ASTRONICS CORP
Form 10-Q
August 11, 2006

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

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

or

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

Commission File Number 0-7087
ASTRONICS CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

Yes þ No o

Indicate by check mark whether the registrant 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 o Accelerated filer o Non-accelerated filer þ

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

Yes o No þ

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

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

ASTRONICS CORPORATION

Consolidated Balance Sheet

July 1, 2006

With Comparative Figures for December 31, 2005

(dollars in thousands)

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

See notes to financial statements.

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

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

See notes to financial statements.

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ASTRONICS CORPORATION

Consolidated Statement of Income and Retained Earnings

Six Months Ended July 1, 2006

With Comparative Figures for 2005

(Unaudited)

(dollars in thousands except per share data)

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

See notes to financial statements

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

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

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

See notes to financial statements

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ASTRONICS CORPORATION
Notes to Consolidated Financial Statements
July 1, 2006
(Unaudited)

1) Basis of Presentation

The accompanying unaudited statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. The results of operations for any interim period are not necessarily indicative of results for the full year. Operating results for the six month period ended July 1, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The balance sheet at December 31, 2005 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included in Astronics Corporation s (the Company) 2005 annual report on Form 10-K.

2) Stock Based Compensation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3) Acquisition

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

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

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

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

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

interest expense on acquisition debt and related income tax effects.

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

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

4) Discontinued Operations

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

5) Inventories

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

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

6) Comprehensive Income and Accumulated Other Comprehensive Income

The components of comprehensive income are as follows:

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

The components of accumulated other comprehensive income are as follows:

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

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7) Earnings Per Share

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

(in thousands, except per share data)	Six Months Ended July 1, 2006	Six Months Ended July 2, 2005	Three Months Ended July 1, 2006	Three Months Ended July 2, 2005
Net Income	$ 3,225	$ 806	$ 2,015	$ 197
Basic earnings per share weighted average shares	7,925	7,835	7,937	7,857
Net effect of dilutive stock options	258	127	286	166
Diluted earnings per share weighted average shares	8,183	7,962	8,223	8,023
Basic earnings per share	$ 0.41	$ 0.10	$ 0.25	$ 0.02
Diluted earnings per share	$ 0.39	$ 0.10	$ 0.25	$ 0.02

8) 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)	Six Months Ended July 1, 2006	Six Months Ended July 2, 2005	Three Months Ended July 1, 2006	Three Months Ended July 2, 2005
Service cost	$ 18	$ 12	$ 9	$ 6
Interest cost	154	154	77	77
Amortization of prior service cost	54	54	27	27
Amortization of net actuarial losses	2		1	
Net periodic cost	$ 228	$ 220	$ 114	$ 110

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)	Six Months Ended July 1, 2006	Six Months Ended July 2, 2005	Three Months Ended July 1, 2006	Three Months Ended July 2, 2005
Service cost	$ 4	$ 2	$ 2	$ 1
Interest cost	22	20	11	10
Amortization of prior service cost	16	16	8	8
Amortization of net actuarial losses	6	2	3	1
Net periodic cost	$ 48	$ 40	$ 24	$ 20

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9) New Accounting Pronouncements

In June 2006, the FASB issued Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes an Interpretation for SFAS No. 109. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with for SFAS No. 109, Accounting for Income Taxes. The pronouncement prescribes a recognition threshold and measurement attributable to financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. We are in the process of determining the effect, if any; the adoption of FIN 48 will have on our financial statements.

