

ASTRONICS CORP
Form 10-Q
May 09, 2007

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

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2007 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 0-7087

ASTRONICS CORPORATION

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of
incorporation or organization)

16-0959303

(IRS Employer Identification Number)

130 Commerce Way, East Aurora, New York

(Address of principal executive offices)

14052

(Zip code)

(716) 805-1599

(Registrant's telephone number, including area code)

NOT APPLICABLE

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

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

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

(Title of Class)

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

As of March 31, 2007 8,064,887 shares of common stock were outstanding consisting of 6,687,549 shares of common stock (\$.01 par value) and 1,377,338 shares of Class B common stock (\$.01 par value).

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ASTRONICS CORPORATION

Consolidated Balance Sheet

March 31, 2007

with Comparative Figures for December 31, 2006

(dollars in thousands except per share amounts)

| | March 31, 2007 (Unaudited) | December 31, 2006 |
|--|----------------------------------|-------------------------|
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 346 | \$ 222 |
| Accounts Receivable, net of allowance for doubtful accounts of \$440 in 2007 and \$314 in 2006 | 24,663 | 17,165 |
| Inventories | 32,976 | 31,570 |
| Prepaid Expenses | 1,312 | 1,067 |
| Deferred Income Taxes | 1,481 | 1,632 |
| Total Current Assets | 60,778 | 51,656 |
| Property, Plant and Equipment, at cost | 39,591 | 36,521 |
| Less Accumulated Depreciation and Amortization | 13,750 | 13,085 |
| Net Property, Plant and Equipment | 25,841 | 23,436 |
| Deferred Income Taxes | 630 | 622 |
| Intangible Assets, net of accumulated amortization of \$698 in 2007 and \$637 in 2006 | 2,274 | 2,335 |
| Other Assets | 1,835 | 1,821 |
| Goodwill | 2,704 | 2,668 |
| Total Assets | \$ 94,062 | \$ 82,538 |

See notes to consolidated financial statements.

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ASTRONICS CORPORATION

Consolidated Balance Sheet

March 31, 2007

with Comparative Figures for December 31, 2006
(dollars in thousands except per share amounts)

| | March 31, 2007 (Unaudited) | December 31, 2006 |
|---|----------------------------------|-------------------------|
| Current Liabilities: | | |
| Current Maturities of Long-term Debt | \$ 926 | \$ 923 |
| Note Payable | 14,500 | 8,100 |
| Accounts Payable | 13,258 | 12,472 |
| Accrued Payroll and Employee Benefits | 3,839 | 4,403 |
| Income Taxes Payable | 1,876 | |
| Customer Advance Payments and Deferred Revenue | 4,192 | 6,864 |
| Other Accrued Expenses | 1,828 | 1,457 |
| Total Current Liabilities | 40,419 | 34,219 |
| | | |
| Long-term Debt | 9,404 | 9,426 |
| Supplemental Retirement Plan and Other Liabilities for Pension Benefits | 6,197 | 6,190 |
| Other Liabilities | 1,390 | 1,355 |
| | | |
| Shareholders' Equity: | | |
| Common Stock, \$.01 par value | | |
| Authorized 20,000,000 shares, issued 7,365,987 in 2007, 7,313,726 in 2006 | 73 | 73 |
| Class B Stock, \$.01 par value | | |
| Authorized 5,000,000 shares, issued 1,483,150 in 2007, 1,496,006 in 2006 | 15 | 15 |
| Additional Paid-in Capital | 6,057 | 5,504 |
| Accumulated Other Comprehensive (Loss) | (648) | (704) |
| Retained Earnings | 34,874 | 30,179 |
| | 40,371 | 35,067 |
| | | |
| Less Treasury Stock: 784,250 shares in 2007 and 2006 | 3,719 | 3,719 |
| | | |
| Total Shareholders' Equity | 36,652 | 31,348 |
| | | |
| Total Liabilities and Shareholders' Equity | \$ 94,062 | \$ 82,538 |

See notes to consolidated financial statements.

