ASTRONICS CORP
Form 10-Q
May 13, 2015
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# Form 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended April 4, 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 incorporation or organization)** | **(IRS Employer Identification Number)** |
| **130 Commerce Way, East Aurora, New York** | **14052** |
| **(Address of principal executive offices)** | **(Zip code)** |

**(716) 805-1599**

**(Registrant s telephone number, including area code)**

**NOT APPLICABLE**

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

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

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

**(Title of Class)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

| | |
|---|---|
| Large accelerated filer x | 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 x

As of April 4, 2015, 22,079,482 shares of common stock were outstanding consisting of 17,087,180 shares of common stock ($.01 par value) and 4,992,302 shares of Class B common stock ($.01 par value).

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## Part 1 Financial Information

## Item 1. Financial Statements

ASTRONICS CORPORATION

**Consolidated Condensed Balance Sheets**

April 4, 2015 with Comparative Figures for December 31, 2014

(In thousands)

| | April 4, 2015 (Unaudited) | December 31, 2014 |
|---|---|---|
| Current Assets: | | |
| Cash and Cash Equivalents | $ 22,563 | $ 21,197 |
| Accounts Receivable, Net of Allowance for Doubtful Accounts | 76,346 | 88,888 |
| Inventories | 120,784 | 115,053 |
| Prepaid Expenses and Other Current Assets | 17,628 | 20,680 |
| Total Current Assets | 237,321 | 245,818 |
| Property, Plant and Equipment, Net of Accumulated Depreciation | 124,917 | 116,316 |
| Other Assets | 6,382 | 5,632 |
| Intangible Assets, Net of Accumulated Amortization | 112,033 | 94,991 |
| Goodwill | 119,630 | 100,153 |
| Total Assets | $ 600,283 | $ 562,910 |
| Current Liabilities: | | |
| Current Maturities of Long-term Debt | $ 2,658 | $ 2,796 |
| Accounts Payable | 34,875 | 27,903 |
| Accrued Expenses and Other Current Liabilities | 31,063 | 33,465 |
| Customer Advance Payments and Deferred Revenue | 37,039 | 45,052 |
| Total Current Liabilities | 105,635 | 109,216 |
| Long-term Debt | 214,099 | 180,212 |
| Other Liabilities | 43,558 | 45,305 |
| Total Liabilities | 363,292 | 334,733 |
| Shareholders Equity: | | |
| Common Stock | 221 | 219 |
| Accumulated Other Comprehensive Loss | (15,434) | (11,949) |

| | | | | |
|---|---|---|---|---|
| Other Shareholders Equity | | 252,204 | | 239,907 |
| Total Shareholders Equity | | 236,991 | | 228,177 |
| Total Liabilities and Shareholders Equity | $ | 600,283 | $ | 562,910 |

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION

**Consolidated Condensed Statements of Operations**

Three Months Ended April 4, 2015 With Comparative Figures for 2014

(Unaudited)

(In thousands, except per share data)

| | Three Months Ended | |
|---|---|---|
| | April 4, 2015 | March 29, 2014 |
| Sales | $ 161,638 | $ 140,951 |
| Cost of Products Sold | 121,476 | 110,946 |
| Gross Profit | 40,162 | 30,005 |
| Selling, General and Administrative Expenses | 22,619 | 16,378 |
| Income from Operations | 17,543 | 13,627 |
| Interest Expense, Net of Interest Income | 1,246 | 2,323 |
| Income Before Income Taxes | 16,297 | 11,304 |
| Provision for Income Taxes | 5,614 | 3,797 |
| Net Income | $ 10,683 | $ 7,507 |
| Earnings per share: | | |
| Basic | $ 0.49 | $ 0.35 |
| Diluted | $ 0.47 | $ 0.33 |

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION

**Consolidated Condensed Statements of Comprehensive Income**

Three Months Ended April 4, 2015 With Comparative Figures for 2014

(Unaudited)

(In thousands)

| | Three Months Ended | |
|---|---|---|
| | April 4, 2015 | March 29, 2014 |
| Net Income | $ 10,683 | $ 7,507 |
| Other Comprehensive Loss: | | |
| Foreign Currency Translation Adjustments | (3,646) | (386) |
| Change in Accumulated Income on Derivatives Net of Tax | | 20 |
| Retirement Liability Adjustment Net of Tax | 161 | 102 |
| Other Comprehensive Loss | (3,485) | (264) |
| Comprehensive Income | $ 7,198 | $ 7,243 |

