
**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 **October 1, 2022**

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)

Securities registered pursuant to Section 12(b) of the Act: **None**

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$.01 par value per share	ATRO	NASDAQ Stock Market

NOT APPLICABLE

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

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

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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 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

Accelerated filer

Emerging growth company

Non-accelerated filer

Smaller Reporting Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 November 7, 2022, 32,171,112 shares of common stock were outstanding consisting of 25,847,466 shares of common stock (\$.01 par value) and 6,323,646 shares of Class B common stock (\$.01 par value).

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Part I – Financial Information**Item 1. Financial Statements**

ASTRONICS CORPORATION
Consolidated Condensed Balance Sheets
 October 1, 2022 with Comparative Figures for December 31, 2021
 (Unaudited)
 (In thousands)

	October 1, 2022	December 31, 2021
Current Assets:		
Cash and Cash Equivalents	\$ 2,568	\$ 29,757
Accounts Receivable, Net of Allowance for Estimated Credit Losses	133,835	107,439
Inventories	190,198	157,576
Prepaid Expenses and Other Current Assets	20,736	45,089
Total Current Assets	347,337	339,861
Property, Plant and Equipment, Net of Accumulated Depreciation	90,640	95,236
Operating Right-of-Use Assets	14,463	16,169
Other Assets	5,490	5,270
Intangible Assets, Net of Accumulated Amortization	82,814	94,320
Goodwill	58,143	58,282
Total Assets	\$ 598,887	\$ 609,138
Current Liabilities:		
Accounts Payable	\$ 53,216	\$ 34,860
Current Operating Lease Liabilities	4,971	6,778
Accrued Expenses and Other Current Liabilities	46,253	49,619
Customer Advance Payments and Deferred Revenue	29,048	27,356
Total Current Liabilities	133,488	118,613
Long-term Debt	159,000	163,000
Long-term Operating Lease Liabilities	10,966	12,018
Other Liabilities	58,345	58,903
Total Liabilities	361,799	352,534
Shareholders' Equity:		
Common Stock	354	353
Accumulated Other Comprehensive Loss	(16,690)	(14,495)
Other Shareholders' Equity	253,424	270,746
Total Shareholders' Equity	237,088	256,604
Total Liabilities and Shareholders' Equity	\$ 598,887	\$ 609,138

See notes to consolidated condensed financial statements.

ASTRONICS CORPORATION
Consolidated Condensed Statements of Operations
Three and Nine Months Ended October 1, 2022 With Comparative Figures for 2021
(Unaudited)
(In thousands, except per share data)

	Nine Months Ended		Three Months Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Sales	\$ 376,741	\$ 328,856	\$ 131,438	\$ 111,841
Cost of Products Sold	326,711	281,957	117,050	94,610
Gross Profit	50,030	46,899	14,388	17,231
Selling, General and Administrative Expenses	76,907	66,829	28,702	21,729
Loss from Operations	(26,877)	(19,930)	(14,314)	(4,498)
Net Gain on Sale of Business	(11,284)	—	—	—
Other Expense, Net of Other Income	1,180	1,627	427	546
Interest Expense, Net of Interest Income	5,812	5,252	2,519	1,795
Loss Before Income Taxes	(22,585)	(26,809)	(17,260)	(6,839)
Provision for (Benefit from) Income Taxes	6,383	373	(2,403)	335
Net Loss	<u>\$ (28,968)</u>	<u>\$ (27,182)</u>	<u>\$ (14,857)</u>	<u>\$ (7,174)</u>
Loss Per Share:				
Basic	<u>\$ (0.90)</u>	<u>\$ (0.88)</u>	<u>\$ (0.46)</u>	<u>\$ (0.23)</u>
Diluted	<u>\$ (0.90)</u>	<u>\$ (0.88)</u>	<u>\$ (0.46)</u>	<u>\$ (0.23)</u>

See notes to consolidated condensed financial statements.

ASTRONICS CORPORATION
Consolidated Condensed Statements of Comprehensive Loss
Three and Nine Months Ended October 1, 2022 With Comparative Figures for 2021
(Unaudited)
(In thousands)

	Nine Months Ended		Three Months Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Net Loss	\$ (28,968)	\$ (27,182)	\$ (14,857)	\$ (7,174)
Other Comprehensive (Loss) Income:				
Foreign Currency Translation Adjustments	(3,241)	(1,165)	(1,674)	(1,143)
Retirement Liability Adjustment – Net of Tax	1,046	1,302	348	434
Total Other Comprehensive (Loss) Income	(2,195)	137	(1,326)	(709)
Comprehensive Loss	\$ (31,163)	\$ (27,045)	\$ (16,183)	\$ (7,883)

See notes to consolidated condensed financial statements.