10) Income Taxes

On April 12, 2005, New York State enacted tax legislation resulting in a change to the New York State apportionment methodology. Beginning in 2006, a single sales factor apportionment method will be phased in, with a single sales factor solely used in 2008. It is expected that this enacted legislation will result in a lower apportionment of the Company s taxable income to New York State, resulting in lower New York state income taxes. Accordingly, the Company s ability to use or realize New York State tax credits has been reduced. In 2005, the Company has assessed the impact of the new tax legislation and recorded a valuation allowance reducing the Company s $490 thousand deferred tax asset relating to New York State tax credits to $40 thousand. As a result of this valuation allowance the Company recorded a non-cash charge to income tax expense of $300 thousand or $0.04 per diluted share during the second quarter of 2005. The charge to income tax expense is net of the affect of federal income taxes. The effective tax rate in 2006 returned to a more normal rate of 38.5%

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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, 2005.)

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

	Six Months Ended		Three Months Ended	
(in thousands)	July 1, 2006	July 2, 2005	July 1, 2006	July 2, 2005
Sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	77.6	80.3	76.4	81.5
Selling, general and administrative and other expense	11.9	13.9	11.8	13.7
Interest expense	0.8	0.9	0.8	1.0
Total cost and expenses	90.3	95.1	89.0	96.2
Income before taxes	9.7%	4.9%	11.0%	3.8%

ACQUISITION

On February 3, 2005, the Company acquired the assets of the Airborne Electronic Systems (AES) business unit from a subsidiary of General Dynamics, for $13.0 million. The Company used $6.0 million of cash and borrowed $7.0 million against its line of credit to finance the acquisition. No goodwill was recognized as a result of this acquisition. Operating results for this acquisition are included in the consolidated statement of earnings from the acquisition date.

SALES

Sales for the second quarter of 2006 increased 54.1% to $29.0 million compared with $18.8 million for the same period last year. Sales to the commercial transport market were $16.9 million, as compared to $8.4 million for the same period of 2005, an increase of $8.5 million or 100.3 percent. The sales increase to the commercial transport market was primarily a result of increased volume of cabin electronics products. The volume increase has been driven by increased installations of in-seat power and in-flight entertainment systems utilizing our products. The balance of the increase in commercial transport market sales was due to a broad increased demand for the cabin lighting product line. Sales to the business jet market were $5.4 million, up $1.3 million, or 32.9%, compared with sales of $4.1 million for the same period in 2005. The increase of sales to the business jet market is due primarily to an increase in volume as production of new business jets by the airframe manufacturers increased over last year. Sales to the military market were $6.5 million as compared to $6.1 million last year, an increase of $0.4 million or 6.1%. A $1.0 million increase in sales for airframe power products driven by shipments for the Tactical Tomahawk and Taurus Missile programs was offset by a $1.0 million decrease in deliveries for F-16 night vision kits for the Korean air force. The balance of the increase for military sales was a result of a general increase in volume.

2006 year to date sales increased 56.4 % to $54.0 million compared with $34.5 million for the same period last year. Sales to the commercial transport market were up $14.7 million, or 101.0% to $29.3 million compared with the year ago period at $14.6 million. The increase is due to primarily a result of increased volume of cabin electronics products as the commercial airline market continues to strengthen. The volume increase has been driven by increased installations of in-seat power and in-flight entertainment systems utilizing our products. Sales to the business jet market were $10.3 million, up $2.2 million, or 27.5%, compared with $8.1 million for the same period in 2005. The increase of sales to the business jet market is due primarily to an increase in volume as production of new business jets by the airframe manufacturers increased over last year. Sales to the military market were $13.6 million, up from

$11.2 million in the same period of 2005. Shipments for the Tactical Tomahawk and Taurus Missile programs were primarily responsible for a $2.5 million increase of sales for airframe power products to the military markets. This was partially offset by a $0.9 million decrease in deliveries for F-16 night vision kits for the Korean air force as the Korean program was concluded in 2005. The balance of the increase for military sales was a result of a general increase in volume.

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A small portion of the 2006 year to date sales increase is due to the timing of the Astronics Advanced Electronic Systems acquisition. The acquisition date was February 3, 2005, as such the first six months of 2005 contained only twenty one weeks of sales for Astronics Advanced Electronic Systems as compared with twenty six weeks in the first six months of 2006.