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION

**Consolidated Condensed Statements of Cash Flows**

Three Months Ended April 4, 2015

With Comparative Figures for 2014

(Unaudited)

(In thousands)

| | April 4, 2015 | March 29, 2014 |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Net Income | $ 10,683 | $ 7,507 |
| Adjustments to Reconcile Net Income to Cash Provided By Operating Activities: | | |
| Depreciation and Amortization | 6,127 | 4,838 |
| Provisions for Non-Cash Losses on Inventory and Receivables | (74) | 312 |
| Stock Compensation Expense | 506 | 394 |
| Deferred Tax Benefit | (40) | (816) |
| Other | 110 | (879) |
| Cash Flows from Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | 18,563 | (37,632) |
| Inventories | (3,474) | 8,699 |
| Accounts Payable | 5,517 | 9,520 |
| Accrued Expenses | (4,535) | (1,275) |
| Other Current Assets and Liabilities | (633) | (382) |
| Customer Advanced Payments and Deferred Revenue | (8,796) | 9,203 |
| Income Taxes | 2,416 | 2,776 |
| Supplemental Retirement and Other Liabilities | 409 | 308 |
| Cash Provided By Operating Activities | 26,779 | 2,573 |
| **Cash Flows From Investing Activities:** | | |
| Acquisition of Business, Net of Cash Acquired | (52,615) | (70,275) |
| Capital Expenditures | (7,059) | (16,906) |
| Other Investing Activities | (300) | |
| Cash Used For Investing Activities | (59,974) | (87,181) |
| **Cash Flows From Financing Activities:** | | |
| Proceeds from Long-term Debt | 40,000 | 58,000 |
| Payments for Long-term Debt | (5,663) | (405) |

| | | |
|---|---|---|
| Debt Acquisition Costs | | (280) |
| Acquisition Earnout Payments | | (53) |
| Proceeds from Exercise of Stock Options | 402 | 588 |
| Income Tax Benefit from Exercise of Stock Options | 708 | 1,261 |
| Cash Provided By Financing Activities | 35,447 | 59,111 |
| Effect of Exchange Rates on Cash | (886) | (21) |
| Increase (Decrease) in Cash and Cash Equivalents | 1,366 | (25,518) |
| Cash and Cash Equivalents at Beginning of Period | 21,197 | 54,635 |
| Cash and Cash Equivalents at End of Period | $ 22,563 | $ 29,117 |

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION

**Notes to Consolidated Condensed Financial Statements**

April 4, 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.

***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 month period ended April 4, 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 ( 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.

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

Cost of products sold includes the costs to manufacture products such as direct materials and labor and manufacturing overhead as well as all engineering and developmental costs. The Company is engaged in a variety of engineering and design activities as well as basic research and development activities directed to the substantial improvement or new application of the Company s existing technologies. These costs are expensed when incurred and included in cost of products sold. Research and development, design and related engineering amounted to $22.2 million and $17.2 million for the three months ended April 4, 2015 and March 29, 2014, respectively. Selling, general and administrative expenses include costs primarily related to our sales and marketing departments and administrative departments. Interest expense is shown net of interest income. Interest income was insignificant for the three months ended April 4, 2015 and March 29, 2014.

***Derivatives***

In November 2014, the Company terminated its interest rate swap. Ineffectiveness was not significant for the three month period ended March 29, 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 month period ended April 4, 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 periods ending April 4, 2015 and March 29, 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.

***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) | April 4, 2015 | December 31, 2014 |
|---|---|---|

| | | |
|---|---|---|
| Finished Goods | $ 33,021 | $ 28,763 |
| Work in Progress | 25,134 | 28,488 |
| Raw Material | 62,629 | 57,802 |
| | $ 120,784 | $ 115,053 |

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***3) Property, Plant and Equipment***

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

| (In thousands) | April 4, 2015 | December 31, 2014 |
|---|---|---|
| Land | $ 11,258 | $ 10,008 |
| Buildings and Improvements | 76,314 | 74,755 |
| Machinery and Equipment | 79,126 | 73,062 |
| Construction in Progress | 7,447 | 4,757 |
| | 174,145 | 162,582 |
| Less Accumulated Depreciation | 49,228 | 46,266 |
| | $ 124,917 | $ 116,316 |

