

ASTRONICS CORP  
Form 10-Q  
November 10, 2015  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

ý Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended October 3, 2015  
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 (IRS Employer  
incorporation or organization) 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 ý 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 ý No ¨

Edgar Filing: ASTRONICS CORP - Form 10-Q

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

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

As of October 3, 2015, 25,531,907 shares of common stock were outstanding consisting of 17,396,338 shares of common stock (\$.01 par value) and 8,135,569 shares of Class B common stock (\$.01 par value).

---

Table of Contents

## TABLE OF CONTENTS

	PAGE
PART I	<u>FINANCIAL INFORMATION</u>
Item 1	<u>Financial Statements:</u>
	<ul style="list-style-type: none"> <li>• <u>Consolidated Condensed Balance Sheets as of October 3, 2015 and December 31, 2014</u> 3</li> <li>• <u>Consolidated Condensed Statements of Operations for the Three and Nine Months Ended October 3, 2015 and September 27, 2014</u> 4</li> <li>• <u>Consolidated Condensed Statements of Comprehensive Income for the Three and Nine Months Ended October 3, 2015 and September 27, 2014</u> 5</li> <li>• <u>Consolidated Condensed Statements of Cash Flows for the Nine Months Ended October 3, 2015 and September 27, 2014</u> 6</li> <li>• <u>Notes to Consolidated Condensed Financial Statements</u> 7-17</li> </ul>
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 18 – 25
Item 3	<u>Quantitative and Qualitative Disclosures about Market Risk</u> 25
Item 4	<u>Controls and Procedures</u> 25
PART II	<u>OTHER INFORMATION</u>
Item 1	<u>Legal Proceedings</u> 26
Item 1a	<u>Risk Factors</u> 26
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 26
Item 3	<u>Defaults Upon Senior Securities</u> 26
Item 4	<u>Mine Safety Disclosures</u> 27
Item 5	<u>Other Information</u> 27
Item 6	<u>Exhibits</u> 27
	<u>SIGNATURES</u> 28

Table of Contents

## Part I – Financial Information

## Item 1. Financial Statements

## ASTRONICS CORPORATION

## Consolidated Condensed Balance Sheets

October 3, 2015 with Comparative Figures for December 31, 2014

(In thousands)

	October 3, 2015 (Unaudited)	December 31, 2014
Current Assets:		
Cash and Cash Equivalents	\$22,433	\$21,197
Accounts Receivable, Net of Allowance for Doubtful Accounts	124,663	88,888
Inventories	119,811	115,053
Prepaid Expenses and Other Current Assets	19,501	20,680
Total Current Assets	286,408	245,818
Property, Plant and Equipment, Net of Accumulated Depreciation	125,940	116,316
Other Assets	8,907	5,632
Intangible Assets, Net of Accumulated Amortization	111,196	94,991
Goodwill	115,942	100,153
Total Assets	\$648,393	\$562,910
Current Liabilities:		
Current Maturities of Long-term Debt	\$2,745	\$2,796
Accounts Payable	27,763	27,903
Accrued Expenses and Other Current Liabilities	42,076	33,465
Customer Advance Payments and Deferred Revenue	40,565	45,052
Total Current Liabilities	113,149	109,216
Long-term Debt	205,789	180,212
Other Liabilities	45,469	45,305
Total Liabilities	364,407	334,733
Shareholders' Equity:		
Common Stock	255	252
Accumulated Other Comprehensive Loss	(14,875	) (11,949
Other Shareholders' Equity	298,606	239,874
Total Shareholders' Equity	283,986	228,177
Total Liabilities and Shareholders' Equity	\$648,393	\$562,910
See notes to consolidated condensed financial statements.		

Table of Contents

## ASTRONICS CORPORATION

## Consolidated Condensed Statements of Operations

Three and Nine Months Ended October 3, 2015 With Comparative Figures for 2014

(Unaudited)

(In thousands, except per share data)

	Nine Months Ended		Three Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Sales	\$534,939	\$494,956	\$200,145	\$179,442
Cost of Products Sold	385,898	370,439	140,718	128,132
Gross Profit	149,041	124,517	59,427	51,310
Selling, General and Administrative Expenses	66,213	62,638	22,297	25,539
Income from Operations	82,828	61,879	37,130	25,771
Interest Expense, Net of Interest Income	3,600	7,183	1,243	2,301
Income Before Income Taxes	79,228	54,696	35,887	23,470
Provision for Income Taxes	26,161	16,965	11,193	6,390
Net Income	\$53,067	\$37,731	\$24,694	\$17,080
Earnings Per Share:				
Basic	\$2.09	\$1.51	\$0.97	\$0.68
Diluted	\$2.02	\$1.45	\$0.94	\$0.65

See notes to consolidated condensed financial statements.

Table of Contents

## ASTRONICS CORPORATION

## Consolidated Condensed Statements of Comprehensive Income

Three and Nine Months Ended October 3, 2015 With Comparative Figures for 2014

(Unaudited)

(In thousands)

	Nine Months Ended		Three Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Net Income	\$53,067	\$37,731	\$24,694	\$17,080
Other Comprehensive (Loss) Income:				
Foreign Currency Translation Adjustments	(3,410	) (2,943	) (196	) (2,375
Change in Accumulated Loss on Derivatives – Net of Tax	—	19	—	27
Retirement Liability Adjustment – Net of Tax	484	318	161	110
Other Comprehensive (Loss) Income	(2,926	) (2,606	) (35	) (2,238
Comprehensive Income	\$50,141	\$35,125	\$24,659	\$14,842

See notes to consolidated condensed financial statements.

Table of Contents

## ASTRONICS CORPORATION

Consolidated Condensed Statements of Cash Flows

Nine Months Ended October 3, 2015

With Comparative Figures for 2014

(Unaudited)

(In thousands)

	October 3, 2015	September 27, 2014	
Cash Flows From Operating Activities:			
Net Income	\$53,067	\$37,731	
Adjustments to Reconcile Net Income to Cash Provided By Operating Activities:			
Depreciation and Amortization	18,831	21,168	
Provisions for Non-Cash Losses on Inventory and Receivables	1,513	733	
Stock Compensation Expense	1,740	1,304	
Deferred Tax Benefit	(243	) (4,598	)
Non-Cash Earnout Liability Adjustment	(1,576	) (477	)
Other	21	(618	)
Cash Flows from Changes in Operating Assets and Liabilities:			
Accounts Receivable	(29,796	) (41,562	)
Inventories	(4,805	) 16,184	
Accounts Payable	(1,656	) 7,923	
Accrued Expenses	5,662	7,660	
Other Current Assets and Liabilities	(498	) (2,461	)
Customer Advanced Payments and Deferred Revenue	(5,396	) 22,593	
Income Taxes	5,072	2,048	
Supplemental Retirement and Other Liabilities	1,238	921	
Cash Provided By Operating Activities	43,174	68,549	
Cash Flows From Investing Activities:			
Acquisition of Business, Net of Cash Acquired	(52,606	) (70,028	)
Capital Expenditures	(15,857	) (29,971	)
Other Investing Activities	(2,677	) —	
Cash Used For Investing Activities	(71,140	) (99,999	)
Cash Flows From Financing Activities:			
Proceeds from Long-term Debt	55,000	245,414	
Payments for Long-term Debt	(29,008	) (245,761	)
Debt Acquisition Costs	—	(573	)
Acquisition Earnout Payments	(2	) (37	)
Proceeds from Exercise of Stock Options	3,308	1,290	
Income Tax Benefit from Exercise of Stock Options	619	2,041	
Cash Provided By Financing Activities	29,917	2,374	
Effect of Exchange Rates on Cash	(715	) (631	)
Increase (Decrease) in Cash and Cash Equivalents	1,236	(29,707	)
Cash and Cash Equivalents at Beginning of Period	21,197	54,635	
Cash and Cash Equivalents at End of Period	\$22,433	\$24,928	
See notes to consolidated condensed financial statements.			