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ASTRONICS CORPORATION
Consolidated Statement of Income and Retained Earnings
 Three Months Ended March 31, 2007
 with Comparative Figures for 2006
 (Unaudited)
 (dollars in thousands except per share data)

| | Three Months Ended | |
|---|--------------------|------------------|
| | March | |
| | 31, 2007 | April 1, 2006 |
| Sales | \$ 42,875 | \$ 25,263 |
| Costs and Expenses: | | |
| Cost of products sold | 31,225 | 19,851 |
| Selling, general and administrative expenses | 4,276 | 3,019 |
| Interest expense, net of interest income of \$- in 2007 and \$4 in 2006 | 296 | 199 |
| Other (income) expense | (8) | (12) |
| Total costs and expenses | 35,789 | 23,057 |
| Income Before Income Taxes | 7,086 | 2,206 |
| Provision for Income Taxes | 2,391 | 888 |
| Net Income | \$ 4,695 | \$ 1,318 |
| Retained Earnings: | | |
| Beginning of period | 30,179 | 24,443 |
| End of period | \$ 34,874 | \$ 25,761 |
| Earnings per share: | | |
| Basic | \$ 0.58 | \$ 0.17 |
| Diluted | \$ 0.56 | \$ 0.16 |

See notes to consolidated financial statements.

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ASTRONICS CORPORATION
Consolidated Statement of Cash Flows
 Three Months Ended March 31, 2007
 With Comparative Figures for 2006
 (Unaudited)
 (dollars in thousands)

| | March 31, 2007 | April 1, 2006 |
|--|-------------------|------------------|
| Cash Flows from Operating Activities: | | |
| Net Income | \$ 4,695 | \$ 1,318 |
| Adjustments to Reconcile Net Income to Cash (Used For) Provided By Operating Activities: | | |
| Depreciation and Amortization | 770 | 623 |
| Provision for Non-Cash Losses on Inventory and Receivables | 112 | (33) |
| Stock Compensation Expense | 151 | 142 |
| Deferred Tax Provision (Benefit) | 133 | (15) |
| Other | | (18) |
| Cash Flows from Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | (7,588) | (3,297) |
| Inventories | (1,368) | (2,196) |
| Prepaid Expenses | (490) | (283) |
| Accounts Payable | 776 | 2,619 |
| Accrued Expenses | (198) | (1,435) |
| Customer Advanced Payments and Deferred Revenue | (2,672) | (623) |
| Contract Loss Reserves | | (262) |
| Income Taxes | 2,091 | 621 |
| Supplemental Retirement and Other Liabilities | 59 | 34 |
| Cash Used For Operating Activities | (3,529) | (2,805) |
| Cash Flows from Investing Activities: | | |
| Capital Expenditures | (3,045) | (645) |
| Other | (32) | |
| Cash Used For Investing Activities | (3,077) | (645) |
| Cash Flows from Financing Activities: | | |
| Principal Payments on Long-term Debt | (43) | (53) |
| Proceeds from Note Payable | 9,600 | |
| Payments on Note Payable | (3,200) | (1,000) |
| Proceeds from Exercise of Stock Options | 224 | 26 |
| Income Tax Benefit from Exercise of Stock Options | 178 | |
| Cash Provided By (Used For) Financing Activities | 6,759 | (1,027) |

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| | | |
|--|--------|---------|
| Effect of Exchange Rates on Cash | (29) | 10 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 124 | (4,467) |
| Cash at Beginning of Period | 222 | 4,473 |
| Cash at End of Period | \$ 346 | \$ 6 |

See notes to consolidated financial statements.

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ASTRONICS CORPORATION
Notes to Consolidated Financial Statements
 March 31, 2007
 (Unaudited)

1) Basis of Presentation

The accompanying unaudited statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. The results of operations for any interim period are not necessarily indicative of results for the full year. Operating results for the three month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The balance sheet at December 31, 2006 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included in Astronics Corporation's (the Company) 2006 annual report on Form 10-K.