ASTRONICS CORPORATION
Consolidated Condensed Statements of Cash Flows
 Nine Months Ended October 1, 2022 With Comparative Figures for 2021

(Unaudited, In thousands)	Nine Months Ended	
	October 1, 2022	October 2, 2021
Cash Flows from Operating Activities:		
Net Loss	\$ (28,968)	\$ (27,182)
Adjustments to Reconcile Net Loss to Cash Flows from Operating Activities:		
Depreciation and Amortization	20,905	21,950
Provisions for Non-Cash Losses on Inventory and Receivables	1,033	2,750
Equity-based Compensation Expense	5,178	5,147
Non-Cash Accrued 401K Contribution	3,300	—
Deferred Tax Benefit	—	(145)
Non-Cash Severance Expense	—	182
Operating Lease Non-Cash Expense	4,568	3,783
Non-cash Litigation Provision	2,000	—
Net Gain on Sale of Business, Before Taxes	(11,284)	—
Contingent Consideration Liability Fair Value Adjustment	—	(2,200)
Other	2,997	3,010
Cash Flows from Changes in Operating Assets and Liabilities:		
Accounts Receivable	(28,196)	(15,027)
Inventories	(35,444)	(3,255)
Accounts Payable	17,595	(1,883)
Accrued Expenses	638	1,733
Other Current Assets and Liabilities	(4,015)	(666)
Customer Advance Payments and Deferred Revenue	1,990	(2,215)
Income Taxes	14,583	217
Operating Lease Liabilities	(5,715)	(4,395)
Supplemental Retirement Plan and Other Liabilities	(306)	(304)
Cash Flows from Operating Activities	(39,141)	(18,500)
Cash Flows from Investing Activities:		
Proceeds from Sale of Business and Assets	21,981	30
Capital Expenditures	(4,283)	(4,639)
Cash Flows from Investing Activities	17,698	(4,609)
Cash Flows from Financing Activities:		
Proceeds from Long-term Debt	109,625	20,000
Principal Payments on Long-term Debt	(113,625)	(10,000)
Stock Award Activity	104	3,187
Finance Lease Principal Payments	(85)	(878)
Debt Acquisition Costs	(968)	—
Cash Flows from Financing Activities	(4,949)	12,309
Effect of Exchange Rates on Cash	(797)	(521)
Decrease in Cash and Cash Equivalents	(27,189)	(11,321)
Cash and Cash Equivalents at Beginning of Period	29,757	40,412
Cash and Cash Equivalents at End of Period	\$ 2,568	\$ 29,091
Supplemental Disclosure of Cash Flow Information		
Non-Cash Investing Activities:		
Capital Expenditures in Accounts Payable	\$ 1,392	\$ —

See notes to consolidated condensed financial statements.

ASTRONICS CORPORATION
Consolidated Condensed Statements of Shareholders' Equity
 Three and Nine Months Ended October 1, 2022 With Comparative Figures for 2021
 (Unaudited)
 (In thousands)

	Nine Months Ended		Three Months Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Common Stock				
Beginning of Period	\$ 289	\$ 278	\$ 290	\$ 283
Net Issuance of Common Stock for Restricted Stock Units ("RSU's")	1	6	—	6
Class B Stock Converted to Common Stock	1	5	1	—
End of Period	291	289	291	289
Convertible Class B Stock				
Beginning of Period	64	69	64	64
Class B Stock Converted to Common Stock	(1)	(5)	(1)	—
End of Period	63	64	63	64
Additional Paid in Capital				
Beginning of Period	92,037	82,187	95,861	85,829
Net Exercise of Stock Options and Equity-based Compensation Expense	5,579	8,328	1,457	4,686
Tax Withholding Related to Issuance of RSU's	(298)	—	—	—
End of Period	97,318	90,515	97,318	90,515
Accumulated Comprehensive Loss				
Beginning of Period	(14,495)	(16,450)	(15,364)	(15,604)
Foreign Currency Translation Adjustments	(3,241)	(1,165)	(1,674)	(1,143)
Retirement Liability Adjustment – Net of Taxes	1,046	1,302	348	434
End of Period	(16,690)	(16,313)	(16,690)	(16,313)
Retained Earnings				
Beginning of Period	287,225	312,803	266,338	292,795
Net Loss	(28,968)	(27,182)	(14,857)	(7,174)
Reissuance of Treasury Shares for 401K Contribution	(9,158)	—	(2,382)	—
End of Period	249,099	285,621	249,099	285,621
Treasury Stock				
Beginning of Period	(108,516)	(108,516)	(96,513)	(108,516)
Shares Issued to Fund 401K Obligation	15,523	—	3,520	—
End of Period	(92,993)	(108,516)	(92,993)	(108,516)
Total Shareholders' Equity	\$ 237,088	\$ 251,660	\$ 237,088	\$ 251,660

See notes to consolidated condensed financial statements.

