

ASTRONICS CORP
Form 10-Q
August 11, 2006

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

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended July 1, 2006**

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

(State or other jurisdiction of
incorporation or organization)

16-0959303

(IRS Employer Identification Number)

130 Commerce Way East Aurora, New York

(Address of principal executive offices)

14052

(Zip code)

(716) 805-1599

(Registrant's telephone number, including area code)

NOT APPLICABLE

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

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

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

(Title of Class)

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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 July 1, 2006 7,942,344 shares of common stock were outstanding consisting of 6,499,364 shares of common stock (\$.01 par value) and 1,442,981 shares of Class B common stock (\$.01 par value).

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ASTRONICS CORPORATION
Consolidated Balance Sheet
 July 1, 2006
 With Comparative Figures for December 31, 2005
 (dollars in thousands)

	July 1, 2006 (Unaudited)	December 31, 2005
Current Assets:		
Cash and Cash Equivalents	\$ 425	\$ 4,473
Accounts Receivable, net of allowance for doubtful accounts of \$311 in 2006 and \$365 in 2005	17,784	12,635
Inventories	23,223	19,013
Prepaid Expenses	1,022	626
Deferred Taxes	873	775
 Total Current Assets	 43,327	 37,522
 Property, Plant and Equipment, at cost	 33,322	 31,665
Less Accumulated Depreciation and Amortization	12,237	11,204
 Net Property, Plant and Equipment	 21,085	 20,461
 Intangible Assets, net of accumulated amortization of \$483 in 2006 and \$329 in 2005	 3,246	 3,400
Goodwill	2,761	2,686
Other Assets	1,750	1,788
 Total Assets	 \$ 72,169	 \$ 65,857

See notes to financial statements.

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ASTRONICS CORPORATION
Consolidated Balance Sheet

July 1, 2006

With Comparative Figures for December 31, 2005
(dollars in thousands)

	July 1, 2006 (Unaudited)	December 31, 2005
Current Liabilities:		
Current Maturities of Long-term Debt	\$ 919	\$ 914
Note Payable	6,000	7,000
Accounts Payable	10,167	5,421
Accrued Payroll and Employee Benefits	3,653	3,861
Customer Advance Payments	4,101	4,404
Other Accrued Expenses	1,256	1,156
Income Taxes Payable	219	171
Contract Loss Reserve		830
Total Current Liabilities	26,315	23,757
Long-term Debt		
Supplemental Retirement Plan and Other Benefits	9,868	10,304
Other Liabilities	4,579	4,494
Deferred Income Taxes	1,337	1,317
	210	151
Shareholders' Equity:		
Common Stock, \$.01 par value Authorized 20,000,000 shares, issued 7,177,801 in 2006, 7,082,100 in 2005	72	71
Class B Stock, \$.01 par value Authorized 5,000,000 shares, issued 1,548,793 in 2006, 1,603,323 in 2005	15	16
Additional Paid-in Capital	4,533	3,808
Accumulated Other Comprehensive Income	875	799
Retained Earnings	28,084	24,859
	33,579	29,553
Less Treasury Stock: 784,250 shares in 2006 and 2005	3,719	3,719
Total Shareholders' Equity	29,860	25,834
Total Liabilities and Shareholders' Equity	\$ 72,169	\$ 65,857

See notes to financial statements.

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ASTRONICS CORPORATION
Consolidated Statement of Income and Retained Earnings

Six Months Ended July 1, 2006
 With Comparative Figures for 2005
 (Unaudited)
 (dollars in thousands except per share data)

	Six Months Ended		Three Months Ended	
	July 1, 2006	July 2, 2005	July 1, 2006	July 2, 2005
Sales	\$ 53,965	\$ 34,495	\$ 29,039	\$ 18,839
Costs and Expenses:				
Cost of products sold	41,872	27,707	22,195	15,344
Selling, general and administrative expenses	6,462	4,793	3,443	2,582
Interest expense, net of interest income	418	317	219	191
Other (income) expense	(34)	(4)	(22)	
Total costs and expenses	48,718	32,813	25,835	18,117
Income Before Income Taxes	5,247	1,682	3,204	722
Provision for Income Taxes	2,022	876	1,189	525
Net Income	\$ 3,225	\$ 806	\$ 2,015	\$ 197
Retained Earnings:				
Beginning of period	24,859	22,206		
End of period	\$ 28,084	\$ 23,012		
Earnings per share:				
Basic	\$.41	\$.10	\$.25	\$.02
Diluted	\$.39	\$.10	\$.25	\$.02