2) Stock Based Compensation

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

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

The fair value of stock options granted was estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average fair value of the options was \$7.85 for options granted during the three months ended March 31, 2007 and was \$6.05 for options granted during the three months ended April 1, 2006. The following table provides the range of assumptions used to value stock options granted during the three months ended March 31, 2007 and April 1, 2006.

| | Three Months Ended | |
|--------------------------|--------------------|---------------|
| | March 31, 2007 | April 1, 2006 |
| Expected volatility | 0.34 | 0.34 |
| Risk-free rate | 4.50% | 4.70% |
| Expected dividends | 0.00% | 0.00% |
| Expected term (in years) | 7 Years | 7 Years |

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

The table below reflects the impact stock compensation expense had on net earnings for the three months ended March 31, 2007 compared to the three months ended April 1, 2006 as follows:

| (in thousands) | Three Months Ended | |
|--|--------------------|---------------|
| | March 31, 2007 | April 1, 2006 |
| Stock compensation expense | \$ 151 | \$ 142 |
| Tax benefit | (14) | (16) |
| Stock compensation expense, net of tax | \$ 137 | \$ 126 |

A summary of the Company's stock option activity and related information for the three months ended March 31, 2007 is as follows:

| | Number of Options | 2007 Weighted Average Exercise Price per option | Aggregate Intrinsic Value |
|----------------------------------|-------------------|---|---------------------------|
| Outstanding at December 31, 2006 | 818,182 | \$ 7.31 | \$8,416,000 |
| Options Granted | 25,000 | 17.60 | |
| Options Exercised | (41,128) | 6.22 | (468,000) |
| Outstanding at March 31, 2007 | 802,054 | 7.69 | 7,948,000 |
| Exercisable at March 31, 2007 | 521,204 | \$ 6.51 | \$5,780,000 |

The aggregate intrinsic value in the preceding table represents the total pretax option holder's intrinsic value, based on the Company's closing stock price of Common Stock of \$17.60 as of March 31, 2007, which would have been received by the option holders had all option holders exercised their options as of that date.

The fair value of options vested since December 31, 2006 is \$0.1 million. At March 31, 2007, total compensation costs related to non-vested awards not yet recognized amounts to \$1.2 million and will be recognized over a weighted average period of 2.1 years.

The following is a summary of weighted average exercise prices and contractual lives for outstanding and exercisable stock options as of March 31, 2007:

| Exercise Price Range | Shares | Outstanding | Weighted Average | Exercisable |
|----------------------|--------|--|------------------|---------------------------------|
| | | Weighted Average Remaining Life in Years | | Weighted Average Exercise Price |
| | | | | |

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| | | | Exercise Price | | |
|-----------------|---------|-----|-------------------|---------|--------|
| \$ 4.59 | 28,188 | 0.9 | \$ 4.59 | 28,188 | \$4.59 |
| \$ 5.09 \$ 7.65 | 543,180 | 6.2 | 5.63 | 404,210 | 5.63 |
| \$ 9.83 \$13.49 | 152,086 | 7.2 | 10.60 | 88,806 | 11.14 |
| \$17.00 \$17.60 | 78,600 | 9.8 | 17.44 | | |
| | 802,054 | 6.6 | 7.69 | 521,204 | 6.51 |

3) Goodwill and Intangible Assets

The following table summarizes the changes in the carrying amount of goodwill for 2007 and 2006:

| (in thousands) | March 31, 2007 | December 31, 2006 |
|-------------------------------|-------------------|-------------------------|
| Balance beginning of period | \$ 2,668 | \$ 2,686 |
| Foreign currency translations | 36 | (18) |
| Balance end of period | \$ 2,704 | \$ 2,668 |

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The following table summarizes acquired intangible assets as follows:

| | Weighted Average Life | March 31, 2007 | | December 31, 2006 | |
|-------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| (in thousands) | | | | | |
| Patents | 12 Years | \$ 1,271 | 215 | \$ 1,271 | 190 |
| Trade Names | N/A | 553 | | 553 | |
| Completed and Unpatented Technology | 10 Years | 487 | 105 | 487 | 93 |
| Government Contracts | 6 Years | 347 | 125 | 347 | 111 |
| Backlog | 4 Years | 314 | 253 | 314 | 243 |
| Total Intangible Assets | | \$ 2,972 | \$ 698 | \$ 2,972 | \$ 637 |

Amortization is computed on the straight-line method for financial reporting purposes. Amortization expense was \$0.1 million and \$0.1 million for the three months ended March 31, 2007 and April 1, 2006 respectively. Amortization expense for each of the next five years is expected to be approximately \$0.2 million for each year.