EXPENSES AND MARGINS

Cost of products sold as a percentage of sales decreased 5.1 percentage points to 76.4% for the second quarter of 2006 as compared to 81.5% for the same period last year. That decrease was primarily a result of the leverage provided by sales volume increases without a corresponding increase to our fixed manufacturing costs.

Year to date costs of products sold decreased by 2.7 percentage points to 77.6 % as compared to 80.3% for the same period last year. That decrease was also a result of the leverage provided by sales volume increases without a corresponding increase to our fixed manufacturing costs. That leverage was partially offset by a $0.9 million increase in engineering and development costs over the same period last year.

Selling, general and administrative and other (SG&A) expense as a percent of sales was 11.8 % for the second quarter of 2006, a decrease of 1.9 percentage points compared with 13.7% for the same period of 2005. Second quarter 2006 SG&A costs increased $0.8 million as compared to the second quarter of 2005. The increase 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 related to Sarbanes-Oxley 404 implementation.

For the first six months of 2006 SG&A as a percentage of sales was 11.9% compared to 13.9% for the same period of 2005. In terms of dollars SG&A costs increased $1.6 million to $6.4 million for the first six months of 2006 from $4.8 million in the first six months of 2005. The increase was due to increased wages and benefits due to increased staffing and compensation related costs and increased costs for audit and other professional services related to Sarbanes-Oxley 404 implementation. Also, a portion of the 2006 year to date SG&A increase is due to the timing of the Astronics Advanced Electronic Systems acquisition. The acquisition date was February 3, 2005, as such the first six months of 2005 contained only twenty one weeks of expenses for Astronics Advanced Electronic Systems as compared with twenty six weeks in the first six months of 2006.

Net interest expense for the second quarter of 2006 and 2005 was $0.2 million. Net interest expense for the six months of 2006 increased by $0.1 million from $0.3 million in 2005 to $0.4 million due to an increase in interest rates, offset somewhat by the impact of a pay down of $1.0 million on the note payable during the first half of 2006.

TAXES

The effective income tax rate for the second quarter of 2006 was 37.1 % compared to 72.7% last year. The 2005 tax rate was due primarily to the Company s assessment of the impact of the new tax legislation in 2005 and the recording of a valuation allowance reducing the Company s $0.5 million deferred tax asset relating to New York State tax credits to $40 thousand. As a result of this valuation allowance the Company recorded a non-cash charge to income tax expense of $0.3 million or $.04 per share during the second quarter of 2005.

The 2006 year to date effective income tax rate was 38.5% compared to 52.1% last year. Last year s effective rate was impacted by the valuation allowance discussed in the preceding paragraph.

The Company expects its effective income tax rate to continue to approximate the statutory rates in the future.

NET INCOME AND EARNINGS PER SHARE

Net income for the second quarter of 2006 was $2.0 million or $0.25 per share diluted, an increase of $1.8 million from $0.2 million, or $0.02 per share diluted in the second quarter of 2005. Net income in the second quarter of 2005 was significantly impacted by recording a valuation allowance for certain deferred tax assets referred to in the previous Taxes section. The earnings per share increase was due to increased net income and was not significantly impacted by a change in shares outstanding.

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LIQUIDITY

Cash used by operating activities totaled $1.3 million during the first six months of 2006, as compared with $0.1 million of cash provided by operations during the first six months of 2005. The change was due primarily to net income being offset by increased investment in net working capital components. The increase in net working capital components is a function of the increased sales over the past several quarters.

Cash used in investing activities decreased to $1.6 million in the first six months of 2006, from $13.8 million used in the first six months of 2005. This was due primarily to last year s $13.4 million acquisition of Astronics Advanced Electronic Systems, offset partially by proceeds from the sale of short-term investments of $1.0 million in 2005. Capital expenditures increased by $0.3 million to $1.6 million in 2006 compared to $1.3 million in 2005.

