ASTRONICS CORP
Form 10-Q
August 09, 2011

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

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended July 2, 2011 or

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

Commission File Number 0-7087
ASTRONICS CORPORATION
(Exact name of registrant as specified in its charter)

New York	**16-0959303**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
130 Commerce Way, East Aurora, New York	**14052**
(Address of principal executive offices)	(Zip code)

(716) 805-1599
(Registrant s telephone number, including area code)
NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)
Securities registered pursuant to Section 12(g) of the Act:
$.01 par value Common Stock, $.01 par value Class B Stock
(Title of Class)

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

Yes þ No o

Indicate by check mark whether the registrant 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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of 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 o	Accelerated filer þ	Non-accelerated filer o	Smaller Reporting Company o

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

Yes o No þ

As of July 2, 2011, 11,016,289 shares of common stock were outstanding consisting of 8,914,098 shares of common stock ($.01 par value) and 2,102,191 shares of Class B common stock ($.01 par value).

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

ASTRONICS CORPORATION

Consolidated Condensed Balance Sheets

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

(dollars in thousands except per share amounts)

	July 2, 2011 (Unaudited)	December 31, 2010
Current Assets:		
Cash and Cash Equivalents	$ 16,075	$ 22,709
Accounts Receivable, net of allowance for doubtful accounts	35,762	30,941
Inventories	40,826	37,763
Other Current Assets	6,453	5,727
Total Current Assets	99,116	97,140
Property, Plant and Equipment net of accumulated depreciation and amortization of $27,899 and $25,990 respectively	35,944	30,873
Deferred Income Taxes	6,332	6,883
Other Assets	3,231	3,342
Intangible Assets, net of accumulated amortization	4,824	5,040
Goodwill	7,712	7,610
Total Assets	$ 157,159	$ 150,888
Current Liabilities:		
Current Maturities of Long-term Debt	$ 5,310	$ 5,314
Accounts Payable	9,833	10,583
Accrued Expenses	10,009	10,016
Billings in Excess of Recoverable Costs and Accrued Profits on Uncompleted Contracts	1,126	1,519
Customer Advance Payments and Deferred Revenue	3,706	3,853
Total Current Liabilities	29,984	31,285
Long-term Debt	29,806	33,264
Other Liabilities	8,889	9,124
Total Liabilities	68,679	73,673
Shareholders Equity:		
Common Stock, $.01 par value Authorized 20,000,000 Shares, issued 9,092,536 in 2011 and 8,972,795 in 2010	91	89
	24	25

Convertible Class B Stock, $.01 par value Authorized 5,000,000 Shares, issued 2,404,066 in 2011 and 2,454,580 in 2010		
Additional Paid-in Capital	15,559	14,337
Accumulated Other Comprehensive Income (Loss)	283	(2)
Retained Earnings	74,804	65,047
	90,761	79,496
Less Treasury Stock: 480,313 shares in both 2011 and 2010	2,281	2,281
Total Shareholders Equity	88,480	77,215
Total Liabilities and Shareholders Equity	$ 157,159	$ 150,888

See notes to consolidated condensed financial statements

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ASTRONICS CORPORATION
Consolidated Condensed Statements of Operations and Retained Earnings
Three and Six Months Ended July 2, 2011
With Comparative Figures for 2010
(Unaudited)
(in thousands, except per share data)

	Six Months Ended		Three Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Sales	$ 110,603	94,025	$ 55,475	$ 47,089
Costs and Expenses:				
Cost of products sold	81,711	71,794	41,089	36,404
Gross Profit	28,892	22,231	14,386	10,685
Selling, general and administrative expenses	13,489	11,504	7,144	6,076
Income from operations	15,403	10,727	7,242	4,609
Interest expense, net of interest income of $14 and $17 for the six months and $6 and $5 for the three months ended 2011 and 2010, respectively	1,071	1,321	534	722
Income Before Income Taxes	14,332	9,406	6,708	3,887
Provision for Income Taxes	4,575	3,576	2,160	1,457
Net Income	9,757	5,830	$ 4,548	$ 2,430
Retained Earnings:				
Beginning of period	65,047	50,099		
End of period	$ 74,804	$ 55,929		
Earnings per share:				
Basic	$ 0.89	$ 0.54	$ 0.41	$ 0.22
Diluted	$ 0.84	$ 0.52	$ 0.39	$ 0.22
Average Common Shares Outstanding:				
Basic	10,994	10,801	11,006	10,806
Diluted	11,665	11,127	11,703	11,289

See notes to consolidated condensed financial statements.