Table of Contents

ASTRONICS CORPORATION

Notes to Consolidated Condensed Financial Statements

October 3, 2015

(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.

All share quantities and per share data reported have been restated to reflect the impact of the three-for-twenty Class B stock distribution to shareholders of record on October 8, 2015.

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 months ended October 3, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

The balance sheet at December 31, 2014 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 2014 annual report on Form 10-K.

Description of the Business

Astronics Corporation ("Astronics" or the "Company") is a leading supplier of products to the global aerospace, defense, electronics and semiconductor industries. Our products and services include advanced, high-performance electrical power generation & distribution systems, lighting & safety systems, avionics products, aircraft structures, engineering design and systems certification and automated test systems.

We have operations in the United States ("U.S."), Canada and France. We design and build our products through our wholly owned subsidiaries Astronics Advanced Electronic Systems Corp. ("AES"); Astronics AeroSat Corporation ("AeroSat"); Ballard Technology, Inc. ("Ballard"); DME Corporation and Astronics DME LLC ("DME"); Luminescent Systems, Inc. ("LSI"); Luminescent Systems Canada, Inc. ("LSI Canada"); Max-Viz, Inc. ("Max-Viz"); Peco, Inc. ("Peco"); PGA Electronic s.a. ("PGA"); Astronics Test Systems, Inc. ("ATS") and Armstrong Aerospace, Inc. ("Armstrong").

On January 14, 2015, the Company acquired 100% of the equity of Armstrong, located in Itasca, Illinois. Armstrong is a leading provider of engineering, design and systems certification solutions for commercial aircraft, specializing in connectivity, in-flight entertainment, and electrical power systems. Armstrong is included in our Aerospace segment. 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 automated test systems, subsystems and instruments for commercial electronics and semiconductor products to both the commercial and defense industries. ATS is included in our Test Systems segment.

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 development 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 \$22.5 million and \$19.1 million for the three months ended October 3, 2015 and September 27, 2014, respectively, and \$66.1 million and \$57.1 million for the nine months ended October 3, 2015 and September 27, 2014, respectively. Selling, general and administrative expenses include costs primarily





Table of Contents

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 October 3, 2015 and September 27, 2014.

Derivatives

In November 2014, the Company terminated its interest rate swap. Ineffectiveness was not significant for the three and nine months ended September 27, 2014. The Company classified the cash flows from hedging transactions in the same category as the cash flows from the respective hedged items. No derivative instruments were outstanding at or for the three or nine months ended October 3, 2015.

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 three and nine months ended October 3, 2015 and September 27, 2014.

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 2015

There have been no recent accounting pronouncements that have had an impact on the Company’s financial statements.

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

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)	October 3, 2015	December 31, 2014
Finished Goods	\$32,208	\$28,763
Work in Progress	25,030	28,488
Raw Material	62,573	57,802
	\$119,811	\$115,053

Table of Contents

## 3) Property, Plant and Equipment

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

(In thousands)	October 3, 2015	December 31, 2014
Land	\$11,171	\$10,008
Buildings and Improvements	78,209	74,755
Machinery and Equipment	86,088	73,062
Construction in Progress	5,644	4,757
	181,112	162,582
Less Accumulated Depreciation	55,172	46,266
	\$125,940	\$116,316

## 4) Intangible Assets

The following table summarizes acquired intangible assets as follows:

(In thousands)	Weighted Average Life	October 3, 2015		December 31, 2014	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	6 Years	\$2,146	\$1,217	\$2,146	\$1,077
Non-compete Agreement	5 Years	2,500	354	—	—
Trade Names	8 Years	10,237	1,982	8,304	1,288
Completed and Unpatented Technology	7 Years	24,092	6,190	18,107	4,396
Backlog and Customer Relationships	12 Years	107,739	25,775	93,448	20,253
Total Intangible Assets	7 Years	\$146,714	\$35,518	\$122,005	\$27,014

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

(In thousands)	Nine Months Ended		Three Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Amortization Expense	\$8,534	\$12,673	\$2,761	\$7,769

Amortization expense for acquired intangible assets expected for 2015 and for each of the next five years is summarized as follows:

(In thousands)	
2015	\$11,341
2016	10,762
2017	10,336
2018	10,023
2019	9,622
2020	9,088

The Company also incurs amortization expense related to other assets. Such amortization expense was not significant in the three or nine months ended October 3, 2015 and September 27, 2014.

Table of Contents

## 5) Goodwill

The following table summarizes the changes in the carrying amount of goodwill for 2015:

(In thousands)	December 31, 2014	Acquisition	Foreign Currency Translation	October 3, 2015
Aerospace	\$100,153	\$16,567	\$(778	) \$115,942
Test Systems	—	—	—	—
	\$100,153	\$16,567	\$(778	) \$115,942

During the three months ended October 3, 2015, approximately \$1.4 million was reclassified from inventory to goodwill as the Company continues the evaluation of the purchase price allocation of Armstrong.

## 6) Long-term Debt and Notes Payable

The Company's obligations under the Credit Agreement as amended are jointly and severally guaranteed by each domestic subsidiary of the Company other than a non-material subsidiary. The obligations are secured by a first priority lien on substantially all of the Company's and the guarantors' assets.

In connection with the funding of the acquisition of ATS, the Company amended its existing credit facility to exercise its option to increase the revolving credit commitment. The credit agreement provided for a \$125 million, five-year revolving credit facility maturing on June 30, 2018, of which \$58.0 million was drawn to finance the acquisition. In addition, the Company was required to pay a commitment fee quarterly at a rate of between 25 and 50 basis points on the unused portion of the total revolving credit commitment, based on the Company's leverage ratio.