4) 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:

| | March 31, 2007 | December 31, 2006 |
|------------------|-------------------|-------------------------|
| (in thousands) | | |
| Finished Goods | \$ 5,217 | \$ 5,575 |
| Work in Progress | 9,510 | 9,651 |
| Raw Material | 18,249 | 16,344 |
| | \$ 32,976 | \$ 31,570 |

5) Comprehensive Income and Accumulated Other Comprehensive Income

The components of comprehensive income are as follows:

| | Three Months Ended | |
|---|----------------------|------------------|
| | March 31, 2007 | April 1, 2006 |
| (in thousands) | | |
| Net income | \$ 4,695 | \$ 1,318 |
| Other comprehensive income: | | |
| Foreign currency translation adjustments | 39 | (17) |
| Gain on accumulated retirement liability adjustment, net of tax of \$15 in 2007 and \$- in 2006 | 23 | |
| Gain (loss) on derivatives, net of tax of \$6 in 2007 and \$10 in 2006 | (6) | (17) |
| Comprehensive income | \$ 4,751 | \$ 1,284 |

The components of accumulated other comprehensive income is as follows:

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| (in thousands) | March 31, 2007 | December 31, 2006 |
|--|-------------------|-------------------------|
| Cumulative foreign currency adjustments | \$ 814 | \$ 775 |
| Accumulated retirement liability adjustment, net of tax of \$845 for 2007 and \$859 for 2006 | (1,408) | (1,431) |
| Accumulated loss on derivatives, net of tax of \$31 for 2007 and \$25 for 2006 | (54) | (48) |
| Accumulated other comprehensive income | \$ (648) | \$ (704) |

Table of Contents**6) Earnings Per Share**

The following table sets forth the computation of earnings per share:

| (in thousands, except per share data) | Three Months Ended | |
|--|----------------------|------------------|
| | March 31, 2007 | April 1, 2006 |
| Net Income | \$ 4,695 | \$ 1,318 |
| Basic earnings per share weighted average shares | 8,054 | 7,912 |
| Net effect of dilutive stock options | 400 | 231 |
| Diluted earnings per share weighted average shares | 8,454 | 8,143 |
| Basic earnings per share | \$ 0.58 | \$ 0.17 |
| Diluted earnings per share | \$ 0.56 | \$ 0.16 |

7) Supplemental Retirement Plan and Related Post Retirement Benefits

The Company has a non-qualified supplemental retirement defined benefit plan for certain executives. The following table sets forth information regarding the net periodic pension cost for the plan.

| (in thousands) | Three Months Ended | |
|--------------------------------------|----------------------|------------------|
| | March 31, 2007 | April 1, 2006 |
| Service cost | \$ 10 | \$ 9 |
| Interest cost | 80 | 77 |
| Amortization of prior service cost | 27 | 27 |
| Amortization of net actuarial losses | 1 | 1 |
| Net periodic cost | \$ 118 | \$ 114 |

Participants in the non-qualified supplemental retirement plan 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 | |
|--------------------------------------|----------------------|------------------|
| | March 31, 2007 | April 1, 2006 |
| Service cost | \$ 2 | \$ 2 |
| Interest cost | 11 | 11 |
| Amortization of prior service cost | 8 | 8 |
| Amortization of net actuarial losses | 2 | 3 |
| Net periodic cost | \$ 23 | \$ 24 |

8) Income Taxes

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 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 FIN 48 as of January 1, 2007, 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. The Company believes that its income tax filing positions and deductions will be sustained on audit. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48, and, the Company was not required to record a cumulative effect adjustment related to the adoption of FIN 48.

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In the future, should the Company need to accrue a liability for unrecognized tax benefits, any interest associated with that liability will be recorded as interest expense. Penalties, if any, would be recognized as operating expenses. There are no penalties or interest liability accrued as of March 31, 2007. In years previous, any interest and penalties were insignificant and recorded as income tax expense. 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 2003, 2004, 2005 and 2006.