In the first six months of 2006 the Company used $1.1 million for financing activities as it paid down $1.0 million on its revolving credit facility and made principal payments against its long term debt totaling $0.5 million. This was partially offset by proceeds from the issuance of stock relating to the exercise of stock options totaling $0.4 million.

The Company has a $15 million demand line of credit facility. Interest on outstanding borrowings bears interest at either LIBOR plus an applicable margin, currently 150 basis points or prime interest rate, at the Company s option. As of July 1, 2006 the Company has $6.0 million outstanding on the line of credit. The line is subject to annual review and is payable on demand. The line of credit, among other requirements, imposes certain financial performance covenants measured on an annual basis with which the Company anticipates it will be compliant.

The Company believes that cash flow from operations and its available credit facility will be adequate to meet the Company s operational and capital expenditure requirements for 2006.

BACKLOG

The Company s backlog at July 1, 2006 was $94.7 million compared with $77.9 million at July 2, 2005.

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, 2005.

MARKET RISK

Risk due to fluctuation in interest rates is a function of the Company s floating rate debt obligations, which total approximately $16.8 million at July 1, 2006. 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 $4.3 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, 2005 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, 2005 for a complete discussion of the Company s critical accounting policies. Other than the adoption of SFAS 123(R), Share-Based Payments, there have been no significant changes in the current year regarding critical accounting policies.

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RECENT ACCOUNTING PRONOUNCEMENTS

During the first quarter of 2006, we 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, we are 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. We use a straight-line method of attributing the value of stock-based compensation expense, based on vesting. Stock compensation expense was $0.1 million in the second quarter of 2006 and $0.3 million year to date, after taxes. No stock compensation expense was recognized prior to 2006.

In November 2004, the FASB issued SFAS No. 151 Inventory Costs, an amendment of ARB No. 43, Chapter 4. The amendments made by this statement clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The provisions of this statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of this standard did not have an impact on its results of operations, cash flows or financial position in the first half of 2006.

In June 2006, the FASB issued Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes an Interpretation for SFAS No. 109. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with for SFAS No. 109, Accounting for Income Taxes . The pronouncement prescribes a recognition threshold and measurement attributable to financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The company is in the process of determining the effect, if any; the adoption of FIN 48 will have on our 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.

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 July 1, 2006. 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 July 1, 2006. There were no material changes in the Company s internal control over financial reporting during the second quarter of 2006.

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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, 2005, 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.

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 July 1, 2006:

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
April 2 April 29, 2006				432,956
April 30 May 27, 2006				432,956
May 28 July 1, 2006				432,956
Total				432,956

Item 3. Defaults Upon Senior Securities

None.

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

The Company s Annual Meeting of Shareholders was held on May 12, 2006. The following matters were submitted to a vote of security holders at the Annual Meeting.

a. The nominees to the Board of Directors were elected based on the following shares voted:

Nominee	For	Authority Withheld
Raymond W. Boushie	17,234,820	963,470
Robert T. Brady	17,001,289	1,197,001
John B. Drenning	16,855,557	1,342,733
Peter J. Gundermann	17,166,491	1,035,799
Kevin T. Keane	17,035,139	1,163,151
Robert J. McKenna	17,108,511	1,089,779

b. The selection of Ernst & Young LLP as the Registrant s auditors was approved by the following vote: 17,261,389 in favor; 902,613 against; and 34,287 abstentions.

c. The proposal to adopt the amendment of the Company s Employee Stock Purchase Plan was approved by the following vote: 11,908,914 in favor; 1,979,303 against; and 174,884 abstentions.

Under applicable New York law and the Company s charter documents, abstentions and non-votes have no effect.

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Item 5. Other Information.

None.

Item 6 Exhibits and Reports on Form 8-K

(a) 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	

(b) Reports on Form 8-K

On May 11, 2006, Astronics Corporation issued a news release in Form 8-K announcing its financial results for the first quarter of 2006.

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: August 11, 2006

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