ASTRONICS CORPORATION
Consolidated Condensed Statements of Shareholders' Equity, Continued
Three and Nine Months Ended October 1, 2022 With Comparative Figures for 2021
(Unaudited)
(In thousands)

(Shares)	Nine Months Ended		Three Months Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Common Stock				
Beginning of Period	28,911	27,825	29,047	28,315
Net Issuance from Exercise of Stock Options	20	554	—	534
Net Issuance of Common Stock for RSU's	105	—	57	—
Class B Stock Converted to Common Stock	74	512	6	42
End of Period	<u>29,110</u>	<u>28,891</u>	<u>29,110</u>	<u>28,891</u>
Convertible Class B Stock				
Beginning of Period	6,375	6,877	6,331	6,420
Net Issuance from Exercise of Stock Options	24	13	—	—
Class B Stock Converted to Common Stock	(74)	(512)	(6)	(42)
End of Period	<u>6,325</u>	<u>6,378</u>	<u>6,325</u>	<u>6,378</u>
Treasury Stock				
Beginning of Period	3,808	3,808	3,387	3,808
Shares Issued to Fund 401K Obligation	(545)	—	(124)	—
End of Period	<u>3,263</u>	<u>3,808</u>	<u>3,263</u>	<u>3,808</u>

See notes to consolidated condensed financial statements.

ASTRONICS CORPORATION
Notes to Consolidated Condensed Financial Statements
October 1, 2022
(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. In addition, the COVID-19 pandemic and supply chain disruptions have increased the volatility we experience in our financial results in recent periods and this could continue in future interim and annual periods. Operating results for the nine months ended October 1, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022.

The balance sheet at December 31, 2021 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 (“GAAP”) for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included in Astronics Corporation’s 2021 annual report on Form 10-K.

Description of the Business

Astronics Corporation (“Astronics” or the “Company”) is a leading provider of advanced technologies to the global aerospace, defense and electronics industries. Our products and services include advanced, high-performance electrical power generation, distribution and motion systems, lighting and safety systems, avionics products, systems and certification, aircraft structures and automated test systems.

We have principal operations in the United States (“U.S.”), Canada, France and England, as well as engineering offices in the Ukraine and India.

On February 13, 2019, the Company completed a divestiture of its semiconductor test business within the Test Systems segment. The transaction included two elements of contingent earnouts. In December 2021, the Company agreed to a payment of \$10.7 million for the calendar 2020 earnout, which was recorded in the fourth quarter of 2021 and was received by the Company in early January 2022. In March 2022, the Company agreed with the earnout calculation for the calendar 2021 earnout in the amount of \$11.3 million. The Company recorded the gain and received the payment in the first quarter of 2022.

Impact of the COVID-19 Pandemic

On March 11, 2020, the World Health Organization classified the COVID-19 outbreak as a pandemic. The spread of the COVID-19 pandemic disrupted businesses on a global scale, led to significant volatility in financial markets and affected the aviation and industrial industries. Substantially all of our operations and production activities have, to date, remained operational. However, the impacts of the pandemic have placed labor and supply chain pressures on our business and we have been impacted by customer demand variability. Although we saw stable and growing backlog during the first three quarters of 2022 in our aerospace business, COVID-19 related disruptions are ongoing and continue to adversely challenge our commercial transport market. While we remain bullish about the aerospace business, we believe the recovery to pre-pandemic activity, particularly in the widebody market, will take longer than originally anticipated at the outset of the pandemic. As economic activity continues to recover, we will continue to monitor the situation, assessing further possible implications on our operations, supply chain, liquidity, cash flow and customer orders.

The Company qualified for government subsidies from the Canadian and French governments as a result of the COVID-19 pandemic’s impact on our foreign operations. The Canadian and French subsidies are income-based grants intended to reimburse the Company for certain employee wages. The grants are recognized as income over the periods in which the Company recognizes as expenses the costs the grants are intended to defray. The amount recognized during the three and nine months ended October 1, 2022 was immaterial.

In September 2021 the Company was awarded a grant of up to \$14.7 million from the U.S. Department of Transportation (“USDOT”) under the Aviation Manufacturing Jobs Protection Program (“AMJP”). The Company received \$7.4 million under the grant in 2021, \$5.2 million in the first quarter of 2022 and \$2.1 million in the third quarter of 2022. The grant benefit was recognized ratably over the six-month performance period as a reduction to cost of products sold in proportion to the compensation expense that the award is intended to defray. During the nine months ended October 1, 2022, the Company recognized \$6.0 million of the award.