Prior to January 1, 2007, the Company recorded accruals for tax contingencies and related interest when it was probable that a liability had been incurred and the amount of the contingency could be reasonably estimated based on specific events such as an audit or inquiry by a taxing authority.

9) Sales To Major Customers

The Company has a significant concentration of business with two customers. Sales to Panasonic Avionics Corporation amounted to approximately 29% and 15% of revenue during the 1st quarter 2007 and 2006, respectively. Accounts receivable from this customer amounted to 16% and 11% of the Company's gross trade receivables as of March 31, 2007 and December 31, 2006, respectively.

Sales to Air Canada amounted to approximately 12% and 3% of revenue during the 1st quarter 2007 and 2006, respectively. Accounts receivable from this customer amounted to 11% and 8% of the Company's gross trade receivables as of March 31, 2007 and December 31, 2006, respectively.

10) New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurement. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. It will be effective for the Company in fiscal 2008 and interim periods within that fiscal year. The Company is in the process of determining the effect the adoption of SFAS No. 157 will have, if any, on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which allows measurement of specified financial instruments, warranty and insurance contracts at fair value on a contract by contract basis, with changes in fair value recognized in earnings in each period. SFAS 159 is effective at the beginning of the fiscal year that begins after November 15, 2007, and will be effective for the Company in fiscal 2008. The Company is in the process of determining the effect the adoption of SFAS No. 159 will have, if any, on our consolidated financial statements.

11) Subsequent Event

To pay a portion of the cost of construction of an addition to its facility in East Aurora, New York and the acquisition of additional equipment to be located at such facility, Luminescent Systems, Inc., a subsidiary of the Company, entered into a tax exempt industrial revenue bond transaction. Under this bond transaction, the Erie County Industrial Development Agency issued on April 24, 2007 tax exempt bonds in the principal amount of \$6.0 million to pay for project costs. The Bonds mature on April 1, 2027. The interest rate applicable to the Bonds is a variable tax exempt bond rate that is adjusted weekly, based upon a minimum rate of interest necessary to enable the Remarketing Agent to remarket the Bonds at par. The initial rate is 3.85%. The obligations are secured by a mortgage on the Company's facility in East Aurora, New York and a security interest in the equipment at such facility. The obligations of the Company and Luminescent are also secured by a pledge by the Company of the stock of the Company's subsidiary, Astronics Advanced Electronic Systems Corp.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(The following should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Form 10-K for the year ended December 31, 2006.)

The following table sets forth income statement data as a percent of net sales:

| | Three Months Ended | |
|---|--------------------|------------------|
| | March 31, 2007 | April 1, 2006 |
| Sales | 100.0% | 100.0% |
| Cost of products sold | 72.8 | 78.6 |
| Selling, general and administrative and other expense | 10.0 | 12.0 |
| Interest expense | 0.7 | 0.7 |
| Total cost and expenses | 83.5 | 91.3 |
| Income before taxes | 16.5% | 8.7% |

SALES

Sales for the first quarter of 2007 increased 69.7% to \$42.9 million compared with \$25.3 million for the same period last year. In general the overall aerospace markets continue to be strong. Sales to the commercial transport market were \$28.6 million, as compared to \$12.8 million for the same period of 2006, an increase of \$15.8 million or 123.8% due to volume. Increased demand by global commercial airlines for in-flight entertainment systems and in-seat power systems that utilize our cabin electronics technology drove the sales increase in the commercial transport market. Sales to the business jet market were \$7.8 million, up \$2.9 million, or 58.8%, compared with sales of \$4.9 million for the same period in 2006. The increase of sales to the business jet market was due primarily to new programs such as the Eclipse 500 and Piaggio P180 Avanti II entering production. Sales to the military market were \$6.2 million as compared to \$7.1 million last year, a decrease of \$0.9 million or 13.2%. The decrease was primarily caused by a decrease in military spare parts shipments as compared with the same period last year.

