ASTRONICS CORP
Form 10-Q
August 06, 2013
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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 June 29, 2013

or

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

Commission File Number 0-7087

ASTRONICS CORPORATION

(Exact name of registrant as specified in its charter)

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 x 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 x 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	x
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 x

As of June 29, 2013, 14,513,593 shares of common stock were outstanding consisting of 11,248,417 shares of common stock ($.01 par value) and 3,265,176 shares of Class B common stock ($.01 par value).

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Part 1 Financial Information

Item 1. Financial Statements

ASTRONICS CORPORATION

Consolidated Condensed Balance Sheets

June 29, 2013 with Comparative Figures for December 31, 2012

(In thousands)

	June 29, 2013 (Unaudited)	December 31, 2012
Current Assets:		
Cash and Cash Equivalents	$ 16,535	$ 7,380
Accounts Receivable, net of allowance for doubtful accounts	42,819	45,473
Inventories	53,108	48,624
Other Current Assets	6,068	6,533
Total Current Assets	118,530	108,010
Property, Plant and Equipment, net of accumulated depreciation	54,741	53,537
Deferred Income Taxes	8,635	9,019
Other Assets	3,162	2,977
Intangible Assets, net of accumulated amortization	15,588	16,523
Goodwill	21,781	21,923
Total Assets	$ 222,437	$ 211,989
Current Liabilities:		
Current Maturities of Long-term Debt	$ 10,254	$ 9,268
Accounts Payable	15,043	10,592
Accrued Expenses	13,288	15,634
Accrued Income Taxes	1,040	
Billings in Excess of Recoverable Costs and Accrued Profits on Uncompleted Contracts		188
Customer Advance Payments and Deferred Revenue	9,924	12,286
Total Current Liabilities	49,549	47,968
Long-term Debt	15,221	20,715
Other Liabilities	18,010	18,172
Total Liabilities	82,780	86,855
Shareholders Equity:		
Common Stock	145	145
Accumulated Other Comprehensive Loss	(4,923)	(4,783)
Other Shareholders Equity	144,435	129,772
Total Shareholders Equity	139,657	125,134
Total Liabilities and Shareholders Equity	$ 222,437	$ 211,989

See notes to consolidated condensed financial statements

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ASTRONICS CORPORATION

Consolidated Condensed Statements of Operations

Three and Six Months Ended June 29, 2013 With Comparative Figures for 2012

(Unaudited)

(In thousands, except per share data)

	Six Months Ended		Three Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Sales	$ 144,800	$ 130,127	$ 70,833	$ 64,989
Cost of Products Sold	105,900	94,953	52,152	47,935
Gross Profit	38,900	35,174	18,681	17,054
Selling, General and Administrative Expenses	19,858	18,133	10,701	9,278
Income from Operations	19,042	17,041	7,980	7,776
Interest Expense, Net of Interest Income	480	529	262	266
Income Before Income Taxes	18,562	16,512	7,718	7,510
Provision for Income Taxes	4,840	5,223	2,560	2,316
Net Income	$ 13,722	$ 11,289	$ 5,158	$ 5,194
Earnings per share:				
Basic	$ 0.95	$ 0.79	$ 0.36	$ 0.36
Diluted	$ 0.90	$ 0.75	$ 0.34	$ 0.34

See notes to consolidated condensed financial statements

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ASTRONICS CORPORATION

Consolidated Condensed Statements of Comprehensive Income

Three and Six Months Ended June 29, 2013 With Comparative Figures for 2012

(Unaudited)

(In thousands)

	Six Months Ended		Three Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net Income	$ 13,722	$ 11,289	$ 5,158	$ 5,194
Other Comprehensive Income:				
Foreign Currency Translation Adjustments	(389)	(7)	(192)	(117)
Mark to Market Adjustments for Derivatives Net of Tax	38	50	23	27
Retirement Liability Adjustment Net of Tax	211	(3,587)	105	140
Other Comprehensive (Loss) Income	(140)	(3,544)	(64)	50
Comprehensive Income	$ 13,582	$ 7,745	$ 5,094	$ 5,244

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION

Consolidated Condensed Statements of Cash Flows

Six Months Ended June 29, 2013

With Comparative Figures for 2012

(Unaudited)

(In thousands)

	June 29, 2013	June 30, 2012
Cash Flows from Operating Activities:		
Net Income	$ 13,722	$ 11,289
Adjustments to Reconcile Net Income to Cash Provided By (Used For) Operating Activities:		
Depreciation and Amortization	3,470	2,831
Provisions for Non-Cash Losses on Inventory and Receivables	515	574
Stock Compensation Expense	709	723
Deferred Tax Expense	1,087	(476)
Other	(376)	143
Cash Flows from Changes in Operating Assets and Liabilities:		
Accounts Receivable	2,504	(7,903)
Inventories	(5,164)	(5,021)
Accounts Payable	4,474	607
Other Current Assets and Liabilities	(2,738)	265
Billings in Excess of Recoverable Costs and Accrued Profits on Uncompleted Contracts	(188)	(264)
Customer Advanced Payments and Deferred Revenue	(2,362)	4,760
Income Taxes	1,079	1,049
Supplemental Retirement and Other Liabilities	587	381
Cash Provided By Operating Activities	17,319	8,958
Cash Flows from Investing Activities:		
Capital Expenditures	(3,671)	(4,496)
Cash Used For Investing Activities	(3,671)	(4,496)
Cash Flows from Financing Activities:		
Payments for Long-term Debt	(4,478)	(7,507)
Debt Acquisition Costs	(160)	
Acquisition Earnout Payments	(81)	
Proceeds from Exercise of Stock Options	175	151
Income Tax Benefit from Exercise of Stock Options	57	144
Cash Used For Financing Activities	(4,487)	(7,212)
Effect of Exchange Rates on Cash	(6)	(1)
Increase (Decrease) in Cash and Cash Equivalents	9,155	(2,751)
Cash and Cash Equivalents at Beginning of Period	7,380	10,919

Cash and Cash Equivalents at End of Period	$ 16,535	$ 8,168

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION

Notes to Consolidated Condensed Financial Statements

June 29, 2013

(Unaudited)

1) Basis of Presentation

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

Operating Results

The results of operations for any interim period are not necessarily indicative of results for the full year. Operating results for the three and six month period ended June 29, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

The balance sheet at December 31, 2012 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included in Astronics Corporation s 2012 annual report on Form 10-K.

