ASTRONICS CORP
Form 10-Q
November 10, 2009

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

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended October 3, 2009

or

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________
Commission File Number 0-7087
ASTRONICS CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller Reporting Company o

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

Yes o No þ

As of October 3, 2009 10,775,020 shares of common stock were outstanding consisting of 8,207,271 shares of common stock ($.01 par value) and 2,567,749 shares of Class B common stock ($.01 par value).

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements

ASTRONICS CORPORATION
Consolidated Balance Sheet
October 3, 2009
with Comparative Figures for December 31, 2008
(Dollars in thousands except share amounts)

	October 3, 2009 (Unaudited)	December 31, 2008
Current Assets:		
Cash and Cash Equivalents	$ 17,540	$ 3,038
Accounts Receivable, net of allowance for doubtful accounts	34,023	22,053
Inventories	31,030	35,586
Prepaid Expenses	1,940	1,123
Deferred Income Taxes	3,232	4,955
Total Current Assets	87,765	66,755
Property, Plant and Equipment, at cost	55,407	49,103
Less Accumulated Depreciation and Amortization	23,179	20,028
Net Property, Plant and Equipment	32,228	29,075
Deferred Income Taxes	1,411	1,155
Intangible Assets, net of accumulated amortization of $3,323 in 2009 and $1,119 in 2008	11,149	1,853
Other Assets	3,782	3,254
Goodwill	21,550	2,582
Total Assets	$ 157,885	$ 104,674

See notes to consolidated financial statements.

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ASTRONICS CORPORATION
Consolidated Balance Sheet
October 3, 2009
with Comparative Figures for December 31, 2008
(Dollars in thousands except share amounts)

	October 3, 2009 (Unaudited)	December 31, 2008
Current Liabilities:		
Current Maturities of Long-term Debt	$ 9,226	$ 920
Accounts Payable	7,691	9,900
Accrued Payroll and Employee Benefits	6,836	3,789
Accrued Income Taxes	570	1,251
Billings in excess of costs and estimated gross profit on uncompleted contracts	3,351	
Customer Advance Payments and Deferred Revenue	3,764	5,237
Other Accrued Expenses	2,724	2,298
Total Current Liabilities	34,162	23,395
Long-term Debt	43,917	13,526
Supplemental Retirement Plan and Other Liabilities for Pension Benefits	7,057	7,002
Other Liabilities	4,000	2,496
Total Liabilities	89,136	46,419
Shareholders Equity:		
Common Stock, $.01 par value, authorized 20,000,000 shares, issued 8,385,709 in 2009 and 8,021,976 in 2008	84	80
Class B Stock, $.01 par value, authorized 5,000,000 shares, issued 2,869,624 in 2009 and 3,223,764 in 2008	29	32
Additional Paid-in Capital	12,153	9,390
Accumulated Other Comprehensive Loss	(990)	(1,429)
Retained Earnings	59,754	53,901
	71,030	61,974
Less Treasury Stock: 480,313 shares in 2009 and 980,313 shares in 2008	2,281	3,719
Total Shareholders Equity	68,749	58,255
Total Liabilities and Shareholders Equity	$ 157,885	$ 104,674

See notes to consolidated financial statements.

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ASTRONICS CORPORATION

Consolidated Statements of Income and Retained Earnings

Three and Nine Months Ended October 3, 2009

With Comparative Figures for 2008

(Unaudited)

(Dollars in thousands except per share data)

	Nine Months Ended		Three Months Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
Sales	$ 145,625	$ 129,341	$ 48,586	$ 40,363
Costs and Expenses:				
Cost of products sold	118,251	100,811	38,466	32,455
Gross Profit	27,374	28,530	10,120	7,908
Selling, general and administrative expenses	18,711	12,552	6,202	4,030
Interest expense, net of interest income	1,307	554	407	182
Other (income) expense	(1,020)	73	(107)	60
Income Before Income Taxes	8,376	15,351	3,618	3,636
Provision for Income Taxes	2,523	5,209	1,122	1,257
Net Income	5,853	10,142	$ 2,496	$ 2,379
Retained Earnings:				
Beginning of period	53,901	45,548		
End of period	$ 59,754	$ 55,690		
Earnings per share:				
Basic	$ 0.55	$ 0.99	$ 0.23	$ 0.23
Diluted	$ 0.53	$ 0.95	$ 0.23	$ 0.22

See notes to consolidated financial statements.