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

	July 2, 2011	July 3, 2010
Cash Flows from Operating Activities:		
Net Income	$ 9,757	$ 5,830
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation and Amortization	2,394	2,463
Provision for Non-Cash Losses on Inventory and Receivables	597	687
Stock Compensation Expense	537	454
Deferred Tax Expense	370	1,203
Other	(85)	(34)
Cash Flows from Changes in Operating Assets and Liabilities:		
Accounts Receivable	(4,735)	2,395
Inventories	(3,559)	(1,289)
Accounts Payable	(774)	1,460
Other Current Assets and Liabilities	(701)	(880)
Billings in Excess of Recoverable Costs and Accrued Profits on Uncompleted Contracts	(393)	(591)
Customer Advanced Payments and Deferred Revenue	(147)	(3,158)
Income Taxes	(17)	(833)
Supplemental Retirement and Other Liabilities	(88)	(247)
Cash Provided By Operating Activities	3,156	7,460
Cash Flows from Investing Activities:		
Capital Expenditures	(6,979)	(1,486)
Other		(142)
Cash Used For Investing Activities	(6,979)	(1,628)
Cash Flows from Financing Activities:		
Net Payments For Long-term Debt	(3,499)	(4,515)
Proceeds from Exercise of Stock Options	490	
Income Tax Benefit from Exercise of Stock Options	196	
Other		147
Cash Used For Financing Activities	(2,813)	(4,368)
Effect of Exchange Rates on Cash	2	(1)

(Decrease) Increase in Cash and Cash Equivalents		(6,634)		1,463
Cash and Cash Equivalents at Beginning of Period		22,709		14,949
Cash and Cash Equivalents at End of Period	$	16,075	$	16,412

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION

Notes to Consolidated Condensed Financial Statements

July 2, 2011

(Unaudited)

1) Basis of Presentation

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

Operating Results

The results of operations for any interim period are not necessarily indicative of results for the full year. Operating results for the six and three month periods ended July 2, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The balance sheet at December 31, 2010 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included in Astronics Corporation s 2010 annual report on Form 10-K.

Description of the Business

Astronics is a leading supplier of advanced, high-performance lighting systems, electrical power generation systems, aircraft safety systems, electronics systems for the global aerospace industry as well as test, training and simulation systems primarily for the military. We sell our products to airframe manufacturers (OEM s) in the commercial transport, business jet and military markets as well as FAA/Airport, OEM suppliers, and aircraft operators around the world. The Company has two reportable segments, Aerospace and Test Systems. The Aerospace segment designs and manufactures products for the global aerospace industry. The Test Systems segment designs, develops, manufactures and maintains communications and weapons test systems and training and simulation devices for military applications.

Principles of Consolidation

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

Revenue and Expense Recognition

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

In the Test Systems segment, revenue is recognized from long-term, fixed-price contracts using the percentage-of-completion method of accounting, measured by multiplying the estimated total contract value by the ratio of actual contract costs incurred to date to the estimated total contract costs. Substantially all long-term contracts are with U.S. government agencies and contractors thereto. The Company makes significant estimates involving its usage of percentage-of-completion accounting to recognize contract revenues. The Company periodically reviews contracts in process for estimates-to-completion, and revises estimated gross profit accordingly. While the Company believes its estimated gross profit on contracts in process is reasonable, unforeseen events and changes in circumstances can take place in a subsequent accounting period that may cause the Company to revise its estimated gross profit on one or more of its contracts in process. Accordingly, the ultimate gross profit realized upon completion of such contracts can vary significantly from estimated amounts between accounting periods.

Cost of products sold includes the costs to manufacture products such as direct materials and labor and manufacturing overhead as well as all engineering and developmental costs. Shipping and handling costs are expensed as incurred and are included in costs of products sold. The Company is engaged in a variety of engineering and design activities

as well as basic research and development activities directed to the substantial improvement or new application of the Company s existing technologies. These costs are expensed when incurred and included in cost of sales. Research and development, design and related engineering amounted to approximately $17.1 million and $14.2 million for the six months ended and $8.8 million and $7.0 million for the three months ended July 2, 2011 and July 3, 2010, respectively.

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Selling, general and administrative expenses include costs primarily related to our sales and marketing departments and administrative departments.

Fair Value

ASC Topic 820, *Fair value Measurements and Disclosures* , (ASC Topic 820) defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. This statement applies under other accounting pronouncements that require or permit fair value measurements. The statement indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. ASC Topic 820 defines fair value based upon an exit price model.

