75%, respectively. The discount rate used for the projected benefit obligation as of December 31, 2008 was 5.75%. The assumption for compensation increases takes a long-term view of inflation and performance based salary adjustments based on the Company's approach to executive compensation. For determining the discount rate the Company considers long-term interest rates for high-grade corporate bonds.

RESULTS OF OPERATIONS

Sales

Sales for 2008 increased by \$15.5 million, or 9.8%, to \$173.7 million from \$158.2 million in 2007. The sales increase was driven by increased volume sold to meet higher demand for our products. By market, the

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increase was the result of an increase in sales to the military market of \$9.1 million to \$34.5 million, the commercial transport market of \$3.7 million to \$104.1 million and the business jet market of \$2.7 million to \$34.0 million. Other markets remained flat at \$1.1 million. The sales increase to the Military market by product line included \$3.1 million from Airframe Power products, \$3.9 million from Cockpit Lighting products, \$1.9 million from Exterior Lighting products and \$0.2 million in other products. The increase in sales to the commercial transport market was primarily a result of a \$1.7 million increase in sales of Cabin Electronics products, a \$0.8 million increase in Airframe Power products, \$0.6 million increase in Cabin Lighting products and \$0.6 million increase in Cockpit Lighting products. The increase of sales to the business jet market was primarily a result of a \$2.7 million increase in sales of Cockpit Lighting products.

Sales for 2007 increased by \$47.4 million or 42.9%, to \$158.2 million from \$110.8 million in 2006. By market, the increase was primarily the result of an increase in sales to the commercial transport market of \$39.2 million to \$100.5 million and an increase in sales to the business jet market of \$8.3 million to \$31.2 million. The military market and other markets remained flat at \$25.4 million and \$1.1 million, respectively. The increase in sales to the Commercial transport market was primarily a result of \$37.4 million increase from Cabin Electronics and a \$1.0 million increase from Cockpit Lighting products. The Cabin Electronics increase resulted from increased volume driven by increasing installations of in-seat power and power for in-flight entertainment systems as retrofits for existing aircraft. Sales increases of Cockpit Lighting were a result of increased volume as new aircraft build rates increase as compared to last year. The increase of sales to the business jet market was primarily a result of \$3.8 million increase from Airframe power sales, a \$3.3 million increase in Cockpit Lighting and a \$1.2 million increase of Exterior Lighting sales, all driven by increasing product demand of aircraft containing our products and increasing ship set content on those new aircraft.

Expenses and Margins

Cost of products sold as a percentage of sales increased by 8.3 percentage points to 82.5% in 2008 from 74.2% in 2007. This increase was due primarily to an increase in engineering and design costs of \$8.1 million, a \$7.4 million reserve for Eclipse 500 aircraft inventory and a \$1.6 million reserve for machinery and equipment specifically used in the Eclipse 500 aircraft, somewhat offset by leverage provided by the increased sales volume. It is our intention to continue investing in capabilities and technologies as needed that allows us to execute our strategy to increase the ship set content and value we provide on aircraft in all markets that we serve. The rate of spending on these activities, however, will largely be driven by market opportunities.

Cost of products sold as a percentage of sales decreased by 4.8 percentage points to 74.2% in 2007 from 79.0% in 2006. This decrease was due to leverage provided by the increased sales volume offset by an increase in engineering and design costs of \$3.9 million.

Selling, general and administrative expenses (SG&A) increased \$1.0 million in 2008 to \$17.4 million compared to \$16.4 million in 2007. This increase is due primarily to the \$1.0 million bad debt expense relating to the Eclipse Aviation Corporation accounts receivable write off. As a percentage of sales SG&A was flat at 10.0% compared to 10.4% for the same period of 2007.

Selling, general and administrative expenses (SG&A) increased \$2.8 million to \$16.4 million in 2007 from \$13.6 million in 2006 primarily the result of increased wages and benefits. As a percentage of sales, SG&A expense was 10.4% in 2007 compared to 12.3% in 2006 as sales grew at a faster pace than SG&A spending.

Net interest expense was \$0.7 million and \$1.4 million in 2008 and 2007 respectively. The decrease in interest expense was due primarily to lower average borrowings throughout the year on our revolving credit facility and lower interest rates on the variable rate debt.

Net interest expense was \$1.4 million and \$0.9 million in 2007 and 2006 respectively. The Series 2007 Industrial Revenue Bonds issued in the first quarter of 2007 to finance the building and manufacturing expansion project in New York, higher average borrowing levels throughout the year on our revolving credit facility and increased averaged interest rates on our variable rate debt were the reasons for the increase when compared to 2006.

Table of Contents**Income Taxes**

The effective tax rate was 32.0% in 2008, 1.1 percentage points lower than the effective tax rate of 33.1% in 2007. The majority of the change was due to the impact of permanent differences, utilization of foreign research and development tax credits and state and foreign taxes as a percentage of pretax income. We expect in future years, the effective tax rate will continue to approximate statutory rates in effect.

The effective tax rate was 33.1% in 2007, 1.4 percentage points lower than the effective tax rate of 34.5% in 2006. The majority of the change was due to the impact of permanent differences and lower state and foreign taxes as a percentage of pretax income, which were partially offset by a non-cash charge to income tax expense of \$0.5 million to reduce our deferred tax assets relating primarily to 2007 New York State investment tax credits on the new building and equipment and foreign research and development tax credit carryforwards.

Off Balance Sheet Arrangements

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

Contractual Obligations

The following table represents contractual obligations as of December 31, 2008:

| | Payments Due by Period* | | | | After 2013 |
|--------------------------------------|--------------------------------|------------------|------------------|------------------|-----------------------|
| | Total | 2009 | 2010-2011 | 2012-2013 | |
| (In thousands) | | | | | |
| Purchase Obligations | \$ 25,535 | \$ 24,857 | \$ 678 | \$ | \$ |
| Long-Term Debt | 14,446 | 920 | 2,429 | 2,463 | 8,634 |
| Operating Leases | 7,986 | 1,975 | 3,682 | 2,329 | |
| Interest on Long-Term Debt | 616 | 121 | 221 | 165 | 109 |
| Other Long Term Liabilities | 1,081 | 193 | 481 | 156 | 251 |
| Total Contractual Obligations | \$ 49,664 | \$ 28,066 | \$ 7,491 | \$ 5,113 | \$ 8,994 |

* This table excludes Supplemental Retirement Plan and related Post Retirement Obligations for which we anticipate making \$0.4 million in annual payments in 2009 through 2013. This table excludes principal and interest payments under the new Credit Agreement and the subordinated promissory notes entered into on January 30, 2009. Principal payments on the \$40 million senior secured term loan are payable in quarterly installments of \$2.0 million commencing April 1, 2009. The outstanding principal on the subordinated promissory notes are due in 2014.

Notes to Contractual Obligations Table

Note Payable and Long-Term Debt See item 8, Financial Statements and Supplementary Data, Note 2, Long-Term Debt and Note Payable in this report.

Interest on Long-Term Debt Interest on Long-Term Debt consists of payments on the Series 1999 Industrial Revenue Bonds issued through the Erie County, New York Industrial Development Agency taking into account the interest rate swap entered into on February 6, 2006 which effectively fixes the interest rate on this obligation at 3.99% through January 2016. We have excluded the variable rate interest on our note payable and other long-term debt.

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

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In the second quarter of 2008, the Company finalized the renewal for the Astronics AES building lease in Redmond, Washington. The lease is effective from April 1, 2008 through March 31, 2013. Rent payments under this new lease agreement will approximate \$1.3 million in 2008, \$1.7 million in 2009, \$1.8 million in and 2010 and 2011, \$1.9 million in and 2012 and \$0.5 million for 2013. The 2008 rent expense under the old lease agreement was approximately \$0.3 million

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

LIQUIDITY AND CAPITAL RESOURCES

Cash flow provided by operating activities was \$11.5 million in 2008 compared with \$8.6 million provided by operating activities in 2007. The increased cash flow from operations of \$2.9 million as compared with 2007 was primarily a result of a lower year over year increase in working capital components. In 2008 the Company used \$9.1 million of cash as its investment in net working capital components increased during the year. In 2007 the Company used \$11.1 million of cash as its investment in net working capital components increased during that year. The increase in investment in working capital components during 2008 was driven by the Company's sales growth.

Cash flow provided by operating activities was \$8.6 million in 2007 compared with \$0.05 million used for operating activities in 2006. The increase of \$8.6 million was mainly a result of an increase in net income of \$9.7 million to \$15.4 million in 2007 from net income in 2006 of \$5.7 million, adjustments for non-cash charges such as depreciation and amortization of \$3.4 million, being offset by a net increase in investment in working capital components, primarily receivables, inventory and payables. The increase in investment in working capital components during 2007 was driven by the Company's sales growth.