The following table presents the COVID-19 related government assistance, including AMJP, recorded during the three and nine months ended October 1, 2022 and October 2, 2021:

(In thousands)	Nine Months Ended		Three Months Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Reduction in Cost of Products Sold	\$ 6,008	\$ 3,185	\$ —	\$ 1,706
Reduction in Selling, General and Administrative Expenses	—	190	—	43
Total	\$ 6,008	\$ 3,375	\$ —	\$ 1,749

Trade Accounts Receivable and Contract Assets

The allowance for estimated credit losses is based on the Company’s assessment of the collectability of customer accounts. The Company regularly reviews the allowance by considering factors such as the age of the receivable balances, historical experience, credit quality, current economic conditions, and reasonable and supportable forecasts of future economic conditions that may affect a customer’s ability to pay. The allowance for estimated credit losses balance was \$3.4 million and \$3.2 million at October 1, 2022 and December 31, 2021, respectively. The Company’s bad debt expense was \$0.3 million and \$0.4 million during the three and nine months ended October 1, 2022 and insignificant during the three and nine months ended October 2, 2021. Total write-offs charged against the allowance were insignificant in both the three and nine months ended October 1, 2022 and October 2, 2021. Total recoveries were insignificant in both the three and nine months ended October 1, 2022 and October 2, 2021.

The Company’s exposure to credit losses may increase if its customers are adversely affected by global economic recessions, disruption associated with the current COVID-19 pandemic, industry conditions, or other customer-specific factors. Although the Company has historically not experienced significant credit losses, it is possible that there could be a material adverse impact from potential adjustments of the carrying amount of trade receivables and contract assets as airlines and other aerospace companies’ cash flows are impacted by the COVID-19 pandemic.

Research and Development Expenses

Research and development costs are expensed as incurred and include salaries, benefits, consulting, material costs and depreciation. Research and development expenses amounted to \$12.0 million and \$11.3 million for the three months ended and \$36.8 million and \$31.9 million for the nine months ended October 1, 2022 and October 2, 2021, respectively. These costs are included in cost of products sold.

Goodwill Impairment

The Company tests goodwill at the reporting unit level on an annual basis or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

As of October 1, 2022, the Company concluded that no indicators of impairment relating to intangible assets or goodwill existed and an interim test was not performed in the three or nine months then ended.

Valuation of Long-Lived Assets

Long-lived assets 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. As of October 1, 2022 and for the three and nine month periods then ended, the Company concluded that no indicators of impairment relating to long-lived assets existed.

Foreign Currency Translation

The aggregate foreign currency transaction gain or loss included in operations was insignificant for the three and nine months ended October 1, 2022 and October 2, 2021.

Newly Adopted Accounting Pronouncement

Recent Accounting Pronouncement Adopted

Standard	Description	Financial Statement Effect or Other Significant Matters
ASU No. 2021-08 <i>Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers</i>	This amendment requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with Topic 606, <i>Revenue from Contracts with Customers</i> , as if it had originated the contracts. Under the current business combinations guidance, such assets and liabilities are recognized by the acquirer at fair value on the acquisition date. The standard will not impact acquired contract assets or liabilities from business combinations occurring prior to the adoption date.	This ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted. The impact of adoption on the Company's consolidated financial statements will be prospective only and depend on the magnitude of future business acquisitions. Date of adoption: Q1 2022

We consider the applicability and impact of all ASUs. ASUs not listed above were assessed and determined to be either not applicable, or had or are expected to have minimal impact on our financial statements and related disclosures.

2) Revenue

On October 1, 2022, we had \$547.1 million of remaining performance obligations, which we refer to as total backlog. We expect to recognize approximately \$426.5 million of our remaining performance obligations as revenue over the next twelve months and the balance thereafter.

We recognized \$7.3 million and \$6.5 million during the three months ended and \$13.3 million and \$15.1 million during the nine months ended October 1, 2022 and October 2, 2021, respectively, in revenues that were included in the contract liability balance at the beginning of the period.

The Company's contract assets and contract liabilities consist primarily of costs and profits in excess of billings and billings in excess of cost and profits, respectively. The following table presents the beginning and ending balances of contract assets and contract liabilities during the nine months ended October 1, 2022:

(In thousands)	Contract Assets		Contract Liabilities	
Beginning Balance, January 1, 2022	\$	25,941	\$	28,495
Ending Balance, October 1, 2022	\$	31,263	\$	29,838

The Company recognizes an asset for certain, material costs to fulfill a contract if it is determined that the costs relate directly to a contract or an anticipated contract that can be specifically identified, generate or enhance resources that will be used in satisfying performance obligations in the future, and are expected to be recovered. Such costs are amortized on a systematic basis that is consistent with the transfer to the customer of the goods to which the asset relates. Start-up costs are expensed as incurred. Capitalized fulfillment costs are included in Inventories in the accompanying Consolidated Balance Sheets. Should future orders not materialize or it is determined the costs are no longer probable of recovery, the capitalized costs are written off. As of October 1, 2022, the Company has capitalized \$ 1.6 million of costs. As of December 31, 2021, the Company did not have material capitalized fulfillment costs.