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

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

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

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

A financial asset or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The following table provides the financial assets and liabilities carried at fair value measured on a recurring basis as of July 2, 2011 and December 31, 2010:

(in thousands)	Asset	Liability	Level 1	Level 2	Level 3
Interest rate swaps					
July 2, 2011	$	$ (464)	$	$ (464)	$
December 31, 2010		(520)		(520)	

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

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

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

At July 2, 2011, the fair value of goodwill and intangible assets classified using Level 3 inputs were as follows:

The fair value measurement of goodwill in the Test Systems reporting unit is $2.4 million. The inputs used to calculate the fair value were a combination of revenue growth rates and profit margins based on internal forecasts, terminal value, and weighted-average cost of capital used to discount future cash flows. There was no change in fair value from December 31, 2010.

The fair value measurement of indefinite-lived trade name intangible assets in the Test Systems reporting unit is $0.5 million. The inputs used to calculate the fair value were internal forecasts used to estimate

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

The fair value measurement of amortized intangible assets in the Test Systems reporting unit is $3.5 million. The inputs used to calculate the fair value were internal forecasts used to estimate undiscounted future cash flows. There was no change in fair value from December 31, 2010.

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The Company concluded that no indicators of goodwill and intangibles impairment existed as of July 2, 2011 and an interim test was not performed.

Financial Instruments

The Company s financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, notes payable, long-term debt and interest rate swaps. The Company performs periodic credit evaluations of its customers financial condition and generally does not require collateral and the Company does not hold or issue financial instruments for trading purposes. Due to their short-term nature the carrying value of cash and equivalents, accounts receivable, accounts payable, and notes payable approximate fair value. The carrying value of the Company s variable rate long-term debt also approximates fair value due to the variable rate feature of these instruments as well as the lack of changes in the Company s credit history. The carrying value of the subordinated promissory note approximates its fair value based on management s estimation that a current interest rate would not differ materially from the stated rate. The Company s interest rate swaps are recorded at fair value as described under Fair Value.

Derivatives

The Company records all derivatives on the balance sheet at fair value with the related gains or losses deferred in shareholders equity as a component of Accumulated Other Comprehensive Income (Loss) (AOCI) and any ineffectiveness is recorded to the income statement. The accounting for changes in the fair value of derivatives depends on the intended use and resulting designation. The Company s use of derivative instruments was limited to a cash flow hedge for interest rate risk associated with long-term debt. Interest rate swaps are used to adjust the proportion of total debt that is subject to variable and fixed interest rates. The interest rate swaps are designated as hedges of the amount of future cash flows related to interest payments on variable-rate debt that, in combination with the interest payments on the debt, convert a portion of the variable-rate debt to fixed-rate debt. At July 2, 2011, we had interest rate swaps consisting of the following:

a) An interest rate swap with a notional amount of approximately $2.6 million, entered into on February 2006, related to the Company s Series 1999 New York Industrial Revenue Bond which effectively fixes the rate at 3.99% plus a spread based on the Company s leverage ratio on this obligation through January, 2016.

b) An interest rate swap with a notional amount of $10.0 million. The swap effectively fixes the LIBOR rate at 2.115% on the notional amount (which decreases in concert with the scheduled note repayment schedule).The swap agreement became effective October 1, 2009 and expires January 30, 2014.

To the extent the interest rate swaps are not perfectly effective in offsetting the change in the value of the payments being hedged; the ineffective portion of these contracts is recognized in earnings immediately. All of the Company s cash flow hedges are considered to be highly effective. Amounts to be reclassified to income through the remainder of 2011 are not expected to be significant.

Long-term Debt and Notes Payable

The Company s Credit Agreement provides for a five-year, $40 million senior secured term loan with interest at LIBOR plus between 2.75% and 4.50%. The proceeds of the term loan were used to finance the DME acquisition. The balance of the term note on July 2, 2011 was $18.0 million. The Credit Agreement also provides for a revolving credit line of $35 million for working capital requirements and is committed through January 2012, with interest at LIBOR plus between 2.75% and 4.50%.

The Company s obligations under the Credit Agreement are jointly and severally guaranteed by Astronics Advanced Electronic Systems Corp., Luminescent Systems, Inc. and DME Corporation, each a wholly-owned domestic subsidiary of the Company. The obligations are secured by a first priority lien on substantially all of the Company s and the guarantors assets and 100% of the issued and outstanding equity interest of each subsidiary.