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ASTRONICS CORPORATION

Consolidated Statements of Cash Flows

Nine Months Ended October 3, 2009

with Comparative Figures for 2008

(Unaudited, Dollars in thousands)

	October 3, 2009	September 27, 2008
Cash Flows from Operating Activities:		
Net Income	$ 5,853	$ 10,142
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation and Amortization	5,649	2,989
Provision for Non-Cash Losses on Inventory and Receivables	849	664
Stock Compensation Expense	586	641
Deferred Tax Benefit	(403)	(91)
Fair Value Adjustment To Contingent Note Payable	(1,000)	
Other	(106)	92
Cash Flows from Changes in Operating Assets and Liabilities:		
Accounts Receivable	8,732	(7,225)
Inventories	7,319	(6,505)
Prepaid Expenses	(151)	(326)
Accounts Payable	(5,754)	3,074
Accrued Expenses	1,479	(391)
Customer Advanced Payments and Deferred Revenue	(1,473)	(372)
Billing in Excess of Contracts	2,072	
Income Taxes	1,165	776
Supplemental Retirement and Other Liabilities	265	169
Cash Provided by Operating Activities	25,082	3,637
Cash Flows from Investing Activities:		
Acquisition of Business	(40,655)	
Capital Expenditures	(1,978)	(3,188)
Other	(45)	(88)
Cash Used For Investing Activities	(42,678)	(3,276)
Cash Flows from Financing Activities:		
Proceeds from Senior Long-term Debt	40,000	
Principal Payments on Long-term Debt	(6,559)	(534)
Proceeds from Note Payable	4,176	8,400
Payments on Note Payable	(4,176)	(11,700)
Debt acquisition costs	(1,377)	
Unexpended Industrial Revenue Bond Proceeds		422
Proceeds from Exercise of Stock Options	16	294
Income Tax Benefit from Exercise of Stock Options	15	448
Cash Provided By (Used For) Financing Activities	32,095	(2,670)

Effect of Exchange Rates on Cash		3		
Net Increase (Decrease) in Cash and Cash Equivalents		14,502		(2,309)
Cash and Cash Equivalents at Beginning of Period		3,038		2,818
Cash and Cash Equivalents at End of Period	$	17,540	$	509
Noncash Investing and Financing Activities:				
Subordinated Debt Assumed For Acquisition	$	6,000	$	
Treasury Stock Issued For Acquisition	$	3,585	$	

See notes to consolidated financial statements.

ASTRONICS CORPORATION

Notes to Consolidated Financial Statements

October 3, 2009

(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.

Effective July 5, 2009, the Company adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 105-10, *Generally Accepted Accounting Principles Overall* (ASC 105-10). ASC 105-10 establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. The Codification superseded all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification is non-authoritative. The FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates (ASUs). The FASB will not consider ASUs as authoritative in their own right. ASUs will serve only to update the Codification, provide background information about the guidance and provide the bases for conclusions on the change(s) in the Codification. References made to FASB guidance throughout this document have been updated for the Codification.

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

Acquisition The Company accounts for acquisitions under ASC Topic 805 *Business Combinations and Reorganizations* (ASC Topic 805). ASC Topic 805 provides revised guidance on how the acquirer recognizes and measures the consideration transferred, identifiable assets acquired, liabilities assumed, non-controlling interests, and goodwill acquired in a business combination. ASC Topic 805 also expands required disclosures surrounding the nature and financial effects of business combinations. Acquisition costs are expensed as incurred. The Company expensed approximately $0.1 million in acquisition costs in the nine month period ended October 3, 2009. Acquisition costs for the three months ended October 3, 2009 were insignificant.

On January 30, 2009, the Company acquired 100% of the common stock of DME Corporation (DME). DME is a designer and manufacturer of military test training and simulation equipment and aviation safety products. The aviation safety products are included in the Company s Aerospace segment. The test training and simulation equipment products are included in the Company s Test Systems segment. The addition of DME Corporation diversifies the products and technologies that Astronics offers and improves market balance by increasing military and defense content. The purchase price was approximately $50 million, comprised of approximately $40.7 million in cash, 500,000 shares of the Company s common stock held as treasury shares, valued at approximately $3.6 million, or $7.17 per share, a $5.0 million subordinated note payable to the former shareholders plus an additional $2.0 million contingent subordinated note payable, subject to meeting revenue performance criteria in 2009. The $2.0 million will not be paid should DME fail to attain the agreed upon 2009 calendar year revenue performance. The $2.0 million contingent subordinated note payable was recorded at its estimated fair value of $1.0 million at the date of acquisition based on the requirements of ASC Topic 805. At October 3, 2009 the fair value of the contingent consideration was estimated to be zero, resulting in a $1.0 million fair value adjustment on the $2.0 million contingent subordinated note payable. This $1.0 million fair market value adjustment is reported as other income. The reduction of the estimated fair value of the contingent subordinated notes payable is the result of a reduction of the probability of meeting the revenue performance criteria in 2009.