The following table presents our revenue disaggregated by Market Segments as follows:

(In thousands)	Nine Months Ended		Three Months Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Aerospace Segment				
Commercial Transport	\$ 211,721	\$ 143,550	\$ 78,389	\$ 57,549
Military	41,336	54,847	12,463	17,064
General Aviation	48,748	41,131	14,751	12,109
Other	21,056	26,874	6,574	9,044
Aerospace Total	322,861	266,402	112,177	95,766
Test Systems Segment				
Aerospace & Defense	53,880	62,454	19,261	16,075
Test Systems Total	53,880	62,454	19,261	16,075
Total	\$ 376,741	\$ 328,856	\$ 131,438	\$ 111,841

The following table presents our revenue disaggregated by Product Lines as follows:

(In thousands)	Nine Months Ended		Three Months Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Aerospace Segment				
Electrical Power & Motion	\$ 132,757	\$ 102,742	\$ 46,155	\$ 38,650
Lighting & Safety	90,339	76,929	29,740	25,461
Avionics	67,453	47,355	24,172	14,491
Systems Certification	6,656	7,937	3,985	6,099
Structures	4,600	4,565	1,551	2,021
Other	21,056	26,874	6,574	9,044
Aerospace Total	322,861	266,402	112,177	95,766
Test Systems	53,880	62,454	19,261	16,075
Total	\$ 376,741	\$ 328,856	\$ 131,438	\$ 111,841

3) Inventories

Inventories consisted of the following:

(In thousands)	October 1, 2022	December 31, 2021
Finished Goods	\$ 32,484	\$ 28,579
Work in Progress	33,867	22,954
Raw Material	123,847	106,043
	\$ 190,198	\$ 157,576

The Company has evaluated the carrying value of existing inventories and believe they are properly reflected at their lower of carrying value or net realizable value. Future changes in demand or other market developments could result in future inventory charges. The Company is actively managing inventories and aligning them to meet known current and future demand.

4) Property, Plant and Equipment

Property, Plant and Equipment consisted of the following:

(In thousands)	October 1, 2022	December 31, 2021
Land	\$ 8,501	\$ 8,632
Buildings and Improvements	69,986	70,566
Machinery and Equipment	122,337	121,960
Construction in Progress	8,384	5,680
	209,208	206,838
Less Accumulated Depreciation	118,568	111,602
	\$ 90,640	\$ 95,236

5) Intangible Assets

The following table summarizes acquired intangible assets as follows:

(In thousands)	Weighted Average Life	October 1, 2022		December 31, 2021	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	11 years	\$ 2,146	\$ 2,044	\$ 2,146	\$ 1,979
Non-compete Agreement	4 years	11,082	10,972	11,082	10,592
Trade Names	10 years	11,339	9,151	11,447	8,518
Completed and Unpatented Technology	9 years	47,747	33,784	47,932	30,441
Customer Relationships	15 years	141,939	75,488	142,276	69,033
Total Intangible Assets	12 years	\$ 214,253	\$ 131,439	\$ 214,883	\$ 120,563

All acquired intangible assets other than goodwill and one trade name are being amortized. Amortization expense for acquired intangibles is summarized as follows:

(In thousands)	Nine Months Ended		Three Months Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Amortization Expense	\$ 11,254	\$ 11,565	\$ 3,728	\$ 3,853

Amortization expense for acquired intangible assets expected for 2022 and for each of the next five years is summarized as follows:

(In thousands)	
2022	\$ 14,922
2023	\$ 13,878
2024	\$ 12,856
2025	\$ 10,935
2026	\$ 9,533
2027	\$ 7,825

6) Goodwill

The following table summarizes the changes in the carrying amount of goodwill for the nine months ended October 1, 2022:

(In thousands)	December 31, 2021	Foreign Currency Translation	October 1, 2022
	Aerospace	\$ 36,648	\$ (140)
Test Systems	21,634	1	21,635
	\$ 58,282	\$ (139)	\$ 58,143

The Company tests goodwill at the reporting unit level on an annual basis or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

As of October 1, 2022 and October 2, 2021, the Company concluded that no indicators of impairment relating to intangible assets or goodwill existed and an interim test was not performed in the three or nine months then ended.