The Company had no balance outstanding on its revolving credit facility at July 2, 2011 and December 31, 2010, respectively. The revolving credit facility provides for borrowing up to $35.0 million less outstanding letters of credit. For working capital requirements, the Company had available on its credit facility, $22.4 million and $22.5 million at July 2, 2011 and December 31, 2010, respectively. The credit facility allocates up to $20 million of the revolving credit line for the issuance of letters of credit, including certain existing letters of credit totaling approximately $12.6 million at July 2, 2011.

Foreign Currency Translation

The Company accounts for its foreign currency translation in accordance with ASC Topic 830, *Foreign Currency Translation*. The aggregate transaction gain or loss included in determining net income was insignificant for the periods ending July 2, 2011 and July 3, 2010.

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Income Taxes

The FASB issued ASC Topic 740-10 *Overall Uncertainty in Income Taxes* (ASC Topic 740-10) which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. ASC Topic 740-10 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The Company is subject to the provisions of ASC Topic 740-10 and has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions.

Should the Company need to accrue a liability for unrecognized tax benefits, any interest associated with that liability will be recorded as interest expense. Penalties, if any, would be recognized as operating expenses. There are no penalties or interest liability accrued as of July 2, 2011 and December 31, 2010. The years under which we conducted our evaluation coincided with the tax years currently still subject to examination by major federal and state tax jurisdictions, those being 2007 through 2010.

Accounting Pronouncements Adopted in 2011

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

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

In March 2011, the SEC issued Staff Accounting Bulletin (SAB) 114. This SAB revises or rescinds portions of the interpretive guidance included in the codification of the Staff Accounting Bulletin Series. This update is intended to make the relevant interpretive guidance consistent with current authoritative accounting guidance issued as a part of the FASB s Codification. The principal changes involve revision or removal of accounting guidance references and other conforming changes to ensure consistency of referencing through the SAB Series. The effective date for SAB 114 is March 28, 2011. The adoption of the new guidance did not have a material impact on the Company s consolidated financial statements.

Loss contingencies

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

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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)	July 2, 2011	December 31, 2010
Finished Goods	$ 9,383	$ 8,437
Work in Progress	8,380	6,274
Raw Material	23,063	23,052
	$ 40,826	$ 37,763

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

3) Goodwill and Intangible Assets

The following table summarizes the changes in the carrying amount of goodwill for 2011:

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

The following table summarizes acquired intangible assets as follows:

		July 2, 2011		December 31, 2010	
(in thousands)	Weighted Average Life	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	12 Years	$ 1,271	$ 636	$ 1,271	$ 586
Trade Names	N/A	1,053		1,053	
Completed and Unpatented Technology	10 - 15 Years	3,177	1,097	3,177	972
Government Contracts	6 Years	347	346	347	342
Backlog and Customer Relationships	3 - 20 Years	3,385	2,330	3,385	2,293
Total Intangible Assets		$ 9,233	$ 4,409	$ 9,233	$ 4,193

All acquired intangible assets other than goodwill and trade names are being amortized. Amortization expense was approximately $0.2 million and $0.3 million for the six months ended and $0.1 million and $0.1 million for the three months ended July 2, 2011 and July 3, 2010, respectively. Amortization expense for each of the next five years is estimated to be approximately $0.3 million for the balance of 2011 and $0.4 million each for 2012, 2013, 2014 and

2015.

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4) Comprehensive Income and Accumulated Other Comprehensive Income

The components of comprehensive income are as follows:

(in thousands)	Six Months July 2, 2011	Six Months July 3, 2010	Three Months Ended July 2, 2011	Three Months Ended July 3, 2010
Net income	$ 9,757	$ 5,830	$ 4,548	$ 2,430
Other comprehensive income:				
Foreign currency translation adjustments	203	(47)	(1)	(261)
Accumulated Retirement Liability Adjustment, net of tax of $24 and $12 in 2011 and $25 and $12 in 2010, for the six and three months ended, respectively.	45	47	22	24
Gain (Loss) on derivatives, net of tax of $20 and $7 in 2011 and $75 and $44 in 2010, for the six and three months ended, respectively.	37	(139)	(13)	(78)
Comprehensive income	$ 10,042	$ 5,691	$ 4,556	$ 2,115

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

(in thousands)	July 2, 2011	December 31, 2010
Accumulated foreign currency translation	$ 1,525	$ 1,322
Accumulated loss on derivative adjustment	(301)	(338)
Accumulated retirement liability adjustment	(941)	(986)
Accumulated other comprehensive income (loss)	$ 283	$ (2)

5) Supplemental Retirement Plan and Related Post Retirement Benefits

The Company has a non-qualified supplemental retirement defined benefit plan for certain executives. The following table sets forth information regarding the net periodic pension cost for the plan.