On September 26, 2014, the Company modified and extended its existing credit facility (the "Original Facility") by entering into the Fourth Amended and Restated Credit Agreement (the "Agreement"). On the closing date, there were \$180.5 million of term loans outstanding and \$6 million of revolving loans outstanding under the Original Facility. Pursuant to the Agreement, the Original Facility was replaced with a \$350 million revolving credit line with the option to increase the line by up to \$150 million. The outstanding balances in the Original Facility were rolled into the Agreement on the date of entry. In addition, the maturity date of the loans under the Agreement is now September 26, 2019. At October 3, 2015 there was \$193.0 million outstanding on the revolving credit facility and there remains \$155.9 million available, net of outstanding letters of credit. The credit facility allocates up to \$20 million of the \$350 million revolving credit line for the issuance of letters of credit, including certain existing letters of credit. At October 3, 2015, outstanding letters of credit totaled \$1.1 million.

Covenants in the Agreement have been modified to where the maximum permitted leverage ratio of funded debt to Adjusted EBITDA (as defined in the Agreement) is 3.5 to 1, increasing to 4.0 to 1 for up to 2 fiscal quarters following the closing of an acquisition permitted under the Agreement. The Company will pay interest on the unpaid principal amount of the facility at a rate equal to one-, three- or six-month LIBOR plus between 137.5 basis points and 225 basis points based upon the Company's leverage ratio. The Company will also pay a commitment fee to the lenders in an amount equal to between 17.5 basis points and 35 basis points on the undrawn portion of the credit facility, based upon the Company's leverage ratio. The fixed charge coverage ratio under the Original Facility has been replaced with a minimum interest coverage ratio (Adjusted EBITDA to interest expense) of 3.0 to 1 for the term of the Agreement. The Company's interest coverage ratio was 39.6 to 1 at October 3, 2015. The Company's leverage ratio was 1.5 to 1 at October 3, 2015.

In the event of voluntary or involuntary bankruptcy of the Company or any subsidiary, all unpaid principal and other amounts owing under the 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, change of control, judgments over a certain amount, and cross default under other agreements give the Agent the option to declare all such amounts immediately due and payable.

Table of Contents

## 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 12 to 60 months. The Company determines warranty reserves needed by product line based on experience and current facts and circumstances. Activity in the warranty accrual is summarized as follows:

(In thousands)	Nine Months Ended		Three Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Balance at Beginning of Period	\$4,884	\$2,796	\$5,319	\$3,925
Acquisitions	500	564	—	(226 )
Warranties Issued	1,553	2,842	414	1,966
Warranties Settled	(2,164 )	(1,323 )	(737 )	(520 )
Reassessed Warranty Exposure	1,130	271	907	5
Balance at End of Period	\$5,903	\$5,150	\$5,903	\$5,150

## 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. 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 were no penalties or interest liability accrued as of October 3, 2015 or December 31, 2014, nor were any penalties or interest costs included in expense for the three or nine months ended October 3, 2015 and September 27, 2014. 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 2012 through 2014 for federal purposes and 2011 through 2014 for state purposes. The effective tax rates were approximately 33.0% and 31.0% for the nine months and 31.2% and 27.2% for the three months ended October 3, 2015 and September 27, 2014, respectively. The effective tax rate for the third quarter and first nine months of 2015 and 2014 were lower than the federal statutory rate due to the domestic production activity deduction, domestic research and development tax credits and lower effective tax rates on foreign income.

Table of Contents

## 9) Shareholders' Equity

The changes in shareholders' equity for the nine months ended October 3, 2015 are summarized as follows:

(Dollars and Shares in thousands)	Amount	Number of Shares	
		Common Stock	Convertible Class B Stock
Shares Authorized		40,000	10,000
Share Par Value		\$0.01	\$0.01
<b>COMMON STOCK</b>			
Beginning of Period	\$252	16,608	8,651
Conversion of Class B Shares to Common Shares	—	623	(623 )
Exercise of Stock Options	3	165	108
End of Period	\$255	17,396	8,136
<b>ADDITIONAL PAID IN CAPITAL</b>			
Beginning of Period	\$49,626		
Stock Compensation Expense	1,740		
Exercise of Stock Options	3,925		
End of Period	\$55,291		
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b>			
Beginning of Period	\$(11,949 )		
Foreign Currency Translation Adjustment	(3,410 )		
Retirement Liability Adjustment – Net of Tax	484		
End of Period	\$(14,875 )		
<b>RETAINED EARNINGS</b>			
Beginning of Period	\$190,248		
Net Income	53,067		
End of Period	\$243,315		
<b>TOTAL SHAREHOLDERS' EQUITY</b>			
Beginning of Period	\$228,177		
End of Period	\$283,986		

## 10) Earnings Per Share

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

(In thousands)	Nine Months Ended		Three Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Weighted Average Shares - Basic	25,394	24,910	25,456	25,011
Net Effect of Dilutive Stock Options	843	1,147	761	1,068
Weighted Average Shares - Diluted	26,237	26,057	26,217	26,079

Stock options with exercise prices greater than the average market price of the underlying common shares are excluded from the computation of diluted earnings per share because they are out-of-the-money and the effect of their inclusion would be anti-dilutive. The number of common shares covered by out-of-the-money stock options at October 3, 2015 was insignificant.

Table of Contents

## 11) Accumulated Other Comprehensive Loss and Other Comprehensive Loss

The components of accumulated other comprehensive loss are as follows:

(In thousands)	October 3, 2015	December 31, 2014
Foreign Currency Translation Adjustments	\$ (6,764 )	\$ (3,354 )
Retirement Liability Adjustment – Before Tax	(12,477 )	(13,223 )
Tax Benefit	4,366	4,628
Retirement Liability Adjustment – After Tax	(8,111 )	(8,595 )
Accumulated Other Comprehensive Loss	\$ (14,875 )	\$ (11,949 )

The components of other comprehensive loss are as follows:

(In thousands)	Nine Months Ended		Three Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Foreign Currency Translation Adjustments	\$ (3,410 )	\$ (2,943 )	\$ (196 )	\$ (2,375 )
Change in Accumulated Income on Derivatives:				
Reclassification to Interest Expense	—	45	—	11
Mark to Market Adjustments for Derivatives	—	(15 )	—	31
Tax Expense	—	(11 )	—	(15 )
Change in Accumulated Income on Derivatives	—	19	—	27
Retirement Liability Adjustments:				
Reclassifications to General and Administrative Expense:				
Amortization of Prior Service Cost	390	408	130	136
Amortization of Net Actuarial Losses	356	80	119	27
Tax Benefit	(262 )	(170 )	(88 )	(53 )
Retirement Liability Adjustment	484	318	161	110
Other Comprehensive Loss	\$ (2,926 )	\$ (2,606 )	\$ (35 )	\$ (2,238 )

## 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.

(In thousands)	Nine Months Ended		Three Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Service Cost	\$ 145	\$ 187	\$ 49	\$ 62
Interest Cost	633	565	211	188
Amortization of Prior Service Cost	371	390	123	130
Amortization of Net Actuarial Losses	336	80	113	27
Net Periodic Cost	\$ 1,485	\$ 1,222	\$ 496	\$ 407

Table of Contents

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

(In thousands)	Nine Months Ended		Three Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Service Cost	\$3	\$3	\$1	\$1
Interest Cost	30	24	10	8
Amortization of Prior Service Cost	19	18	7	6
Amortization of Net Actuarial Losses	20	—	6	—
Net Periodic Cost	\$72	\$45	\$24	\$15

## 13) Sales to Major Customers

The Company has a significant concentration of business with three major customers, each in excess of 10% of consolidated sales. The loss of any of these customers would significantly, negatively impact our sales and earnings. Sales to these three customers represented 21%, 16% and 13% of consolidated sales for the nine months ended October 3, 2015 and 19%, 25% and 12% for the three months ended October 3, 2015. Sales to these customers were in the Aerospace and Test Systems segments. Accounts receivable from these customers at October 3, 2015 was approximately \$58.9 million.