The Company's cash flows from operations are primarily dependent on its sales, profit margins and the timing of collections of receivables, volume of inventory and payments to suppliers. Sales are influenced significantly by the build rates of new aircraft, which amongst other things are subject to general economic conditions, government appropriations and airline passenger travel. Over time, sales will also be impacted by the Company's success in executing its strategy to increase ship set content and obtain production orders for programs currently in the development stage. A significant change in new aircraft build rates could be expected to impact the Company's profits and cash flow. A significant change in government procurement and funding and the overall health of the worldwide airline industry could be expected to impact the Company's profits and cash flow as well.

Cash used for investing activities in 2008 was \$4.6 million, primarily due to capital expenditures of \$4.3 million. In 2007, cash used for investing activities was \$10.3 million compared with \$5.5 million in 2006, a \$4.8 million increase. This increase was primarily due to capital expenditures of \$9.6 million compared to \$5.4 million in 2006.

The Company's cash required for capital equipment purchases for the last three years ranged between \$4.3 million and \$9.6 million. Our expectation for 2009 is that capital equipment expenditures will approximate \$6.0 million to \$9.0 million. Future capital requirements depend on numerous factors, including expansion of existing product lines and introduction of new products. Management believes that the Company's cash flow from operations and current borrowing arrangements will provide for these necessary capital expenditures.

At December 31, 2008, the Company was in compliance with all of the covenants pursuant to the credit facility in existence with HSBC Bank USA at that time.

The Company's ability to maintain sufficient liquidity is highly dependent upon achieving expected operating results. Failure to achieve expected operating results could have a material adverse effect on our liquidity, our ability to obtain

financing and our operations in the future.

Subsequent to December 31, 2008, the Company amended its existing \$60 million credit facility by entering into an \$85 million Amended and Restated Credit Agreement dated as of January 30, 2009, with

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HSBC Bank USA, National Association, Bank of America, N.A. and KeyBank National Association to finance its acquisition of DME Corporation. The Credit Agreement provides for a five-year, \$40 million senior secured term loan with interest at LIBOR plus between 2.25% and 3.50%. The proceeds of the term loan were used to finance the acquisition. The Credit Agreement also provides for a revolving credit line of \$45 million, of which approximately \$30 million is currently available for working capital requirements and is committed for three years through January 2012, with interest at LIBOR plus between 2.25% and 3.50%. In addition, the Company is required to pay a commitment fee of between 0.30% and 0.50% on the unused portion of the total credit commitment for the preceding quarter, based on the Company's leverage ratio under the Credit Agreement. The credit facility allocates up to \$20 million of the \$45 million revolving credit line for the issuance of letters of credit, including certain existing letters of credit. Principal payments on the \$40 million senior secured term loan are payable in quarterly installments of \$2.0 million commencing April 1, 2009.

The amended credit facility contains various covenants. The covenant for minimum fixed charge coverage, defined as the ratio of the sum of net income, interest expense, provision for taxes based on income, total depreciation expense, total amortization expense, other non-cash items reducing net income minus other non-cash items increasing net income minus capital expenditures, minus cash taxes paid and dividends paid to interest expense plus scheduled principal payments on long-term debt calculated on a rolling four-quarter basis is 1.25. The covenant for maximum leverage, defined as the ratio of the sum of net income, interest expense, provision for taxes based on income, total depreciation expense, total amortization expense, other non-cash items reducing net income minus other non-cash items increasing net income to funded debt calculated on a rolling four-quarter basis is 2.75. The covenant for minimum net worth, defined as total stockholder equity shall not be less than \$57.3 million increased annually by adding 50% of net income. The covenant for maximum capital expenditures is \$10 million annually.

A portion of the 2009 purchase price was funded by the issuance to the shareholders of DME a 6.0% subordinated promissory note due 2014 in the aggregate principal amount of \$5.0 million. To evidence its obligations related to the contingent payment, the Company also issued a 6.0% subordinated contingent promissory note due 2014 in the aggregate principal amount of \$2.0 million. Payment under the contingent promissory notes is due only upon satisfaction of certain revenue performance criteria for 2009.

The Company's cash needs for working capital, debt service and capital equipment during 2009 and the foreseeable future, are expected to be met by cash flows from operations and if necessary, utilization of the revolving credit facility. The Company's cash needs for debt service for 2009 will be higher than 2008 levels. As a result of the term debt related to the January 2009 DME acquisition scheduled debt principal payments for 2009 will increase from approximately \$0.9 million to \$6.9 million.

DIVIDENDS

Management believes that it should retain the capital generated from operating activities for investment in advancing technologies, acquisitions and debt retirement. Accordingly, there are no plans to institute a cash dividend program. Additionally, the Company's ability to pay dividends is limited by Minimum Net Worth and Minimum Fixed Charge Coverage Ratio covenants contained in the Company's Credit Agreement.

BACKLOG

At December 31, 2008, the Company's backlog was \$89.0 million compared with \$92.4 million at December 31, 2007.

RELATED-PARTY TRANSACTIONS

None

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 acquirers recognize and measure the

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consideration transferred, identifiable assets acquired, liabilities assumed, non-controlling interests, and goodwill acquired in a business combination. Acquisition costs will be generally expensed as incurred. The Company expensed approximately \$0.2 million in acquisition costs in 2008. 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. The Company believes that SFAS No. 141R will not have a significant impact on its consolidated financial position, cash flows 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has limited exposure to fluctuation in Canadian currency exchange rates to the U.S. dollar. Nearly all of the Company's consolidated sales are transacted in U.S. dollars. Net assets held in or measured in Canadian dollars amounted to \$1.8 million at December 31, 2008. Annual disbursements of approximately \$8.1 million are transacted in Canadian dollars. A 10% change in the value of the U.S. dollar versus the Canadian dollar would impact net income by approximately \$0.5 million.

Risk due to fluctuation in interest rates is a function of the Company's floating rate debt obligations, which total approximately \$14.4 million at December 31, 2008. To offset this exposure, 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% plus a spread based on the Company's leverage ratio on this \$3.3 million obligation through January 2016.

Before the Company entered into the new credit facility, a change of 1% in interest rates would impact annual net income by less than \$0.1 million. Subsequent to December 31, 2008, the additional \$40.0 million senior secured term loan incurred in conjunction with the acquisition of DME causes a 1% change in interest rates on all variable rate debt to impact annual net income by \$0.3 million. The new Credit Agreement requires the Company to enter into by April 30, 2009, one or more interest rate hedge agreements with one or more of the lenders, to fix the interest rate on not less than fifty percent of the aggregate principal amount of the term loan.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors of Astronics Corporation:

We have audited the accompanying consolidated balance sheets of Astronics Corporation as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listing in the index at item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Astronics Corporation at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 6 to the consolidated financial statements, on December 31, 2006, the Company changed its method of accounting for defined benefit pension plans and other post retirement benefits.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Astronics Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 4, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Buffalo, New York
March 4, 2009

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2008 based upon the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting is effective as of December 31, 2008.

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

By: /s/ Peter J. Gundermann

March 4, 2009

Peter J. Gundermann
President & Chief Executive Officer
(Principal Executive Officer)

/s/ David C. Burney

March 4, 2009

David C. Burney
Vice President-Finance, Chief Financial Officer & Treasurer
(Principal Financial and Accounting Officer)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors of Astronics Corporation:

We have audited Astronics Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Astronics Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Astronics Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Astronics Corporation as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated March 4, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Buffalo, New York
March 4, 2009

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ASTRONICS CORPORATION
CONSOLIDATED STATEMENT OF INCOME

| | Year Ended December 31, | | |
|---|--------------------------------|-------------|-------------|
| | 2008 | 2007 | 2006 |
| (In thousands, except per share data) | | | |
| Sales | \$ 173,722 | \$ 158,240 | \$ 110,767 |
| Cost of products sold | 143,249 | 117,370 | 87,519 |
| Gross profit | 30,473 | 40,870 | 23,248 |
| Selling, general and administrative expenses | 17,419 | 16,408 | 13,582 |
| Income from operations | 13,054 | 24,462 | 9,666 |
| Interest expense, net of interest income of \$12, \$50 and \$15 | 694 | 1,370 | 896 |
| Other expenses | 70 | 94 | 11 |
| Income before income taxes | 12,290 | 22,998 | 8,759 |
| Provision for income taxes | 3,929 | 7,607 | 3,023 |
| Net income | \$ 8,361 | \$ 15,391 | \$ 5,736 |
| Basic earnings per share | \$ 0.82 | \$ 1.52 | \$ 0.58 |
| Diluted earnings per share | \$ 0.79 | \$ 1.44 | \$ 0.55 |

See notes to consolidated financial statements.

