

ASTRONICS CORP
Form 10-Q
May 04, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2012

or

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

Commission File Number 0-7087

ASTRONICS CORPORATION

(Exact name of registrant as specified in its charter)

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

16-0959303
(IRS Employer

Identification Number)

130 Commerce Way, East Aurora, New York
(Address of principal executive offices)

14052
(Zip code)

(716) 805-1599

(Registrant's telephone number, including area code)

NOT APPLICABLE

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

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

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

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of March 31, 2012, 12,370,091 shares of common stock were outstanding consisting of 9,708,355 shares of common stock (\$.01 par value) and 2,661,736 shares of Class B common stock (\$.01 par value).

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ASTRONICS CORPORATION

Consolidated Condensed Balance Sheets

March 31, 2012 with Comparative Figures for December 31, 2011

(In thousands)

| | March 31, 2012 (Unaudited) | December 31, 2011 |
|--|----------------------------------|----------------------|
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 8,235 | \$ 10,919 |
| Accounts Receivable, net of allowance for doubtful accounts | 39,894 | 35,669 |
| Inventories | 42,290 | 40,094 |
| Other Current Assets | 5,418 | 5,628 |
| Total Current Assets | 95,837 | 92,310 |
| Property, Plant and Equipment, net of accumulated depreciation | 41,757 | 41,122 |
| Deferred Income Taxes | 8,579 | 7,039 |
| Other Assets | 3,143 | 3,249 |
| Intangible Assets, net of accumulated amortization | 13,650 | 14,000 |
| Goodwill | 17,233 | 17,185 |
| Total Assets | \$ 180,199 | \$ 174,905 |
| Current Liabilities: | | |
| Current Maturities of Long-term Debt | \$ 5,288 | \$ 5,290 |
| Accounts Payable | 12,144 | 10,559 |
| Accrued Expenses | 10,206 | 11,568 |
| Accrued Income Taxes | 1,964 | |
| Billings in Excess of Recoverable Costs and Accrued Profits on Uncompleted Contracts | 60 | 264 |
| Customer Advance Payments and Deferred Revenue | 6,299 | 5,796 |
| Total Current Liabilities | 35,961 | 33,477 |
| Long-term Debt | 21,937 | 27,973 |
| Other Liabilities | 16,376 | 10,592 |
| Total Liabilities | 74,274 | 72,042 |
| Shareholders' Equity: | | |
| Common Stock | 129 | 129 |
| Other Shareholders' Equity | 105,796 | 102,734 |
| Total Shareholders' Equity | 105,925 | 102,863 |
| Total Liabilities and Shareholders' Equity | \$ 180,199 | \$ 174,905 |

See notes to consolidated condensed financial statements

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ASTRONICS CORPORATION

Consolidated Condensed Statements of Operations

Three Months Ended March 31, 2012 With Comparative Figures for 2011

(Unaudited)

(In thousands, except per share data)

| | Three Months Ended | |
|--|--------------------|------------------|
| | March 31, 2012 | April 2, 2011 |
| Sales | \$ 65,138 | \$ 55,128 |
| Cost of Products Sold | 47,018 | 40,622 |
| Gross Profit | 18,120 | 14,506 |
| Selling, General and Administrative Expenses | 8,855 | 6,345 |
| Income from Operations | 9,265 | 8,161 |
| Interest Expense, net of interest income | 263 | 537 |
| Income Before Income Taxes | 9,002 | 7,624 |
| Provision for Income Taxes | 2,907 | 2,415 |
| Net Income | \$ 6,095 | \$ 5,209 |
| Earnings per share: | | |
| Basic | \$ 0.49 | \$ 0.43 |
| Diluted | \$ 0.46 | \$ 0.41 |

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION

Consolidated Condensed Statements of Comprehensive Income

Three Months Ended March 31, 2012 With Comparative Figures for 2011

(Unaudited)

(In thousands)

| | Three Months Ended | |
|---|--------------------|------------------|
| | March 31, 2012 | April 2, 2011 |
| Net Income | \$ 6,095 | \$ 5,209 |
| Other Comprehensive Income | | |
| Foreign Currency Translation Adjustments | 110 | 204 |
| Mark to Market Adjustments for Derivatives Net of Tax | 23 | 50 |
| Retirement Liability Adjustment Net of Tax | (3,727) | 23 |
| Other Comprehensive (Loss) Income | (3,594) | 277 |
| Comprehensive Income | \$ 2,501 | \$ 5,486 |

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION

Consolidated Condensed Statements of Cash Flows

Three Months Ended March 31, 2012

With Comparative Figures for 2011

(Unaudited)

(In thousands)

| | March 31, 2012 | April 2, 2011 |
|--|-------------------|------------------|
| Cash Flows from Operating Activities: | | |
| Net Income | \$ 6,095 | \$ 5,209 |
| Adjustments to Reconcile Net Income to Cash Provided (Used For) by Operating Activities: | | |
| Depreciation and Amortization | 1,447 | 1,190 |
| Provision for Non-Cash Losses on Inventory and Receivables | 437 | 368 |
| Stock Compensation Expense | 318 | 243 |
| Deferred Tax Expense | 94 | 190 |
| Other | (61) | 37 |
| Cash Flows from Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | (4,218) | (6,154) |
| Inventories | (2,530) | (2,363) |
| Accounts Payable | 1,576 | (1,804) |
| Other Current Assets and Liabilities | (1,422) | (1,232) |
| Billings in Excess of Recoverable Costs and Accrued Profits on | | |
| Uncompleted Contracts | (204) | (215) |
| Customer Advanced Payments and Deferred Revenue | 503 | (940) |
| Income Taxes | 2,673 | 2,033 |
| Supplemental Retirement and Other Liabilities | 81 | (17) |
| Cash Provided By (Used For) Operating Activities | 4,789 | (3,455) |
| Cash Flows from Investing Activities: | | |
| Capital Expenditures | (1,665) | (754) |
| Cash Used For Investing Activities | (1,665) | (754) |
| Cash Flows from Financing Activities: | | |
| Payments for Long-term Debt | (6,052) | (2,059) |
| Proceeds from Exercise of Stock Options | 99 | 289 |
| Income Tax Benefit from Exercise of Stock Options | 144 | 156 |
| Cash Used For Financing Activities | (5,809) | (1,614) |
| Effect of Exchange Rates on Cash | 1 | 2 |
| Decrease in Cash and Cash Equivalents | (2,684) | (5,821) |
| Cash and Cash Equivalents at Beginning of Period | 10,919 | 22,709 |