EXPENSES AND MARGINS

Cost of products sold as a percentage of sales decreased to 72.8% for the first quarter of 2007 as compared to 78.6% for the same period last year. That decrease was the result of the leverage provided by the sales increase offset by \$1.0 million increase of engineering and development costs.

Selling, general and administrative and other (SG&A) expenses were \$4.3 million in the first quarter of 2007, up from \$3.0 million in the same period last year. As a percent of sales, SG&A expenses was 10.0% for the first quarter of 2007 as compared to 12.0% for the same period in 2006 as sales grew at a faster pace than SG&A spending. The increase in total dollars was primarily due to increased wages and benefits due to increased staffing and compensation related costs and increased costs for audit and other professional services.

Net interest expense for the first quarter of 2007 was \$0.3 million compared to 2006 which was \$0.2 million. Net interest expense increased due to a combination of higher interest rates and higher debt levels to fund the building expansion and increased working capital requirements.

TAXES

The effective income tax rate for the first quarter of 2007 was 33.8% compared to 40.3% last year. The decreased effective rate in 2007 was due primarily to decreases in permanent differences which do not provide tax benefits and decreases in foreign and state taxes.

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NET INCOME AND EARNINGS PER SHARE

Net income for the first quarter of 2007 was \$4.7 million or \$0.56 per diluted share, an increase of \$3.4 million from \$1.3 million, or \$0.16 per diluted share in the first quarter of 2006. The earnings per share increase was due to increased net income and was not significantly impacted by a change in shares outstanding.

LIQUIDITY

Cash used for operating activities totaled \$3.5 million during the first three months of 2007, as compared with \$2.8 million of cash used by operations during the first three months of 2006. The change was due primarily to net income being offset by increased investment in net working capital components, primarily inventory and receivables associated with our increasing sales.

Cash used in investing activities was \$3.1 million in the first three months of 2007, increasing by \$2.4 million when compared to \$0.6 million used in the first three months of 2006. This was due primarily to \$1.8 million spent during the first quarter on the facility expansion to the East Aurora New York facility.

In the first three months of 2007 cash provided by financing activities totaled \$6.8 million. The Company had net borrowings of \$6.4 million against its revolving credit facility for the facility expansion in New York and to provide financing for operating costs.

In January, 2007 the Company entered into a new agreement with HSBC Bank USA which increases its available revolving credit facility to \$20 million. At March 31, 2007 the Company had \$14.5 million outstanding on the line of credit. The agreement is a committed two year facility through January 5, 2009. At March 31, 2007, the Company was in compliance with all of the covenants pursuant to the credit facility in existence with HSBC Bank USA at that time. During the third quarter of 2006 the Company committed to proceed with a facility and equipment expansion to its East Aurora, NY operation. The facility is expected to be completed in the first half of 2007 and will add 57,000 square feet of production capacity. The cost for the expansion, including the initial acquisition of machinery and equipment is expected to be approximately \$7.5 million

On April 24, 2007, to pay a portion of the costs of the construction of an addition to its facility in East Aurora, New York and the acquisition of additional equipment to be located at such, Luminescent Systems, Inc., a subsidiary of the Company, entered into tax exempt industrial revenue bond transaction. Under this bond transaction, the Erie County Industrial Development Agency issued on April 24, 2007 tax exempt bonds in the principal amount of \$6.0 million to pay for qualified project costs. Approximately \$3.2 million of the proceeds from this debt issuance will be used immediately to pay down the unsecured revolving credit facility which was used for qualified project expenditures. The balance will be drawn as qualified project expenditures are incurred. These Bonds mature on April 1, 2027. The interest rate applicable to the Bonds is a variable tax exempt bond rate that is adjusted weekly, based upon a minimum rate of interest necessary to enable the Remarketing Agent to remarket the Bonds at par. The initial rate is 3.85%. The obligations are secured by a mortgage on the Company's facility in East Aurora, New York and a security interest in the equipment at such facility. The obligations of the Company and Luminescent Systems Inc. are also secured by a pledge by the Company of the stock of the Company's subsidiary, Astronics Advanced Electronic Systems Corp. The Company's cash needs for working capital, capital equipment and debt service during 2007 and the foreseeable future, are expected to be met by cash flows from operations, the bonds described above, and if necessary, utilization of its revolving credit facility.