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ASTRONICS CORPORATION
CONSOLIDATED BALANCE SHEET

| | December 31, | |
|--|---------------------|-------------------|
| | 2008 | 2007 |
| (In thousands, except share and per share data) | | |
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 3,038 | \$ 2,818 |
| Accounts Receivable, Net of Allowance for Doubtful Accounts of \$305 in 2008 and \$514 in 2007 | 22,053 | 20,720 |
| Inventories | 35,586 | 36,920 |
| Prepaid Expenses | 1,123 | 942 |
| Prepaid Income Taxes | | 1,040 |
| Deferred Income Taxes | 4,955 | 1,581 |
| Total Current Assets | 66,755 | 64,021 |
| Property, Plant and Equipment, at Cost: | | |
| Land | 1,639 | 1,636 |
| Buildings and Improvements | 16,310 | 16,285 |
| Machinery and Equipment | 30,358 | 25,978 |
| Construction in progress | 796 | 2,179 |
| | 49,103 | 46,078 |
| Less Accumulated Depreciation and Amortization | 20,028 | 15,995 |
| Net Property, Plant and Equipment | 29,075 | 30,083 |
| Deferred Income Taxes | 1,155 | 991 |
| Intangibles net of accumulated amortization of \$1,119 in 2008 and \$884 in 2007 | 1,853 | 2,088 |
| Restricted Cash | 136 | 1,088 |
| Other Assets | 3,118 | 2,802 |
| Goodwill | 2,582 | 3,048 |
| Total Assets | \$ 104,674 | \$ 104,121 |

LIABILITIES AND SHAREHOLDERS EQUITY

| | | |
|---|--------|--------|
| Current Liabilities: | | |
| Current Maturities of Long-term Debt | \$ 920 | \$ 951 |
| Note Payable | | 7,300 |
| Accounts Payable | 9,900 | 7,667 |
| Accrued Payroll and Employee Benefits | 3,789 | 6,140 |
| Accrued Income Taxes | 1,251 | |
| Customer Advanced Payments and Deferred Revenue | 5,237 | 7,822 |
| Other Accrued Expenses | 2,298 | 2,041 |

| | | |
|--|-------------------|-------------------|
| Total Current Liabilities | 23,395 | 31,921 |
| Long-term Debt | 13,526 | 14,684 |
| Supplemental Retirement Plan and Other Liabilities for Pension Benefits | 7,002 | 6,808 |
| Other Liabilities | 2,496 | 1,476 |
| Total Liabilities | 46,419 | 54,889 |
| Shareholders Equity | | |
| Common Stock, \$.01 par value Authorized 20,000,000 Shares, Issued 8,021,976 in 2008 and 7,511,744 in 2007 | 80 | 75 |
| Convertible Class B Stock, \$.01 par value Authorized 5,000,000 Shares, issued 3,223,764 in 2008 and 3,654,494 in 2007 | 32 | 36 |
| Additional Paid-in Capital | 9,390 | 7,833 |
| Accumulated Other Comprehensive Loss | (1,429) | (541) |
| Retained Earnings | 53,901 | 45,548 |
| | 61,974 | 52,951 |
| Less Treasury Stock: 980,313 Shares in 2008 and 2007 | 3,719 | 3,719 |
| Total Shareholders Equity | 58,255 | 49,232 |
| Total Liabilities and Shareholders Equity | \$ 104,674 | \$ 104,121 |

See notes to consolidated financial statements.

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

| | Year Ended December 31, | | |
|--|--------------------------------|-------------|-------------|
| | 2008 | 2007 | 2006 |
| (In thousands) | | | |
| Cash Flows from Operating Activities | | | |
| Net Income | \$ 8,361 | \$ 15,391 | \$ 5,736 |
| Adjustments to Reconcile Net Income to Cash Provided By (Used For) | | | |
| Operating Activities: | | | |
| Depreciation and Amortization | 4,142 | 3,440 | 2,929 |
| Fixed Asset Impairment | 1,580 | | |
| Provision for Non-Cash Losses on Inventory and Receivables | 8,907 | 747 | 138 |
| Stock Compensation Expense | 803 | 771 | 619 |
| Other | 393 | (185) | 26 |
| Deferred Tax Benefit | (3,558) | (122) | (529) |
| Cash Flows from Changes in Operating Assets and Liabilities: | | | |
| Accounts Receivable | (2,881) | (3,399) | (4,572) |
| Inventories | (7,102) | (5,599) | (12,298) |
| Prepaid Expenses | (298) | (137) | (379) |
| Accounts Payable | 2,376 | (4,895) | 7,047 |
| Accrued Expenses | (2,078) | 2,273 | 869 |
| Customer Advanced Payments and Deferred Revenue | (2,585) | 958 | 1,462 |
| Contract Loss Reserves | | | (830) |
| Prepaid Income Taxes | 2,291 | (815) | (385) |
| Supplemental Retirement Plan and Other Liabilities | 1,154 | 173 | 120 |
| Cash Provided By (Used For) Operating Activities | 11,505 | 8,601 | (47) |
| Cash Flows from Investing Activities | | | |
| Capital Expenditures | (4,325) | (9,592) | (5,400) |
| Other | (247) | (745) | (65) |
| Cash Used For Investing Activities | (4,572) | (10,337) | (5,465) |
| Cash Flows from Financing Activities | | | |
| Proceeds from Long Term Debt | | 6,000 | |
| Principal Payments on Long-term Debt | (945) | (944) | (920) |
| Proceeds from Note Payable | 9,100 | 20,800 | 10,300 |
| Payments on Note Payable | (16,400) | (21,600) | (9,200) |
| Debt Acquisition Costs | (197) | (392) | |
| Use of (Unexpended) Industrial Revenue Bond Proceeds | 952 | (1,088) | |
| Proceeds from Exercise of Stock Options | 329 | 1,162 | 984 |
| Income Tax Benefit from Exercise of Stock Options | 448 | 397 | 94 |
| Cash (Used for) Provided By Financing Activities | (6,713) | 4,335 | 1,258 |

| | | | |
|--|-----------------|-----------------|---------------|
| Effect of Exchange Rates on Cash | | (3) | 3 |
| Increase (Decrease) in Cash and Cash Equivalents | 220 | 2,596 | (4,251) |
| Cash and Cash Equivalents at Beginning of Year | 2,818 | 222 | 4,473 |
| Cash and Cash Equivalents at End of Year | \$ 3,038 | \$ 2,818 | \$ 222 |
| Disclosure of Cash Payments for: | | | |
| Interest | \$ 745 | \$ 1,421 | \$ 903 |
| Income Taxes, net | 4,798 | 8,159 | 4,001 |

See notes to consolidated financial statements.

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ASTRONICS CORPORATION

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

| | Common Stock | | Class B Stock | | Treasury Stock | | Accumulated Other | | |
|--|---------------|-----------|---------------|-----------|----------------|------|-------------------|-----------------------------|-------------------|
| | Shares Issued | Par Value | Shares Issued | Par Value | Shares | Cost | Paid-In Capital | Comprehensive Income (Loss) | Retained Earnings |

(Dollars and shares in thousands)

| | | | | | | | | | | |
|---|-------|-------|-------|-------|-----|------------|----------|---------|-----------|----------|
| Balance at January 1, 2006 | 7,082 | \$ 71 | 3,772 | \$ 38 | 980 | \$ (3,719) | \$ 3,808 | \$ 799 | \$ 24,421 | |
| Net Income for 2006 | | | | | | | | | 5,736 | \$ 5,736 |
| Currency Translation Adjustments | | | | | | | | (24) | | (24) |
| Mark to Market Adjustments for Derivatives, net of income taxes of \$25 | | | | | | | | (48) | | (48) |
| Total Comprehensive Income | | | | | | | | | | \$ 5,664 |
| Adjustment to initially apply FASB Statement No. 158, net of income taxes of \$859 | | | | | | | | (1,431) | | |
| Exercise of Stock Options and Stock Compensation Expense including income tax benefit of \$94 | 112 | 1 | 44 | | | | 1,696 | | | |
| Class B Stock converted to Common Stock | 120 | 1 | (120) | (1) | | | | | | |

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| | | | | | | | | | |
|---|-------|-------|-------|-------|-----|------------|--------------|----------|--------------------|
| Balance at December 31, 2006 | 7,314 | \$ 73 | 3,696 | \$ 37 | 980 | \$ (3,719) | \$ 5,504 | \$ (704) | \$ 30,157 |
| Net Income for 2007 | | | | | | | | | 15,391 \$ 15,391 |
| Currency Translation Adjustments | | | | | | | 490 | | 490 |
| FASB Statement No. 158 adjustment, net of income taxes of \$168 | | | | | | | (279) | | (279) |
| Mark to Market Adjustments for Derivatives, net of income taxes of \$28 | | | | | | | (48) | | (48) |
| Total Comprehensive Income | | | | | | | | | \$ 15,554 |
| Exercise of Stock Options and Stock Compensation Expense including income tax benefit of \$397 | 115 | 1 | 39 | | | | 2,329 | | |
| Class B Stock converted to Common Stock | 83 | 1 | (83) | (1) | | | | | |
| Balance at December 31, 2007 | 7,512 | \$ 75 | 3,652 | \$ 36 | 980 | \$ (3,719) | \$ 7,833 | \$ (541) | \$ 45,548 |
| Net Income for 2008 | | | | | | | | | 8,361 8,361 |
| Currency Translation Adjustments | | | | | | | (751) | | (751) |
| FASB Statement No. 158 adjustment, net of income taxes of (\$85) | | | | | | | (41) | | (41) |
| Mark to Market Adjustments for | | | | | | | (96) | | (96) |

**Derivatives, net
of income taxes
of \$49**

**Total
Comprehensive
Income**

\$ 7,473

**Adjustment for
Stock**

Distribution

(8)

**Exercise of
Stock Options
and Stock
Compensation**

**Expense
including**

**income tax
benefit of \$448**

50

32

1

1,557

Class B Stock

**converted to
Common Stock**

460

5

(460)

(5)

**Balance at
December 31,
2008**

8,022

\$ 80

3,224

\$ 32

980

\$ (3,719)

\$ 9,390

\$ (1,429)

\$ 53,901

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND PRACTICES

Description of the Business

Astronics Corporation, through its subsidiaries Luminescent Systems, Inc., Luminescent Systems Canada Inc. and Astronics Advanced Electronic Systems Corp. (AES) designs and manufactures lighting components and subsystems, electrical power generation, in-flight control and power distribution systems for aircraft. The Company serves the three primary markets for aircraft which are the military, commercial transport and the business jet markets.