7) Long-term Debt and Notes Payable

The Company's long-term debt consists of borrowings under its Fifth Amended and Restated Credit Agreement (the "Agreement"). On March 1, 2022, the Company executed an amendment to the Agreement, which reduced the revolving credit line from \$375 million to \$225 million and extended the maturity date of the loans under the facility from February 16, 2023 to May 30, 2023. The definition of Adjusted EBITDA was modified to exclude income from earnout payments and asset sales. On August 9, 2022, the Company executed a further amendment to the Agreement, which reduced the revolving credit line from \$225 million to \$190 million until September 12, 2022 with further reductions to \$180 million effective September 12, 2022 and \$170 million effective October 11, 2022. The amendment extended the maturity date of the loans under the facility from May 30, 2023 to August 31, 2023. On October 21, 2022, the Company executed an additional amendment to the Agreement, under which the lenders waived enforcement of their rights against the Company arising from the Company's failure to comply with the maximum net leverage ratio and minimum liquidity covenants, each as of September 30, 2022. The amendment increased the revolving credit line to \$180 million as of October 21, 2022, with a reduction to \$170 million effective November 21, 2022. Under the provisions of this amendment, the inclusion of any "going concern" language in the Company's financial statements would constitute an event of default.

A further amendment to the Agreement was executed on November 14, 2022 (the "Amended Facility"), which extended the maturity date of the loans under the facility from August 31, 2023 to November 30, 2023. Under the Amended Facility, the revolving credit line is set at \$180 million, with a reduction to \$170 million effective December 21, 2022. The amendment requires the Company to maintain minimum liquidity, defined as unrestricted cash plus the unused revolving credit commitments, of \$10 million as of November 30, 2022 and December 31, 2022, and \$15 million at the end of any month thereafter. The Amended Facility requires the Company to comply with a minimum Adjusted EBITDA covenant on a trailing twelve month basis, set at \$15 million as of December 31, 2022 and March 31, 2023, and \$25 million in each quarter thereafter. The amendment eliminated the net leverage ratio covenant for the remaining term of the agreement.

At October 1, 2022, there was \$159.0 million outstanding on the revolving credit facility and there remained \$19.9 million available subject to the minimum liquidity covenant discussed above, net of outstanding letters of credit. The credit facility allocates up to \$20 million of the \$180 million revolving credit line for the issuance of letters of credit, including certain existing letters of credit. At October 1, 2022, outstanding letters of credit totaled \$1.1 million. Interest is payable on the unpaid principal amount of the facility at a rate equal to the Secured Overnight Financing Rate ("SOFR", which shall be at least 1.00%), plus 5.50%. Effective January 17, 2023, interest is payable on the unpaid principal amount of the facility at a rate equal to SOFR (which shall be at least 1.00%), plus 8.50%. The Company also pays a commitment fee to the lenders in an amount equal to 0.40% on the undrawn portion of the Amended Facility. Each amendment executed in 2022 required payment of a consent fee of 5 to 10 basis points of the commitment for each consenting lender.

The Amended Facility restricts dividend payments and share repurchases through the maturity date of the Amended Facility. The Company's obligations under the Amended Facility are jointly and severally guaranteed by each domestic subsidiary of the Company other than non-material subsidiaries.

The obligations are secured by a first priority lien on substantially all of the Company's and the guarantors' assets. In the event of voluntary or involuntary bankruptcy of the Company or any subsidiary, all unpaid principal and other amounts owing under the Amended Facility 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.

We are currently in the process of evaluating terms and conditions for a new long-term financing arrangement, which includes an asset-based lending agreement and separate term loan agreement, and expect to complete the process in the coming weeks. The extent to which we will be able to effect such refinancing, replacement or maturity extension on terms that are favorable to us or at all is dependent on a number of uncertain factors, including then-prevailing credit and other market conditions, economic conditions, particularly in the aerospace and defense markets, disruptions or volatility caused by factors such as COVID-19, regional conflicts, inflation, and supply chain disruptions. In addition, rising interest rates could limit our ability to refinance our existing credit facility when it matures or cause us to pay higher interest rates upon refinancing. As the Company's long-term debt approaches maturity, if the Company is unable to refinance, replace or extend the maturity on its credit facility, the Company's liquidity, results of operations, and financial condition could be materially adversely impacted. If

we are unable to obtain a new long-term financing facility before we file our 2022 Form 10-K to replace our existing debt facility, borrowings outstanding under our existing credit facility will come due within 12 months of that filing date and could result in substantial doubt about our ability to continue as a going concern in the event that we are not reasonably assured to have sufficient cash balances to repay the remaining obligations at maturity.