See notes to financial statements

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ASTRONICS CORPORATION
Consolidated Statement of Cash Flows
Six Months Ended July 1, 2006
With Comparative Figures for 2005
(Unaudited)
(dollars in thousands)

	July 1, 2006	July 2, 2005
Cash Flows from Operating Activities:		
Net income	\$ 3,225	\$ 806
Adjustments to reconcile net income to cash (used in) provided by operating activities:		
Depreciation and Amortization	1,259	1,322
Deferred Taxes	(42)	527
Other	(46)	(89)
Provision for Doubtful Accounts	(21)	
Stock Compensation Expense	329	
Cash flows from changes in operating assets and liabilities, excluding effects of acquisition:		
Accounts Receivable	(5,062)	(3,126)
Inventories	(4,139)	(2,775)
Prepaid Expenses	(409)	39
Accounts Payable	4,718	2,684
Accrued Expenses	(81)	640
Customer Advanced Payments	(303)	
Contract Loss Reserves	(830)	
Income Taxes	49	114
Supplemental Retirement and Other Liabilities	84	
Cash (used in) provided by Operating Activities	(1,269)	142
Cash Flows from Investing Activities:		
Business Acquisition		(13,366)
Proceeds from sale of short-term investments		1,000
Capital Expenditures	(1,607)	(1,333)
Other		(142)
Cash used in Investing Activities	(1,607)	(13,841)
Cash Flows from Financing Activities:		
Principal Payments on Long-term Debt and Capital Lease Obligations	(483)	(467)
Proceeds from Note Payable		7,000
Payment on Note Payable	(1,000)	
Proceeds from exercise of stock options	324	162
Income tax benefit from exercise of stock options	72	
Cash (used in) provided by Financing Activities	(1,087)	6,695

Effect of Exchange Rates on Cash	(85)	44
Cash used in Continuing Operations	(4,048)	(6,960)
Cash used in Discontinued Operations operating activities		(423)
Net decrease in Cash and Cash Equivalents	(4,048)	(7,383)
Cash at Beginning of Period	4,473	8,476
Cash at End of Period	\$ 425	\$ 1,093

See notes to financial statements

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ASTRONICS CORPORATION
Notes to Consolidated Financial Statements

July 1, 2006
(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. The results of operations for any interim period are not necessarily indicative of results for the full year. Operating results for the six month period ended July 1, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The balance sheet at December 31, 2005 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 (the Company) 2005 annual report on Form 10-K.

2) Stock Based Compensation

The Company has stock option plans that authorize the issuance of options for shares of Common Stock to directors, officers and key employees. Stock option grants are designed to reward long-term contributions to the Company and provide incentives for recipients to remain with the Company. The exercise price, determined by a committee of the Board of Directors, may not be less than the fair market value of the Common Stock on the grant date. Options become exercisable over periods not exceeding ten years. The Company's practice has been to issue new shares upon the exercise of the options.

During the first quarter of 2006, the Company adopted SFAS 123(R), Share-Based Payment, applying the modified prospective method. This Statement requires all equity-based payments to employees, including grants of employee stock options, to be recognized in the statement of earnings based on the grant date fair value of the award. Under the modified prospective method, the Company is required to record equity-based compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards outstanding as of the date of adoption. The Company uses a straight-line method of attributing the value of stock-based compensation expense, subject to minimum levels of expense, based on vesting. Stock compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Vesting requirements vary for directors, officers and key employees. In general, options granted to outside directors vest six months from the date of grant and options granted to officers and key employees straight line vest over a five-year period from the date of grant.