The Company had sales to three customers in the Aerospace and Test Systems segments that represented 17%, 20% and 14% of consolidated sales for the nine months ended September 27, 2014 and 17%, 25% and 13% of consolidated sales for the three months ended September 27, 2014.

## 14) Legal Proceedings

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

On December 29, 2010, Lufthansa Technik AG (“Lufthansa”) filed a Statement of Claim in the Regional State Court of Mannheim, Germany. Lufthansa’s claim asserts that our subsidiary, AES sold, marketed and brought into use in Germany a power supply system which infringes upon a German patent held by Lufthansa. The relief sought by Lufthansa includes requiring AES to stop selling and marketing the allegedly infringing power supply system, a recall of allegedly infringing products sold to commercial customers since November 26, 2003 and compensation for damages. The claim does not specify an estimate of damages and a damages claim will be made by Lufthansa only if it receives a favorable ruling on the determination of infringement.

On February 6, 2015, the Regional State Court of Mannheim, Germany rendered its decision that the patent was infringed. The judgment does not require AES to recall products which are already installed in aircraft or have been sold to other end users. On July 15, 2015, Lufthansa advised AES of their intention to enforce the accounting provisions of the decision, which require AES to provide certain financial information regarding sales of the infringing product to enable Lufthansa to make an estimate of requested damages. AES is currently evaluating the information requirements. Additionally, if Lufthansa provides the additional required bank guarantees specified in the decision, the Company may be required to cease distribution of infringing products in Germany (if any). No such bank guarantee has been issued to date regarding this provision.

The Company appealed and believes it has valid defenses to refute the decision. The appeal process is estimated to extend up to two years. The enforcement of the accounting provision of the decision, as discussed above, has no



impact on the appeals process. As a result, we do not currently have sufficient information to provide an estimate of AES's potential exposure related to this matter. As loss exposure is neither probable nor estimable at this time, the Company has not recorded any liability with respect to this litigation as of October 3, 2015.

Table of Contents

On November 26, 2014, Lufthansa filed a complaint in the United States District for the Western District of Washington. Lufthansa's complaint in this action alleges that AES manufactures, uses, sells and offers for sale a power supply system which infringes upon a U.S. patent held by Lufthansa. The patent at issue in the U.S. action is based on technology similar to that involved in the German action. However, the U.S. court will not be bound by the ultimate determination made by the German court. The Company believes it has valid defenses to refute Lufthansa's claims and intends to contest this matter vigorously. As this matter is in the early stages of fact discovery, we do not currently have sufficient information to provide an estimate of AES's potential exposure related to this matter. As loss exposure is neither probable nor estimable at this time, the Company has not recorded any liability with respect to this litigation as of October 3, 2015.

## 15) Segment Information

Below are the sales and operating profit by segment for the three and nine months ended October 3, 2015 and September 27, 2014 and a reconciliation of segment operating profit to income before income taxes. Operating profit is 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.

(Dollars in thousands)	Nine Months Ended		Three Months Ended		
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014	
Sales					
Aerospace	\$413,250	\$366,128	\$138,728	\$122,233	
Test Systems	121,744	129,065	61,417	57,209	
Less Intersegment Sales	(55 )	(237 )	—	—	
	121,689	128,828	61,417	57,209	
Total Consolidated Sales	\$534,939	\$494,956	\$200,145	\$179,442	
Operating Profit and Margins					
Aerospace	\$66,728	\$60,308	\$23,055	\$22,057	
	16.1	% 16.5	% 16.6	% 18.0	%
Test Systems	24,618	8,034	16,980	5,699	
	20.2	% 6.2	% 27.6	% 10.0	%
Total Operating Profit	91,346	68,342	40,035	27,756	
	17.1	% 13.8	% 20.0	% 15.5	%
Deductions from Operating Profit					
Interest Expense, Net of Interest Income	3,600	7,183	1,243	2,301	
Corporate Expenses and Other	8,518	6,463	2,905	1,985	
Income Before Income Taxes	\$79,228	\$54,696	\$35,887	\$23,470	
Identifiable Assets					
(In thousands)			October 3, 2015	December 31, 2014	
Aerospace			\$531,136	\$468,481	
Test Systems			87,909	69,247	
Corporate			29,348	25,182	
Total Assets			\$648,393	\$562,910	

Table of Contents

## 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.

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 October 3, 2015 and December 31, 2014:

(In thousands)	Classification	Total	Level 1	Level 2	Level 3
Acquisition contingent consideration					
October 3, 2015	Current Liabilities	\$—	—	—	\$—
December 31, 2014	Current Liabilities	—	—	—	—
October 3, 2015	Other Liabilities	\$(175	) —	—	\$(175 )
December 31, 2014	Other Liabilities	\$(1,651	) —	—	\$(1,651 )

Our Level 3 fair value liabilities represent contingent consideration recorded related to the 2011 Ballard acquisition, to be paid up to a maximum of \$5.5 million if annual revenue growth targets are met in the years 2012 - 2016 and the 2013 AeroSat acquisition, to be paid up to a maximum of \$53.0 million if annual revenue targets are met in the years 2014 and 2015. The change in the balance of contingent consideration during the nine months ended October 3, 2015 is primarily due to fair value adjustments of \$1.6 million, resulting from the re-evaluation of the probability of the achievement of the contingent consideration targets. This adjustment was recorded within SG&A expenses in the statement of operations.

Contingent consideration payments related to 2014 were insignificant.

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.

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

16

---

## Table of Contents

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 October 3, 2015, the fair value of goodwill and intangible assets classified using Level 3 inputs are comprised of the Armstrong goodwill and intangible assets acquired on January 14, 2015, which are currently valued based on management's best estimates. When the accounting for the acquisition is finalized, these intangible assets will be valued using discounted cash flow methodology.

Due to their short-term nature, the carrying value of cash and equivalents, accounts receivable, accounts payable, and notes payable approximate fair value. The carrying value of the Company's variable rate long-term debt instruments also approximates fair value due to the variable rate feature of these instruments. As of October 3, 2015, the Company concluded that no indicators of impairment relating to intangible assets or goodwill existed and an interim test was not performed.

### 17) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued authoritative guidance regarding revenue recognition. The comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Adoption of the new rules could affect the timing of revenue recognition for certain transactions. The guidance permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. On July 9, 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. Therefore, this authoritative guidance will be effective as of the Company's first quarter of fiscal 2018. The Company is currently evaluating the impact that adoption of this guidance will have on its consolidated financial statements and disclosures.