The allocation of the purchase price paid for DME is based on preliminary estimated fair values of the acquired assets and liabilities assumed of DME as of January 30, 2009. The allocation of the purchase price is preliminary as the valuation of the identifiable intangible assets is being finalized. Any net change in value will be offset by a charge or credit to earnings when the final allocation is determined.

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The preliminary allocation of purchase price based on estimated appraised fair values is as follows (In thousands):

Accounts Receivable	$	20,546
Inventory		3,305
Other Current and Long Term Assets		613
Fixed Assets		3,704
Purchased Intangible Assets		11,500
Goodwill		18,729
Accounts Payable and Accrued Expenses		(6,450)
Billings in excess of costs and estimated gross profit on uncompleted contracts		(1,278)
Long-term Debt and Other Liabilities		(750)
Total Purchase Price	$	49,919

The amounts allocated to purchased intangible assets consist of Trade Names of $1.2 million, Technology of $6.3 million and Customers of $4.0 million.

Substantially all of the goodwill and purchased intangible assets are expected to be deductible for tax purposes. Goodwill attributable to the Aerospace segment is approximately $2.2 million. Goodwill attributable to the Test Systems segment is approximately $16.5 million.

The following is a summary of the results of operations of DME included in the unaudited consolidated financial statements of the Company from the date of acquisition, for the three and nine month periods ended October 3, 2009:

(in thousands)	Nine Months Ended October 3, 2009	Three Months Ended October 3, 2009
Sales	$ 38,370	$ 14,076
Operating Income	902	627

The following summary combines the consolidated results of operations of the Company with those of the acquired business for the three and nine month periods ended October 3, 2009 and September 27, 2008 as if the acquisition took place at the beginning of the periods presented. The pro forma consolidated results include the impact of certain adjustments, including increased interest expense on acquisition debt, amortization of purchased intangible assets and income taxes.

	Nine Months Ended		Three Months Ended	
(in thousands, except earnings per share)	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
Sales	$ 150,374	$ 191,201	$ 48,586	$ 61,039
Net Income	5,884	14,040	2,496	3,247
Basic earnings per share	0.55	1.31	0.23	0.30
Diluted earnings per share	0.54	1.26	0.23	0.29

The pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been in effect for the nine months ended October 3, 2009 and the three and nine months ended September 27, 2008. In addition, they are not intended to be a projection of future results.

Revenue Recognition In the Aerospace segment, revenue is recognized on the accrual basis at the time of shipment of goods and transfer of title. There are no significant contracts allowing for right of return. The Company does evaluate and record an allowance for any potential returns based on experience and any known circumstances. For the three and nine months ended October 3, 2009 and September 27, 2008, no significant allowances were recorded for contracts allowing for right of return. A trade receivable is recorded at the time of the sale. The Company records a valuation allowance to account for potentially uncollectible accounts receivable. The allowance is determined based on Management s knowledge of the business, specific customers, review of the receivable s aging and a specific identification of accounts where collection is at risk.

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

Fair Value ASC Topic 820, *Fair value Measurements and Disclosures* , establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.
- Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value.

A financial asset or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of October 3, 2009:

(in thousands)	Liability	Level 1	Level 2	Level 3
Interest rate swaps	$ (411)	$	$ (411)	$
Contingent $2.0 million subordinated promissory note payable	$	$	$	$

The fair value of the interest rate swap at December 31, 2008 was approximately $0.3 million.

Activity in Contingent $2.0 million subordinated promissory note payable (Level 3) was as follows:

	Nine Months Ended		Three Months Ended	
(in thousands)	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
Balance at beginning of period	$	$	$ (100)	$
Fair value valuation of contingent $2.0 million subordinated promissory note payable at the date of acquisition of DME	(1,000)			
Fair value adjustment included in other income	1,000		100	
Balance at end of period	$	$	$	$

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

The contingent $2.0 million subordinated promissory note payable fair value does not have Level 1 or Level 2 inputs and therefore is measured at fair value based upon the Company s assumptions regarding the likelihood of meeting the revenue performance criteria. The Company s assumptions (inputs) consider projected revenue for DME for 2009, including consideration of existing contracts, backlog and current economic conditions impacting the business. Changes to the fair value are recorded as other income or expense in the statement of income. The $2.0 million contingent subordinated note payable was recorded at its estimated fair value of $1.0 million at the date of acquisition based on the requirements of ASC Topic 805. During the third quarter, the Company recognized as income, a $0.1 million fair market value adjustment and year to date, a $1.0 million fair market value adjustment on the $2.0 million contingent subordinated note payable. These fair market value adjustments are based on the Company s October 3, 2009 estimate of the probability that DME will meet the revenue performance criteria in 2009 and is reported as other income. These adjustments increased net income for the quarter by $0.1 million or $0.01 per diluted earnings per share for the three months and by $0.7 million or $0.06 per diluted earnings per share for the nine months ended October 3, 2009.