The fair value of stock options granted was estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average fair value of the options was \$6.05 for options granted during the six months ended July 1, 2006 and was \$3.32 for options granted during the six months ended July 2, 2005. The following table provides the range of assumptions used to value stock options granted during the six months ended July 1, 2006 and July 2, 2005.

	Six Months Ended	
	July 1, 2006	July 2, 2005
Expected volatility	0.34	0.33
Risk-free rate	4.70%	5.34%
Expected dividends	0.00%	0.00%
Expected term (in years)	7 Years	7 10 Years

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To determine expected volatility, the Company uses historical volatility based on weekly closing prices of its Common Stock and considers currently available information to determine if future volatility is expected to differ over the expected terms of the options granted. The risk-free rate is based on the United States Treasury yield curve at the time of grant for the appropriate term of the options granted. Expected dividends are based on the Company's history and expectation of dividend payouts. The expected term of stock options is based on vesting schedules, expected exercise patterns and contractual terms.

The table below reflects net earnings and net earnings per share for the three and six months ended July 1, 2006 compared with the pro forma information for the three and six months ended July 2, 2005 as follows:

(in thousands, except per share data)	Six Months Ended		Three Months Ended	
	July 1, 2006	July 2, 2005	July 1, 2006	July 2, 2005
Net earnings, as reported for the prior period (1)	\$ N/A	\$ 806	\$ N/A	\$ 197
Stock compensation expense	329	208	187	116
Tax benefit	(51)	(75)	(35)	(42)
Stock compensation expense, net of tax (2)	278	133	152	74
Net earnings, including the effect of stock compensation expense (3)	\$ 3,225	\$ 673	\$ 2,015	\$ 123
Net earnings per share:				
Basic, as reported for the prior period (1)	\$ N/A	\$.10	\$ N/A	\$.02
Basic, including the effect of stock compensation expense (3)	\$.41	\$.09	\$.26	\$.02
Diluted, as reported for the prior period (1)	\$ N/A	\$.10	\$ N/A	\$.02
Diluted, including the effect of stock compensation expense (3)	\$.39	\$.08	\$.25	\$.02

(1) Net earnings and earnings per share prior to 2006 did not include stock compensation expense for stock options.

(2) Stock compensation expense prior to 2006 is calculated based on the pro forma application of SFAS No. 123.

- (3) Net earnings and earnings per share prior to 2006 represents pro forma information based on SFAS 123.

A summary of the Company's stock option activity and related information for the six months ended July 1, 2006 is as follows:

(in thousands, except per option data)	Number of Options	2006 Weighted Average Exercise Price per option	Aggregate Intrinsic Value
Outstanding at December 31, 2005	801,583	\$ 6.49	\$ 5,522
Options Granted	25,000	13.41	(1)
Options Exercised	(44,846)	8.13	(236)
Outstanding at July 1, 2006	781,737	6.62	5,285
Exercisable at July 1, 2006	472,688	\$ 6.12	\$ 3,432

The aggregate intrinsic value in the preceding table represents the total pretax option holder's intrinsic value, based on the Company's closing stock price of Common Stock of \$13.38 as of July 1, 2006, which would have been received by the option holders had all option holders exercised their options as of that date.

The fair value of options vested since December 31, 2005 is \$0.2 million. At July 1, 2006, total compensation costs related to non vested awards not yet recognized amounts to \$0.9 million and will be recognized over a weighted average period of 2.1 years.

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The following is a summary of weighted average exercise prices and contractual lives for outstanding and exercisable stock options as of July 1, 2006:

Exercise Price Range	Shares	Outstanding Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Shares	Exercisable Weighted Average Remaining Life in Years	Weighted Average Exercise Price
\$2.59-\$4.60	59,195	1.1	\$ 3.90	59,195	1.1	\$ 3.90
\$5.09-\$7.65	550,639	7.0	\$ 5.62	348,995	6.4	\$ 5.63
\$9.83-\$13.49	171,903	7.4	\$ 10.73	64,498	4.0	\$ 10.83
	781,737	6.6	\$ 6.62	472,688	5.4	\$ 6.12