BACKLOG

The Company's backlog at March 31, 2007 was \$97.0 million compared with \$94.7 million at April 1, 2006.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company's contractual obligations and commercial commitments have not changed materially from disclosures in the Company's Form 10-K for the year ended December 31, 2006.

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MARKET RISK

Risk due to fluctuation in interest rates is a function of the Company's floating rate debt obligations, which total approximately \$20.8 million at March 31, 2007. To partially offset this exposure, the Company entered into an interest rate swap in February 2006, on its New York Industrial Revenue Bond which effectively fixes the rate at 3.99% on this \$4.0 million obligation through January 2016. As a result, a change of 1% in interest rates would impact annual net income by less than \$0.1 million.

There have been no material changes in the current year regarding the market risk information for its exposure to currency exchange rates. The Company has limited exposure to fluctuation in Canadian currency exchange rates to the U.S. dollar.

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 for a complete discussion of the Company's market risk.

CRITICAL ACCOUNTING POLICIES

Refer to the Company's annual report on Form 10-K for the year ended December 31, 2006 for a complete discussion of the Company's critical accounting policies. Other than the adoption of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), (see Note 8 of the Notes to Consolidated Financial Statements) there have been no significant changes in the current year regarding critical accounting policies.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurement. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is in the process of determining the effect the adoption of SFAS No. 157 will have, if any, on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which allows measurement of specified financial instruments, warranty and insurance contracts at fair value on a contract by contract basis, with changes in fair value recognized in earnings in each period. SFAS 159 is effective at the beginning of the fiscal year that begins after November 15, 2007, and will be effective for the Company in fiscal 2008. The Company is in the process of determining the effect the adoption of SFAS No. 159 will have, if any, on our consolidated financial statements.

FORWARD-LOOKING STATEMENTS

This Quarterly Report contains certain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involves uncertainties and risks. These statements are identified by the use of the words believes, expects, intends, anticipates, may, will, estimate, potential and words of similar import cautioned not to place undue reliance on these forward looking statements as various uncertainties and risks could cause actual results to differ materially from those anticipated in these statements. These uncertainties and risks include the success of the Company with effectively executing its plans; the timeliness of product deliveries by vendors and other vendor performance issues; changes in demand for our products from the U.S. government and other customers; the acceptance by the market of new products developed; our success in cross-selling products to different customers and markets; changes in government contracts; the state of the commercial and business jet aerospace market; the Company's success at increasing the content on current and new aircraft platforms; the level of aircraft build rates; as well as other general economic conditions and other factors.

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

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 March 31, 2007. 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 March 31, 2007.

During the Company's 2006 year-end audit the Company became aware that its revenue recognition policy with regard to a bill and hold arrangement with one customer did not meet all of the criteria necessary to allow it to recognize revenue for the transaction while the product remained in the Company's facility. As such Management concluded that a material weakness in the Company's internal control over financial reporting existed at December 31, 2006. The Company believes it has taken appropriate action to remediate the weakness during the first quarter of 2007, which includes training with regard to bill and hold arrangements and approval of any proposed bill and hold arrangement by the CEO and CFO of the Company. There were no other material changes in the Company's internal control over financial reporting during the first quarter of 2007.

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings.**

None.

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, 2006, which could materially affect our business, financial condition or results of operations. The risks described in our Annual Report of 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.

The Company has a significant concentration of business with Panasonic Avionics Corporation. A significant reduction in sales would negatively impact our sales and earnings. We provide Panasonic with cabin electronics products which, in total were approximately 29% of revenue during the 1st quarter of 2007.

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 March 31, 2007:

| 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 - January 27, 2007 | | | | 432,956 |
| January 28 - February 24, 2007 | | | | 432,956 |
| February 25 - March 31, 2007 | | | | 432,956 |
| Total | | | | 432,956 |

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Securities Holders.

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

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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 9, 2007

By: /s/ David C. Burney
David C. Burney
Vice President-Finance and Treasurer
(Principal Financial Officer)

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