Description of the Business

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

On July 18, 2013, the Company completed the acquisition of Peco, Inc., a designer and manufacturer of highly engineered commercial aerospace interior components and systems for the aerospace industry, as described further in Note 19. Peco is expected to be part of the Company s 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.

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In the Test Systems segment, revenue of approximately 30% and 39% for the three months ending June 29, 2013 and June 30, 2012, respectively, and approximately 28% and 39% for the six months ending June 29, 2013 and June 30, 2012 respectively, is recognized from long-term, fixed-price contracts using the percentage-of-completion method of accounting, measured by multiplying the estimated total contract value by the ratio of actual contract costs incurred to date to the estimated total contract costs. 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.

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

Cost of products sold includes the costs to manufacture products such as direct materials and labor and manufacturing overhead as well as all engineering and developmental costs. The Company is engaged in a variety of engineering and design activities as well as basic research and development activities directed to the substantial improvement or new application of the Company s existing technologies. These costs are expensed when incurred and included in cost of products sold. Research and development, design and related engineering amounted to $13.2 million and $11.1 million for the three months ended June 29, 2013 and June 30, 2012, respectively, and $26.0 million and $21.1 million for the six months ended June 29, 2013 and June 30, 2012, respectively. Selling, general and administrative expenses include costs primarily related to our sales and marketing departments and administrative departments. Interest expense is shown net of interest income. Interest income was insignificant for each of the three and six months ended for both June 29, 2013 and June 30, 2012.

Financial Instruments

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

Derivatives

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

Foreign Currency Translation

The Company accounts for its foreign currency translation in accordance with Accounting Standards Codification (ASC) Topic 830, *Foreign Currency Translation*. The aggregate transaction gain or loss included in operations was insignificant for the periods ending June 29, 2013 and June 30, 2012.

Loss contingencies

Loss contingencies may from time to time arise from situations such as 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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Accounting Pronouncements Adopted in 2013

On January 1, 2013, the Company adopted the new provisions of Accounting Standards Update (ASU) No. 2013-02 *Comprehensive Income (Topic 220)*. The amendments in this ASU require the Company to provide information about the amounts reclassified out of accumulated other comprehensive income, by component. Other than requiring additional disclosures, the adoption of this amendment does not have a material 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)	June 29, 2013	December 31, 2012
Finished Goods	$ 13,992	$ 10,864
Work in Progress	9,360	8,960
Raw Material	29,756	28,800
	$ 53,108	$ 48,624

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)	June 29, 2013	December 31, 2012
Land	$ 5,424	$ 5,424
Buildings and Improvements	37,019	37,045
Machinery and Equipment	44,391	43,342
Construction in Progress	2,660	1,456
	89,494	87,267
Less Accumulated Depreciation	34,753	33,730
	$ 54,741	$ 53,537

4) Intangible Assets

The following table summarizes acquired intangible assets as follows:

		June 29, 2013		December 31, 2012	
(In thousands)	Weighted Average Life	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	12 Years	$ 1,271	$ 834	$ 1,271	$ 784

Trade Names	10 Years	2,453	258	2,453	162
Completed and Unpatented Technology	11 Years	6,377	2,034	6,377	1,749
Backlog and Customer Relationships	12 Years	12,772	4,159	13,085	3,968
Total Intangible Assets	11 Years	$ 22,873	$ 7,285	$ 23,186	$ 6,663

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

	Six Months Ended		Three Months Ended	
(In thousands)	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Amortization Expense	$ 935	$ 653	$ 468	$ 304

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Amortization expense for intangible assets expected for 2013 and for each of the next five years is as follows:

(In thousands)	
2013	$ 1,727
2014	1,518
2015	1,474
2016	1,470
2017	1,462
2018	1,371

5) Goodwill

The following table summarizes the changes in the carrying amount of goodwill for 2013:

(In thousands)	December 31, 2012	Foreign Currency Translation	June 29, 2013
Aerospace Segment	$ 21,923	$ (142)	$ 21,781

6*) Long-term Debt and Notes Payable*

The Company extended and modified its existing credit facility by entering into Amendment No. 1 dated as of March 27, 2013 (the Amendment), to the Second Amended and Restated Credit Agreement. The Amendment provides for an increase in the Company s revolving credit facility from $35 million to $75 million and for an extension of the maturity date of the revolving credit facility to March 27, 2018. At June 29, 2013, there was $9.0 million outstanding under the term loan under the Second Amended and Restated Credit Agreement.

Interest on both loans remains at a rate of LIBOR plus between 1.50% and 2.50% based on the Company s Leverage Ratio under the Credit Agreement. The credit facility allocates up to $20 million of the $75 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.

There was $7.0 million outstanding on our credit facility at both June 29, 2013 and December 31, 2012 which is reported as long-term. The Company had available on its credit facility $58.4 million at June 29, 2013. At June 29, 2013, outstanding letters of credit totaled $9.6 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.

On July 18, 2013, in connection with the funding of the Peco Acquisition (See Note 19), the Company amended its existing credit facility by entering into a Third Amended and Restated Credit Agreement (the Credit Agreement). The Credit Agreement provides for a $75 million five-year revolving credit facility and a $190 million five-year term loan, both expiring in June 2018. The amended facilities carry an interest rate ranging from 225 basis points to 350 basis points above LIBOR, depending on the Company s leverage ratio as defined in the Credit Agreement. Variable principal payments on the term loan will be quarterly through June 2018 with a balloon payment at maturity. The credit facility is secured by substantially all of the Company s assets. In addition, the Company is required to pay a commitment fee of between 0.25% 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.