In April 2015, the FASB issued authoritative guidance regarding the presentation of debt issuance costs. The authoritative guidance requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. This authoritative guidance, which will be applied on a retrospective basis, will be effective as of the Company's first quarter of fiscal 2016, with early adoption permitted. The Company plans to early adopt by the end of fiscal 2015 with no material impact on its consolidated financial statements and disclosures.

### 18) Acquisitions

#### Armstrong Aerospace, Inc.

On January 14, 2015, the Company purchased 100% of the equity of Armstrong for \$52.6 million in cash. Armstrong, located in Itasca, Illinois, is a leading provider of engineering, design and certification solutions for commercial aircraft, specializing in connectivity, in-flight entertainment, and electrical power systems. Armstrong is included in our Aerospace segment. This transaction was not considered material to the Company's financial position or results of operations.

#### Astronics Test Systems

On February 28, 2014, our wholly owned subsidiary, ATS, purchased substantially all of the assets and liabilities of the Test and Services Division of EADS North America, Inc. for \$69.4 million in cash, including a net working capital adjustment of \$16.4 million. Located in Irvine, California, ATS is a leading provider of highly-engineered automated test systems, subsystems and instruments for the semiconductor, commercial electronics, commercial aerospace and defense industries. ATS provides fully customized testing systems and support services for these markets. It also designs and manufactures test equipment under the test instrument brands known as Racal and Talon. The acquisition strengthens our service offerings and expertise in the test market. This subsidiary is included in our Test Systems

segment. The purchase price allocation for this acquisition has been finalized. Purchased intangible assets are deductible for tax purposes.

Table of Contents

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

(The following should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in the Company’s Form 10-K for the year ended December 31, 2014.)

**OVERVIEW**

Astronics Corporation (“Astronics” or the “Company”) is a leading supplier of products to the global aerospace, defense, consumer electronics and semiconductor industries. Our products and services include advanced, high-performance electrical power generation & distribution systems, lighting & safety systems, avionics products, aircraft structures, engineering design & systems certification and automated test systems.

Our Aerospace segment designs and manufactures products for the global aerospace industry. Product lines include lighting & safety systems, electrical power generation, distribution and motions systems, aircraft structures, engineering design & systems certification and avionics products. Our Aerospace customers are the airframe manufacturers (OEM’s) that build aircraft for the commercial, military and general aviation markets, suppliers to those OEM’s, aircraft operators such as airlines and branches of the U.S. Department of Defense as well as the Federal Aviation Administration and airport operators. Our Test Systems segment designs, develops, manufactures and maintains automated test systems that support the semiconductor and aerospace & defense markets. In the Test Systems segment, Astronics’ products are sold to a global customer base including OEM’s and prime government contractors for both semiconductor and aerospace & defense products.

Our strategy is to increase our value by developing technologies and capabilities either internally or through acquisition, and using those capabilities to provide innovative solutions to the aerospace and defense, commercial electronics, semiconductor and other markets where our technology can be beneficial.

Important 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 new aircraft and the rates at which aircraft owners, including commercial airlines, refurbish or install upgrades to their aircraft. New aircraft build rates and aircraft owners spending on upgrades and refurbishments is cyclical and dependent on the strength of the global economy. Once designed into a new aircraft, the spare parts business is frequently retained by the Company. With the acquisition of ATS in 2014, future growth and profitability of the test business is dependent on developing and procuring new and follow-on business in commercial electronics and semiconductor markets as well as with the military. The nature of our Test Systems business is such that it pursues large multi-year projects. There can be significant periods of time between orders in this business which may result in large fluctuations of sales and profit levels and backlog from period to period.

**ACQUISITIONS**

On January 14, 2015, the Company purchased 100% of the equity of Armstrong Aerospace, Inc. (“Armstrong”) for \$52.6 million in cash. Specializing in connectivity, in-flight entertainment, and electrical power systems, Armstrong is a leading provider of engineering design and certification solutions for commercial aircraft, and is located in Itasca, Illinois. Armstrong is included in our Aerospace segment.

On February 28, 2014, Astronics completed the acquisition of substantially all of the assets and liabilities of EADS North America’s Test and Services division. ATS is located in Irvine, California and is a leading provider of highly engineered automated test systems, subsystems and instruments for the semiconductor, commercial electronics, commercial aerospace and defense industries. The purchase price was \$69.4 million in cash. The addition of ATS complements products and technologies that the Test Systems segment offers.

Table of Contents

## CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK

(Dollars in thousands)	Nine Months Ended		Three Months Ended		
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014	
Sales	\$534,939	\$494,956	\$200,145	\$179,442	
Gross Profit (sales less cost of products sold)	\$149,041	\$124,517	\$59,427	\$51,310	
Gross Margin	27.9	% 25.2	% 29.7	% 28.6	%
Selling, General and Administrative Expenses	\$66,213	\$62,638	\$22,297	\$25,539	
SG&A Expenses as a Percentage of Sales	12.4	% 12.7	% 11.1	% 14.2	%
Interest Expense, Net of Interest Income	\$3,600	\$7,183	\$1,243	\$2,301	
Effective Tax Rate	33.0	% 31.0	% 31.2	% 27.2	%
Net Income	\$53,067	\$37,731	\$24,694	\$17,080	

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

## CONSOLIDATED QUARTERLY RESULTS

Consolidated sales for the third quarter of 2015 were \$200.1 million, up from \$179.4 million for the same period last year. The 2015 third quarter included \$6.5 million in sales from Armstrong Aerospace, Inc. (“Armstrong”), acquired on January 14, 2015. Organic sales for the quarter increased \$14.2 million, or 7.9%, and were achieved with increases across both the Aerospace and Test Systems segments.

Consolidated cost of products sold increased \$12.6 million to \$140.7 million in the third quarter of 2015 from \$128.1 million for the same period last year, due largely to the incremental costs of products sold on increased organic sales volumes. The acquisition of Armstrong resulted in an incremental \$5.8 million in cost of products sold in the third quarter of 2015. Engineering and development (“E&D”) costs were \$22.5 million in the third quarter of 2015, including \$1.8 million for Armstrong. E&D costs in last year’s third quarter were \$19.1 million. As a percent of sales, E&D was 11.3% and 10.7% in the third quarters of 2015 and 2014, respectively. The third quarter of 2014 included \$1.3 million of inventory fair value step-up expense of acquired businesses compared with \$0.3 million in the third quarter of 2015. Consolidated cost of products sold as a percentage of sales was 70.3% in the third quarter of 2015 compared with 71.4% in the third quarter of 2014.

Selling, general and administrative (“SG&A”) expenses were \$22.3 million, or 11.1% of sales, in the third quarter of 2015 compared with \$25.5 million, or 14.2% of sales, in the same period last year. The third quarter of 2014 included intangible asset amortization expense related to Astronics Test Systems, Inc. (acquired in February 2014) of \$5.3 million, compared with \$0.3 million in the third quarter of 2015. This decrease was partially offset by the incremental SG&A costs of Armstrong, which added approximately \$1.4 million to SG&A in the third quarter of 2015, including \$0.5 million of amortization expense for acquired intangible assets of that business.