(in thousands)	Six Months Ended July 2, 2011	Six Months Ended July 3, 2010	Three Months Ended July 2, 2011	Three Months Ended July 3, 2010
Service cost	$ 24	$ 20	$ 12	$ 10
Interest cost	164	164	82	82
Amortization of prior service cost	54	54	27	27
Amortization of net actuarial losses	6		3	
Net periodic cost	$ 248	$ 238	$ 124	$ 119

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

	Six Months Ended		Three Months Ended	
(in thousands)	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Service cost	$	$ 2	$	$ 1
Interest cost	14	26	7	13
Amortization of prior service cost	12	12	6	6
Amortization of net actuarial (gains) losses	(2)	6	(1)	3
Net periodic cost	$ 24	$ 46	$ 12	$ 23

6) Sales to Major Customers

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

Sales to Panasonic Avionics Corporation amounted to 34% and 28% of consolidated sales for the six months ended July 2, 2011 and July 3, 2010 respectively and 31% and 25% of consolidated sales for the three months ended July 2, 2011 and July 3, 2010, respectively. Accounts receivable from this customer amounted to $10.1 million and $6.5 million as of July 2, 2011 and December 31, 2010, respectively.

Sales to the United States Government amounted to 10% and 13% of consolidated sales for the six months ended July 2, 2011 and July 3, 2010 respectively and 8% and 14% of consolidated sales for the three months ended July 2, 2011 and July 3, 2010, respectively. Accounts receivable from this customer amounted to $4.4 million and $7.0 million as of July 2, 2011 and December 31, 2010, respectively.

7) Product Warranties

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

	Six Months Ended		Three Months Ended	
(in thousands)	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Balance at beginning of period	$ 1,699	$ 3,147	$ 1,657	$ 2,445
Warranties issued	987	938	448	721
Warranties settled	(953)	(769)	(408)	(463)
Reassessed warranty exposure	(343)	(613)	(307)	
Balance at end of period	$ 1,390	$ 2,703	$ 1,390	$ 2,703

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8) Segment Information

Below are the sales and operating profit by segment for the six months and three months ended July 2, 2011 and July 3, 2010 and a reconciliation of segment operating profit to earnings before income taxes. Operating profit is the net sales less cost of sales and other operating expenses excluding interest and other expenses and corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment.

	Six Months Ended		Three Months Ended	
(in thousands)	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Sales				
Aerospace	$ 102,141	$ 86,789	$ 51,942	$ 43,599
Test Systems	8,462	7,236	3,533	3,490
Total	$ 110,603	$ 94,025	$ 55,475	$ 47,089
Operating Profit and Margins				
Aerospace	$ 18,330	$ 13,495	$ 9,011	$ 6,753
	17.9%	15.5%	17.3%	15.5%
Test Systems	(528)	(806)	(545)	(993)
	(6.2)%	(11.1)%	(15.4)%	(28.5)%
Total Operating Profit	17,802	12,689	8,466	5,760
Deductions from Operating Profit				
Interest Expense	1,071	1,321	533	722
Corporate Expenses and Other	2,399	1,962	1,225	1,151
Income Before Income Taxes	$ 14,332	$ 9,406	$ 6,708	$ 3,887

Identifiable Assets

(in thousands)	July 2, 2011	December 31, 2010
Aerospace	$ 111,439	$ 96,393
Test Systems	15,857	17,752
Corporate	29,863	36,743
Total Assets	$ 157,159	$ 150,888

9) Earnings Per Share

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

	Six Months Ended		Three Months Ended	
(in thousands)	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Basic earnings per share weighted average shares	10,994	10,801	11,006	10,806
Net effect of dilutive stock options	671	326	697	483

Diluted earnings per share weighted average shares	11,665	11,127	11,703	11,289

10) Income Taxes

The effective tax rate was 31.9% and 38.0% for the six months and 32.2% and 37.4% for the three months ended July 2, 2011 and July 3, 2010, respectively. The effective tax rate for the second quarter of 2011 and the first half of 2011 was impacted primarily by the domestic production deduction as well as the impact of R&D tax credits in the net amount of $0.2 million. The effective tax rate for the first half of 2010 was impacted by lower state and foreign taxes and an increase in the reserve against R&D tax credits in the amount of $0.1 million. The effective tax rate for the second quarter of 2010 was impacted by higher state and foreign taxes.

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11) Legal Proceedings

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

On November 11, 2010, AE Liquidation Inc. filed an action in the 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. 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.

12) Recent Accounting Pronouncements

The Company s management has reviewed recent accounting pronouncements issued through the date of the issuance of financial statements.

