ASTRONICS CORP
Form 10-Q
November 04, 2014

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 September 27, 2014

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 September 27, 2014, 21,787,436 shares of common stock were outstanding consisting of 14,694,645 shares of common stock ($.01 par value) and 7,092,791 shares of Class B common stock ($.01 par value).

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Part 1 Financial Information

Item 1. Financial Statements

ASTRONICS CORPORATION

Consolidated Condensed Balance Sheets

September 27, 2014 with Comparative Figures for December 31, 2013

(In thousands)

	September 27, 2014 (Unaudited)	December 31, 2013
Current Assets:		
Cash and Cash Equivalents	$ 24,928	$ 54,635
Accounts Receivable, net of allowance for doubtful accounts	111,898	60,942
Inventories	126,564	85,269
Prepaid Expenses and Other Current Assets	14,149	10,352
Total Current Assets	277,539	211,198
Property, Plant and Equipment, net of accumulated depreciation	111,362	70,900
Other Assets	6,179	5,474
Intangible Assets, net of accumulated amortization	95,285	102,701
Goodwill	100,542	100,998
Total Assets	$ 590,907	$ 491,271
Current Liabilities:		
Current Maturities of Long-term Debt	$ 10,239	$ 12,279
Accounts Payable	43,534	25,255
Accrued Expenses	32,970	24,668
Accrued Income Taxes	3,355	1,318
Customer Advance Payments and Deferred Revenue	45,618	20,747
Deferred Income Taxes		970
Total Current Liabilities	135,716	85,237
Long-term Debt	202,404	188,041
Other Liabilities	41,518	46,484
Total Liabilities	379,638	319,762

Shareholders Equity:				
Common Stock		218		214
Accumulated Other Comprehensive Loss		(6,217)		(3,611)
Other Shareholders Equity		217,268		174,906
Total Shareholders Equity		211,269		171,509
Total Liabilities and Shareholders Equity	$	590,907	$	491,271

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION

Consolidated Condensed Statements of Operations

Three and Nine Months Ended September 27, 2014 With Comparative Figures for 2013

(Unaudited)

(In thousands, except per share data)

	Nine Months Ended		Three Months Ended	
	Sept. 27, 2014	Sept. 28, 2013	Sept. 27, 2014	Sept. 28, 2013
Sales	$ 494,956	$ 234,481	$ 179,442	$ 89,681
Cost of Products Sold	370,439	171,796	128,132	65,896
Gross Profit	124,517	62,685	51,310	23,785
Selling, General and Administrative Expenses	62,638	31,291	25,539	11,433
Income from Operations	61,879	31,394	25,771	12,352
Interest Expense, net of interest income	7,183	2,085	2,301	1,605
Income Before Income Taxes	54,696	29,309	23,470	10,747
Provision for Income Taxes	16,965	8,432	6,390	3,592
Net Income	$ 37,731	$ 20,877	$ 17,080	$ 7,155
Earnings per share:				
Basic	$ 1.74	$ 1.00	$ 0.79	$ 0.34
Diluted	$ 1.67	$ 0.95	$ 0.75	$ 0.32

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION

Consolidated Condensed Statements of Comprehensive Income

Three and Nine Months Ended September 27, 2014 With Comparative Figures for 2013

(Unaudited)

(In thousands)

	Nine Months Ended		Three Months Ended	
	Sept. 27, 2014	Sept. 28, 2013	Sept. 27, 2014	Sept. 28, 2013
Net Income	$ 37,731	$ 20,877	$ 17,080	$ 7,155
Other Comprehensive Income (Loss):				
Foreign Currency Translation Adjustments	(2,943)	(260)	(2,375)	129
Change in Accumulated Income on Derivatives net of tax	19	65	27	27
Retirement Liability Adjustment net of tax	318	316	110	105
Other Comprehensive (Loss) Income	(2,606)	121	(2,238)	261
Comprehensive Income	$ 35,125	$ 20,998	$ 14,842	$ 7,416

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION

Consolidated Condensed Statements of Cash Flows

Nine Months Ended September, 2014

With Comparative Figures for 2013

(Unaudited)

(In thousands)

	September 27, 2014	September 28, 2013
Cash Flows From Operating Activities:		
Net Income	$ 37,731	$ 20,877
Adjustments to Reconcile Net Income to Cash Provided By Operating Activities:		
Depreciation and Amortization	21,168	6,547
Provisions for Non-Cash Losses on Inventory and Receivables	733	381
Stock Compensation Expense	1,304	1,048
Deferred Tax (Benefit) Expense	(4,598)	1,109
Other	(1,095)	(863)
Cash Flows from Changes in Operating Assets and Liabilities:		
Accounts Receivable	(41,562)	4,804
Inventories	16,184	(3,668)
Accounts Payable	7,923	3,790
Other Current Assets and Liabilities	5,199	(590)
Customer Advanced Payments and Deferred Revenue	22,593	(1,579)
Income Taxes	2,048	1,454
Supplemental Retirement and Other Liabilities	921	838
Cash Provided By Operating Activities	68,549	34,148
Cash Flows From Investing Activities:		
Acquisition of Business, net of cash acquired	(70,028)	(135,898)
Capital Expenditures	(29,971)	(4,833)
Cash Used For Investing Activities	(99,999)	(140,731)
Cash Flows From Financing Activities:		
Proceeds from Long Term Debt	245,414	190,000
Payments for Long-term Debt	(245,761)	(21,294)
Debt Acquisition Costs	(573)	(2,288)