Stock Distribution

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. On or about October 17, 2008, stockholders received 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 adjusted to reflect the impact of this distribution.

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

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. The Company does evaluate and record an allowance for any potential returns based on experience and any known circumstances. For the years ended December 31, 2008 and 2007, no significant allowances were recorded for contracts allowing for right of return. A trade receivable is recorded at the value of the sale. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. The Company records a valuation allowance to account for potentially uncollectible accounts receivable. The allowance is determined based on Management's knowledge of the business, specific customers, review of the receivable's aging and a specific identification of accounts where collection is at risk.

At December 31, 2008, the Company's allowance for doubtful accounts for accounts receivable was \$0.3 million, or 1.4% of gross accounts receivable. At December 31, 2007, the Company's allowance for doubtful accounts for accounts receivable was \$0.5 million, or 2.4% of gross accounts receivable. In the fourth quarter of 2008, the Company elected to directly write off all receivables amounting to approximately \$1.0 million from Eclipse Aviation Corporation, a customer that declared bankruptcy during the fourth quarter of 2008. The impact amounts to approximately a \$0.6 million reduction in net income or \$.06 per diluted share.

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. Selling, general and administrative expenses include costs primarily related

to our sales and marketing departments and administrative departments.

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 \$22.9 million in 2008, \$14.8 million in 2007 and \$10.9 million in 2006.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Stock-Based Compensation**

The Company accounts for share-based compensation under SFAS 123(R), Share-Based Payment, applying the modified prospective method. This Statement requires all equity-based payments to employees, including grants of employee stock options, to be recognized in the statement of earnings based on the grant date fair value of the award. 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. For awards with graded vesting, the Company uses a straight-line method of attributing the value of stock-based compensation expense, subject to minimum levels of expense, based on vesting. Prior to the first quarter of 2006 the Company accounted for its stock-based awards using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25 and its related interpretations.

Under SFAS 123(R), stock compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Vesting requirements vary for directors, officers and key employees. In general, options granted to outside directors vest six months from the date of grant and options granted to officers and key employees vest with graded vesting over a five-year period, 20% each year, from the date of grant.

Consistent with SFAS 123(R), we classified \$0.4 million of excess tax benefits from share based payment arrangements as cash flows from financing activities each in 2008 and 2007.

Cash and Cash Equivalents

All highly liquid instruments with a maturity of three months or less at the time of purchase are considered cash equivalents. Cash and cash equivalents excludes amounts which are restricted for use for capital expenditures under the series 2007 Industrial Revenue Bonds.

Inventories

Inventories are stated at the lower of cost or market, cost being determined in accordance with the first-in, first-out method. Inventories at December 31 are as follows:

| | 2008 | 2007 |
|------------------|-----------|-----------|
| (In thousands) | | |
| Finished Goods | \$ 7,690 | \$ 7,226 |
| Work in Progress | 8,407 | 8,553 |
| Raw Material | 19,489 | 21,141 |
| | \$ 35,586 | \$ 36,920 |

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, Management considers the age of inventory on hand, the overall inventory levels in relation to forecasted demands as well as reserving for

specifically identified inventory that the Company believes is no longer salable.

At December 31, 2008, the Company's reserve for inventory valuation was \$10.5 million, or 22.7% of gross inventory. In November of 2008, Eclipse Aviation Corporation, a customer, filed for bankruptcy protection. Eclipse has ceased production, terminated its workforce and petitioned the bankruptcy court to liquidate its assets. In the fourth quarter of 2008, the Company recorded a reserve for certain inventory specifically used in the Eclipse 500 aircraft which is included in cost of goods sold. This charge increased the inventory valuation reserve by approximately \$7.4 million, reducing net income by approximately \$4.8 million or \$0.45 per diluted share. At December 31, 2007, the Company's reserve for inventory valuation was \$4.1 million, or 10.0% of gross inventory.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property, Plant and Equipment

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

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

Depreciation expense was \$3.7 million, \$2.9 million and \$2.4 million in 2008, 2007 and 2006, respectively. No interest costs were capitalized in 2008. Interest costs capitalized relating to the 2007 building expansion, in East Aurora, New York amounted to approximately \$0.1 million.

In the fourth quarter of 2008, the Company recorded a charge in cost of goods sold, for certain equipment relating to the Eclipse 500 aircraft. This charge amounted to approximately \$1.6 million included in cost of goods sold, reducing net income by approximately \$1.0 million or \$0.10 per diluted share.

Goodwill and Intangible Assets

The Company tests goodwill at the reporting unit level on an annual basis or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company has one reporting unit for purposes of the goodwill impairment test. The impairment test consists of comparing the fair value of the reporting unit, determined using discounted cash flows, with its carrying amount including goodwill, and, if the carrying amount of the reporting unit exceeds its fair value, comparing the implied fair value of goodwill with its carrying amount. An impairment loss would be recognized for the carrying amount of goodwill in excess of its implied fair value.

Intangibles are valued based upon future economic benefits such as discounted earnings and cash flows. Acquired identifiable intangible assets are recorded at cost and are amortized over their estimated useful lives. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. Trade name intangibles have an indefinite life and are tested for impairment on an annual basis or more frequently if an event occurs or circumstances change that would more likely than not reduce its fair value below its carrying amount.

Long-Lived Assets

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

Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, notes payable, long-term debt and an interest rate swap. The carrying value of the Company's financial instruments approximate fair value. The Company does not hold or issue financial instruments for trading purposes.

Derivatives

The Company records all derivatives on the balance sheet at fair value and as long term. The accounting for changes in the fair value of derivatives depends on the intended use and resulting designation. During 2008 and

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

2007, the Company's use of derivative instruments was limited to a cash flow hedge for interest rate risk. For a derivative designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income (OCI) and subsequently reclassified into earnings when the hedged exposure affects earnings. The Company entered into an interest rate swap in February 2006, on its Series 1999 New York Industrial Revenue Bonds which effectively fixes the rate at 3.99% on this obligation through January 2016. The ineffective portions of all derivatives are recognized immediately into earnings as other income or expense. Ineffectiveness was not material in 2008, 2007, and 2006. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period of change. The Company classifies the cash flows from hedging transactions in the same category as the cash flows from the respective hedged items. The Company reclassified \$0.1 million from accumulated other comprehensive income to interest expense during 2008. Amounts reclassified in 2007 and 2006 were insignificant.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities. Deferred tax assets are reduced, if deemed necessary, by a valuation allowance for the amount of tax benefits which are not expected to be realized. Investment tax credits are recognized on the flow through method.

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 December 31, 2008. The years under which we conducted our evaluation coincided with the tax years currently still subject to examination by major federal and state tax jurisdictions, those being 2005, 2006, 2007 and 2008.

Prior to January 1, 2007, 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.

Earnings per Share

Earnings per share computations are based upon the following table:

| 2008 | 2007 | 2006 |
|------|------|------|
|------|------|------|

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(In thousands, except per share data)

| | | | |
|--|----------|-----------|----------|
| Net Income | \$ 8,361 | \$ 15,391 | \$ 5,736 |
| Basic earnings weighted average shares | 10,237 | 10,104 | 9,945 |
| Net effect of dilutive stock options | 413 | 607 | 391 |
| Diluted earnings weighted average shares | 10,650 | 10,711 | 10,336 |
| Basic earnings per share | \$ 0.82 | \$ 1.52 | \$ 0.58 |
| Diluted earnings per share | \$ 0.79 | \$ 1.44 | \$ 0.55 |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Reserved Common Stock**

At December 31, 2008, approximately 4.9 million shares of common stock were reserved for issuance upon conversion of the Class B stock, exercise of stock options and purchases under the Employee Stock Purchase Plan. Class B Stock is identical to Common Stock, except Class B Stock has ten votes per share, is automatically converted to Common Stock on a one for one basis when sold or transferred, and cannot receive dividends unless an equal or greater amount of dividends is declared on Common Stock.