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Cash and Cash Equivalents at End of Period

\$ 8,235 \$ 16,888

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION

Notes to Consolidated Condensed Financial Statements

March 31, 2012

(Unaudited)

1) Basis of Presentation

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

Operating Results

The results of operations for any interim period are not necessarily indicative of results for the full year. Operating results for the three month periods ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The balance sheet at December 31, 2011 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included in Astronics Corporation's 2011 annual report on Form 10-K.

Description of the Business

Astronics is a leading supplier of advanced, high-performance lighting systems, electrical power generation and distribution systems, avionics databus solutions, aircraft safety systems for the global aerospace industry as well as test, training and simulation systems primarily for the military. We sell our products to airframe manufacturers (OEMs) in the commercial transport, business jet and military markets as well as FAA/Airport, OEM suppliers and aircraft operators around the world. The Company provides its products through its wholly owned subsidiaries Luminescent Systems, Inc. (LSI), Luminescent Systems Canada, Inc. (LSI Canada), DME Corporation (DME), Ballard Technology, Inc. (Ballard) and Astronics Advanced Electronic Systems Corp. (AES). On November 30, 2011, Astronics acquired 100% of the stock of Ballard. Ballard designs and produces avionics databus solutions for defense and commercial aerospace applications. Ballard is part of our Aerospace segment.

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

Principles of Consolidation

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

Revenue and Expense Recognition

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

In the Test Systems segment, revenue of approximately 40% and 93% for the three months ending March 31, 2012 and April 2, 2011 respectively, is recognized from long-term, fixed-price contracts using the percentage-of-completion method of accounting, measured by multiplying the estimated total contract value by the ratio of actual contract costs incurred to date to the estimated total contract costs.

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Substantially all long-term contracts are with U.S. government agencies and contractors thereto. The Company makes significant estimates involving its usage of percentage-of-completion accounting to recognize contract revenues. The Company periodically reviews contracts in process for estimates-to-completion, and revises estimated gross profit accordingly. While the Company believes its estimated gross profit on contracts in process is reasonable, unforeseen events and changes in circumstances can take place in a subsequent accounting period that may cause the Company to revise its estimated gross profit on one or more of its contracts in process. Accordingly, the ultimate gross profit realized upon completion of such contracts can vary significantly from estimated amounts between accounting periods. Revenue not recognized using the percentage-of-completion method is recognized at the time of shipment of goods and transfer of title.

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

Cost of products sold includes the costs to manufacture products such as direct materials and labor and manufacturing overhead as well as all engineering and developmental costs. The Company is engaged in a variety of engineering and design activities as well as basic research and development activities directed to the substantial improvement or new application of the Company's existing technologies. These costs are expensed when incurred and included in cost of sales. Research and development, design and related engineering amounted to \$10.0 million and \$8.3 million for the three months ended March 31, 2012 and April 2, 2011, respectively. Selling, general and administrative expenses include costs primarily related to our sales and marketing departments and administrative departments. Interest expense is shown net of interest income. Interest income was insignificant for the three months ended March 31, 2012 and April 2, 2011.

Financial Instruments

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

Derivatives

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

Foreign Currency Translation

The Company accounts for its foreign currency translation in accordance with ASC Topic 830, *Foreign Currency Translation*. The aggregate transaction gain or loss included in operations was insignificant for the periods ending March 31, 2012 and April 2, 2011.

Loss contingencies

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

Accounting Pronouncements Adopted in 2012

On January 1, 2012, the Company adopted the new provisions of Accounting Standards Update (ASU) No. 2011-05, *Comprehensive Income (Topic 220)*. The amendments in this Update require an entity to report all non-owner changes in stockholders' equity either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The ASU prohibits the presentation of the components of comprehensive income in the statement of stockholders' equity. The amendments are effective for annual and interim periods beginning after December 15, 2011 and should be applied retrospectively. In December 2011, the Financial Accounting Standards Board issued ASU No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. The amendments in this Update defer the effective date pertaining only to reclassification adjustments out of accumulated other comprehensive income in Accounting Standards Update 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, until the Financial Accounting Standards Board is able to reconsider those presentation requirements. Other than requiring an additional statement and disclosures, the impact on the Company's

financial statements was not significant.

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On January 1, 2012, the Company adopted the new provisions of ASU No. 2011-04, *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The amendments provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. The amendments also change certain fair value measurement principles and enhance the disclosure requirements, particularly for Level 3 fair value measurements. The amendments are effective during interim and annual periods beginning after December 15, 2011 and should be applied prospectively. Other than requiring additional disclosures, the adoption of this amendment did not have a material impact on our consolidated financial statements.

On January 1, 2012, the Company adopted the new provisions of ASU No. 2011-08, *Intangibles Goodwill and Other (Topic 350)*. The amendments in this Update will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this pronouncement had no impact on the Company's financial statements.