In June 2011, the FASB issued ASU No. 2011-05, which updated the guidance in ASC Topic 220, *Comprehensive Income*. Under the amendments in this Update, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This Update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments in this Update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this Update should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and early application is permitted. This guidance will become effective for us in the first quarter of 2012. The adoption of this guidance is not expected to have a material impact on our financial position or results of operations.

In May 2011, the FASB issued ASU No. 2011-04, which updated the guidance in ASC Topic 820, *Fair Value Measurement*. The amendments in this Update generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This Update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011, and early application is not permitted. This guidance will become effective for us in the first quarter of 2012. The adoption of this guidance is not expected to have a material impact on our financial position or results of operations.

13 Subsequent Event

On August 2, 2011, the Company announced a one-for-ten distribution of Class B Stock to holders of both Common and Class B Stock. Stockholders will receive one share of Class B Stock for every ten shares of Common and Class B Stock held on the record date of August 16, 2011. Fractional shares will be paid in cash. The Company expects the new shares to be distributed on or about August 30, 2011.

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

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

OVERVIEW

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

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

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

CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK

	Six Months Ended		Three Months Ended	
(in thousands)	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Sales	$ 110,603	$ 94,025	$ 55,475	$ 47,089
Gross Margin	26.1%	23.6%	25.9%	22.7%
SG&A Expenses as a Percentage of Sales	12.2%	12.2%	12.9%	12.9%
Interest Expense, net of interest income	$ 1,071	$ 1,321	$ 534	$ 722
Effective Tax Rate	31.9%	38.0%	32.2%	37.5%
Net Earnings	$ 9,757	$ 5,830	$ 4,548	$ 2,430

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

Consolidated sales for the second quarter of 2011 increased by 17.8% to $55.5 million compared to $47.1 million for the same period last year. Aerospace sales increased by $8.3 million while Test Systems revenue remained flat at $3.5 million. Consolidated sales for the first half of 2011 increased by 17.6% to $110.6 million compared to $94.0 million for the same period last year. Aerospace sales increased by $15.4 million while Test Systems revenue increased by $1.2 million.

Consolidated gross margins improved to 25.9% in the second quarter of 2011 compared to 22.7% in the second quarter of 2010. Consolidated gross margins improved to 26.1% in the first half of 2011 compared to 23.6% in the first half of 2010. The improved margins were primarily the result of leverage that was achieved from increased sales volumes in the Aerospace segment, partially offset by increased engineering and development costs.

Selling, general and administrative (SG&A) expenses were $7.1 million, or 12.9% of sales in the second quarter of 2011, compared to $6.1 million, or 12.9% of sales in the same period last year. The increase of $1.0 million was due primarily to increased marketing costs, increased compensation costs and increased costs relating to legal proceedings

(see Notes to Consolidated Condensed Financial Statements note 11 and part II Other Information, Item 1. Legal Proceedings in this Form 10-Q) incurred during the second quarter of 2011 relating to our Aerospace segment. SG&A expenses were approximately $13.5 million, or 12.2% of sales in the first half of 2011, compared to $11.5 million, or 12.2% of sales in the same period last year. In addition to the increases discussed previously for the second quarter, the year to date increase of $2.0 million was also a result of increased information technology spending, incurred during the first half of 2011 in our aerospace segment.

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Interest Expense, net of interest income for the second quarter decreased by $0.2 million from $0.7 million to $0.5 million, due primarily to reduced debt levels when compared with the same period last year. Interest Expense, net of interest income for the first half of 2011 decreased by $0.2 million from $1.3 million to $1.1 million, due primarily to reduced debt levels when compared with the same period last year.

The effective tax rate for the second quarter of 2011 was 32.2%, as compared to 37.5% for the second quarter of 2010. The lower effective rate in the 2011 second quarter was a result of the impact of the domestic production deduction as well as the impact of R&D tax credits in the net amount of $0.1 million. The effective tax rate was approximately 31.9% for the first half of 2011 impacted primarily by the domestic production deduction as well as the impact of R&D tax credits in the net amount of $0.2 million. The effective tax rate for the first half of 2010 of 38.0% was impacted by higher state and foreign taxes and an increase in the reserve against R&D tax credits in the amount of $0.1 million.

Net income for the first half of 2011 was $9.8 million or $0.84 per diluted share, an increase of $4.0 million from $5.8 million, or $0.52 per diluted for the first half of 2010. Net income for the second quarter of 2011 was $4.5 million or $0.39 per diluted share, an increase of $2.1 million from $2.4 million, or $0.22 per diluted share in the second quarter of 2010. The earnings per share increase for both the first half and the second quarter of 2011 compared to the first half and the second quarter of 2010 is due to the increase in net income.