***4) Intangible Assets***

The following table summarizes acquired intangible assets as follows:

| | | April 4, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|
| (In thousands) | Weighted Average Life | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Patents | 6 Years | $ 2,146 | $ 1,124 | $ 2,146 | $ 1,077 |
| Trade Names | 9 Years | 8,217 | 1,472 | 8,304 | 1,288 |
| Completed and Unpatented Technology | 7 Years | 17,957 | 4,852 | 18,107 | 4,396 |
| Backlog and Customer Relationships | 12 Years | 113,539 | 22,378 | 93,448 | 20,253 |
| Total Intangible Assets | 8 Years | $ 141,859 | $ 29,826 | $ 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:

| | Three Months Ended | |
|---|---|---|
| (In thousands) | April 4, 2015 | March 29, 2014 |
| Amortization Expense | $ 2,852 | $ 2,467 |

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

| (In thousands) | |
|---|---|
| 2015 | $ 11,100 |
| 2016 | 10,710 |
| 2017 | 10,293 |
| 2018 | 9,980 |
| 2019 | 9,579 |
| 2020 | 9,524 |

***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 | April 4, 2015 |
|---|---|---|---|---|
| Aerospace | $ 100,153 | $ 20,325 | $ (848) | $ 119,630 |
| Test Systems | | | | |
| | $ 100,153 | $ 20,325 | $ (848) | $ 119,630 |

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***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 0.25% and 0.50% per annum 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 April 4, 2015 there was $200.0 million outstanding on the revolving credit facility and there remains approximately $148.9 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 April 4, 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 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 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 22.8 to 1 at April 4, 2015. The Company s leverage ratio was 1.5 to 1 at April 4, 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.

***7) Product Warranties***

In the ordinary course of business, the Company warrants its products against defects in design, materials and workmanship typically over periods ranging from twelve to sixty months. The Company determines warranty reserves needed by product line based on experience and current facts and circumstances. Activity in the warranty accrual is summarized as follows:

| (In thousands) | Three Months Ended April 4, 2015 | March 29, 2014 |
|---|---|---|
| Balance at beginning of period | $ 4,884 | $ 2,796 |
| Acquisitions | 500 | 790 |
| Warranties issued | 738 | 329 |
| Warranties settled | (726) | (334) |
| Reassessed warranty exposure | 76 | 156 |
| Balance at end of period | $ 5,472 | $ 3,737 |

***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.

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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 April 4, 2015 or December 31, 2014, nor were any penalties or interest costs included in expense for the three month periods ending April 4, 2015 and March 29, 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 for the three months ended April 4, 2015 and March 29, 2014 were approximately 34.4% and 33.6%, respectively. The effective tax rate for the first quarters of 2015 and 2014 were lower than the federal statutory rate, due to the domestic production activity deduction and lower effective tax rates on foreign income.

***9) Shareholders Equity***

The changes in shareholders equity for the three months ended April 4, 2015 are summarized as follows:

| (Dollars and Shares in thousands) | Amount | Number of Shares Common Stock | Number of Shares Convertible Class B Stock |
|---|---|---|---|
| Shares Authorized | | 40,000 | 10,000 |
| Share Par Value | | $ 0.01 | $ 0.01 |
| | | | |
| COMMON STOCK | | | |
| Beginning of Period | $ 219 | 16,608 | 5,322 |
| Conversion of Class B Shares to Common Shares | | 411 | (411) |
| Exercise of Stock Options | 2 | 68 | 81 |
| | | | |
| End of Period | $ 221 | 17,087 | 4,992 |
| | | | |
| ADDITIONAL PAID IN CAPITAL | | | |
| Beginning of Period | $ 49,659 | | |
| Stock Compensation Expense | 506 | | |
| Exercise of Stock Options | 1,108 | | |
| | | | |
| End of Period | $ 51,273 | | |
| | | | |
| ACCUMULATED OTHER COMPREHENSIVE LOSS | | | |
| Beginning of Period | $ (11,949) | | |
| Foreign Currency Translation Adjustment | (3,646) | | |

| | |
|---|---|
| Retirement Liability Adjustment Net of Tax | 161 |
| End of Period | $ (15,434) |
| RETAINED EARNINGS | |
| Beginning of Period | $ 190,248 |
| Net Income | 10,683 |
| End of Period | $ 200,931 |
| TOTAL SHAREHOLDERS EQUITY | |
| Beginning of Period | $ 228,177 |
| End of Period | $ 236,991 |

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***10) Earnings Per Share***

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

| | Three Months Ended | |
|---|---|---|
| (In thousands) | April 4, 2015 | March 29, 2014 |
| Weighted average shares - Basic | 22,011 | 21,544 |
| Net effect of dilutive stock options | 795 | 1,108 |
| Weighted average shares - Diluted | 22,806 | 22,652 |

The above information has been adjusted to reflect the impact of the one-for-five distribution of Class B Stock for shareholders of record on September 5, 2014.