2) Inventories

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

| (In thousands) | March 31, 2012 | Dec. 31, 2011 |
|------------------|-------------------|------------------|
| Finished Goods | \$ 7,918 | \$ 7,420 |
| Work in Progress | 9,683 | 8,477 |
| Raw Material | 24,689 | 24,197 |
| | \$ 42,290 | \$ 40,094 |

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

3) Property, Plant and Equipment

The following table summarizes Property, Plant and Equipment as follows:

| (In thousands) | March 31, 2012 | Dec. 31, 2011 |
|-------------------------------|-------------------|------------------|
| Land | \$ 2,819 | \$ 2,819 |
| Buildings and Improvements | 22,763 | 22,760 |
| Machinery and Equipment | 38,417 | 37,289 |
| Construction in Progress | 8,273 | 7,702 |
| | 72,272 | 70,570 |
| Less Accumulated Depreciation | 30,515 | 29,448 |
| | \$ 41,757 | \$ 41,122 |

Table of Contents**4) Intangible Assets**

The following table summarizes acquired intangible assets as follows:

| (In thousands) | Weighted Average Life | March 31, 2012 | | December 31, 2011 | |
|-------------------------------------|--------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|
| | | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Patents | 12 Years | \$ 1,271 | \$ 710 | \$ 1,271 | \$ 685 |
| Trade Names | 0 - 10 Years | 1,853 | 40 | 1,853 | 7 |
| Completed and Unpatented Technology | 10 - 15 Years | 5,277 | 1,356 | 5,277 | 1,242 |
| Backlog and Customer Relationships | 3 - 20 Years | 9,985 | 2,630 | 9,985 | 2,452 |
| Total Intangible Assets | | \$ 18,386 | \$ 4,736 | \$ 18,386 | \$ 4,386 |

All acquired intangible assets other than goodwill and one trade name are being amortized. Amortization expense for acquired intangibles is summarized as follows:

| (In thousands) | Three Months Ended | |
|----------------------|--------------------|------------------|
| | March 31, 2012 | April 2, 2011 |
| Amortization Expense | \$ 350 | \$ 114 |

Amortization expense for intangible assets for each of the next five years is summarized as follows:

| (In thousands) | |
|----------------|----------|
| 2012 | \$ 1,261 |
| 2013 | 1,215 |
| 2014 | 1,215 |
| 2015 | 1,170 |
| 2016 | 1,166 |

5) Goodwill

The following table summarizes the changes in the carrying amount of goodwill for 2012:

| (In thousands) | December 31, 2011 | Foreign Currency Translation | March 31, 2012 |
|-------------------|----------------------|------------------------------------|-------------------|
| Aerospace Segment | \$ 17,185 | \$ 48 | \$ 17,233 |

6) Long-term Debt and Notes Payable

The Company extended and modified its existing credit facility by entering into a Second Amended and Restated Credit Agreement (the "Credit Agreement"), dated August 31, 2011. The Company's Credit Agreement provides for a revolving credit line in the amount of \$35 million, less outstanding letters of credit, through August 31, 2016 and for the Company's \$16 million term loan maturing January 30, 2014, with interest on both loans at a rate of LIBOR plus between 1.50% and 2.50% based on the Company's Leverage Ratio. The credit facility allocates up to \$20 million of the \$35 million revolving credit line for the issuance of letters of credit, including certain existing letters of credit. The credit facility is secured by substantially all of the Company's assets.

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Prior to the August 31, 2011 amendment of the credit facility, the Company's Credit Agreement provided for a revolving credit line of \$35 million for working capital requirements which was committed through January 2012, with interest at LIBOR plus between 2.75% and 4.50%. In addition, the Company was 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.

There was nothing outstanding on our revolving credit facility at March 31, 2012 and December 31, 2011. The Company had available on its credit facility \$23.3 million at March 31, 2012. The credit facility allocates up to \$20 million of the revolving credit line for the issuance of letters of credit. At March 31, 2012, outstanding letters of credit totaled \$11.7 million. In addition, the Company is required to pay a commitment fee quarterly at a rate of between 0.25% and 0.35% per annum on the unused portion of the total revolving credit commitment, also based on the Company's Leverage Ratio.

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The \$5.0 million subordinated promissory note with interest fixed at 6.0% was paid in its entirety in January, 2012.

7) Product Warranties

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

| (In thousands) | Three Months Ended | |
|--------------------------------|--------------------|------------------|
| | March 31, 2012 | April 2, 2011 |
| Balance at beginning of period | \$ 1,092 | \$ 1,699 |
| Warranties issued | 526 | 535 |
| Warranties settled | | (545) |
| Reassessed warranty exposure | (170) | (32) |
| Balance at end of period | \$ 1,448 | \$ 1,657 |

8) 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.

ASC Topic 740-10 *Overall Uncertainty in Income Taxes* (ASC Topic 740-10) clarifies the accounting and disclosure for uncertainty in tax positions. ASC Topic 740-10 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The Company is subject to the provisions of ASC Topic 740-10 and has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. Should the Company need to accrue a liability for uncertain 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 March 31, 2012 or December 31, 2011, nor are any penalties or interest costs included in expense for the periods ending March 31, 2012 and April 2, 2011. 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 2010 through 2011 for federal purposes and 2008 through 2011 for state purposes.

The effective tax rates for the three months ended March 31, 2012 and April 2, 2011 was approximately 32.3% and 31.7%, respectively, are lower than would be expected by applying the U.S. federal statutory tax rate to earnings before income taxes. The first quarter of 2012 was impacted primarily by the domestic production activity deduction, as well as lower state and foreign taxes. The first quarter of 2011 was impacted by the domestic production activity deduction, lower state and foreign taxes as well as the impact of domestic R&D tax credits in the net amount of \$0.1 million.