SEGMENT RESULTS OF OPERATIONS AND OUTLOOK

Operating profit, as presented below, is sales less cost of sales and other operating expenses, excluding interest expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment. Operating profit is reconciled to earnings before income taxes in Note 8 of the Notes to Consolidated Condensed Financial Statements included in this report.

AEROSPACE

	Six Months Ended		Three Months Ended	
(in thousands)	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Sales	$ 102,141	$ 86,789	$ 51,942	$ 43,599
Operating profit	$ 18,330	$ 13,495	$ 9,011	$ 6,753
Operating Margin	17.9%	15.5%	17.3%	15.5%

	July 2, 2011	Dec 31, 2010
Total Assets	$ 111,439	$ 96,393
Backlog	$ 93,143	$ 91,573

Aerospace Sales by Market

	Six Months Ended		Three Months Ended	
(in thousands)	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Commercial Transport	$ 67,196	$ 52,336	$ 34,271	$ 24,891
Military	17,179	17,918	7,919	9,521
Business Jet	14,063	11,971	7,426	6,379
FAA/Airport	3,703	4,564	2,326	2,808
	$ 102,141	$ 86,789	$ 51,942	$ 43,599

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Aerospace Sales by Product Line

(in thousands)	Six Months Ended July 2, 2011	Six Months Ended July 3, 2010	Three Months Ended July 2, 2011	Three Months Ended July 3, 2010
Cabin Electronics	$ 52,949	$ 40,584	$ 26,874	$ 19,087
Aircraft Lighting	35,720	33,319	17,549	17,586
Airframe Power	9,769	8,322	5,193	4,117
Airfield Lighting	3,703	4,564	2,326	2,809
	$ 102,141	$ 86,789	$ 51,942	$ 43,599

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

During the first half of 2011, sales to the Commercial Transport market increased as a result of increased volume, which was due primarily to the increased installation of in-seat power systems, which increased demand for our Cabin Electronics as well as increased volume of our Aircraft Lighting products. Military sales were down the first half of the year due primarily to lower volume of Aircraft Lighting sales to that market. Sales to the Business Jet market were higher due to increased volume from our Airframe Power product line. The sales decrease to the FAA/Airport market was due to lower volume.

Aerospace operating profit for the second quarter of 2011 was $9.0 million, or 17.3% of sales, compared with $6.8 million, or 15.5% of sales, in the same period last year. Margin improvement was due to the leverage provided on the increased sales volume offset somewhat by increased engineering and development costs and the higher SG&A costs discussed previously in the Consolidated Results of Operations section of this MD&A.

Aerospace operating profit for the first half of 2011 was $18.3 million, or 17.9% of sales, compared with $13.5 million, or 15.5% of sales, in the same period last year. Margin improvement was due to the leverage provided on the increased sales volume offset somewhat by increased engineering and development costs and higher SG&A costs discussed previously in the Consolidated Results of Operations section of this MD&A.

2011 Outlook for Aerospace Our sales forecast for 2011 for our Aerospace segment is in the range of $204 million to $212 million. The Aerospace segment s backlog at the end of the second quarter of 2011 was $93.1 million with approximately $69.7 million expected to be shipped over the remaining part of 2011.

TEST SYSTEMS

(in thousands)	Six Months Ended July 2, 2011	Six Months Ended July 3, 2010	Three Months Ended July 2, 2011	Three Months Ended July 3, 2010
Sales	$ 8,462	$ 7,236	$ 3,533	$ 3,490
Operating profit (loss)	$ (528)	$ (806)	$ (545)	$ (993)
Operating Margin	(6.2)%	(11.1)%	(15.4)%	(28.5)%

	July 2, 2011	Dec 31, 2010
Total Assets	$ 15,857	$ 17,752

Backlog	$ 8,969	$ 8,216

All sales of the Test Systems Segment is from the Military Market. Sales in the 2011 second quarter were flat at $3.5 million compared to the prior year. Sales in the first half of 2011 were $8.5 million, an increase of $1.3 million compared to $7.2 million for the same period in 2010.

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Test Systems operating loss for the second quarter of 2011 was $0.5 million, or (15.4) % of sales, compared with an operating loss of $1.0 million or (28.5) % of sales, in the same period last year. The operating loss is due to low sales volume. The second quarter 2011 operating loss includes a reduction in our estimated warranty liability of approximately $0.3 million compared to the second quarter 2010 operating loss, which includes no reduction in our estimated warranty liability.