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 were insignificant at April 4, 2015.

***11) Accumulated Other Comprehensive Loss and Other Comprehensive Loss***

The components of accumulated other comprehensive loss are as follows:

| (In thousands) | April 4, 2015 | December 31, 2014 |
|---|---|---|
| Foreign Currency Translation Adjustments | $ (7,000) | $ (3,354) |
| Retirement Liability Adjustment Before Tax | (12,975) | (13,223) |
| Tax Benefit | 4,541 | 4,628 |
| Retirement Liability Adjustment After Tax | (8,434) | (8,595) |
| Accumulated Other Comprehensive Loss | $ (15,434) | $ (11,949) |

The components of other comprehensive loss are as follows:

| | Three Months Ended |
|---|---|
| (In thousands) | |

| | April 4, 2015 | March 29, 2014 |
|---|---|---|
| Foreign Currency Translation Adjustments | $ (3,646) | $ (386) |
| | | |
| Change in Accumulated Income on Derivatives: | | |
| Reclassification to Interest Expense | | 15 |
| Mark to Market Adjustments for Derivatives | | 14 |
| Tax Expense | | (9) |
| | | |
| Change in Accumulated Income on Derivatives | | 20 |
| | | |
| Retirement Liability Adjustments: | | |
| Reclassifications to General and Administrative Expense: | | |
| Amortization of prior service cost | 130 | 136 |
| Amortization of net actuarial losses | 118 | 27 |
| Tax Benefit | (87) | (61) |
| | | |
| Retirement Liability Adjustment | 161 | 102 |
| | | |
| Other Comprehensive Loss | $ (3,485) | $ (264) |

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***12) Supplemental Retirement Plan and Related Post Retirement Benefits***

The Company has two non-qualified supplemental retirement defined benefit plans ( SERP and SERP II ) for certain executive officers. The following table sets forth information regarding the net periodic pension cost for the plans.

| (In thousands) | Three Months Ended April 4, 2015 | March 29, 2014 |
|---|---|---|
| Service cost | $ 48 | $ 62 |
| Interest cost | 211 | 188 |
| Amortization of prior service cost | 124 | 130 |
| Amortization of net actuarial losses | 112 | 27 |
| Net periodic cost | $ 495 | $ 407 |

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) | Three Months Ended April 4, 2015 | March 29, 2014 |
|---|---|---|
| Service cost | $ 2 | $ 1 |
| Interest cost | 10 | 8 |
| Amortization of prior service cost | 6 | 6 |
| Amortization of net actuarial losses | 6 | |
| Net periodic cost | $ 24 | $ 15 |

***13) Sales to Major Customers***

The Company has a significant concentration of business with two major customers, each in excess of 10% of consolidated sales. The loss of either of these customers would significantly, negatively impact our sales and earnings.

Sales to these two customers represented 24% and 15% of consolidated sales for the three months ended April 4, 2015. Sales to these customers were in the Aerospace segment. Accounts receivable from these customers at April 4, 2015 was approximately $21.2 million.

The Company had sales to two customers in the Aerospace segment that represented 20% and 15% of consolidated sales for the three months ended March 29, 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. However, if Lufthansa provides the required bank guarantees specified in the decision, the Company may be required to offer a recall of products which are in the distribution channels in Germany, and provide certain financial information regarding sales of the infringing product to enable Lufthansa to make an estimate of requested damages. No such bank guarantees have been issued to date.

The Company appealed and believes it has valid defenses to refute the decision. The appeal process is estimated to extend up to two years. 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 April 4, 2015.

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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 April 4, 2015.