Acquisition Earnout Payments		(37)		(81)
Proceeds from Exercise of Stock Options		1,290		408
Income Tax Benefit from Exercise of Stock Options		2,041		649
Cash Provided By Financing Activities		2,374		167,394
Effect of Exchange Rates on Cash		(631)		(5)
(Decrease) Increase in Cash and Cash Equivalents		(29,707)		60,806
Cash and Cash Equivalents at Beginning of Period		54,635		7,380
Cash and Cash Equivalents at End of Period	$	24,928	$	68,186

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION

Notes to Consolidated Condensed Financial Statements

September 27, 2014

(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 nine month periods ended September 27, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

The balance sheet at December 31, 2013 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 2013 annual report on Form 10-K.

Description of the Business

Astronics is a leading supplier of products to the aerospace and defense industries. Our products include advanced, high-performance lighting and safety systems, electrical power generation, distribution and motion systems, avionics and structure and other products for the global aerospace industry as well as test, training and simulation systems for the military, semi-conductor and consumer electronics markets.

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 as well as automatic test systems, subsystems and instruments for semi-conductor and consumer electronics products.

We have twelve primary locations, ten in the United States, one in Canada, and one in France. We design and build our products through our wholly owned subsidiaries Astronics Advanced Electronic Systems Corp. (AES); Astronics AeroSat Corporation (AeroSat); Astronics Test Systems, Inc. (ATS); Ballard Technology, Inc. (Ballard); DME Corporation (DME); Luminescent Systems, Inc. (LSI); Luminescent Systems Canada, Inc. (LSI Canada); Max-Viz, Inc. (Max-Viz); Peco, Inc. (Peco) and PGA Electronic s.a. (PGA).

On February 28, 2014, Astronics acquired, through a wholly owned subsidiary ATS, certain assets and liabilities of EADS North America s Test and Services division, located in Irvine, California. ATS is a leading provider of highly engineered automatic test systems, subsystems and instruments for semi-conductor and consumer electronics products to both the commercial and defense industries. ATS is included in our Test Systems segment.

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

In the Test Systems segment, revenue of approximately 1% and 62% for the three months ending September 27, 2014 and September 28, 2013, respectively, and approximately 1% and 40% for the nine months ending September 27, 2014 and September 28, 2013 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.

With the acquisition of ATS, a portion of our Test Systems segment sales are recognized as multiple element arrangements, whereby revenue is allocated to the equipment and post installation maintenance service components based upon vendor specific objective evidence, typically pricing established in the contracts for the post installation services. If vendor-specific objective evidence of selling price is not available, we allocate revenue to the elements of the bundled arrangement using the estimated selling price method in order to qualify the components as separate units of accounting. Revenue on the equipment component is recognized when the equipment is accepted by the customers and title passes. Revenue on the post installation maintenance service component is recognized over the contractual life of the service to be provided, typically 24 months from installation.

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 $19.1 million and $12.4 million for the three months ended September 27, 2014 and September 28, 2013, respectively, and $57.1 million and $38.6 million for the nine months ended September 27, 2014 and September 28, 2013, respectively. Selling, general and administrative expenses include costs primarily related to our sales and marketing departments and administrative departments. Interest expense is shown net of interest income. Interest income was insignificant for the three and nine months ended for both September 27, 2014 and September 28, 2013.

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 September 27, 2014 and September 28, 2013.

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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.

Accounting Pronouncements Adopted in 2014

On January 1, 2014, the Company adopted the new provisions of Accounting Standards Update (ASU) 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The ASU requires the netting of unrecognized tax benefits against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. Unrecognized tax benefits are required to be netted against all available same-jurisdiction loss or other tax carryforwards, rather than only against carryforwards that are created by the unrecognized tax benefits. This ASU did not have an impact on the Company s financial statements.

On January 1, 2014, the Company adopted the new provisions of Accounting Standards Update ASU 2013-12, Definition of a Public Business Entity An Addition to the Master Glossary. The ASU amends the Master Glossary of the FASB Accounting Standards Codification to include one definition of public business entity for future use in U.S. GAAP and identifies the types of business entities that are excluded from the scope of the Private Company Decision-Making Framework: A Guide for Evaluating