Table of Contents**9) Shareholders' Equity**

The changes in shareholders' equity for the three months ended March 31, 2012 are summarized as follows:

| | Amount | Common Stock | Number of Shares Convertible Class B Stock |
|---|------------|-----------------|---|
| Shares Authorized | | 20,000,000 | 5,000,000 |
| Share Par Value | | \$ 0.01 | \$ 0.01 |
| (Dollars in thousands) | | | |
| COMMON STOCK | | | |
| Beginning of Period | \$ 129 | 9,680,825 | 3,194,229 |
| Conversion of Class B Shares to Common Shares | | 187,516 | (187,516) |
| Exercise of Stock Options | | 18,560 | 4,818 |
| End of Period | \$ 129 | 9,886,901 | 3,011,531 |
| ADDITIONAL PAID IN CAPITAL | | | |
| Beginning of Period | \$ 19,279 | | |
| Stock Compensation Expense | 318 | | |
| Exercise of Stock Options | 243 | | |
| End of Period | \$ 19,840 | | |
| ACCUMULATED OTHER COMPREHENSIVE LOSS | | | |
| Beginning of Period | \$ (886) | | |
| Foreign Currency Translation Adjustment | 110 | | |
| Mark to Market Adjustment for Derivatives | 23 | | |
| Retirement Liability Adjustment | (3,727) | | |
| End of Period | \$ (4,480) | | |
| RETAINED EARNINGS | | | |
| Beginning of Period | \$ 86,622 | | |
| Net Income | 6,095 | | |
| End of Period | \$ 92,717 | | |
| TREASURY STOCK | | | |
| Beginning of Period | \$ (2,281) | (178,546) | (349,795) |
| Purchase (disposal) | | | |
| End of Period | \$ (2,281) | (178,546) | (349,795) |
| TOTAL SHAREHOLDERS' EQUITY | | | |
| Beginning of Period | \$ 102,863 | 9,502,279 | 2,844,434 |
| End of Period | \$ 105,925 | 9,708,355 | 2,661,736 |

10) Earnings Per Share

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

| (In thousands) | Three Months Ended | |
|--|--------------------|------------------|
| | March 31, 2012 | April 2, 2011 |
| Basic earnings per share weighted average shares | 12,358 | 12,079 |
| Net effect of dilutive stock options | 756 | 712 |
| Diluted earnings per share weighted average shares | 13,114 | 12,791 |

On August 2, 2011, Astronics Corporation announced a one-for-ten distribution of Class B Stock to holders of both Common and Class B Stock. On or about August 30, 2011, stockholders received one share of Class B Stock for every ten shares of Common and Class B Stock held on the record date of August 16, 2011. All share quantities, share prices and per share data reported throughout this report have been adjusted to reflect the impact of this distribution.

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11) Comprehensive Income and Accumulated Other Comprehensive Income (Loss)

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

| (In thousands) | March 31, 2012 | Dec. 31, 2011 |
|---|-------------------|------------------|
| Foreign Currency Translation Adjustments | \$ 1,342 | \$ 1,232 |
| Mark to Market Adjustments for Derivatives Before Tax | (358) | (393) |
| Tax Benefit | 125 | 137 |
| Mark to Market Adjustments for Derivatives After Tax | (233) | (256) |
| Retirement Liability Adjustment Before Tax | (8,599) | (2,865) |
| Tax Benefit | 3,010 | 1,003 |
| Retirement Liability Adjustment After Tax | (5,589) | (1,862) |
| Accumulated Other Comprehensive Loss | \$ (4,480) | \$ (886) |

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

| (In thousands) | Three Months Ended March 31, 2012 | April 2, 2011 |
|--|---|------------------|
| Foreign Currency Translation Adjustments | \$ 110 | \$ 204 |
| Reclassification to Interest Expense | 60 | 77 |
| Mark to Market Adjustments for Derivatives | (25) | |
| Tax Expense | (12) | (27) |
| Mark to Market Adjustments for Derivatives | 23 | 50 |
| Retirement Liability Adjustment | (5,734) | 35 |
| Tax (Expense) Benefit | 2,007 | (12) |
| Retirement Liability Adjustment | (3,727) | 23 |
| Other Comprehensive (Loss) Income | \$ (3,594) | \$ 277 |

12) Supplemental Retirement Plan and Related Post Retirement Benefits

The Company has two non-qualified supplemental retirement defined benefit plans (SERP and SERP II) for certain executives. The following table sets forth information regarding the net periodic pension cost for the plans.

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| (In thousands) | Three Months Ended | |
|--------------------------------------|--------------------|------------------|
| | March 31, 2012 | April 2, 2011 |
| Service cost | \$ 41 | \$ 12 |
| Interest cost | 104 | 82 |
| Amortization of prior service cost | 59 | 27 |
| Amortization of net actuarial losses | 23 | 3 |
| Net periodic cost | \$ 227 | \$ 124 |

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

| (In thousands) | Three Months Ended | |
|-------------------------------------|--------------------|------------------|
| | March 31, 2012 | April 2, 2011 |
| Service cost | \$ 1 | \$ |
| Interest cost | 6 | 7 |
| Amortization of prior service cost | 6 | 6 |
| Amortization of net actuarial gains | | (1) |
| Net periodic cost | \$ 13 | \$ 12 |

On March 6, 2012 the Company adopted a new non-qualified supplemental retirement defined benefit plan (SERP II) for additional certain named executive officers. The Company recorded a liability at the date of adoption of \$5.8 million for the projected benefit obligation. Pension cost of the new plan for the year ending December 31, 2012 is estimated to be approximately \$0.8 million. The plan is unfunded and the Company does not expect to make and contributions to the plan, nor does it expect any benefits will be paid from the plan in 2012.