***15) Segment Information***

Below are the sales and operating profit by segment for the three months ended April 4, 2015 and March 29, 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.

| | Three Months Ended | |
|---|---|---|
| (Dollars in thousands) | April 4, 2015 | March 29, 2014 |
| Sales | | |
| Aerospace | $ 142,352 | $ 122,372 |
| Test Systems | 19,341 | 18,689 |
| Less Intersegment Sales | (55) | (110) |
| | 19,286 | 18,579 |
| Total Consolidated Sales | $ 161,638 | $ 140,951 |
| Operating Profit (Loss) and Margins | | |
| Aerospace | $ 23,402 | $ 17,490 |
| | 16.4% | 14.3% |
| Test Systems | (2,225) | (1,695) |
| | (11.5)% | (9.1)% |
| Total Operating Profit | 21,177 | 15,795 |
| | 13.1% | 11.2% |
| Deductions from Operating Profit | | |
| Interest Expense, Net of Interest Income | 1,246 | 2,323 |
| Corporate Expenses and Other | 3,634 | 2,168 |
| Income Before Income Taxes | $ 16,297 | $ 11,304 |

Identifiable Assets

| (In thousands) | April 4, 2015 | December 31, 2014 |
|---|---|---|
| Aerospace | $ 512,777 | $ 468,481 |
| Test Systems | 64,413 | 69,247 |
| Corporate | 23,093 | 25,182 |
| Total Assets | $ 600,283 | $ 562,910 |

***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.

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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 April 4, 2015 and December 31, 2014:

| (In thousands) | Classification | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| Acquisition contingent consideration | | | | | |
| April 4, 2015 | Current Liabilities | $ (1,578) | | | $ (1,578) |
| December 31, 2014 | Current Liabilities | | | | |
| April 4, 2015 | Other Liabilities | $ (173) | | | $ (173) |
| 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 three month period ended April 4, 2015 is due to accretion, which is classified within interest expense in the consolidated condensed 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 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 April 4, 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 April 4, 2015, the Company concluded that no indicators of impairment relating to intangible assets or goodwill existed and an interim test was not performed.

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***17) 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. This authoritative guidance will be effective as of the Company s first quarter of fiscal 2017. However, the FASB has proposed a deferral of the effective date of the new revenue standard by one year. 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.

In April 2015, the FASB issued authoritative guidance regarding customer s accounting for fees paid in a cloud computing arrangement. The authoritative guidance provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the guidance requires the software license element of the arrangement to be accounted for consistent with other software license agreements. This authoritative guidance will be effective as of the Company s first quarter of fiscal 2016, with early adoption permitted. The Company is currently evaluating the impact that adoption of this guidance will have on its consolidated financial statements.

***18) Acquisitions***

Armstrong

On January 14, 2015, the Company purchased 100% of the equity of Armstrong for approximately $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 will be 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 approximately $69.4 million in cash, including a net working capital adjustment of approximately $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.

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## 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, 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, commercial electronics, aerospace, communications and weapons test systems as well as training and simulation devices for both commercial and military applications. In the Test Systems Segment, Astronics products are sold to a global customer base including OEMs and prime government contractors for both commercial electronics and military 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 approximately $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 approximately $69.4 million in cash. The addition of ATS complements products and technologies that the Test Systems segment offers.

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***CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK***

| (Dollars in thousands) | Three Months Ended April 4, 2015 | March 29, 2014 |
|---|---|---|
| Sales | $ 161,638 | $ 140,951 |
| Gross Profit (sales less cost of products sold) | $ 40,162 | $ 30,005 |
| Gross Margin | 24.8% | 21.3% |
| Selling, General and Administrative Expenses | $ 22,619 | $ 16,378 |
| SG&A Expenses as a Percentage of Sales | 14.0% | 11.6% |
| Interest Expense, Net of Interest Income | $ 1,246 | $ 2,323 |
| Effective Tax Rate | 34.4% | 33.6% |
| Net Income | $ 10,683 | $ 7,507 |

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

Consolidated sales for the first quarter of 2015 increased 14.7% to $161.6 million compared with $141.0 million for the same period last year. Aerospace segment sales increased $19.9 million to $142.4 million and Test Systems segment sales increased $0.7 million to $19.3 million. First quarter 2014 sales reflect four weeks of activity for ATS, which was acquired on February 28, 2014. The 2015 first quarter included incremental sales of $6.6 million from Armstrong acquired on January 14, 2015 (see Notes to Consolidated Condensed Financial Statements, Note 18), while organic sales increased $14.0 million, or 9.9% to $155.0 million.