Use of Estimates

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

Comprehensive Income

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

The accumulated balances of the components of other comprehensive (loss) income net of tax, at December 31, 2008 and 2007 are as follows:

| | 2008 | 2007 |
|--|-------------|-------------|
| (In millions) | | |
| Accumulated foreign currency translation | \$ 0.5 | \$ 1.3 |
| Accumulated loss on derivative adjustment net of tax benefit of \$0.1 million and \$0.1 million at December 31, 2008 and 2007 | (0.2) | (0.1) |
| Accumulated retirement liability adjustment net of tax benefit of \$0.9 million and \$1.0 million at December 31, 2008 and 2007 respectively | (1.7) | (1.7) |
| | \$ (1.4) | \$ (0.5) |

Fair Value

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.

We adopted SFAS 157 as of January 1, 2008, the impact of which was not significant. Relative to SFAS 157, the FASB issued FASB Staff Positions (FSP) 157-1 and 157-2. 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. The

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Company has elected the partial deferral allowed for under FSP 157-2. Goodwill and indefinite lived intangible assets are the only major category of assets that are required to be measured at fair value on a recurring basis as part of impairment assessments for which, in accordance with FSP 157-2, the entity has not applied the provisions of FAS 157.

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.

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2008 (in thousands):

| | Asset (Liability) | Level 1 | Level 2 | Level 3 |
|---------------------|------------------------------|----------------|----------------|----------------|
| Interest rate swaps | (293) | | (293) | |

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

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 acquirers recognize and measure the consideration transferred, identifiable assets acquired, liabilities assumed, non-controlling interests, and goodwill acquired in a business combination. Acquisition costs will be generally expensed as incurred. The Company expensed approximately \$0.2 million in acquisition costs in 2008. 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. The Company believes that SFAS No. 141R will not have a significant impact on its consolidated financial position, cash flows 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.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Dividends**

The Company has not paid any cash dividends in the three-year period ended December 31, 2008. It has no plans to pay cash dividends as it plans to retain all cash from operations as a source of capital to finance growth in the business. The Company's ability to pay dividends is limited by Minimum Net Worth and Minimum Fixed Charge Coverage Ratio covenants contained in the Company's new Credit Agreement as discussed in Note 12.

NOTE 2 LONG-TERM DEBT AND NOTE PAYABLE

Long-term debt consists of the following:

| | 2008 | 2007 |
|--|-----------|-----------|
| (In thousands) | | |
| Note Payable at Canadian Prime payable \$12 monthly through 2016 plus interest (Canadian prime was 4.0% at December 31, 2008) | \$ 1,026 | \$ 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 (1.70% at December 31, 2008) | 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 (1.15% at December 31, 2008) | 3,295 | 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 (1.15% at December 31, 2008) | 6,000 | 6,000 |
| Other | 75 | 102 |
| | 14,446 | 15,635 |
| Less current maturities | 920 | 951 |
| | \$ 13,526 | \$ 14,684 |

Principal maturities of long-term debt for each of the next five years are \$0.9 million for 2009 and \$1.2 million annually for 2010 through 2013.

The Company is in compliance with all its debt and credit facility covenants at December 31, 2008 and believes it will continue to be compliant in the future.

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.

In February 2006, the Company entered into an interest rate swap, for its Series 1999 Industrial Revenue Bonds million obligation which effectively fixes the interest rate at 3.99% on this obligation through January 2016.

Pursuant to the Revolving Credit Facility, the Company's borrowing availability was increased from \$25 million to \$60 million. 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

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 allows the Company to allocate up to \$5.0 million of its availability under the Loan Agreement for the issuance of letters of credit.

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.

At December 31, 2008 and 2007 the Company had outstanding \$0.0 million and \$7.3 million, respectively, on its revolving credit facility existing at that time. At December 31, 2008 and 2007, the Company had available \$60.0 million and \$17.7 million, respectively, on its facility existing at that time.

See Note 12 Subsequent Event, for information on the amendment to the credit facility effective January 30, 2009.

NOTE 3 STOCK OPTION AND PURCHASE PLANS

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

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

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. The weighted average fair value of the options was \$4.02, \$11.18 and \$6.06 for options granted during the year ended December 31, 2008, 2007 and 2006, respectively.

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

| | 2008 | 2007 | 2006 |
|-------------------------|---------------|-------------|-------------|
| Risk-free interest rate | 2.09% - 3.73% | 3.7% - 4.5% | 4.5% - 4.7% |

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| | | | |
|------------------------|-------------|-------------|-------------|
| Dividend yield | 0.0% | 0.0% | 0.0% |
| Volatility factor | 0.37 - 0.39 | 0.34 - 0.38 | 0.33 - 0.34 |
| Expected life in years | 7.00 - 8.00 | 7.00 - 8.00 | 7.00 - 8.00 |

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

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

The following table provides compensation expense information based on the fair value of stock options for the years ended December 31, 2008, 2007 and 2006:

| | 2008 | 2007 | 2006 |
|---|-------------|-------------|-------------|
| (In thousands) | | | |
| Stock compensation expense included in net income | \$ 803 | \$ 771 | \$ 619 |
| Tax benefit | (87) | (136) | (86) |
| Stock compensation expense, net of tax | \$ 716 | \$ 635 | \$ 533 |

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

| | 2008 | | | 2007 | | | 2006 | | |
|--|----------------|--|--|----------------|--|--|----------------|--|--|
| | Options | Weighted Average Exercise Price | Aggregate Intrinsic Value | Options | Weighted Average Exercise Price | Aggregate Intrinsic Value | Options | Weighted Average Exercise Price | Aggregate Intrinsic Value |
| (Aggregate intrinsic value in thousands) | | | | | | | | | |
| Outstanding at the Beginning of the Year | 996,549 | \$ 7.04 | \$ 1,853 | 1,022,728 | \$ 5.85 | \$ 28,792 | 1,001,979 | \$ 5.19 | \$ 8,529 |
| Options Granted | 144,985 | 8.68 | 31 | 65,238 | 23.34 | 696 | 98,250 | 12.88 | 81 |
| Options Exercised | (81,841) | 4.33 | (374) | (90,416) | 5.35 | (2,590) | (77,501) | 6.24 | (578) |
| Options Forfeited | | | | (1,000) | 4.39 | (30) | | | |
| Outstanding at the End of the Year | 1,059,693 | \$ 7.48 | \$ 1,510 | 996,549 | \$ 7.04 | \$ 26,868 | 1,022,728 | \$ 5.85 | \$ 8,032 |
| Exercisable at December 31 | 755,120 | \$ 6.46 | \$ 1,842 | 710,836 | \$ 5.79 | \$ 20,049 | 648,411 | \$ 5.22 | \$ 5,504 |

The aggregate intrinsic value in the preceding table represents the total pretax option holder's intrinsic value, based on the Company's closing stock price of Common Stock which would have been received by the option holders had all option holders exercised their options as of that date. The Company's closing stock price of Common Stock was \$8.90.

\$34.00 and \$13.70 as of December 31, 2008, 2007 and 2006, respectively.

The fair value of options vested during 2008, 2007 and 2006 was \$8.80, \$3.50 and \$3.16, respectively. At December 31, 2008, total compensation costs related to non-vested awards not yet recognized amounts to \$1.4 million and will be recognized over a weighted average period of 2.4 years.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following is a summary of weighted average exercise prices and contractual lives for outstanding and exercisable stock options as of December 31, 2008:

| Exercise Price Range | Shares | Outstanding | | Exercisable | |
|----------------------|-----------|--|---------------------------------------|-------------|---------------------------------------|
| | | Weighted Average Remaining Life in Years | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| \$4.07-\$6.12 | 606,402 | 4.73 | \$ 4.50 | 532,494 | \$ 4.48 |
| \$7.86-\$10.73 | 308,641 | 7.30 | 8.25 | 143,441 | 8.67 |
| \$13.89-\$14.08 | 110,662 | 8.20 | 14.14 | 72,390 | 14.27 |
| \$31.85 | 33,988 | 8.97 | 31.85 | 6,795 | 31.85 |
| | 1,059,693 | 5.98 | \$ 7.48 | 755,120 | \$ 6.46 |

The Company established Incentive Stock Option Plans for the purpose of attracting and retaining executive officers and key employees, and to align management's interest with those of the shareholders. Generally, the options must be exercised within ten years from the grant date and vest ratably over a five-year period. The exercise price for the options is equal to the fair market value at the date of grant. At December 31, 2008, the Company had options outstanding for 874,290 shares under the plan. At December 31, 2008, 414,104 options were available for future grant under the plan established in 2001.

The Company established the Directors Stock Option Plans for the purpose of attracting and retaining the services of experienced and knowledgeable outside directors, and to align their interest with those of the shareholders. The options must be exercised within ten years from the grant date. The exercise price for the option is equal to the fair market value at the date of grant and vests six months from the grant date. At December 31, 2008, the Company had options outstanding for 185,403 shares under the plans. At December 31, 2008, there were 178,878 options available for future grants under the plan established in 2005.