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Scheduled principal payments on the new term loan are as follows (in thousands):

2013	$ 4,750
2014	9,500
2015	11,875
2016	16,625
2017	19,000
2018	128,250
Total	$ 190,000

The proceeds of the term loan were used to finance the Peco Acquisition, pay off the $7.0 million outstanding balance under the existing term loan, pay off the $7.0 million outstanding balance under the existing revolving credit facility, pay off $0.5 million of other term debt and for general corporate purposes. It will also allow for potential additional funding for a make-whole provision to the sellers should the Company exercise an option for tax purposes. This option involves making an election under IRS Code Section 338 (h)(10) that will allow the Company to deduct the amortization of acquired goodwill and other intangible assets from its taxable income. The value associated with this tax benefit, which will be decided by year-end, would require additional consideration to be paid to the sellers.

Covenants were modified on March 27, 2013, to eliminate the maximum capital expenditure limit, the cap on permitted acquisitions was increased to $25 million per acquisition and $50 million in the aggregate and the permitted allowance for share repurchases was increased to $20 million. In addition, the maximum permitted Leverage Ratio has been increased to 3.75 to 1 for each fiscal quarter ending on or after March 31, 2013 and to 3.50 to 1 for each fiscal quarter ending after March 31, 2015. The covenant for minimum fixed charge coverage as defined in the Credit Agreement is to be not less than 1.25 to 1 for each fiscal quarter end. There were no changes in these covenants resulting from the new term note.

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.

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)	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Balance at beginning of period	$ 2,551	$ 1,092	$ 2,451	$ 1,448
Warranties issued	333	772	285	246
Warranties settled	(416)	(473)	(278)	(303)
Reassessed warranty exposure	116		126	
Balance at end of period	$ 2,584	$ 1,391	$ 2,584	$ 1,391

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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 June 29, 2013 or December 31, 2012, nor are any penalties or interest costs included in expense for the periods ending June 29, 2013 and June 30, 2012. 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 2012 for federal purposes and 2009 through 2012 for state purposes.

The effective tax rate was 26.1% and 31.6% for the six months and 33.2% and 30.8% for the three months ended June 29, 2013 and June 30, 2012, respectively. The effective tax rate for the six months of 2013 was impacted primarily by the domestic production activity deduction, the recognition of approximately $1.1 million in domestic 2012 R&D tax credits and $0.4 million in domestic 2013 R&D tax credits. The effective tax rate for the three months of 2013 was impacted primarily by the domestic production activity deduction and the recognition of approximately $0.2 million in domestic 2013 R&D tax credits.

9) Shareholders Equity

The changes in shareholders equity for the six months ended June 29, 2013 are summarized as follows as adjusted to reflect the impact of the three-for-twenty distribution of Class B Stock as discussed in Note 10:

		Number of Shares	
(Dollars and Shares in thousands)	Amount	Common Stock	Convertible Class B Stock
Shares Authorized		40,000	10,000
Share Par Value		$ 0.01	$ 0.01
COMMON STOCK			
Beginning of Period	$ 145	10,865	3,596
Conversion of Class B Shares to Common Shares		349	(349)
Exercise of Stock Options		35	18
End of Period	$ 145	11,249	3,265
ADDITIONAL PAID IN CAPITAL			
Beginning of Period	$ 22,883		
Stock Compensation Expense	709		
Exercise of Stock Options	232		
End of Period	$ 23,824		
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Beginning of Period	$ (4,783)		
Foreign Currency Translation Adjustment	(389)		
Mark to Market Adjustment for Derivatives	38		
Retirement Liability Adjustment	211		

End of Period	$ (4,923)
RETAINED EARNINGS	
Beginning of Period	$ 106,889
Net Income	13,722
End of Period	$ 120,611
TOTAL SHAREHOLDERS EQUITY	
Beginning of Period	$ 125,134
End of Period	$ 139,657

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10) Basic and Diluted Weighted-average Shares Outstanding

Basic and diluted weighted-average shares outstanding used to calculate earnings per share are as follows:

	Six Months Ended		Three Months Ended	
(In thousands)	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Weighted average shares Basic	14,502	14,249	14,511	14,230
Net effect of dilutive stock options	672	887	661	879
Weighted average shares Diluted	15,174	15,136	15,172	15,109

The above information has been adjusted to reflect the impact of the three-for-twenty distribution of Class B Stock for shareholders of record on October 29, 2012.

11) Accumulated Other Comprehensive Loss and Other Comprehensive Loss

The components of accumulated other comprehensive loss are as follows:

(In thousands)	June 29, 2013	December 31, 2012
Foreign Currency Translation Adjustments	$ 1,026	$ 1,415
Mark to Market Adjustments for Derivatives Before Tax	(159)	(218)
Tax Benefit	55	76
Mark to Market Adjustments for Derivatives After Tax	(104)	(142)
Retirement Liability Adjustment Before Tax	(8,992)	(9,316)
Tax Benefit	3,147	3,260
Retirement Liability Adjustment After Tax	(5,845)	(6,056)
Accumulated Other Comprehensive Loss	$ (4,923)	$ (4,783)

The components of other comprehensive loss are as follows:

	Six Months Ended		Three Months Ended	
(In thousands)	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Foreign Currency Translation Adjustments	$ (389)	$ (7)	$ (192)	$ (117)
Reclassification to Interest Expense	70	114	33	54
Mark to Market Adjustments for Derivatives	(11)	(37)	3	(12)
Tax Expense	(21)	(27)	(13)	(15)
Mark to Market Adjustments for Derivatives	38	50	23	27

Retirement Liability Adjustment	324	(5,550)	162	183
Tax (Expense) Benefit	(113)	1,963	(57)	(43)
Retirement Liability Adjustment	211	(3,587)	105	140
Other Comprehensive (Loss) Income	$ (140)	$ (3,544)	$ (64)	$ 50

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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 executive officers. The following table sets forth information regarding the net periodic pension cost for the plans.