13) Sales to Major Customers

The Company has a significant concentration of business with two major customers, Panasonic Aviation Corporation and various departments of the U.S. Government, primarily branches of the Department of Defense and the Federal Aviation Administration. The following is information relating to the activity with those customers:

| | Three Months Ended | |
|---------------------------------|--------------------|------------------|
| | March 31, 2012 | April 2, 2011 |
| Percent of consolidated revenue | | |
| Panasonic | 41.6% | 36.1% |
| U.S. Government | 7.8% | 12.1% |
| | | |
| (In thousands) | March 31, 2012 | |
| | Dec. 31, 2011 | |
| Accounts Receivable | | |
| Panasonic | \$ 14,295 | \$ 9,878 |
| U.S. Government | 3,405 | 3,866 |

14) Legal Proceedings

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

On November 11, 2010, AE Liquidation Inc. filed an action in the United States Bankruptcy Court for the District of Delaware (*AE Liquidation, Inc., et al v. Luminescent Systems Inc., and AE Liquidation, Inc., et al., v Astronics Advanced Electronic Systems Corp.*) seeking to recover \$1.4 million of alleged preferential payments received from Eclipse Aviation Corporation. The Company disputes the Trustee's allegations and believes any loss, as a result of future proceedings would not have a material adverse effect on our business. We intend to defend this claim vigorously.

We are a defendant in an action filed in the Regional State Court of Mannheim, Germany (Lufthansa Technik AG v. Astronics Advanced Electronics Systems Corp.) relating to an allegation of patent infringement. The damages sought include injunctive relief, as well as monetary

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damages. We dispute the allegation and intend to vigorously defend ourselves in this action. We have filed a nullity action with the Federal Patent Court in Munich Germany, requesting the court to revoke the German part of the European patent that is subject to the claim. In November 2011, the regional state court of Mannheim Germany, issued an interim decision to the effect that the infringement litigation proceedings be stayed until the Federal Patent Court decides on the concurrent nullity action. At this time we are unable to provide a reasonable estimate of our potential liability or the potential amount of loss related to this action, if any. If the outcome of this litigation is adverse to us, our results and financial condition could be materially affected.

Table of Contents***15) Segment Information***

Below are the sales and operating profit by segment for the three months ended March 31, 2012 and April 2, 2011 and a reconciliation of segment operating profit to earnings before income taxes. Operating profit is the net sales less cost of sales and other operating expenses excluding interest and other expenses and corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment.

| (Dollars in thousands) | Three Months Ended | |
|--|--------------------|------------------|
| | March 31, 2012 | April 2, 2011 |
| Sales | | |
| Aerospace | \$ 62,001 | \$ 50,199 |
| Test Systems | 3,137 | 4,929 |
| Sales | \$ 65,138 | \$ 55,128 |
| Operating Profit (Loss) and Margins | | |
| Aerospace | \$ 11,878 | \$ 9,319 |
| | 19.2% | 18.6% |
| Test Systems | (1,075) | 17 |
| | (34.3)% | 0.3% |
| Total Operating Profit | 10,803 | 9,336 |
| | 16.6% | 16.9% |
| Deductions from Operating Profit | | |
| Interest Expense | 263 | 537 |
| Corporate Expenses and Other | 1,538 | 1,175 |
| Income Before Income Taxes | \$ 9,002 | \$ 7,624 |

Identifiable Assets

| (In thousands) | | |
|------------------|-------------------|-------------------|
| | March 31, 2012 | Dec. 31, 2011 |
| Aerospace | \$ 144,156 | \$ 136,930 |
| Test Systems | 12,479 | 20,020 |
| Corporate | 23,564 | 17,955 |
| Total Assets | \$ 180,199 | \$ 174,905 |

16) Fair Value

ASC Topic 820, *Fair Value Measurements and Disclosures*, (ASC Topic 820) defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. This statement applies under other accounting pronouncements that require or permit fair value measurements. The statement indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. ASC Topic 820 defines fair value based upon an exit price model. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and involves consideration of factors specific to the asset or liability.

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ASC Topic 820 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value.

Table of Contents**On a Recurring Basis:**

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The following table provides the financial assets and liabilities carried at fair value measured on a recurring basis as of March 31, 2012 and December 31, 2011:

| (In thousands) | Classification | Total | Level 1 | Level 2 | Level 3 |
|--------------------------------------|-------------------|----------|---------|----------|----------|
| Interest rate swaps | Other Liabilities | | | | |
| March 31, 2012 | | \$ (358) | \$ | \$ (358) | \$ |
| December 31, 2011 | | (393) | | (393) | |
| Acquisition contingent consideration | Other Liabilities | | | | |
| March 31, 2012 | | \$ (720) | \$ | \$ | \$ (720) |
| December 31, 2011 | | (720) | | | (720) |

Interest rate swaps are securities with no quoted readily available Level 1 inputs, and therefore are measured at fair value using inputs that are directly observable in active markets and are classified within Level 2 of the valuation hierarchy, using the income approach (See Note 17).

Our Level 3 fair value liabilities represent contingent consideration recorded related to the Ballard acquisition to be paid up to a maximum of \$5.5 million if certain revenue growth targets are met over the next five years. The amounts recorded were calculated using an estimate of the probability of the future cash outflows. The varying contingent payments were then discounted to the present value utilizing a discounted cash flow methodology. The contingent consideration liability has no observable Level 1 or Level 2 inputs. There was no change in the fair value of this liability from December 31, 2011.