Diluted earnings per share for the 2015 third quarter were \$0.94 compared with \$0.65 in the prior year period, and increase of 44.6%.

## CONSOLIDATED YEAR-TO-DATE RESULTS

Consolidated sales for the first nine months of 2015 increased by \$40.0 million, or 8.1%, to \$534.9 million from \$494.9 million for the same period last year. The acquisition of Armstrong contributed \$20.3 million to consolidated sales, while consolidated organic sales increased \$19.7 million, or 4.0%.

Consolidated cost of products sold increased \$15.5 million to \$385.9 million in the first nine months of 2015 from \$370.4 million for the same period last year. The increase was due primarily to the incremental cost of products sold associated with Armstrong of \$16.2 million, incremental costs of products sold on increased organic sales volumes and increased E&D costs offset by lower step-up expense when compared to the same period last year. E&D costs were 12.4% of sales, or \$66.1 million, which included \$4.8 million for Armstrong, compared with \$57.1 million, or 11.5% of sales, in the prior year’s first nine months. Cost of products sold in the first nine months of 2014 included \$18.6 million related to inventory step-up expense, as compared to \$1.0 million in the first nine months of 2015. Consolidated cost of products sold as a percentage of sales was 72.1% in the first nine months of 2015 compared with 74.8% in the first nine months of 2014.





Table of Contents

Selling, general and administrative (“SG&A”) expenses were \$66.2 million, or 12.4% of sales, in the first nine months of 2015 compared with \$62.6 million, or 12.7% of sales, in the same period last year. The increase was due primarily to the incremental SG&A costs of Armstrong, which added approximately \$4.1 million to SG&A in the first nine months of 2015. Organically, higher SG&A expense reflected increased headcount and compensation costs to support growth. These increases were partially offset by a decrease of amortization expense for acquired intangible assets of ATS of \$4.4 million, and a \$1.1 million reduction in the contingent consideration liability related to prior acquisitions. Diluted earnings per share for the first nine months of 2015 were \$2.02 compared with \$1.45 for the same period last year period, an increase of 39.3%.

The effective tax rates were approximately 33.0% and 31.0% for the nine months and 31.2% and 27.2% for the three months ended October 3, 2015 and September 27, 2014, respectively. The effective tax rate for the third quarter and first nine months of 2015 and 2014 were lower than the federal statutory rate due to the domestic production activity deduction, domestic research and development tax credits and lower effective tax rates on foreign income.

For both the three and nine months ended October 3, 2015, the earnings per share increase, as compared to the respective periods in the prior year, is due primarily to the increase in net income.

We expect consolidated sales in 2015 to be between \$690 million and \$705 million. Approximately \$553 million to \$564 million of forecasted 2015 revenue is expected from the Aerospace segment, while approximately \$137 million to \$141 million of the forecasted revenue is expected from the Test Systems segment.

Our consolidated backlog at October 3, 2015 was \$297.0 million, of which \$147.9 million is expected to ship in 2015. We expect our capital equipment spending in 2015 to be in the range of \$20 million to \$25 million.

The Company is establishing initial revenue guidance for 2016 of \$690 million to \$750 million. The Aerospace segment is expected to generate \$572 million to \$616 million of revenue, and the Test Systems segment is expected to generate \$118 million to \$134 million.

**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.

Table of Contents

## AEROSPACE SEGMENT

(In thousands)	Nine Months Ended		Three Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Sales	\$413,250	\$366,128	\$138,728	\$122,233
Operating Profit	\$66,728	\$60,308	\$23,055	\$22,057
Operating Margin	16.1	% 16.5	% 16.6	% 18.0

## Aerospace Sales by Market

(In thousands)				
Commercial Transport	\$342,839	\$293,051	\$115,016	\$97,260
Military	31,929	31,589	12,102	10,279
Business Jet	25,196	28,740	8,043	10,565
Other	13,286	12,748	3,567	4,129
	\$413,250	\$366,128	\$138,728	\$122,233

## Aerospace Sales by Product Line

(In thousands)				
Electrical Power & Motion	\$208,578	\$188,368	\$71,164	\$61,885
Lighting & Safety	119,949	111,702	39,965	37,104
Avionics	41,628	40,601	12,598	15,351
Systems Certification	16,465	—	6,120	—
Structures	12,418	10,868	4,388	3,526
Other	14,212	14,589	4,493	4,367
	\$413,250	\$366,128	\$138,728	\$122,233

(In thousands)	October 3, 2015	December 31, 2014
Total Assets	\$531,136	\$468,481
Backlog	\$227,343	\$223,769

## AEROSPACE QUARTERLY RESULTS

Aerospace segment sales increased by \$16.5 million, or 13.5%, when compared with the prior year's third quarter to \$138.7 million. Organic Aerospace sales grew 8.2%, or \$10.0 million. Sales from Armstrong added \$6.5 million. Sales growth in the third quarter of 2015 was driven by increased Electrical Power & Motion sales, which were up \$9.3 million or 15%. Sales of in-seat power products grew at an even stronger rate, helping to offset reduced sales of seat motion products in this product line. The Electrical Power & Motion product lines are sold mostly to Commercial Transport customers, with lesser sales to Business Jets and Military customers. Sales of Lighting & Safety products increased \$2.9 million, as higher production rates of Commercial Transport customers were complemented by a number of aftermarket retrofit sales of passenger service units, or PSUs. The 2015 third quarter included \$6.1 million of Systems Certification sales from Armstrong, which was acquired in January 2015. These gains offset a reduction of \$2.7 million in the Avionics product lines, as the Company continued to deal with component problems from a certain supplier. Sales in this product line are expected to rebound somewhat in the fourth quarter.

Aerospace operating profit for the third quarter of 2015 was \$23.1 million, or 16.6% of sales, compared with \$22.1 million, or 18.0% of sales, in the same period last year. Operating margins were negatively affected by increased E&D spending and lower operating margin from the Armstrong business, partially offset by operating leverage gained on increased organic sales volumes. Organic Aerospace E&D costs increased \$1.7 million compared with last year's third quarter. Incremental SG&A from Armstrong was \$1.4 million, including \$0.5 million of purchased intangible asset amortization expense for acquired intangible assets.



Table of Contents**AEROSPACE YEAR-TO-DATE RESULTS**

Aerospace segment sales increased by \$47.1 million, or 12.9%, when compared with the prior year's first nine months to \$413.3 million. Organic sales grew 7.3%, or \$26.8 million, and sales from Armstrong added \$20.3 million.

Aerospace sales growth year-to-date was driven by increased Electrical Power & Motion sales, which were up \$20.2 million or 10.7%. This product group is dominated by in-seat power products, which were up 18% through three quarters. The Lighting & Safety product line was up \$8.2 million, or 7.4%, on a year-to-date basis, based on higher production rates of Commercial Transport aircraft and greater retrofit activity. Systems Certification sales were up \$16.5 million due to the January acquisition of Armstrong. The other Aerospace product lines made up the remainder of the increase.