The Company expects its sales growth and improvement in inventory management will provide sufficient cash flows to fund operations. However, the Company may also evaluate various actions and alternatives to enhance its cash generation from operating activities, which could include manufacturing efficiency initiatives, working with vendors and suppliers to reduce lead times and expedite shipment of critical components, and working with customers to expedite receivable collections.

8) 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)	Nine Months Ended		Three Months Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Balance at Beginning of Period	\$ 8,183	\$ 7,018	\$ 7,759	\$ 6,835
Warranties Issued	2,541	3,506	858	1,485
Warranties Settled	(2,769)	(2,427)	(859)	(764)
Reassessed Warranty Exposure	(221)	(808)	(24)	(267)
Balance at End of Period	\$ 7,734	\$ 7,289	\$ 7,734	\$ 7,289

9) Income Taxes

The effective tax rates were approximately 13.9% and (4.9)% for the three months ended and (28.3)% and (1.4)% for the nine months ended October 1, 2022 and October 2, 2021, respectively. Beginning with the 2022 tax year, certain research and development costs are required to be capitalized and amortized over sixty months for income tax purposes. The tax rate in the 2022 period was impacted by a valuation allowance applied against the deferred tax asset associated with the research and development costs that are expected to be capitalized and was partially offset by the removal of valuation allowances related to net operating losses, tax credit carryovers, and certain timing differences that are expected to reverse during 2022. In addition, the tax rate in the 2022 period was also impacted by state income taxes and the federal research and development credit expected for 2022.

The Company records a valuation allowance against the deferred tax assets if and to the extent it is more likely than not that the Company will not recover the deferred tax assets. In evaluating the need for a valuation allowance, the Company weighs all relevant positive and negative evidence, and considers among other factors, historical financial performance, projected future taxable income, scheduled reversals of deferred tax liabilities, the overall business environment, and tax planning strategies. Losses in recent periods and cumulative pre-tax losses in the three year period ending with the current year, combined with the significant uncertainty brought about by the COVID-19 pandemic, is collectively considered significant negative evidence under ASC 740 when assessing whether an entity can use projected income as a basis for concluding that deferred tax assets are realizable on a more-likely than not basis. For purposes of assessing the recoverability of deferred tax assets, the Company determined that it could not include future projected earnings in the analysis due to recent history of losses and therefore had insufficient objective positive evidence that the Company will generate sufficient future taxable income to overcome the negative evidence of cumulative losses. Accordingly, during the years ended December 31, 2021 and 2020, the Company determined that a portion of its deferred tax assets are not expected to be realizable in the future and the Company continues to maintain the valuation allowance against its deferred tax assets as of October 1, 2022.

10) Earnings Per Share

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

(In thousands)	Nine Months Ended		Three Months Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Weighted Average Shares - Basic	32,085	30,927	32,241	30,954
Net Effect of Dilutive Stock Options	—	—	—	—
Weighted Average Shares - Diluted	32,085	30,927	32,241	30,954

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 was approximately 1,106,000 shares as of October 1, 2022 and 647,000 shares as of October 2, 2021. Further, due to our net loss in the three and nine month periods ended October 1, 2022 and October 2, 2021, the assumed exercise of stock compensation had an antidilutive effect and therefore was excluded from the computation of diluted loss per share.

Currently, the Company expects to fund the 401K contribution for the quarter ended October 1, 2022 with treasury stock in lieu of cash. The earnings per share calculation for the quarter ended October 1, 2022 is inclusive of the approximately 0.1 million in shares outstanding for the equivalent shares needed to fulfill the obligation using the closing share price as of October 1, 2022. Actual shares issued may differ based on the sale price on the settlement date.

11) Shareholders' Equity

Share Buyback and Reissuance

The Company's Board of Directors from time to time authorizes the repurchase of common stock, which allows the Company to purchase shares of its common stock in accordance with applicable securities laws on the open market or through privately negotiated transactions. Common shares repurchased by the Company are recorded at cost as treasury shares and result in a reduction of equity. Under its current credit agreement, and as described further in Note 7, the Company is currently restricted from further stock repurchases.

When treasury shares are reissued, the Company determines the cost using an average cost method. The difference between the average cost of the treasury shares and reissuance price is included in Additional paid-in capital or Retained earnings. During the nine months ended October 1, 2022, the Company reissued 545,000 treasury shares and recorded the difference between the average cost and the reissuance price, \$9.2 million, as a reduction to Retained earnings.