	Six Months Ended		Three Months Ended	
(In thousands)	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Service cost	$ 148	$ 128	$ 74	$ 88
Interest cost	310	252	155	147
Amortization of prior service cost	248	181	124	122
Amortization of net actuarial losses	64	46	32	23
Net periodic cost	$ 770	$ 607	$ 385	$ 380

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:

	Six Months Ended		Three Months Ended	
(In thousands)	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Service cost	$ 2	$ 1	$ 1	$
Interest cost	12	12	6	6
Amortization of prior service cost	12	13	6	7
Net periodic cost	$ 26	$ 26	$ 13	$ 13

13) Sales to Major Customers

The Company has a significant concentration of business with one major customer, Panasonic Aviation Corporation. The following is information relating to the activity with that customer:

	Six Months Ended		Three Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Percent of consolidated revenue				
Panasonic	32%	37%	30%	32%

(In thousands)	June 29, 2013	Dec. 31, 2012
Accounts Receivable		
Panasonic	$ 11,218	$ 17,412

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.

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 Manheim 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.

During the second quarter of 2013, the Company settled the case with AE Liquidation, Inc., with no significant impact to the results of our operations.

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15) Segment Information

Below are the sales and operating profit by segment for the three and six months ended June 29, 2013 and June 30, 2012 and a reconciliation of segment operating profit to earnings before income taxes. Operating profit is the net sales less cost of products sold and other operating expenses excluding interest and corporate expenses. Cost of products sold and other operating expenses are directly identifiable to the respective segment.

	Six Months Ended		Three Months Ended	
(Dollars in thousands)	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Sales				
Aerospace	$ 140,345	$ 124,424	$ 68,676	$ 62,423
Test Systems	4,547	5,703	2,157	2,566
Less Intersegment Sales	(92)			
	4,455	5,703	2,157	2,566
Total Consolidated Sales	$ 144,800	$ 130,127	$ 70,833	$ 64,989
Operating Profit (Loss) and Margins				
Aerospace	$ 25,735	$ 22,781	$ 11,447	$ 10,903
	18.3%	18.3%	16.7%	17.5%
Test Systems	(2,135)	(2,393)	(610)	(1,318)
	(47.0)%	(42.0)%	(28.3)%	(51.4)%
Total Operating Profit	23,600	20,388	10,837	9,585
	16.3%	15.7%	15.3%	14.7%
Deductions from Operating Profit				
Interest Expense	480	529	262	266
Corporate Expenses and Other	4,558	3,347	2,857	1,809
Income Before Income Taxes	$ 18,562	$ 16,512	$ 7,718	$ 7,510

Identifiable Assets

(In thousands)	June 29, 2013	December 31, 2012
Aerospace	$ 180,075	$ 177,168
Test Systems	16,028	18,121
Corporate	26,334	16,700
Total Assets	$ 222,437	$ 211,989

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.

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.

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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 June 29, 2013 and December 31, 2012:

(In thousands)	Classification	Total	Level 1	Level 2	Level 3
Interest rate swaps	Other Liabilities				
June 29, 2013		$ (159)	$	$ (159)	$
December 31, 2012		(218)		(218)	
Acquisition contingent consideration	Other Liabilities				
June 29, 2013		$ (746)	$	$	$ (746)
December 31, 2012		(814)			(814)

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 four years and the Max-Viz acquisition to be paid up to a maximum of $8.0 million if certain revenue growth targets are met over the next three years. The amounts recorded were calculated using an estimate of the probability of future revenue. The varying contingent payments were then discounted to the present value utilizing a discounted cash flow methodology. The contingent consideration liabilities have no observable Level 1 or Level 2 inputs. There was no significant change in the fair value of the liabilities related to the Ballard and Max-Viz acquisitions from December 31, 2012.

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 quantitative 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 the Company s indefinite-lived intangible asset, 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 June 29, 2013, the fair value of goodwill and intangible assets classified using Level 3 inputs are as follows:

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, 2012.

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. There was no change in fair value from December 31, 2012.

The Max-Viz goodwill and intangible assets acquired on July 30, 2012, were valued at fair value using a discounted cash flow methodology and are classified as Level 3 inputs. There was no change in fair value from December 31, 2012.

As of June 29, 2013, the Company concluded that no indicators of impairment relating to intangible assets or goodwill existed and an interim test was not performed.

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17) Derivative Financial Instruments

At June 29, 2013, we had interest rate swaps consisting of the following:

a) An interest rate swap with a notional amount of approximately $1.9 million at June 29, 2013, entered into on February 6, 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 February 1, 2016.

b) An interest rate swap with a notional amount of $3.0 million at June 29, 2013, 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 June 29, 2013 and December 31, 2012, the fair value of interest rate swaps was a liability of $0.2 million, which is included in other liabilities (See Note 16). Amounts expected to be reclassified to earnings in the next 12 months are 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 and six months ended June 29, 2013 and June 30, 2012. 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 2013 are not expected to be significant.

Activity in AOCI related to these derivatives is summarized below:

	Six Months Ended		Three Months Ended	
(In thousands)	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Derivative balance at the beginning of the period in AOCI	$ (142)	$ (256)	$ (127)	$ (233)
Net deferral in AOCI of derivatives:				
Net (increase) decrease in fair value of derivatives	(11)	(37)	3	(12)
Tax effect	4	13	(1)	4
	(7)	(24)	2	(8)
Net reclassification from AOCI into earnings:				
Reclassification from AOCI into earnings Interest expense	70	114	33	54
Tax effect	(25)	(40)	(12)	(19)
	45	74	21	35
Net change in derivatives for the period	38	50	23	27
Derivative balance at the end of the period in AOCI	$ (104)	$ (206)	$ (104)	$ (206)

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.