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On a nonrecurring basis, the Company uses fair value measures when analyzing asset impairment. Long-lived tangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined such indicators are present and the review indicates that the assets will not be fully recoverable, based on undiscounted estimated cash flows over the remaining amortization periods, their carrying values are reduced to estimated fair value. Estimated fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

Financial Instruments   The Company s financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, notes payable, long-term debt and interest rate swaps. The Company performs periodic credit evaluations of its customers financial condition and generally does not require collateral and the Company does not hold or issue financial instruments for trading purposes. Due to their short-term nature the carrying value of cash and equivalents, accounts receivable, accounts payable, and notes payable approximate fair value. The carrying value of the Company s variable rate long-term debt also approximates fair value due to the variable rate feature of these instruments. The carrying value of the subordinated promissory note approximates its fair value based on the short period that has elapsed since origin of the note and management s October 3, 2009 estimation that a current interest rate would not differ materially from the stated rate. The Company s interest rate swaps and the contingent $2.0 million subordinated promissory note payable are recorded at fair value as described previously under Fair Value.

Foreign Currency Translation   The Company accounts for its foreign currency translation in accordance with ASC Topic 830, Foreign Currency Translation. The aggregate transaction gain or loss included in determining net income was insignificant for the nine-month and three-month periods ending October 3, 2009 and September 27, 2008.

Operating Results   The results of operations for any interim period are not necessarily indicative of results for the full year. Operating results for the three and nine month periods ended October 3, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

The balance sheet at December 31, 2008 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 2008 annual report on Form 10-K.

Accounting Pronouncements Adopted in 2009

On January 1, 2009, the Company adopted the new provisions of ASC Topic 805 *Business Combinations and Reorganizations* (ASC Topic 805). ASC Topic 805 provides revised guidance on how acquirers recognize and measure the consideration transferred, identifiable assets acquired, liabilities assumed, non-controlling interests, and goodwill acquired in a business combination. ASC Topic 805 also expands required disclosures surrounding the nature and financial effects of business combinations. Acquisition costs are expensed as incurred.

On January 1, 2009, the Company adopted the new provisions of ASC Topic 815 *Derivatives and Hedging* (ASC Topic 815) relating to disclosures about derivative instruments and hedging activities. The new provisions expand quarterly disclosure requirements about an entity s derivative instruments and hedging activities, which were effective beginning in the first quarter of 2009. The Company believes that these new provisions will not have a significant impact on its financial statement disclosures.

On January 1, 2009, the Company adopted the new provisions of ASC Topic 350, *Intangibles - Goodwill and Other* (ASC Topic 350) relating to the determination of the useful life of intangible assets. This new provision amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset, the objective is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset under ASC Topic 805. ASC Topic 350 applies to all intangible assets, whether acquired in a business combination or otherwise and is applied prospectively to intangible assets acquired after December 15, 2008.

In June 2009, the FASB issued ASC Topic 855 *Subsequent Events* (ASC Topic 855). The objective of this Statement is to establish general standards of accounting for disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this Statement sets forth the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. ASC Topic 855 was adopted on April 5, 2009. The Company evaluated all events or transactions that occurred after October 3, 2009, through November 10, 2009, the date this quarterly report on Form 10-Q was filed with the Securities and Exchange Commission. During this period the Company did not have any material recognizable subsequent events that required recognition in our disclosures to the October 3, 2009 financial statements as a result of this subsequent evaluation.

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On April 5, 2009, the Company adopted the new provisions of ASC Topic 820 *Fair Value Measurements and Disclosures* (ASC Topic 820). These new provisions amend ASC Topic 820, to provide additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability. This new provision also provides additional guidance on circumstances that may indicate that a transaction is not orderly, and requires additional disclosures about fair value measurements in annual and interim reporting periods. The adoption of these new provisions did not have a significant impact on the Company s financial statements.

On April 5, 2009, the Company adopted the new provisions of ASC Topic 825 *Financial Instruments* (ASC Topic 825), These new provisions require disclosures about fair value of financial instruments in financial statements for interim reporting periods and in annual financial statements of publicly-traded companies. This also requires entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments in financial statements on an interim and annual basis and to highlight any changes from prior periods. The adoption of these new provisions did not have a significant impact on the Company s financial statements.

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2) Accounts Receivable and Uncompleted Contracts
Accounts Receivable consists of:

(in thousands)	October 3, 2009	December 31, 2008
Accounts receivable	$ 25,705	$ 22,358
Costs and estimated earnings in excess of billings on uncompleted contracts:		
Costs incurred on uncompleted contracts	70,787	
Estimated contribution to earnings	17,216	