On a Non-recurring Basis:

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

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

At March 31, 2012, the fair value of goodwill and intangible assets classified using Level 3 inputs are as follows:

Beginning January 1, 2012, previously unamortized trade names in the Test Systems segment with a fair value of \$0.4 million are now being amortized over 10 years. The fair value measurement of total amortized intangible assets in the Test Systems reporting unit is \$3.9 million. Inputs used to calculate the fair value were internal forecasts used to estimate undiscounted future cash flows. There was no change in fair value from December 31, 2011.

The Ballard goodwill and intangible assets acquired on November 30, 2011, were valued at fair value using a discounted cash flow methodology and are classified as Level 3 inputs.

As of March 31, 2012, the Company concluded that no indicators of intangible or goodwill impairment existed and an interim test was not performed.

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Due to their short-term nature, the carrying value of cash and equivalents, accounts receivable, accounts payable, and notes payable approximate fair value. The carrying value of the Company's variable rate long-term debt also approximates fair value due to the variable rate feature of these instruments.

Table of Contents**17) Derivative Financial Instruments**

At March 31, 2012, we had interest rate swaps consisting of the following:

- a) An interest rate swap with a notional amount of approximately \$2.2 million at March 31, 2012, entered into in February 2006, related to the Company's Series 1999 New York Industrial Revenue Bond which effectively fixes the rate at 3.99% plus a spread based on the Company's leverage ratio on this obligation through 2016.
- b) An interest rate swap with a notional amount of \$8.0 million at March 31, 2012, entered into on March 19, 2009 related to the Company's term note issued January 30, 2009. The swap effectively fixes the rate at 2.115% plus a spread based on the Company's leverage ratio on the notional amount (which decreases in concert with the scheduled note repayment schedule). The swap agreement became effective October 1, 2009 and expires January 30, 2014.

At both March 31, 2012 and December 31, 2011, the fair value of interest rate swaps was a liability of \$0.4 million, which is included in other long-term liabilities (See Note 16). Amounts expected to be reclassified to earnings in the next 12 months is approximately \$0.1 million.

To the extent the interest rate swaps are not perfectly effective in offsetting the change in the value of the payments being hedged; the ineffective portion of these contracts is recognized in earnings immediately as interest expense. Ineffectiveness, if any, was not significant for the three months ended March 31, 2012 and April 2, 2011, respectively. The Company classifies the cash flows from hedging transactions in the same category as the cash flows from the respective hedged items. Amounts from ineffectiveness, if any, to be reclassified during 2012 are not expected to be significant.

Activity in accumulated other comprehensive income (AOCI) related to these derivatives is summarized below:

| (In thousands) | Three Months Ended | |
|---|--------------------|------------------|
| | March 31, 2012 | April 2, 2011 |
| Derivative balance at the beginning of the period in AOCI | \$ (256) | \$ (338) |
| Net deferral in AOCI of derivatives: | | |
| Net (increase) decrease in fair value of derivatives | (25) | |
| Tax effect | 10 | |
| | (15) | |
| Net reclassification from AOCI into earnings: | | |
| Reclassification from AOCI into earnings Interest expense | 60 | 77 |
| Tax effect | (22) | (27) |
| | 38 | 50 |
| Net change in derivatives for the period | 23 | 50 |
| Derivative balance at the end of the period in AOCI | \$ (233) | \$ (288) |

18) Recent Accounting Pronouncements

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

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

(The following should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Form 10-K for the year ended December 31, 2011.)

OVERVIEW

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

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

Key factors affecting our growth and profitability are the rate at which new aircraft are produced, government funding of military programs, our ability to have our products designed into the plans for new aircraft and the rates at which aircraft owners, including commercial airlines, refurbish or install upgrades to their aircraft. Once designed into a new aircraft, the spare parts business is frequently retained by the Company. We continue to look for opportunities in all of our markets to capitalize on our core competencies to expand our existing business and to grow through strategic acquisitions.

CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK

| (Dollars in thousands) | Three Months Ended | |
|--|--------------------|------------------|
| | March 31, 2012 | April 2, 2011 |
| Sales | \$ 65,138 | \$ 55,128 |
| Gross Margin | \$ 18,120 | \$ 14,506 |
| SG&A Expenses as a Percentage of Sales | 13.6% | 11.5% |
| Interest Expense, net of interest income | \$ 263 | \$ 537 |
| Effective Tax Rate | 32.3% | 31.7% |
| Net Earnings | \$ 6,095 | \$ 5,209 |

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

Our consolidated sales for the first quarter of 2012 increased by 18.2% to \$65.1 million compared to \$55.1 million for the same period last year. Aerospace sales increased by \$11.8 million while Test Systems revenue decreased by \$1.8 million.

Consolidated gross margins improved to approximately 27.8% in the first quarter of 2012 compared to approximately 26.3% in the first quarter of 2011. The improved margins were a result of leverage that was achieved from increased sales volumes in the Aerospace segment, somewhat offset by decreased margins due to lower sales volumes in the Test system segment.

Selling, general and administrative (SG&A) expenses were approximately \$8.9 million, or 13.6% of sales in the first quarter of 2012, compared to \$6.3 million, or 11.5% of sales in the same period last year. The increase was due primarily to the November 2011 acquisition of Ballard Technology, which added \$1.2 million to SG&A in the first quarter of 2012 as well as increased compensation costs and increased legal expenses incurred during the first quarter of 2012 when compared to the prior year.

Interest expense, net of interest income for the first quarter decreased by \$0.2 million from \$0.5 million to \$0.3 million, due primarily to a combination of lower interest rates and reduced debt levels when compared with the same period last year.