Consolidated cost of products sold increased $10.6 million to $121.5 million in the first quarter of 2015 from $110.9 million for the same period last year. The increase was primarily due to the incremental cost of products sold associated with Armstrong of $4.9 million, increased cost of products sold associated with increased organic sales volumes and increased engineering and development ( E&D ) costs. E&D costs were $22.2 million in the first quarter of 2015, compared to $17.2 million in last year s first quarter . The increase in E&D costs were largely attributable to the incremental E&D costs of ATS ($1.9 million) and Armstrong ($1.3 million). Cost of products sold in the first quarter of 2014 included approximately $8.7 million related to inventory step-up expense, as compared to $0.6 million in the first quarter of 2015. Consolidated cost of products sold as a percentage of sales was 75.2% in the first quarter of 2015 compared with 78.7% in the first quarter of 2014.

Selling, general and administrative ( SG&A ) expenses were $22.6 million, or 14.0% of sales, in the first quarter of 2015 compared with $16.4 million, or 11.6% of sales, in the same period last year. The increase was due primarily to the incremental SG&A costs of ATS and Armstrong, which added $3.1 million to SG&A in the first quarter of 2015, including $0.8 million of amortization expense for acquired intangible assets of those businesses. Additionally, higher SG&A expense reflects increased headcount and compensation costs to support growth.

The effective tax rates were 34.4% and 33.6% for the three months ended April 4, 2015 and March 29, 2014, respectively. The effective tax rate for the first quarters of 2015 and 2014 were lower than the federal statutory rate due to the domestic production activity deduction and lower effective tax rates on foreign income.

For the three months ended April 4, 2015, the earnings per share increase, as compared to the respective period in the prior year, is due primarily to the increase in net income. Earnings per share for all prior periods presented have been calculated reflecting the effect of the one-for-five Class B share distribution for shareholders of record on

September 5, 2014.

We expect consolidated sales in 2015 to be between $680 million and $740 million. Approximately $550 million to $580 million of forecasted 2015 revenue is expected from the Aerospace segment, while approximately $130 million to $160 million of the forecasted revenue is expected from the Test Systems segment.

Our consolidated backlog at April 4, 2015 was $378.5 million, of which approximately $314.1 million is expected to ship in 2015.

We expect our capital equipment spending in 2015 to be in the range of $20 million to $27 million. E&D costs are estimated to be in the range of $75 million to $80 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.

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***AEROSPACE SEGMENT***

| (In thousands) | Three Months Ended April 4, 2015 | March 29, 2014 |
|---|---|---|
| Sales | $ 142,352 | $ 122,372 |
| Operating profit | $ 23,402 | $ 17,490 |
| Operating Margin | 16.4% | 14.3% |

| | April 4, 2015 | December 31, 2014 |
|---|---|---|
| Total Assets | $ 512,777 | $ 468,481 |
| Backlog | $ 233,955 | $ 223,769 |

**Aerospace Sales by Market**

| (In thousands) | Three Months Ended April 4, 2015 | March 29, 2014 |
|---|---|---|
| Commercial Transport | $ 120,194 | $ 99,287 |
| Military | 9,258 | 8,958 |
| Business Jet | 8,092 | 9,866 |
| Other | 4,808 | 4,261 |
| | $ 142,352 | $ 122,372 |

**Aerospace Sales by Product Line**

| (In thousands) | Three Months Ended April 4, 2015 | March 29, 2014 |
|---|---|---|
| Electrical Power & Motion | $ 69,570 | $ 65,833 |
| Lighting & Safety | 42,077 | 35,091 |
| Avionics | 17,367 | 12,752 |
| Systems Certification | 4,574 | |
| Structures | 3,956 | 3,638 |
| Other | 4,808 | 5,058 |
| | $ 142,352 | $ 122,372 |

Aerospace segment sales increased by $19.9 million, or 16.3% when compared with the prior year s first quarter to $142.4 million. Organic sales grew 10.9%, or $13.3 million, and sales from Armstrong added $6.6 million.

Sales to the Commercial Transport market increased $20.9 million, of which $6.6 million was related to the acquisition of Armstrong, primarily comprised of Systems Certification sales. The remaining increase primarily related to higher organic sales of Lighting & Safety, Avionics and Electrical Power & Motion products. Organic Lighting and Safety product sales to the Commercial Transport market increased by $5.4 million. Organic sales of Avionics products to the Commercial Transport market increased by $5.0 million. Organic sales of Electrical Power &

Motion products to the Commercial Transport market increased approximately $3.5 million.