19) Acquisition

Peco, Inc.

On May 28, 2013, Astronics Corporation entered into a Stock Purchase Agreement (the Agreement) by and among the Company, Peco, Inc., an Oregon corporation, (Peco) pursuant to which the Company has agreed to acquire all of the issued and outstanding capital stock of Peco. The business combination was completed July 18, 2013. Peco is a designer and manufacturer of highly engineered commercial aerospace interior components and systems for the aerospace industry. Peco is expected to be part of the Company s Aerospace segment.

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Under the terms of the Agreement, the consideration for the stock of Peco is $136.0 million in cash. The Stock Purchase Agreement also contains an agreement whereby the Company and the Sellers may make a tax election under Section 338(h)(10) of the Internal Revenue Code. This election will allow the Company to deduct the amortization of acquired goodwill and other intangible assets from its taxable income. The additional income tax to the Peco Sellers (Sellers) that is associated with the election, which will be determined by year-end, would require additional consideration to be paid to the Sellers. The Company has the right to revoke this election at any time prior to November 30, 2013, in which case it will have no obligation to pay such make-whole payment to the Sellers. The initial accounting for the acquisition of Peco was incomplete at the time these financial statements were issued. The preparation of certain supplemental pro forma information will not be finalized until the initial accounting for the acquisition is completed.

Max-Viz, Inc.

On July 30, 2012 we completed a business combination within our aerospace segment. We acquired by merger, 100% of the stock of Max-Viz, Inc. (Max-Viz), a manufacturer of industry-leading Enhanced Vision Systems for defense and commercial aerospace applications for the purpose of improving situational awareness. The addition of Max-Viz diversifies the products and technologies that Astronics offers. We purchased the outstanding stock of Max-Viz for $10.7 million in cash plus contingent purchase consideration up to a maximum of $8.0 million subject to meeting certain revenue growth targets over the next three years. Max-Viz s unaudited 2012 revenue through the acquisition date was approximately $5.4 million.

The additional contingent purchase consideration is recorded at its estimated fair value at the date of acquisition based upon the Company s assessment of the probability of Max-Viz achieving the revenue growth targets. The estimated fair value of this contingent consideration is insignificant. The goodwill recognized is comprised primarily of intangible assets that do not require separate recognition. Substantially all of the goodwill and purchased intangible assets are expected to be deductible for tax purposes over 15 years. The purchase price allocation for this 2012 acquisition is complete.

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, 2012.)

OVERVIEW

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

ACQUISITIONS

Peco, Inc.

On May 28, 2013, Astronics Corporation entered into a Stock Purchase Agreement (the Agreement) by and among the Company, Peco, Inc., an Oregon corporation, (Peco) pursuant to which the Company has agreed to acquire all of the issued and outstanding capital stock of Peco. The business combination was completed July 18, 2013. Peco is expected to be part of our Aerospace segment.

Under the terms of the Agreement, the consideration for the stock of Peco is $136.0 million in cash. The Stock Purchase Agreement also contains an agreement whereby the Company and the Peco Sellers (Sellers) may make a tax election under Section 338(h)(10) of the Internal Revenue Code. This election will allow the Company to deduct the amortization of acquired goodwill and other intangible assets from its taxable income. The additional income tax to the Sellers that is associated with the election, which will be determined by year-end, would require additional consideration to be paid to the Sellers. The Company has the right to revoke this election at any time prior to November 30, 2013, in which case it will have no obligation to pay such make-whole payment to the Sellers. The initial accounting for the acquisition of Peco was incomplete at the time these financial statements were issued. The preparation of certain supplemental pro forma information will not be finalized until the initial accounting for the acquisition is completed.

Max-Viz, Inc.

On July 30, 2012 we acquired by merger, 100% of the stock of Max-Viz, Inc. (Max-Viz) a manufacturer of industry-leading enhanced vision systems for defense and commercial aerospace applications for the purpose of improving situational awareness. Max-Viz is included in our aerospace reporting segment. The addition of Max-Viz diversifies the products and technologies that Astronics offers. We acquired Max-Viz for $10.7 million in cash plus contingent purchase consideration up to a maximum of $8.0 million subject to meeting certain revenue growth targets over the next three years. The additional purchase consideration is recorded at its estimated fair value at the date of acquisition based upon the Company s assessment of the probability of Max-Viz achieving the revenue growth targets. The estimated value of the contingent consideration recorded is insignificant.

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CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK

	Six Months Ended		Three Months Ended	
(Dollars in thousands)	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Sales	$ 144,800	$ 130,127	$ 70,833	$ 64,989
Gross Profit	$ 38,900	$ 35,174	$ 18,681	$ 17,054
Gross Profit Percentage	26.9%	27.0%	26.4%	26.2%
SG&A Expenses as a Percentage of Sales	13.7%	13.9%	15.1%	14.3%
Interest Expense, net of interest income	$ 480	$ 529	$ 262	$ 266
Effective Tax Rate	26.1%	31.6%	33.2%	30.8%
Net Earnings	$ 13,722	$ 11,289	$ 5,158	$ 5,194

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

Our consolidated sales for the second quarter of 2013 increased by 9.0% to $70.8 million compared with $65.0 million for the same period last year. Aerospace sales increased by $6.2 million and Test Systems sales decreased by $0.4 million.

Consolidated sales for the first six months of 2013 increased by 11.3% to $144.8 million compared with $130.1 million for the same period last year. Aerospace sales increased by $15.9 million while Test Systems revenue decreased by $1.2 million in the first six months of 2013.

Consolidated gross margin was 26.4% for the second quarter of 2013 compared with 26.2% for the second quarter of 2012. Margin leverage achieved from increased sales volume was partially offset by increased engineering and development (E&D) costs. Additionally, warranty and inventory obsolescence expense was higher in 2013 as compared with the prior year. E&D costs were $13.3 million in the second quarter of 2013 compared with $11.1 million in the same period of 2012, an increase of $2.2 million. Expense relating to warranty and inventory reserves increased by $0.5 million in the 2013 second quarter compared with the 2012 second quarter.