Aerospace operating profit for the first nine months of 2015 was \$66.7 million, or 16.1% of sales, compared with \$60.3 million, or 16.5% of sales, in the same period last year. Operating leverage gained on increased volume for the organic business was partially offset by higher organic E&D costs of approximately \$3.9 million. Aerospace SG&A expense increased \$5.4 million in the first nine months of 2015 as compared with the corresponding period in 2014. Incremental SG&A from Armstrong was \$4.1 million, including \$1.6 million of purchased intangible asset amortization expense for acquired intangible assets. The first nine months of 2014 included inventory step-up costs of \$2.6 million that reduced normal operating margins for that period.

**AEROSPACE OUTLOOK**

We expect 2015 sales for our Aerospace segment to be in the range of \$553 million to \$564 million. The Aerospace segment's backlog at the end of the third quarter of 2015 was \$227.3 million with approximately \$128.8 million expected to be shipped over the remaining part of 2015 and \$210.3 million is expected to ship over the next 12 months.

**TEST SYSTEMS SEGMENT**

(In thousands)	Nine Months Ended		Three Months Ended		
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014	
Sales	\$121,744	\$129,065	\$61,417	\$57,209	
Less Intersegment Sales	(55)	(237)	—	—	
Net Sales	\$121,689	\$128,828	\$61,417	\$57,209	
Operating profit (loss)	\$24,618	\$8,034	\$16,980	\$5,699	
Operating Margin	20.2	% 6.2	% 27.6	% 10.0	%

**Test Systems Sales by Market**

(In thousands)	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Semiconductor	\$86,224	\$106,384	\$49,966	\$48,927
Aerospace & Defense	35,465	22,444	11,451	8,282
	\$121,689	\$128,828	\$61,417	\$57,209
(In thousands)	October 3, 2015	December 31, 2014		
Total Assets	\$87,909	\$69,247		
Backlog	\$69,705	\$146,964		

**TEST SYSTEMS QUARTERLY RESULTS**

Sales in the third quarter of 2015 increased \$4.2 million, or 7.4%, to \$61.4 million compared with sales of \$57.2 million 2014. Sales to the Semiconductor market increased \$1.0 million compared with the same period in 2014 and Aerospace & Defense sales increased \$3.2 million.

## Table of Contents

Operating profit was \$17.0 million, or 27.6% of sales, compared with \$5.7 million, or 10.0% of sales, in last year's third quarter, due in part to operating leverage on the sales increase. Amortization expense associated with acquisitions was \$0.3 million in the 2015 third quarter. Last year's third quarter included non-recurring purchase accounting related inventory step-up costs of \$1.0 million that reduced normal operating margins for that period, \$5.3 million in amortization expense related to the ATS acquisition, and \$1.7 million associated with work force reductions as we realigned segment personnel. E&D costs were approximately \$3.2 million in the third quarter of 2015 and \$3.3 million in the prior-year period.

### TEST SYSTEMS YEAR-TO-DATE RESULTS

Sales in the first nine months of 2015 decreased 5.5% to \$121.7 million compared with sales of \$128.8 million for the same period in 2014, due to lower sales to the Semiconductor market. Sales to the Semiconductor market decreased \$20.1 million compared with the same period in 2014, which was partially offset by increased sales of \$13.0 million to the Aerospace & Defense market.

Operating profit was \$24.6 million, or 20.2% of sales, compared with \$8.0 million, or 6.2% of sales, in the first nine months of 2014. The acquisition of ATS added approximately \$1.6 million in SG&A expense in the first nine months of 2015. The first nine months of 2014 included non-recurring purchase accounting related inventory step-up costs of \$16.0 million, and \$1.7 million of charges related to work force reductions as the Company realigned segment personnel which impacted operating margin. Additionally, amortization expense in the first nine months of 2014 related to the ATS acquisition was approximately \$5.4 million compared with \$1.0 million in the first nine months of 2015. E&D costs were approximately \$8.8 million in the first nine months of 2015, and \$8.5 million in the prior-year period.

### TEST SYSTEMS OUTLOOK

We expect sales for the Test Systems segment for 2015 to be in the range of \$137 million to \$141 million. The Test Systems segment's backlog at the end of the second quarter of 2015 was \$69.7 million with approximately \$19.1 million expected to be shipped over the remaining part of 2015 and approximately \$52.6 million scheduled to ship over the next 12 months.

### LIQUIDITY AND CAPITAL RESOURCES

#### Operating Activities:

Cash provided by operating activities totaled \$43.2 million for the first nine months of 2015, as compared with \$68.5 million during the same period in 2014. Cash flow from operating activities decreased primarily due to the impact of increases in net operating assets for the first nine months of 2015 when compared with the first nine months of 2014.

#### Investing Activities:

Cash used for investing activities was \$71.1 million for the first nine months of 2015 compared with \$100.0 million used in the same period of 2014. Cash used for the acquisition of Armstrong in January 2015 was \$52.6 million. Cash used for capital expenditures was \$15.9 million. The Company expects capital spending in 2015 to be in the range of \$20 million to \$25 million.

#### Financing Activities:

The primary financing activities in 2015 relate to borrowings on our senior credit facility to fund the acquisition of Armstrong.

On February 28, 2014, in connection with the funding of ATS, the Company amended its existing credit facility (the "Original Facility") to exercise its option to increase the revolving credit commitment. The Credit Agreement provided for a \$125 million five-year revolving credit facility maturing on June 30, 2018, of which \$58.0 million was drawn to finance the acquisition.

On September 26, 2014, we modified and extended the Original Facility by entering into the Fourth Amended and Restated Credit Agreement (the "Agreement"). On the closing date, there were \$180.5 million of term loans outstanding, \$6 million of revolving loans outstanding and letters of credit with a face amount of \$8.7 million outstanding under the Original Facility. Pursuant to the Agreement, the Original Facility was replaced with a \$350 million revolving credit line with the option to increase the line by up to \$150 million. The outstanding balances in the Original Facility were rolled into the Agreement on the date of entry. In addition, the maturity date of the loans under the Agreement is now September 26, 2019.



Table of Contents

At October 3, 2015, there was \$193.0 million outstanding on the revolving credit facility and there remains \$155.9 million available, net of outstanding letters of credit. The credit facility allocates up to \$20 million of the \$350 million revolving credit line for the issuance of letters of credit, including certain existing letters of credit. At October 3, 2015, outstanding letters of credit totaled \$1.1 million.