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 December 31, 2008, employees had subscribed to purchase 57,704 shares at \$15.13 per share. The weighted average fair value of the options was \$4.15, \$9.11 and \$3.03 for options granted during the year ended December 31, 2008, 2007 and 2006, respectively.

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

| | 2008 | 2007 | 2006 |
|-------------------------|-------------|-------------|-------------|
| Risk-free interest rate | 1.53% | 3.20% | 4.90% |
| Dividend yield | 0.0% | 0.0% | 0.0% |
| Volatility factor | .376 | .380 | .343 |
| Expected life in years | 1.00 | 1.00 | 1.00 |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 4 INCOME TAXES**

Pretax income (losses) from the Company's foreign subsidiary amounted to \$0.5 million, \$1.1 million and \$(0.1) million for 2008, 2007 and 2006 respectively. The balances of pretax earnings for each of those years were domestic.

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

| | 2008 | 2007 | 2006 |
|----------------|-------------|-------------|-------------|
| (In thousands) | | | |
| Current | | | |
| US Federal | \$ 7,331 | \$ 7,495 | \$ 3,563 |
| State | 137 | 93 | 112 |
| Foreign | 19 | 141 | (123) |
| Deferred | (3,558) | (122) | (529) |
| | \$ 3,929 | \$ 7,607 | \$ 3,023 |

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

| | 2008 | 2007 | 2006 |
|---|-------------|-------------|-------------|
| Statutory Federal Income Tax Rate | 35.0% | 35.0% | 34.0% |
| Permanent Items, Net | (1.9)% | (1.0)% | 0.5% |
| Foreign Taxes (benefits) | (1.4)% | (1.2)% | |
| State Income Tax, Net of Federal Income Tax Benefit | 0.1% | 0.4% | 1.0% |
| Other | 0.2% | (0.1)% | (1.0)% |
| | 32.0% | 33.1% | 34.5% |

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

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2008 and 2007 are as follows:

| | 2008 | 2007 |
|----------------------|-------------|-------------|
| (In thousands) | | |
| Deferred tax assets: | | |

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| | | |
|---|----------|----------|
| Deferred compensation | \$ 3,544 | \$ 3,456 |
| Asset reserves | 5,001 | 1,300 |
| State and Foreign tax credit carryforwards, net of federal tax | 680 | 769 |
| Customer Advanced Payments and Deferred Revenue | 645 | 557 |
| Other | 288 | 306 |
| Total gross deferred tax assets | 10,158 | 6,388 |
| Valuation allowance for deferred tax assets related to state and foreign tax credit carryforwards, net of federal tax | (680) | (769) |
| Deferred tax assets | 9,478 | 5,619 |
| Deferred tax liabilities: | | |
| Depreciation | 2,960 | 2,595 |
| Intangibles | 408 | 452 |
| Deferred tax liabilities | 3,368 | 3,047 |
| Net deferred tax asset | \$ 6,110 | \$ 2,572 |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The net deferred tax assets and liabilities are presented in the consolidated balance sheet as follows at December 31, 2008 and 2007:

| | 2008 | 2007 |
|---------------------------------|-------------|-------------|
| (In thousands) | | |
| Deferred tax asset current | \$ 4,955 | \$ 1,581 |
| Deferred tax asset long-term | 1,155 | 991 |
| Net deferred tax asset | \$ 6,110 | \$ 2,572 |

In the fourth quarter of 2007, the Company recorded an increase of \$0.6 million in its valuation allowance, reducing the Company's deferred tax asset relating to state and foreign tax credit carryforwards to \$0.0 million. As a result, in 2007, the Company recorded a non-cash charge to income tax expense of \$0.5 million net of the federal tax benefit.

NOTE 5 PROFIT SHARING/401(K) PLAN

The Company has a qualified Profit Sharing/401(k) Plan for the benefit of its eligible full-time employees. The Profit Sharing/401(k) Plan provides for annual contributions based on percentages of pretax income. In addition, employees may contribute a portion of their salary to the 401(k) plan which is partially matched by the Company. The plan may be amended or terminated at any time. Total charges to income from continuing operations for the plan were \$1.5 million, \$1.9 million and \$1.4 million in 2008, 2007 and 2006, respectively.

NOTE 6 SUPPLEMENTAL RETIREMENT PLAN AND RELATED POST RETIREMENT BENEFITS

On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158. SFAS No. 158 requires the Company to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plan in its balance sheet, with a corresponding adjustment to accumulated other comprehensive income, net of tax. The adjustment to accumulated other comprehensive income at adoption represented the net unrecognized actuarial losses, unrecognized prior service costs, and unrecognized transition obligation remaining from the initial adoption of SFAS No. 87, all of which were previously netted against the plan's funded status in the Company's balance sheet pursuant to the provisions of SFAS No. 87. These amounts will be subsequently recognized as net periodic pension cost pursuant to the Company's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of SFAS No. 158.

Unrecognized prior service costs of \$1.1 million (\$0.7 million net of tax) and unrecognized actuarial losses \$1.5 million (\$1.0 million net of tax) are included in accumulated other comprehensive income at December 31, 2008 and have not yet been recognized in net periodic pension cost. The prior service cost, and actuarial loss included in accumulated other comprehensive income and expected to be recognized in net periodic pension cost during the fiscal year-ended December 31, 2009 is \$0.1 million (\$0.1 million net of tax) and \$0.1 million (\$0.1 million net of tax), respectively.

The Company has a nonqualified supplemental retirement defined benefit plan (the Plan) for certain current and retired executives. The Plan provides for benefits based upon average annual compensation and years of service, less offsets for Social Security and Profit Sharing benefits. It is the Company s intent to fund the benefits as they become payable.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The reconciliation of the beginning and ending balances of the projected benefit obligation and the fair value of plans assets for the year ended December 31, 2008 and 2007 and the accumulated benefit obligation at December 31, 2008 and 2007 is as follows:

| | December 31, 2008 | December 31, 2007 |
|---|------------------------------|------------------------------|
| (In thousands) | | |
| Funded Status | | |
| Projected Benefit Obligation | | |
| Beginning of Year January 1 | \$ 6,343 | \$ 5,761 |
| Service Cost | 48 | 38 |
| Interest Cost | 355 | 321 |
| Actuarial Loss | 100 | 570 |
| Benefits Paid | (348) | (347) |
| End of Year December 31 | 6,498 | 6,343 |
| Fair Value of Plan Assets End of Year December 31 | | |
| Accumulated Benefit Obligation Recognized December 31 | \$ 6,498 | \$ 6,343 |

The assumptions used to calculate the benefit obligation as of December 31, 2008 and 2007 are as follows:

| | 2008 | 2007 |
|---------------------------------------|-------------|-------------|
| Discount Rate | 5.75% | 5.75% |
| Future Average Compensation Increases | 5.00% | 5.00% |

The unfunded status of the plan of \$6.5 million at December 31, 2008 is recognized in the accompanying statement of financial position as a current accrued pension liability of \$0.3 million and a long-term accrued pension liability of \$6.2 million. This also is the expected Company contribution to the plan, as it is unfunded.

The following table summarizes the components of the net periodic cost for the years ended December 31, 2008, 2007 and 2006:

| | 2008 | 2007 | 2006 |
|--|-------------|-------------|-------------|
| (In thousands) | | | |
| Net Periodic Cost | | | |
| Service Cost Benefits Earned During Period | \$ 48 | \$ 38 | \$ 35 |
| Interest Cost | 355 | 321 | 309 |
| Amortization of Prior Service Cost | 109 | 109 | 109 |

| | | | |
|------------------------|--------|--------|--------|
| Amortization of Losses | 29 | 4 | 5 |
| Net Periodic Cost | \$ 541 | \$ 472 | \$ 458 |

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

| | 2008 | 2007 | 2006 |
|---------------------------------------|-------------|-------------|-------------|
| Discount Rate | 5.75% | 5.75% | 5.50% |
| Future Average Compensation Increases | 5.00% | 5.00% | 5.00% |

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

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

The reconciliation of the beginning and ending balances of the projected benefit obligation and the fair value of plans assets for the year ended December 31, 2008 and 2007 and the accumulated benefit obligation at December 31, 2008 and 2007 is as follows:

| | December 31, 2008 | December 31, 2007 |
|---|------------------------------|------------------------------|
| (In thousands) | | |
| Funded Status | | |
| Projected Benefit Obligation | | |
| Beginning of Year January 1 | \$ 859 | \$ 820 |
| Service Cost | 6 | 6 |
| Interest Cost | 48 | 46 |
| Actuarial Loss | 37 | 34 |
| Benefits Paid | (47) | (47) |
| End of Year December 31 | \$ 903 | \$ 859 |
| Fair Value of Plan Assets | | |
| End of Year December 31 | | |
| Accumulated Benefit Obligation Recognized December 31 | \$ 903 | \$ 859 |

The assumptions used to calculate the post retirement benefit obligation as of December 31, 2008 and 2007 are as follows:

| | 2008 | 2007 |
|---------------|-------------|-------------|
| Discount Rate | 5.75% | 5.75% |