Consolidated gross margin was 26.9% for the first six months of 2013 compared with 27.0% for the first six months of 2012. The leverage achieved from the increased sales volume was partially offset by increased E&D costs. E&D costs were $26.1 million in the first six months of 2013 compared with $21.1 million in the same period of 2012, an increase of $5.0 million. We expect our full year consolidated E&D expenses for 2013 to be in the range of $53 million to $56 million including $1.0 million to $2.0 million from the addition of Peco, Inc.

Selling, general and administrative (SG&A) expenses were $10.7 million, or 15.1% of sales in the second quarter of 2013 compared with $9.3 million, or 14.3% of sales in the same period last year. The increase was due primarily to increased legal and professional expenses related to acquisition and related financing activity, which added approximately $0.9 million in the second quarter of 2013 compared with last year s second quarter. Additionally, the incremental SG&A costs of Max-Viz acquired in July of 2012 added $0.6 million compared to the second quarter of 2012.

SG&A expenses for the first six months of 2013 were approximately $19.9 million, or 13.7% of sales, compared with $18.1 million, or 13.9% of sales in the same period last year. The increase was due primarily to the acquisition of Max-Viz, which incrementally added $1.2 million to SG&A in the first half of 2013, $1.0 million in legal and professional expense related to acquisition and related financing activity when compared with the prior year.

The effective tax rate for the second quarter of 2013 was lower than the federal statutory rate, due to the domestic production activity deduction as well as the recognition of domestic R&D tax credits totaling approximately $0.2 million.

The effective tax rate for the first six months of 2013 was lower than the federal statutory rate, due to the domestic production activity deduction as well as the recognition of domestic R&D tax credits for the prior year totaling approximately $1.1 million. The 2012 R&D tax credits were not recognized in 2012, as the American Tax Payer Relief Act of 2012 which extended the R&D tax credit for 2012, was not enacted until 2013. We expect our effective tax rate for the remaining two quarters of 2013 to be in the range of 30% to 32%.

Earnings per share for all periods presented have been calculated reflecting the effect of the 15% Class B share distribution for shareholders of record on October 29, 2012.

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SEGMENT RESULTS OF OPERATIONS AND OUTLOOK

Operating profit, as presented below, is sales less cost of products sold and other operating expenses, excluding interest expense and other corporate expenses. Cost of products sold 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

	Six Months Ended		Three Months Ended	
(In thousands)	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Sales	$ 140,345	$ 124,424	$ 68,676	$ 62,423
Operating profit	$ 25,735	$ 22,781	$ 11,447	$ 10,903
Operating Margin	18.3%	18.3%	16.7%	17.5%

	June 29, 2013	December 31, 2012
Total Assets	$ 180,075	$ 177,168
Backlog	$ 111,674	$ 110,915

Aerospace Sales by Market

	Six Months Ended		Three Months Ended	
(In thousands)	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Commercial Transport	$ 97,226	$ 85,287	$ 46,264	$ 41,179
Military	20,698	19,081	12,082	10,162
Business Jet	15,631	14,937	6,966	8,283
FAA/Airport	6,790	5,119	3,364	2,799
	$ 140,345	$ 124,424	$ 68,676	$ 62,423

Aerospace Sales by Product Line

	Six Months Ended		Three Months Ended	
(In thousands)	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Cabin Electronics	$ 77,105	$ 66,254	$ 36,677	$ 31,215
Aircraft Lighting	37,208	37,299	19,091	20,311
Avionics	9,696	6,040	4,366	2,915
Airframe Power	9,546	9,712	5,178	5,183
Airfield Lighting	6,790	5,119	3,364	2,799
	$ 140,345	$ 124,424	$ 68,676	$ 62,423

Sales in the second quarter to the Commercial Transport market increased due to higher sales of cabin electronics products as global demand for passenger power systems continued to be strong. Military sales were up when compared with the prior year s second quarter as volume increased

in airframe power, avionics and aircraft lighting sales to this market. Sales to the Business Jet market were down when compared with last year s second quarter as higher avionics sales due to the addition of Max-Viz s enhanced vision systems products were more than offset by lower aircraft lighting and airframe power sales to this market. The increase in second quarter FAA/Airport sales was due to increased volume from the FAA during the quarter.

In the first six months of 2013, sales to the Commercial Transport market increased primarily on higher demand for Cabin Electronics products, as well as increased sales of aircraft lighting. Military sales in the first six months were up compared with last year primarily as a result of higher sales of avionics, aircraft lighting and airframe power products. Sales to the Business Jet market were up slightly when compared with the first six months of last year as avionics products sales increased due to the addition of Max-Viz. This was partially offset by lower aircraft lighting and airframe power sales. FAA/Airport sales in the first six months were higher as compared with last year from increased volume.

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Aerospace operating profit for the second quarter of 2013 was $11.4 million, or 16.7% of sales, compared with $10.9 million, or 17.5% of sales, in the same period last year. The increase in the operating profit was due to leverage from the increased sales volume partially offset by increased E&D and compensation costs.

Aerospace operating profit for the first six months of 2013 was $25.7 million, or 18.3% of sales, compared with $22.8 million, or 18.3% of sales, in the same period last year. The increase in the operating profit was due to leverage from the increased sales volume partially offset by increased E&D and compensation costs.

2013 Outlook for Aerospace We expect 2013 sales for our Aerospace segment to be in the range of $310 million to $330 million. The forecast includes sales for PECO, acquired July 18, 2013 in the range of $ 35 million to $37 million for the remainder of 2013. The Aerospace segment s backlog at the end of the second quarter of 2013 was $111.7 million with approximately $86.5 million expected to be shipped over the remaining part of 2013 and $99 million is expected to ship over the next 12 months. PECO backlog at the time of acquisition, which is not included in the reported backlog at the end of the second quarter was $40 million.