Sales to the Business Jet market decreased $1.8 million when compared with last year s first quarter, due to lower organic sales of avionics and lighting products to this market.

Aerospace operating profit for the first quarter of 2015 was $23.4 million, or 16.4% of sales, compared with $17.5 million, or 14.3% of sales, in the same period last year. Approximately $0.6 million in operating profit was related to Armstrong, which was acquired in January 2015. Armstrong inventory step-up expense was $0.6 in the first quarter of 2015. Operating profit in the first quarter of 2014 included expense of $2.4 million associated with inventory step-up, primarily related to AeroSat and PGA, which were acquired in the fourth quarter of 2013. Operating leverage gained on volume for the organic business was partially offset by approximately $1.9 million of higher organic E&D costs. Aerospace SG&A expense increased $2.6 million in the first quarter of 2015 as compared with 2014. The increase was due primarily to the incremental SG&A of Armstrong which added $1.2 million, including $0.4 million of purchased intangible asset amortization expense for acquired intangible assets.

Outlook for Aerospace We expect 2015 sales for our Aerospace segment to be in the range of $550 million to $580 million. The Aerospace segment s backlog at the end of the first quarter of 2015 was $234.0 million with approximately $209.5 million expected to be shipped over the remaining part of 2015 and $219.8 million is expected to ship over the next 12 months.

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***TEST SYSTEMS SEGMENT***

| (In thousands) | Three Months Ended April 4, 2015 | March 29, 2014 |
|---|---|---|
| Sales | $ 19,341 | $ 18,689 |
| Less Intersegment Sales | (55) | (110) |
| Net Sales | $ 19,286 | $ 18,579 |
| Operating profit (loss) | $ (2,225) | $ (1,695) |
| Operating Margin | (11.5)% | (9.1)% |

| | April 4, 2015 | December 31, 2014 |
|---|---|---|
| Total Assets | $ 64,413 | $ 69,247 |
| Backlog | $ 144,514 | $ 146,964 |

**Test Systems Sales by Market**

| (In thousands) | Three Months Ended April 4, 2015 | March 29, 2014 |
|---|---|---|
| Commercial Electronics | $ 4,752 | $ 14,337 |
| Military | 14,534 | 4,242 |
| | $ 19,286 | $ 18,579 |

Sales in the 2015 first quarter increased $0.7 million to $19.3 million compared with sales of $18.6 million for the same period in 2014. During 2014, ATS completed delivery of units with its primary customer in the Commercial Electronics market and will begin delivery on a follow on order in the second or third quarter of this year. The decrease in the Commercial Electronics market was offset by increased sales to the Military market, primarily resulting from incremental sales attributable to the acquisition of ATS. Operating loss for the first quarter of 2015 was $2.2 million compared with an operating loss of $1.7 million in the same period last year, primarily as a result of $0.3 million of incremental amortization expense related to the ATS intangible assets in the first quarter of 2015 as compared to the first quarter of 2014.

Outlook for Test Systems We expect sales for the Test Systems segment for 2015 to be in the range of $130 million to $160 million. The Test Systems segment s backlog at the end of the first quarter of 2015 was $144.5 million with approximately $104.6 million expected to be shipped over the remaining part of 2015 and approximately $112.6 million scheduled to ship over the next 12 months. By the end of 2014, we delivered the final unit under our initial contract with our major customer. We received a follow-on order from this customer, and expect to begin delivery of the associated units in the second or third quarter of 2015.

***LIQUIDITY AND CAPITAL RESOURCES***

**Operating Activities:**

Cash provided by operating activities totaled $26.8 million for the first three months of 2015, as compared with $2.6 million during the same period in 2014. Cash flow from operating activities increased primarily due to higher net income as adjusted for non-cash expenses and by the impact of decreases in net operating assets for the first three months of 2015 when compared with the first three months of 2014.

**Investing Activities:**

Cash used for investing activities was $60.0 million for the first three months of 2015 compared with $87.2 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 of $7.1 million related primarily to the modifications of the new buildings in Clackamas, Oregon. The Company expects capital spending in 2015 to be in the range of $20 million to $27 million.