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The effective tax rates for the three months ended March 31, 2012 and April 2, 2011 were 32.3% and 31.7%, respectively, lower than would be expected by applying the U.S. federal statutory tax rate to earnings before income taxes. The first quarter of 2012 was lower than the federal statutory rate due to the domestic production activity deduction as well as a lower tax rate on foreign income. The first quarter of 2011 tax rate was lower than the federal statutory rate due to the domestic production activity deduction, a lower tax rate on foreign income and the impact of domestic R&D tax credits.

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Net income for the first quarter of 2012 was \$6.1 million or \$0.46 per diluted share, an increase of \$0.9 million from \$5.2 million, or \$0.41 per diluted share in the first quarter of 2011. The earnings per share increase in 2012 compared to 2011 is due primarily to higher net income.

SEGMENT RESULTS OF OPERATIONS AND OUTLOOK

Operating profit, as presented below, is sales less cost of sales and other operating expenses, excluding interest expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment. Operating profit is reconciled to earnings before income taxes in Note 15 of the Notes to Consolidated Condensed Financial Statements included in this report.

AEROSPACE

| (In thousands) | Three Months Ended | |
|------------------|--------------------|------------------|
| | March 31, 2012 | April 2, 2011 |
| Sales | \$ 62,001 | \$ 50,199 |
| Operating profit | \$ 11,878 | \$ 9,319 |
| Operating Margin | 19.2% | 18.6% |

| | March 31, 2012 | Dec. 31, 2011 |
|--------------|-------------------|------------------|
| Total Assets | \$ 144,156 | \$ 136,930 |
| Backlog | \$ 94,468 | \$ 97,903 |

Aerospace Sales by Market

| (In thousands) | Three Months Ended | |
|----------------------|--------------------|------------------|
| | March 31, 2012 | April 2, 2011 |
| Commercial Transport | \$ 44,108 | \$ 32,926 |
| Military | 8,918 | 9,259 |
| Business Jet | 6,654 | 6,637 |
| FAA/Airport | 2,321 | 1,377 |
| | \$ 62,001 | \$ 50,199 |

Aerospace Sales by Product Line

| (In thousands) | Three Months Ended | |
|-------------------|--------------------|------------------|
| | March 31, 2012 | April 2, 2011 |
| Cabin Electronics | \$ 35,039 | \$ 26,075 |
| Aircraft Lighting | 16,987 | 18,171 |
| Airframe Power | 4,529 | 4,576 |
| Airfield Lighting | 2,321 | 1,377 |
| Avionics Databus | 3,125 | |
| | \$ 62,001 | \$ 50,199 |

Sales to the Commercial Transport market increased primarily on higher demand for Cabin Electronics products, as well as increased sales of aircraft lighting, airframe power and the addition of Ballard Technology's (Ballard) avionics databus products. Ballard was acquired in November of 2011. Military sales were down primarily as a result of lower sales of aircraft lighting products partially offset by the addition of avionics databus products. Sales to the Business Jet market were flat when compared to last year's first quarter. Increased aircraft lighting and avionics databus sales were offset by decreased sales of airframe power products to the Business Jet market. The increase in first quarter FAA airport sales was due to increased volume from the FAA.

Aerospace operating profit for the first quarter of 2012 was \$11.9 million, or 19.2% of sales, compared with \$9.3 million, or 18.6% of sales, in the same period last year. The increase in the 2012 first quarter operating margin was due to leverage from the increased sales volume partially offset by increased engineering and development costs and increased SG&A expense. The increased SG&A expense was due primarily to the

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November 2011 acquisition of Ballard Technology, which added \$1.2 million to SG&A in the first quarter of 2012 as well as increased compensation costs and increased legal expenses incurred during the first quarter of 2012 when compared to the prior year.

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2012 Outlook for Aerospace We are increasing our sales forecast for 2012 for our Aerospace segment to be in the range of \$240 million to \$253 million. The Aerospace segment's backlog at the end of the first quarter of 2012 was \$94.5 million with approximately \$79.0 million expected to be shipped over the remaining part of 2012.

TEST SYSTEMS

| (In thousands) | Three Months Ended | |
|-------------------------|--------------------|------------------|
| | March 31, 2012 | April 2, 2011 |
| Sales | \$ 3,137 | \$ 4,929 |
| Operating (loss) profit | \$ (1,075) | \$ 17 |
| Operating Margin | (34.3)% | 0.3% |

| | March 31, 2012 | Dec. 31, 2011 |
|--------------|-------------------|------------------|
| Total Assets | \$ 12,479 | \$ 20,020 |
| Backlog | \$ 7,544 | \$ 8,409 |

Sales in the 2012 first quarter decreased \$1.8 million to \$3.1 million when compared with sales of \$4.9 million for the same period in 2011.

Test Systems operating loss for the first quarter of 2012 was \$1.1 million compared with break even in the same period last year as the margins from the lower sales volume were not sufficient to cover fixed operating costs.

2012 Outlook for Test Systems We are maintaining our sales forecast for 2012 for our Test Systems segment to be in the range of \$10 million to \$12 million. The Test Systems segment's backlog at the end of the first quarter of 2012 was \$7.5 million with approximately \$5.7 million expected to be shipped over the remaining part of 2012. New orders received during the quarter for the Test Systems segment totaled \$2.3 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities totaled \$4.8 million during the first three months of 2012, as compared with \$3.5 million of cash used by operations during the first three months of 2011. The change was due to higher net income and less cash used for working capital components.

Cash used for investing activities was \$1.7 million in the first three months of 2012, an increase in use of \$0.9 million when compared to \$0.8 million used in the first three months of 2011. This increase was due to increased capital expenditures.