TEST SYSTEMS

	Six Months Ended		Three Months Ended	
(In thousands)	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Gross Sales	$ 4,547	$ 5,703	$ 2,157	$ 2,566
Less Intersegment Sales	(92)			
Net Sales	4,455	5,703	2,157	2,566
Operating loss	$ (2,135)	$ (2,393)	$ (610)	$ (1,318)
Operating Margin	(47.9)%	(42.0)%	(28.3)%	(51.4)%

	June 29, 2013	December 31, 2012
Total Assets	$ 16,028	$ 18,121
Backlog	$ 2,822	$ 3,565

All sales for the Test Systems segment are from the Military Market.

Sales in the 2013 second quarter decreased $0.4 million to $2.2 million when compared with sales of $2.6 million for the same period in 2012. Sales for the first half of 2013 decreased $1.2 million to $4.5 million when compared with sales of $5.7 million for the same period in 2012.

Test Systems operating loss for the second quarter of 2013 was $0.6 million or (28.3)%, compared with $1.3 million or (51.4)% in the same period last year. The operating loss for the first half of 2013 was $2.1 million or (47.9)%, compared with $2.4 million or (42.0)% in the same six month period last year. The margins for both the second quarter and first six months of 2013 from the lower sales volume were not sufficient to cover fixed operating costs. Near the end of the first quarter of 2013, in light of continued low customer orders the test segment rationalized its cost structure primarily through reducing its head count in an effort to reduce its operating loss.

2013 Outlook for Test Systems We expect sales for the Test Systems segment for 2013 to be approximately $10 million. The Test Systems segment s backlog at the end of the first quarter of 2013 was $2.8 million all of which is scheduled to ship over the next 12 months.

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LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities totaled $17.3 million during the first six months of 2013, as compared with $9.0 million during the first six months of 2012. The change was due to higher net income and less cash used for working capital components in 2013 compared with 2012.

Cash used for investing activities was $3.7 million in the first six months of 2013 compared with $4.5 million used in the first six months of 2012.

In the first six months of 2013 cash used for financing activities totaled $4.5 million compared with cash used by financing activities of $7.2 million in the first six months of 2012. The change was due primarily to the early payoff of the $5.0 million subordinated promissory note in January, 2012.

The Company s cash needs for working capital, debt service and capital equipment during the balance of 2013 is expected to be met by cash flows from operations, cash balances and if necessary, utilization of the revolving credit facility.

In 2013 we amended our Credit Facility twice.

Amendment No 1 to the Second Amended and Restated Credit Agreement:

The Company extended and modified its existing credit facility by entering into Amendment No, 1 dated as of March 27, 2013 (the Amendment), to the Second Amended and Restated Credit Agreement (the Credit Agreement). The Amendment provides for an increase in the Company s revolving credit facility from $35 million to $75 million and for an extension of the maturity date of the revolving credit facility to March 27, 2018. At June 29, 2013 there was $9.0 million outstanding under the term loan under the Credit Agreement and such term loan continues to mature on January 30, 2014 with principal payments due on a quarterly basis.

Covenants were modified to eliminate the maximum capital expenditure limit, the cap on permitted acquisitions was increased to $25 million per acquisition and $50 million in the aggregate and the permitted allowance for share repurchases was increased to $20 million. In addition, the maximum permitted Leverage Ratio has been increased to 3.75 to 1 for each fiscal quarter ending on or after March 31, 2013 and to 3.50 to 1 for each fiscal quarter ending after March 31, 2015.

The interest rate for the credit facility remains at a rate of LIBOR plus between 1.50% and 2.50% based on the Company s Leverage Ratio under the credit agreement. The credit facility allocates up to $20 million of the $75 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.

There was $7.0 million outstanding on our revolving credit facility at both June 29, 2013 and December 31, 2012. The Company had available on its credit facility $58.4 million at June 29, 2013. At June 29, 2013, outstanding letters of credit totaled $9.6 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.

At June 29, 2013, we were in compliance with all of the covenants pursuant to the credit facility.

Third Amended and Restated Credit Agreement:

On July 18, 2013, in connection with the funding of the Peco acquisition, the Company amended its existing credit facility by entering into a Third Amended and Restated Credit Agreement (the Credit Agreement). The Credit Agreement provides for a $75 million five-year revolving credit facility and a $190 million five-year term loan, both expiring in June 2018. The amended facilities carry an interest rate ranging from 225 basis points to 350 basis points above LIBOR, depending on the Company s leverage ratio as defined in the Credit Agreement. Variable principal payments on the term loan will be quarterly through July 2018 with a balloon payment of $118.8 million at maturity. The credit facility is secured by substantially all of the Company s assets. In addition, the Company is required to pay a commitment fee of between 25 basis points and 50 basis points on the unused portion of the total credit commitment for the preceding quarter, based on the Company s leverage ratio under the Credit Agreement. Principal installments are payable on the term loan in varying percentages quarterly through March 31, 2018 with a balloon payment at maturity and with mandatory prepayments being required in certain circumstances.

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Principal payments on the new term loan are as follows (in thousands):

2013	$ 4,750
2014	9,500
2015	11,875
2016	16,625
2017	19,000
2018	128,250
Total	$ 190,000

The proceeds of the term loan were used to finance the Peco Acquisition, pay off the $7.0 million outstanding under the existing term loan, pay off the $7.0 million outstanding under the existing revolving credit facility, pay off $0.5 million of other term debt and for general corporate purposes. It will also allow for potential additional funding for a make-whole provision to the sellers of Peco should the Company exercise a option for tax purposes. This option involves making an election under IRS Code Section 338 (h)(10) that will allow the Company to deduct the amortization of acquired goodwill and other intangible assets from its taxable income. The value associated with this tax benefit, which will be decided by year-end, would require additional consideration to be paid to the sellers.