The following table summarizes the components of the net periodic cost for the years ended December 31, 2008, 2007 and 2006:

| | 2008 | 2007 | 2006 |
|--|-------------|-------------|-------------|
| (In thousands) | | | |
| Net Periodic Cost | | | |
| Service Cost Benefits Earned During Period | \$ 6 | \$ 6 | \$ 6 |

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| | | | |
|------------------------------------|-------|-------|-------|
| Interest Cost | 48 | 46 | 46 |
| Amortization of Prior Service Cost | 34 | 34 | 34 |
| Amortization of Losses | 9 | 7 | 7 |
| Net Periodic Cost | \$ 97 | \$ 93 | \$ 93 |

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

| | 2008 | 2007 | 2006 |
|---|-------------|-------------|-------------|
| Discount Rate | 5.75% | 5.75% | 5.50% |
| Future Average Healthcare Benefit Increases | 12.00% | 12.00% | 12.00% |

The Company estimates that \$0.4 million of prior Service Costs and \$0.2 million of net losses in accumulated other comprehensive income for medical, dental and long-term care insurance benefits as of December 31, 2008 will be recognized as components of net periodic benefit cost during the year ended December 31, 2009 for the Plan. For measurement purposes, a 12% annual increase in the cost of health care

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

benefits was assumed for 2008 and 2007 respectively, gradually decreasing to 5.0% in 2013 and years thereafter. A one percentage point increase in this rate would increase the post retirement benefit obligation by approximately \$0.1 million, and a one percentage point decrease in this rate would decrease the post retirement benefit obligation by approximately \$0.1 million. The Company expects the benefits to be paid in each of the next five years to be \$0.1 million and \$0.3 million in the aggregate for the next five years after that. This also is the expected Company contribution to the plan, as it is unfunded.

NOTE 7 SELECTED QUARTERLY FINANCIAL INFORMATION

The following table summarizes selected quarterly financial information for 2008 and 2007:

| | Quarter Ended | | | | | | | |
|---|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| | Dec. 31, 2008 | Sept. 27, 2008 | June 28, 2008 | March 29, 2008 | Dec. 31, 2007 | Sept. 29, 2007 | June 30, 2007 | March 31, 2007 |
| (Unaudited) | | | | | | | | |
| (In thousands, except for per share data) | | | | | | | | |
| Sales | \$ 44,381 | \$ 40,363 | \$ 47,889 | \$ 41,089 | \$ 36,273 | \$ 37,724 | \$ 41,368 | \$ 42,875 |
| Gross Profit (sales less cost of products sold) | 1,943 | 7,908 | 12,123 | 8,499 | 7,643 | 10,142 | 11,435 | 11,650 |
| Income (loss) before Tax | (3,061) | 3,636 | 7,645 | 4,070 | 3,389 | 5,869 | 6,654 | 7,086 |
| Net Income (Loss) | (1,781) | 2,379 | 5,116 | 2,647 | 2,069 | 4,126 | 4,501 | 4,695 |
| Basic Earnings per Share | (.17) | 0.23 | 0.50 | 0.26 | 0.20 | 0.41 | 0.45 | 0.46 |
| Diluted Earnings per Share | (.17) | 0.22 | 0.48 | 0.25 | 0.19 | 0.38 | 0.42 | 0.45 |

In the fourth quarter of 2008, Eclipse Aviation Corporation filed for bankruptcy protection. As a result, the Company recorded charges of \$9.0 million, included as part of cost of goods sold for inventory and equipment write-offs and \$1.0 million included in selling, general and administrative expenses for the bad debt expense.

NOTE 8 SALES BY GEOGRAPHIC REGION, MAJOR CUSTOMERS AND CANADIAN OPERATIONS

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

| 2008 | 2007 | 2006 |
|-------------|-------------|-------------|
|-------------|-------------|-------------|

| | | | |
|----------------|------------|------------|------------|
| (In thousands) | | | |
| North America | \$ 147,944 | \$ 128,563 | \$ 89,089 |
| Asia | 10,221 | 12,802 | 7,309 |
| Europe | 13,802 | 15,891 | 13,650 |
| South America | 1,486 | 632 | 469 |
| Other | 269 | 352 | 250 |
| | \$ 173,722 | \$ 158,240 | \$ 110,767 |

Sales recorded by the Company's Canadian operations were \$11.2 million in 2008, \$11.2 million in 2007 and \$8.6 million in 2006. Net income (loss) from this operation was \$0.5 million in 2008, \$1.1 million in 2007 and \$(0.1) million in 2006. Net Assets held outside of the United States total \$1.8 million at December 31, 2008 and \$2.1 million at December 31, 2007. The exchange gain included in determining net income for the years ended December 31, 2008 was \$0.2 million and was insignificant in 2007 and 2006. Cumulative translation adjustments amounted to \$0.5 million, \$1.3 million and \$0.8 million at December 31, 2008, 2007 and 2006 respectively.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company has a significant concentration of business with one major customer. Sales to Panasonic Avionics accounted for 24.9% of sales in 2008, 27.7% of sales in 2007 and 21.2% of sales in 2006. Accounts receivable from this customer at December 31, 2008 and 2007 were \$2.2 million and \$4.0 million, respectively.

NOTE 9 COMMITMENTS AND CONTINGENCIES

The Company leases certain office and manufacturing facilities as well as equipment under various lease contracts with terms that meet the accounting definition of operating leases. These arrangements may include fair market renewal or purchase options. Rental expense for the years ended December 31, 2008, 2007 and 2006 was \$1.9 million, \$1.8 million and \$1.7 million, respectively. The following table represents future minimum lease payment commitments as of December 31, 2008:

| (In millions) | 2009 | 2010 | 2011 | 2012 | 2013 | Total |
|------------------------|--------|--------|--------|--------|--------|--------|
| Minimum Lease Payments | \$ 2.0 | \$ 1.8 | \$ 1.8 | \$ 1.9 | \$ 0.5 | \$ 8.0 |

From time to time the Company may enter into purchase agreements with suppliers under which there is a commitment to buy a minimum amount of product. Purchase commitments outstanding at December 31, 2008 were \$25.5 million. These commitments are not reflected as liabilities in the Company's Balance Sheet.

The Company leases its operating facility in Redmond, Washington. In the second quarter of 2008, the Company finalized a renewal for the Redmond, Washington building lease. The lease expires in March of 2013. The Montreal, Quebec, Canada operations are in leased facilities of approximately 16,000 square feet. The lease expires in 2009. Upon expiration of its current lease, the Company believes that it will be able to secure renewal terms or enter into a lease for an alternative location.

NOTE 10 GOODWILL AND INTANGIBLE ASSETS

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

| (In thousands) | 2008 | 2007 |
|-------------------------------|----------|----------|
| Balance at January 1, | \$ 3,048 | \$ 2,668 |
| Foreign currency translations | (466) | 380 |
| Balance at December 31, | \$ 2,582 | \$ 3,048 |

The following table summarizes acquired intangible assets as follows:

| | Weighted Average Life | December 31, 2008 | | December 31, 2007 | | |
|-------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|--|
| | | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization | |
| (In thousands) | | | | | | |
| Patents | 12 Years | \$ 1,271 | \$ 388 | \$ 1,271 | \$ 289 | |
| Trade Names | N/A | 553 | | 553 | | |
| Completed and Unpatented Technology | 10 Years | 487 | 191 | 487 | 142 | |
| Government Contracts | 6 Years | 347 | 226 | 347 | 168 | |
| Backlog | 4 Years | 314 | 314 | 314 | 285 | |
| Total Intangible Assets | | \$ 2,972 | \$ 1,119 | \$ 2,972 | \$ 884 | |

Amortization is computed on the straight-line method for financial reporting purposes. Amortization expense was \$0.2 million, \$0.2 million and \$0.3 million for 2008, 2007 and 2006 respectively. Based on amounts recorded at December 31, 2008, amortization expense for each of the next five years is expected to

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

amount to approximately \$0.2 million for each of the years ended December 31, 2009, 2010, 2011 and \$0.1 million for 2012 and 2013.

NOTE 11 WARRANTY

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

| | 2008 | 2007 | 2006 |
|------------------------------|----------|----------|--------|
| (in thousands) | | | |
| Balance at beginning of year | \$ 1,164 | \$ 823 | \$ 338 |
| Warranties issued | 1,128 | 751 | 492 |
| Warranties settled | (1,080) | (410) | (7) |
| Balance at end of year | \$ 1,212 | \$ 1,164 | \$ 823 |

NOTE 12 SUBSEQUENT EVENTS**Acquisition**

On January 30, 2009, the Company acquired 100% of the common stock of DME Corporation (DME). The purchase price was approximately \$51 million, comprised of approximately \$40 million in cash, 500,000 shares of the Company's common stock held as treasury shares, valued at \$3.6 million, or \$7.17 per share, a \$5.0 million subordinated note payable to the former shareholders plus an additional \$2.0 million subject to meeting revenue performance criteria in 2009. DME is a designer and manufacturer of military test training and simulation equipment and aviation safety products.