In the first three months of 2012 cash used for financing activities totaled \$5.8 million compared to cash used by financing activities of \$1.6 million in the first three months of 2011. The change was due primarily to the payoff of the \$5.0 million subordinated promissory note in January, 2012.

The Company expects capital spending in 2012 to be approximately \$17 million to \$20 million including the completion of the build out and occupation of the Kirkland property. Management believes that the Company's cash flow from operations and revolving credit facility will be sufficient to provide funding for future capital requirements.

There was no balance outstanding on our revolving credit facility at March 31, 2012. The revolving credit facility provides for borrowing up to \$35.0 million. The credit facility allocates up to \$20 million of the revolving credit line for the issuance of letters of credit, including certain existing letters of credit totaling approximately \$11.7 million at March 31, 2012. For working capital requirements, the Company had available on its credit facility, \$23.3 million and \$22.9 million at March 31, 2012 and December 31, 2011, respectively. At March 31, 2012, we were in compliance with all of the covenants pursuant to the credit facility.

In the event of voluntary or involuntary bankruptcy of the Company or any subsidiary, all unpaid principal and other amounts owing under the Credit Agreement automatically become due and payable. Other events of default, such as failure to make payments as they become due and breach of financial and other covenants, give the Agent the option to declare all such amounts immediately due and payable.

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BACKLOG

The Company's backlog at March 31, 2012 was \$102.0 million compared with \$106.3 million at December 31, 2011 and \$99.1 million at April 2, 2011.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Company's contractual obligations and commercial commitments have not changed materially from those disclosed in the Company's Form 10-K for the year ended December 31, 2011.

MARKET RISK

The Company believes that there have been no material changes in the current year regarding the market risk information for its exposure to currency exchange rates or interest rate fluctuations. Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2011 for a complete discussion of the Company's market risk.

CRITICAL ACCOUNTING POLICIES

Refer to the Company's annual report on Form 10-K for the year ended December 31, 2011 for a complete discussion of the Company's critical accounting policies.

RECENT ACCOUNTING PRONOUNCEMENTS

See Part 1, Note 1 and Note 18 to the Financial Statements Basis of Presentation, Accounting Pronouncements Adopted in 2012.

FORWARD-LOOKING STATEMENTS

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Market Risk in Item 2, above.

Item 4. Controls and Procedures

- a) The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2012. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2012.

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- b) **Changes in Internal Control over Financial Reporting** There have been no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

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

On November 11, 2010, AE Liquidation Inc. filed an action in the United States Bankruptcy Court for the District of Delaware (*AE Liquidation, Inc., et al v. Luminescent Systems Inc., and AE Liquidation, Inc., et al., v Astronics Advanced Electronic Systems Corp.*) seeking to recover \$1.4 million of alleged preferential payments received from Eclipse Aviation Corporation. The Company disputes the Trustee's allegations and believes any loss, as a result of future proceedings would not have a material adverse effect on our business. We intend to defend this claim vigorously.

We are a defendant in an action filed in the Regional State Court of Mannheim, Germany (Lufthansa Technik AG v. Astronics Advanced Electronics Systems Corp.) relating to an allegation of patent infringement. The damages sought include injunctive relief, as well as monetary damages. We dispute the allegation and intend to vigorously defend ourselves in this action. We have filed a nullity action with the Federal Patent Court in Munich Germany, requesting the court to revoke the German part of the European patent that is subject to the claim. In November 2011, the regional state court of Mannheim Germany, issued an interim decision to the effect that the infringement litigation proceedings be stayed until the Federal Patent Court decides on the concurrent nullity action. At this time we are unable to provide a reasonable estimate of our potential liability or the potential amount of loss related to this action, if any. If the outcome of this litigation is adverse to us, our results and financial condition could be materially affected.

Item 1a Risk Factors

In addition to other information set forth in this report, you should carefully consider the factors discussed in Part 1, Item 1A. Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or results of operations. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations.

The Company has a significant concentration of business with two customers, Panasonic Avionics Corporation and the US Government, where a significant reduction in sales would negatively impact our sales and earnings. We provide Panasonic with cabin electronics products which, in total were approximately 41.6% of revenue during the first quarter of 2012. We provide the US Government with military products which, in total were approximately 7.8% of revenue during the first quarter of 2012.

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

(c) The following table summarizes the Company's purchases of its common stock for the quarter ended March 31, 2012:

| Period | (a) Total number of shares Purchased(1) | (b) Average Price Paid per Share | (c) Total number of shares Purchased as part of Publicly Announced Plans or Programs | (d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------------|--|--|---|--|
| January 1 - January 28, 2012 | | | | |
| January 29 - February 25, 2012 | 2,082 | 35.66 | | |
| February 26 - March 31, 2012 | | | | |
| Total | | | | |

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- (1) In connection with the exercise of stock options, we accept, from time to time, delivery of shares to pay the exercise price of stock options. During February, we accepted delivery of 2,082 shares at \$35.66 in connection with the exercise of stock options.

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Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6 Exhibits

| | |
|----------------|--|
| Exhibit 31.1 | Section 302 Certification - Chief Executive Officer |
| Exhibit 31.2 | Section 302 Certification - Chief Financial Officer |
| Exhibit 32. | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 101.1* | Instance Document |
| Exhibit 101.2* | Schema Document |
| Exhibit 101.3* | Calculation Linkbase Document |
| Exhibit 101.4* | Labels Linkbase Document |
| Exhibit 101.5* | Presentation Linkbase Document |
| Exhibit 101.6* | Definition Linkbase Document |

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

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

ASTRONICS CORPORATION
(Registrant)

Date: May 4, 2012

By: /s/ David C. Burney
David C. Burney

Vice President-Finance and Treasurer

(Principal Financial Officer)