Covenants have not been modified since March 27, 2013. The maximum permitted Leverage Ratio continues to be 3.75 to 1 as of the end of each fiscal quarter through March 31, 2015 and 3.50 to 1 for each fiscal quarter ending thereafter. The covenant for minimum fixed charge coverage as defined in the Credit Agreement is to be not less than 1.25 to 1 as of each fiscal quarter end.

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.

BACKLOG

The Company s backlog was $114.5 million at both June 29, 2013 and at December 31, 2012 and $114.2 million at June 30, 2012. Additionally, at July 18, 2013 the acquisition of Peco added $40.0 million to backlog.

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, 2012.

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, 2012 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, 2012 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

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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, inte 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 June 29, 2013. 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 June 29, 2013.

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.

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 Manheim 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.

During the second quarter of 2013, the Company settled the case with AE Liquidation, Inc., with no significant impact to the results of our operations.

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, 2012, 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.

As of June 29, 2013, the Company has a significant concentration of business with one customer, Panasonic Avionics Corporation, 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 30% and 32% of revenue during the first three and six months of 2013, respectively.

As a result of the Peco acquisition, in addition to the loss of Panasonic Aviation Corporation, the loss of The Boeing Company (Boeing) as a major customer or a significant reduction in sales to either of these companies would reduce our sales and earnings significantly.

Our largest customer is Panasonic Aviation Corporation. We provide Panasonic Aviation Corporation with cabin electronics, which, in total were approximately 38.0% of our fiscal 2012 sales on a stand-alone basis. On a pro-forma basis when considering Peco sales our next largest customer would be Boeing. The loss of Panasonic Aviation Corporation or Boeing as a customer or a significant reduction in sales to either would have a material adverse effect on our business, financial condition and results of operations. Furthermore, if either Panasonic Aviation Corporation or Boeing : (1) experiences a decrease in requirements for the products which we supply to it; (2) experiences a major disruption in its business, such as a strike, work stoppage or slowdown, a supply-chain problem or a decrease in orders from its customers; or (3) files for bankruptcy protection; our business, financial condition and results of operations could be materially adversely affected.

If the liabilities of Peco are greater than expected, or if there are unknown obligations of Peco, our business could be materially and adversely affected.

As a result of the acquisition of Peco, the liabilities of Peco, including contingent liabilities, will be consolidated with the Company s. We may learn additional information about the business of Peco that adversely affects the Company, such as unknown liabilities, issues relating to internal controls over financial reporting or issues that could affect our ability to comply with other applicable laws, including healthcare laws and regulations. As a result, we cannot assure you that the acquisition of Peco will be successful or will not, in fact, harm our business. Among other things, if Peco s liabilities are greater than expected, or if there are obligations of Peco of which we are not aware, our business could be materially and adversely affected. We have limited indemnification rights in connection with matters affecting Peco. Peco may also have other unknown liabilities which we will be responsible for after the acquisition. If we are responsible for liabilities not covered by indemnification rights or substantially in excess of amounts covered through any indemnification rights, we could suffer severe consequences that would

substantially reduce our earnings and cash flows.

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If we fail to successfully integrate Peco into our internal control over financial reporting or if the current internal control of Peco over financial reporting were found to be ineffective, the integrity of the Company s financial reporting and Peco s financial reporting could be compromised which could result in a material adverse effect on our reported financial results.

As a private company, Peco was not subject to the requirements of the Securities Exchange Act of 1934, as amended, with respect to internal control over financial reporting. For a period of time after the acquisition of Peco, our management evaluation and auditor attestation regarding the effectiveness of our internal control over financial reporting will be permitted to exclude the operations of Peco. The integration of Peco into our internal control over financial reporting will require significant time and resources from our management and other personnel and will increase our compliance costs. If we fail to successfully integrate these operations into our internal control over financial reporting, our internal control over financial reporting may not be effective. Failure to achieve and maintain an effective internal control environment could have a material adverse effect on our ability to accurately report our financial results and the market s perception of our business and our stock price.

Following the acquisition of Peco, we may face integration difficulties and may be unable to integrate Peco into our existing operations successfully or realize the anticipated benefits of the acquisition.

We will be required to devote significant management attention and resources to integrating the operations and business practices of Peco with our existing operations and business practices. Potential difficulties we may encounter as part of the integration process include the following:

- the inability to successfully integrate Peco in a manner that permits us to achieve the full revenue and other benefits anticipated to result from the acquisition;

- complexities associated with managing the businesses, including difficulty addressing possible differences in corporate cultures and management philosophies and the challenge of integrating complex systems, technology, networks and other assets of each of the companies in a seamless manner that minimizes any adverse impact on customers, suppliers, employees and other constituencies;

- potential unknown liabilities and unforeseen increased expenses or delays associated with the acquisition;

- the inability to implement effective internal controls, procedures and policies for Peco as required by the Sarbanes-Oxley Act of 2002 within the time periods prescribed thereby;

- negotiations concerning possible modifications to Peco contracts as a result of the acquisition;

- diversion of the attention of our management and the management of Peco; and

- the disruption of, or the loss of momentum in, ongoing operations or inconsistencies in standards, controls, procedures and policies.

These potential difficulties could adversely affect our and the managers of Peco s ability to maintain relationships with customers, suppliers, employees and other constituencies and the ability to achieve the anticipated benefits of the acquisition, and could reduce the earnings or otherwise adversely affect our operations and Peco s and our financial results following the acquisition.

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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 June 29, 2013:

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
March 31, 2013 April 27, 2013				
April 28, 2013 May 25, 2013				
May 26, 2013 June 29, 2013				
Total				

(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 the second quarter of 2013, there were no shares accepted in connection with the exercise of stock options.

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.

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SIGNATURES

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

ASTRONICS CORPORATION
(Registrant)

Date: August 6, 2013

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

Vice President-Finance and Treasurer

(Principal Financial Officer)