Audited financial statements for DME for 2008 and 2007 and pro-forma combined financial information for Astronics and DME will be available and included in a Form 8-K filing expected to be filed in April 2009.

Acquisition Financing

In connection with the funding of the Acquisition, the Company amended its existing \$60 million credit facility by entering into an \$85 million Amended and Restated Credit Agreement (the "Credit Agreement"), dated as of January 30, 2009, with HSBC Bank USA, National Association, Bank of America, N.A. and KeyBank National Association. The Credit Agreement provides for a five-year, \$40 million senior secured term loan with interest at LIBOR plus between 2.25% and 3.50%. The proceeds of the term loan were used to finance the Acquisition. The Credit Agreement also provides for a revolving credit line of \$45 million, of which approximately \$30 million is currently available for working capital requirements and is committed for three years through January 2012, with interest at LIBOR plus between 2.25% and 3.50%. In addition, the Company is required to pay a commitment fee of between 0.30% and 0.50% on the unused portion of the total credit commitment for the preceding quarter, based on the Company's

leverage ratio under the Credit Agreement. The credit facility allocates up to \$20 million of the \$45 million revolving credit line for the issuance of letters of credit, including certain existing letters of credit.

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. The Credit Agreement requires that the Company be compliant with several affirmative and negative covenants which specify minimum consolidated net worth, maximum leverage, capital expenditures and fixed charge coverage. The Company believes it will be compliant in the foreseeable future with all the credit facility covenants.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In the event of voluntary or involuntary bankruptcy of the Company (each an Event of Default as defined in the Credit Agreement), all unpaid principal and any other amounts due under the Credit Agreement automatically become due and payable without presentation, demand or notice of any kind to the Company. Other Events of Default, including failure to make payments as they become due, give the Agent (as defined in the Credit Agreement) the option to declare all unpaid principal and any other amounts then due immediately due and payable.

A portion of the purchase price for DME was funded by the issuance to the former shareholders of DME, a 6.0% subordinated promissory note due 2014 in the aggregate principal amount of \$5 million. To evidence its obligations related to the Contingent Payment, the Company also issued 6.0% subordinated contingent promissory notes due 2014 in the aggregate principal amount of \$2 million. Payment under the contingent promissory notes is due only upon satisfaction of certain revenue performance criteria for 2009.

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Management's report on Internal Control over Financial Reporting

See the report appearing under item 8, Financial Statements and Supplemental Data on page 23 of this report.

Changes in Internal Control over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

Not applicable.

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

The information regarding directors is contained under the captions Election of Directors and Security Ownership of Certain Beneficial Owners and Management is incorporated herein by reference to the 2009 Proxy.

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

| Name and Age of Executive Officer | Positions and Offices with Astronics | Year First Elected Officer |
|--|---|---|
| Peter J. Gundermann Age 46 | President, Chief Executive Officer and Director of the Company | 2001 |
| David C. Burney Age 46 | Vice President-Finance, Treasurer, Secretary and Chief Financial Officer of the Company | 2003 |

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

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

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

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

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

Table of Contents**PART IV****ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

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

1. The following financial statements are included:

- (i) Consolidated Statement of Earnings for the years ended December 31, 2008, December 31, 2007 and December 31, 2006
- (ii) Consolidated Balance Sheet as of December 31, 2008 and December 31, 2007
- (iii) Consolidated Statement of Cash Flows for the years ended December 31, 2008, December 31, 2007 and December 31, 2006
- (iv) Consolidated Statement of Shareholders' Equity for the years ended December 31, 2008, December 31, 2007 and December 31, 2006
- (v) Notes to Consolidated Financial Statements
- (vi) Reports of Independent Registered Public Accounting Firm
- (vii) Management's Report on Internal Control Over Financial Reporting

2. Financial Statement Schedules

Schedule II. Valuation and Qualifying Accounts

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

3. Exhibits

| Exhibit No. | Description |
|--------------------|--|
| 3(a) | Restated Certificate of Incorporation, as amended. |
| (b) | By-Laws, as amended |
| 4.1(a) | \$60,000,000 Credit Agreement with HSBC Bank USA, dated May 13, 2008, incorporated by reference to the registrant's Form 8-K, Exhibit 10.1, filed May 16, 2008 |
| (b) | Amended and Restated Credit Agreement with HSBC Bank USA, dated January 27, 2009, incorporated by reference to the registrant's Form 8-K, Exhibit 10.1, filed January 30, 2009 |
| 10.1* | Restated Thrift and Profit Sharing Retirement Plan; incorporated by reference to exhibit 10.1 of the Registrant's December 31, 1994 Annual Report on Form 10-KSB. |
| 10.2* | 1992 Incentive Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 30, 1992. |
| 10.3* | 1997 Director Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 14, 1997. |
| 10.4* | 2001 Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 19, 2001. |
| 10.5* | Non-Qualified Supplemental Retirement Plan; incorporated by reference from the Registrant's 1999 Annual Report on Form 10-K. |

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- 10.6* Employment Termination Benefits Agreement Dated December 16, 2003 between Astronics Corporation and Peter J. Gundermann, President and Chief Executive Officer of Astronics Corporation ; incorporated by reference from the Registrant s 2003 Annual Report on Form 10-K.
- 10.7* Employment Termination Benefits Agreement Dated December 16, 2003 between Astronics Corporation and David C. Burney, Vice President and Chief Financial Officer of Astronics Corporation ; incorporated by reference from the Registrant s 2003 Annual Report on Form 10-K.
- 10.8* 2005 Director Stock Option Plan incorporated by reference to Exhibit 10.15 to the Registrant s 2004 Annual Report on Form 10-K.

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| Exhibit No. | Description |
|--------------------|---|
| 10.9 | Stock Purchase Agreement By and Among Astronics Corporation, DME Corporation and the Shareholders of DME Corporation dated January 28, 2009, incorporated by reference to the registrant's Form 8-K, Exhibit 10.1, filed January 30, 2009 |
| 10.10* | First Amendment of the Astronics Corporation Supplemental Retirement Plan |
| 10.11* | First Amendment of the Employment Termination Benefits Agreement Dated December 30, 2008 between Astronics Corporation and Peter J. Gundermann, President and Chief Executive Officer of Astronics Corporation. |
| 10.12* | First Amendment of the Employment Termination Benefits Agreement Dated December 30, 2008 between Astronics Corporation and David C. Burney, Vice President and Chief Financial Officer of Astronics Corporation |
| 21 | Subsidiaries of the Registrant; filed herewith. |
| 23 | Consent of Independent Registered Public Accounting Firm; filed herewith. |
| 31.1 | Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002; filed herewith |
| 31.2 | Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002; filed herewith |
| 32 | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002; furnished herewith |

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

Table of ContentsSCHEDULE IIValuation and Qualifying Accounts

| Year (In thousands) | Description | Balance at the Beginning of Period | Acquisitions | Charged to Cost and Expense | (Write-Offs) Recoveries | Balance at End of Period |
|---------------------------|-------------------------------------|--|--------------|--------------------------------------|----------------------------|--------------------------------|
| 2008 | Allowance for Doubtful Accounts | \$ 514 | \$ | \$ 898 | \$ (1,107) | \$ 305 |
| | Reserve for Inventory Valuation | 4,082 | | 8,008 | (1,625) | 10,465 |
| | Deferred Tax Valuation Allowance | 769 | | (35) | (54) | 680 |
| 2007 | Allowance for Doubtful Accounts | 314 | | 230 | (30) | 514 |
| | Reserve for Inventory Valuation | 4,134 | | 517 | (569) | 4,082 |
| | Allowance for Notes Receivable | 590 | | | (590) | |
| | Deferred Tax Valuation Allowance | 313 | | 456 | | 769 |
| 2006 | Allowance for Doubtful Accounts | 365 | | 17 | (68) | 314 |
| | Reserve for Inventory Valuation | 4,771 | | 121 | (758) | 4,134 |
| | Allowance for Notes Receivable | 590 | | | | 590 |
| | Deferred Tax Valuation Allowance | 297 | | 16 | | 313 |
| | Program Loss Reserves | 830 | | | (830) | |

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned; thereunto duly authorized, on March 11, 2009.

Astronics Corporation

By
/s/ Peter J. Gundermann

By
/s/ David C. Burney

Peter J. Gundermann President and Chief
Executive Officer
(Principal Executive Officer)

David C. Burney, Vice President-Finance, Chief Financial
Officer and
Treasurer (Principal Financial and Accounting Officer)

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

| Signature | Title | Date |
|--|--------------|----------------|
| /s/ Raymond W. Boushie Raymond W. Boushie | Director | March 11, 2009 |
| /s/ Robert T. Brady Robert T. Brady | Director | March 11, 2009 |
| /s/ John B. Drenning John B. Drenning | Director | March 11, 2009 |
| /s/ Peter J. Gundermann Peter J. Gundermann | Director | March 11, 2009 |
| /s/ Kevin T. Keane Kevin T. Keane | Director | March 11, 2009 |
| /s/ Robert J. McKenna Robert J. McKenna | Director | March 11, 2009 |