The maximum permitted leverage ratio of funded debt to Adjusted EBITDA (as defined in the Agreement) is 3.5 to 1, increasing to 4.0 to 1 for up to two fiscal quarters following the closing of an acquisition permitted under the Agreement. The Company will pay interest on the unpaid principal amount of the facility at a rate equal to one-, three- or six-month Libor plus between 137.5 basis points and 225 basis points based upon the Company's leverage ratio. The Company will also pay a commitment fee to the Lenders in an amount equal to between 17.5 basis points and 35 basis points on the undrawn portion of the credit facility, based upon the Company's leverage ratio. The fixed charge coverage ratio under the Original Facility was replaced with a minimum interest coverage ratio (EBITDA to interest expense) of 3.0 to 1 for the term of the Agreement. At October 3, 2015, the Company was in compliance with all of the covenants pursuant to the credit facility. Our interest coverage ratio was 39.6 to 1 and the leverage ratio was 1.5 to 1 at October 3, 2015.

The Company's cash needs for working capital, debt service and capital equipment during 2015 are expected to be met by cash flows from operations and cash balances and, if necessary, utilization of the revolving credit facility.

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

**BACKLOG**

The Company's backlog at October 3, 2015 was \$297.0 million compared with \$370.7 million at December 31, 2014 and \$301.4 million at September 27, 2014.

**CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

The following table represents contractual obligations as of October 3, 2015:

(In thousands)	Payments Due by Period				
	Total	2015	2016-2017	2018-2019	After 2019
Long-term Debt	\$208,534	\$639	\$5,351	\$197,579	\$4,965
Purchase Obligations	94,013	63,535	29,972	506	—
Interest on Long-term Debt	19,147	3,697	8,238	6,881	331
Supplemental Retirement Plan and Post Retirement Obligations	22,481	101	807	804	20,769
Operating Leases	8,938	1,329	4,267	3,194	148
Other Long-term Liabilities	310	17	195	26	72
Total Contractual Obligations	\$353,423	\$69,318	\$48,830	\$208,990	\$26,285

**Notes to Contractual Obligations Table**

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

**Long-Term Debt** — See Part 1 Financial Information, Item 1 Financial Statements, Note 6, Long-Term Debt and Notes Payable included in this report.

**Operating Leases** — Operating lease obligations are primarily related to the Company's facility leases.



Table of Contents

**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 interest rate fluctuations. Although the majority of our sales, expenses and cash flows are transacted in U.S. dollars, we have exposure to changes in foreign currency exchange rates related to the Euro and the Canadian dollar. The Company believes that the impact of changes in foreign currency exchange rates in 2015 have not been significant.

**CRITICAL ACCOUNTING POLICIES**

Refer to the Company's annual report on Form 10-K for the year ended December 31, 2014 for a complete discussion of the Company's critical accounting policies.

**RECENT ACCOUNTING PRONOUNCEMENTS**

In May 2014, the Financial Accounting Standards Board ("FASB") issued authoritative guidance regarding revenue recognition. The comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Adoption of the new rules could affect the timing of revenue recognition for certain transactions. The guidance permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. On July 9, 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. Therefore, this authoritative guidance will be effective as of the Company's first quarter of fiscal 2018. The Company is currently evaluating the impact that adoption of this guidance will have on its consolidated financial statements and disclosures.

In April 2015, the FASB issued authoritative guidance regarding the presentation of debt issuance costs. The authoritative guidance requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. This authoritative guidance, which will be applied on a retrospective basis, will be effective as of the Company's first quarter of fiscal 2016, with early adoption permitted. The Company plans to early adopt by the end of fiscal 2015 with no material impact on its consolidated financial statements and disclosures.

**FORWARD-LOOKING STATEMENTS**

Information included in this report that does not consist of historical facts, including statements accompanied by or containing words such as "may," "will," "should," "believes," "expects," "expected," "intends," "plans," "projects," "approximate," "estimates," "predicts," "potential," "outlook," "forecast," "anticipates," "presume" and "assume," are forward-looking statements. Such forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and are subject to several factors, risks and uncertainties, the impact or occurrence of which could cause actual results to differ materially from the expected results described in the forward-looking statements. 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." New factors, risks and uncertainties may emerge from time to time that may affect the forward-looking statements made herein. Given these factors, risks and uncertainties, investors should not place undue reliance on forward-looking statements as predictive of future results. We disclaim any obligation to update the forward-looking statements made in this report.

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 October 3, 2015. 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 October 3, 2015.

Changes in Internal Control over Financial Reporting - There have been no changes in our internal control over  
b) 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.

25

---

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

On December 29, 2010, Lufthansa Technik AG (“Lufthansa”) filed a Statement of Claim in the Regional State Court of Mannheim, Germany. Lufthansa’s claim asserts that our subsidiary, AES sold, marketed and brought into use in Germany a power supply system which infringes upon a German patent held by Lufthansa. The relief sought by Lufthansa includes requiring AES to stop selling and marketing the allegedly infringing power supply system, a recall of allegedly infringing products sold to commercial customers since November 26, 2003 and compensation for damages. The claim does not specify an estimate of damages and a damages claim will be made by Lufthansa only if it receives a favorable ruling on the determination of infringement.

On February 6, 2015, the Regional State Court of Mannheim, Germany rendered its decision that the patent was infringed. The judgment does not require AES to recall products which are already installed in aircraft or have been sold to other end users. On July 15, 2015, Lufthansa advised AES of their intention to enforce the accounting provisions of the decision, which require AES to provide certain financial information regarding sales of the infringing product to enable Lufthansa to make an estimate of requested damages. AES is currently evaluating the information requirements. Additionally, if Lufthansa provides the additional required bank guarantees specified in the decision, the Company may be required to cease distribution of infringing products in Germany (if any). No such bank guarantee has been issued to date regarding this provision.

The Company appealed and believes it has valid defenses to refute the decision. The appeal process is estimated to extend up to two years. The enforcement of the accounting provision of the decision, as discussed above, has no impact on the appeals process. As a result, we do not currently have sufficient information to provide an estimate of AES’s potential exposure related to this matter. As loss exposure is neither probable nor estimable at this time, the Company has not recorded any liability with respect to this litigation as of October 3, 2015.

On November 26, 2014, Lufthansa filed a complaint in the United States District for the Western District of Washington. Lufthansa’s complaint in this action alleges that AES manufactures, uses, sells and offers for sale a power supply system which infringes upon a U.S. patent held by Lufthansa. The patent at issue in the U.S. action is based on technology similar to that involved in the German action. However, the U.S. court will not be bound by the ultimate determination made by the German court. The Company believes it has valid defenses to refute Lufthansa’s claims and intends to contest this matter vigorously. As this matter is in the early stages of fact discovery, we do not currently have sufficient information to provide an estimate of AES’s potential exposure related to this matter. As loss exposure is neither probable nor estimable at this time, the Company has not recorded any liability with respect to this litigation as of October 3, 2015.

Other than this proceeding, we are not party to any significant pending legal proceedings that management believes will result in material adverse effect on our financial condition or results of 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, 2014, 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.

Item 2. Unregistered sales of equity securities and use of proceeds  
None

26

---

Table of Contents

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

\* Submitted electronically herewith.

Table of Contents

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.

Date: November 10, 2015

ASTRONICS CORPORATION

(Registrant)

By: /s/ David C. Burney

David C. Burney

Executive Vice President and Chief Financial  
Officer

(Principal Financial Officer)