The Test Systems segment operating loss for the first half of 2011 was $0.5 million, or (6.2) % of sales, compared with an operating loss of $0.8 million or (11.1) % of sales, in the same period last year. This is due primarily to low sales volume. The year to date 2011 operating loss includes a reduction in our estimated warranty liability of approximately $0.3 million compared to the year to date 2010 operating loss, which includes a reduction in our estimated warranty liability of $0.6 million.

2011 Outlook for Test Systems Our sales forecast for 2011 for our Test Systems segment is in the range of $16 million to $18 million. The Test Systems segment s backlog at the end of the second quarter of 2011 was $9.0 million with approximately $6.4 million expected to be shipped over the remaining part of 2011. New orders received during the quarter for the Test Systems segment totaled $3.5 million.

LIQUIDITY

Cash provided by operating activities totaled $3.2 million during the first six months of 2011, as compared with $7.5 million of cash provided by operations during the first six months of 2011. The change was due primarily to higher net income being offset by a net increased investment in our working capital components.

Cash used in investing activities was $7.0 million in the first six months of 2011, an increase in use of $5.3 million when compared to $1.6 million used in the first six months of 2010. This increase was primarily due to the purchase of real estate facility in Redmond, Washington. We expect to complete the build-out of the property through 2012 and move into the facility in early 2013. We expect to spend an additional $5 million to $8 million over the next 12-15 months to build-out and occupy the newly acquired building in Washington. This new facility will replace the Redmond Washington facility that we are currently leasing.

In the first six months of 2011 cash used for financing activities totaled $2.8 million compared to cash used by financing activities of $4.4 million in the first six months of 2010. The change was due primarily to lower scheduled principal payments on long term debt.

In July 2011, we purchased the building that we have been leasing that houses our Fort Lauderdale DME operation for approximately $5.1 million. Funding was from cash on hand. The Company expects capital spending in 2011 to be approximately $17 million to $21 million including $12 million to $13 million related to the acquisition and build out of the Fort Lauderdale and Redmond properties. Management believes that the Company s cash flow from operations and revolving credit facility will be sufficient to provide funding for future capital requirements.

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

Our obligations under our Credit Facility are jointly and severally guaranteed by Astronics Advanced Electronic Systems Corp., Luminescent Systems, Inc. and DME Corporation, each a wholly-owned domestic subsidiary of the Company. The obligations are secured by a first priority lien on substantially all of the Company s and the guarantors assets and 100% of the issued and outstanding equity interest of each subsidiary.

BACKLOG

The Company s backlog at July 2, 2011 was $102.1 million compared with $99.8 million at December 31, 2010 and $97.3 million at July 3, 2010.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Company s contractual obligations and commercial commitments have not changed materially from those disclosed in the Company s Form 10-K for the year ended December 31, 2010.

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MARKET RISK

The Company believes that there have been no material changes in the current year regarding the market risk information for its exposure to currency exchange rates or interest rate fluctuations. Refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2010 for a complete discussion of the Company s market risk.

CRITICAL ACCOUNTING POLICIES

Refer to the Company s annual report on Form 10-K for the year ended December 31, 2010 for a complete discussion of the Company s critical accounting policies.

RECENT ACCOUNTING PRONOUNCEMENTS

See Part 1, Note 1 to the Financial Statements Basis of Presentation, Accounting Pronouncements Adopted in 2011 and Part 1, Note 12 to the Financial Statements Recent Accounting Pronouncements

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FORWARD-LOOKING STATEMENTS

This Quarterly Report contains certain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involves uncertainties and risks. These statements are identified by the use of the may, will, should, believes, expects, expected, intends, plans, projects, estimates, predicts, po 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.

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 July 2, 2011. Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of July 2, 2011.

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

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

The Company has a significant concentration of business with two customers, Panasonic Avionics Corporation and the US Government, where a significant reduction in sales would negatively impact our sales and earnings. We provide Panasonic with cabin electronics products which, in total were approximately 34% and 31% of revenue during the first six and second quarter of 2011, respectively. We provide the US Government with military products which, in total were approximately 10% and 8% of revenue during the first six months and the second quarter of 2011, respectively.

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 July 2, 2011:

Period	(a) Total number of shares Purchased	(b) Average Price Paid per Share	(c) Total number of shares Purchased as part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 3 April 30, 2011				
May 1 May 28, 2011				
May 29 July 2, 2011				
Total				

Item 3. Defaults Upon Senior Securities

None.

Item 5. Other Information

None.

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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	

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: August 9, 2011

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