3) Acquisition

On February 3, 2005, the Company acquired substantially all of the assets of the General Dynamics - Airborne Electronic Systems (AES) business unit from a subsidiary of General Dynamics. Astronics AES produces a wide range of products related to electrical power generation, in-flight control, and distribution on military, commercial, and business aircraft. On the acquisition date, the Company paid \$13.0 million in cash and incurred approximately \$0.4 million in acquisition costs. The Company borrowed \$7.0 million on its credit facility and used \$6.4 million of cash on hand to finance the purchase and acquisition costs. Results of operations include the results of Astronics AES since February 3, 2005, the date of the acquisition.

The following table summarizes the gross carrying amount and accumulated amortization for major categories of acquired intangible assets:

(in thousands)	Weighted Average Life	Gross Carrying Amount July 1, 2006	Accumulated Amortization July 1, 2006	Gross Carrying Amount Dec. 31, 2005	Accumulated Amortization Dec 31, 2005
Patents	12 Years	\$ 1,271	\$ 140	\$ 1,271	\$ 91
Trade Names	N/A	553		553	
Completed and unpatented technology	10 Years	487	69	487	45
Government contracts	6 Years	347	82	347	53
Backlog	4 Years	314	192	314	140
Total Intangible assets		\$ 2,972	\$ 483	\$ 2,972	\$ 329

Amortization expense for each of the next five years is expected to amount to \$0.3 million for the year ended December 31, 2006 and \$0.2 million for each of the years ended December 31, 2007, 2008, 2009 and 2010.

The following summary, prepared on a pro forma basis, combines the consolidated results of operations of the Company with those of the acquired business as if the acquisition took place on January 1, 2005. The pro forma consolidated results include the impact of adjustments, including depreciation, amortization of intangibles, increased

interest expense on acquisition debt and related income tax effects.

Unaudited	Six Months Ended		Three Months Ended	
	July 2, 2005	July 2, 2005	July 2, 2005	July 2, 2005
	As		As	
(in thousands, except for per share data)	Reported	Pro Forma	Reported	Pro Forma
Sales	\$34,495	\$36,194	\$18,840	\$18,840
Net income	\$ 806	\$ 598	\$ 197	\$ 197
Basic earnings per share	\$.10	\$.08	\$.02	\$.02
Diluted earnings per share	\$.10	\$.08	\$.02	\$.02

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The pro forma results are not necessarily indicative of what would have actually occurred if the acquisition had taken place on January 1, 2005. In addition, they are not intended to be a projection of future results.

4) Discontinued Operations

In December of 2002 the Company announced the discontinuance of the Electroluminescent Lamp Business Group, whose business has involved sales of microencapsulated electroluminescent lamps to customers in the consumer electronics industry. The liabilities of discontinued operations at July 2, 2005 consisted of lease payments for equipment that was used in this business, the remaining payments under these leases were made during 2005. As of December 31, 2005 there were no remaining assets or liabilities of discontinued operations.

5) Inventories

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

(in thousands)	July 1, 2006	December 31, 2005
Finished Goods	\$ 2,801	\$ 2,658
Work in Progress	10,576	7,805
Raw Material	9,846	8,550
	\$ 23,223	\$ 19,013

6) Comprehensive Income and Accumulated Other Comprehensive Income

The components of comprehensive income are as follows:

(in thousands)	Six Months Ended		Three Months Ended	
	July 1, 2006	July 2, 2005	July 1, 2006	July 2, 2005
Net income	\$ 3,225	\$ 806	\$ 2,015	\$ 197
Other comprehensive income:				
Foreign currency translation adjustments	71	(79)	88	(10)
Gain on derivatives, net of tax	5	37	22	15
Comprehensive income	\$ 3,301	\$ 764	\$ 2,125	\$ 202

The components of accumulated other comprehensive income are as follows:

(in thousands)	July 1, 2006	December 31, 2005
Cumulative foreign currency adjustments	\$ 870	\$ 799
Accumulated gain on derivatives, net of tax	5	0
Accumulated other comprehensive income	\$ 875	\$ 799