**Financing Activities:**

The primary financing activities in 2015 relate to borrowings on our senior credit facility to fund the acquisition of Armstrong and principal payments against our outstanding balance on the senior facility. In January 2015, we borrowed $40.0 million to fund the acquisition of Armstrong. Through the end of the first quarter of 2015 we made principal payments of $5.7 million, primarily from funds generated by operations.

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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. In the first quarter of 2014, we made principal payments of $0.4 million.

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.

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 April 4, 2015, the Company was in compliance with all of the covenants pursuant to the credit facility. Our interest coverage ratio was 22.8 to 1 and the leverage ratio was 1.5 to 1 at April 4, 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 April 4, 2015 was $378.5 million compared with $370.7 million at December 31, 2014 and $362.4 million at March 29, 2014.

***CONTRACTUAL OBLIGATIONS AND COMMITMENTS***

The following table represents contractual obligations as of April 4, 2015:

| | | Payments Due by Period | | | |
|---|---|---|---|---|---|
| (In thousands) | Total | 2015 | 2016-2017 | 2018-2019 | After 2019 |
| Long-term Debt | $ 216,757 | $ 1,934 | $ 5,286 | $ 204,505 | $ 5,032 |
| Purchase Obligations | 132,894 | 127,463 | 4,994 | 437 | |
| Interest on Long-term Debt | 19,028 | 4,105 | 7,955 | 6,637 | 331 |

| | | | | | |
|---|---|---|---|---|---|
| Supplemental Retirement Plan and Post Retirement Obligations | 21,880 | 303 | 807 | 804 | 19,966 |
| Operating Leases | 9,163 | 2,214 | 3,858 | 2,962 | 129 |
| Other Long-term Liabilities | 1,891 | 21 | 1,772 | 26 | 72 |
| Total Contractual Obligations | $ 401,613 | $ 136,040 | $ 24,672 | $ 215,371 | $ 25,530 |

*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 facility leases for our AES, AeroSat, Ballard, DME, Max-Viz, Peco and Luminescent Systems Canada.

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***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. This authoritative guidance will be effective as of the Company s first quarter of fiscal 2017. However, the FASB has proposed a deferral of the effective date of the new revenue standard by one year. 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.

In April 2015, the FASB issued authoritative guidance regarding customer s accounting for fees paid in a cloud computing arrangement. The authoritative guidance provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the guidance requires the software license element of the arrangement to be accounted for consistent with other software license agreements. This authoritative guidance will be effective as of the Company s first quarter of fiscal 2016, with early adoption permitted. The Company is currently evaluating the impact that adoption of this guidance will have on its consolidated financial statements.

***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, ap estimates, predicts, potential, outlook, forecast, anticipates, presume and assume, are forward-looking s 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.

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## 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 April 4, 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 April 4, 2015.

b) Changes in Internal Control over Financial Reporting - There have been no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

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

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, Astronics Advanced Electronic Systems Corp. ( 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. However, if Lufthansa provides the required bank guarantees specified in the decision, the Company may be required to offer a recall of products which are in the distribution channels in Germany, and provide certain financial information regarding sales of the infringing product to enable Lufthansa to make an estimate of requested damages. No such bank guarantees have been issued to date.

The Company has appealed and believes it has valid defenses to refute the decision. The appeal process is estimated to extend up to two years. 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 April 4, 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 April 4, 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.

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**Item 2. Unregistered sales of equity securities and use of proceeds**

(c) The following table summarizes the Company s purchases of its common stock for the quarter ended April 4, 2015:

| Period | (a) Total number of shares Purchased | (b) Average Price Paid per Share | (c) Total number of shares Purchased as part of Publicly Announced Plans or Programs | (d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| January 1, 2015 January 31, 2015 | 1,856 | $ 55.27 | | |
| February 1, 2015 February 28, 2015 | 1,066 | 56.06 | | |
| March 1, 2015 April 4, 2015 | 2,405 | 70.79 | | |
| Total | 5,327 | $ 60.71 | | |

In connection with the exercise of stock options, we accept, from time to time, delivery of shares to pay the exercise price of stock options.

**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.

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## SIGNATURES

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

**ASTRONICS CORPORATION**
(Registrant)

Date: May 13, 2015

By: /s/ David C. Burney
David C. Burney
Executive Vice President and Chief Financial Officer

(Principal Financial Officer)