Comprehensive Loss and Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are as follows:

(In thousands)	October 1, 2022	December 31, 2021
Foreign Currency Translation Adjustments	\$ (8,648)	\$ (5,407)
Retirement Liability Adjustment – Before Tax	(10,324)	(11,370)
Tax Benefit of Retirement Liability Adjustment	2,282	2,282
Retirement Liability Adjustment – After Tax	(8,042)	(9,088)
Accumulated Other Comprehensive Loss	\$ (16,690)	\$ (14,495)

The components of other comprehensive (loss) income are as follows:

(In thousands)	Nine Months Ended		Three Months Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Foreign Currency Translation Adjustments	\$ (3,241)	\$ (1,165)	\$ (1,674)	\$ (1,143)
Retirement Liability Adjustments:				
Reclassifications to General and Administrative Expense:				
Amortization of Prior Service Cost	302	302	101	101
Amortization of Net Actuarial Losses	744	1,000	247	333
Retirement Liability Adjustment	1,046	1,302	348	434
Other Comprehensive (Loss) Income	\$ (2,195)	\$ 137	\$ (1,326)	\$ (709)

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 current and retired executive officers. The following table sets forth information regarding the net periodic pension cost for the plans.

(In thousands)	Nine Months Ended		Three Months Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Service Cost	\$ 103	\$ 146	\$ 34	\$ 49
Interest Cost	626	573	209	192
Amortization of Prior Service Cost	290	290	97	97
Amortization of Net Actuarial Losses	712	970	238	324
Net Periodic Cost	\$ 1,731	\$ 1,979	\$ 578	\$ 662

Participants in the SERP are entitled to paid medical, dental and long-term care insurance benefits upon retirement under the plan. The Company also has a defined benefit plan related to its subsidiary in France. The net periodic cost for both plans for the three and nine months ended October 1, 2022 and October 2, 2021 is immaterial.

The service cost component of net periodic benefit costs above is recorded in Selling, General and Administrative Expenses within the Consolidated Condensed Statements of Operations, while the remaining components are recorded in Other Expense, Net of Other Income.

13) Sales to Major Customers

The loss of major customers or a significant reduction in business with a major customer would significantly, negatively impact our sales and earnings. In the three and nine months ended October 1, 2022 and October 2, 2021, the Company had no customers in excess of 10% of consolidated sales.

14) Legal Proceedings

Lufthansa

One of the Company’s subsidiaries is involved in numerous patent infringement actions brought by Lufthansa Technik AG (“Lufthansa”) in Germany, UK and France. The Company is vigorously defending all such litigation and proceedings. Additional information about these legal proceedings can be found in Note 19 “Legal Proceedings” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021. As previously disclosed, under English law, Lufthansa has the option of pursuing a claim in the UK matter in relation to the defendants’ profits from their infringing activities or pursuing a claim in relation to Lufthansa’s own lost profits. In September 2022, Lufthansa elected to claim damages based on defendants’ profits. The reserve for the German indirect claim and UK damages and interest was approximately \$24.6 million at December 31, 2021 and \$24.1 million at October 1, 2022, which included an additional \$0.1 million and \$0.5 million in interest accrued during the three and nine months ended October 1, 2022. The Company currently believes it is unlikely that the appeals process will be completed or the damages and related interest will be paid within the next twelve months. Therefore, the liability related to these matters is classified within Other Liabilities (non-current) in the Consolidated Condensed Balance Sheets at October 1, 2022 and December 31, 2021. There were no other significant developments in any of these matters during the three and nine months ended October 1, 2022.

At December 31, 2021, we had recorded a liability of \$1.0 million for reimbursement of Lufthansa's legal expenses associated with the UK matter. During the nine months ended October 1, 2022, \$0.3 million was paid. The remaining liability of \$0.7 million is expected to be paid within the next twelve months and, as such, is classified in Accrued Expenses and Other Current Liabilities in the accompanying Consolidated Condensed Balance Sheet as of October 1, 2022.

Other

On March 23, 2020, Teradyne, Inc. filed a complaint against the Company and its subsidiary, Astronics Test Systems ("ATS") (together, "the Defendants") in the United States District Court for the Central District of California alleging patent and copyright infringement, and certain other related claims. The Defendants moved to dismiss certain claims from the case. On November 6, 2020, the Court dismissed the Company from the case, and also dismissed a number of claims, though the patent and copyright infringement claims remain. The case proceeded to discovery. In addition, on December 21, 2020, ATS filed a petition for *inter partes* review ("IPR") with the US Patent Trial and Appeal Board ("PTAB"), seeking to invalidate the subject patent, and on July 21, 2021, the PTAB instituted IPR. ATS requested and, on August 26, 2021, the District Court granted, a stay of litigation during the IPR proceeding. Oral arguments on the IPR were held on April 21, 2022. The PTAB issued its decision on July 20, 2022, in which it invalidated all of Teradyne's patent claims. The stay of litigation was lifted with respect to the remaining claims in August 2022 and discovery has resumed. No amounts have been accrued for this matter in the October 1, 2022 or December 31, 2021 financial statements, as loss exposure was neither probable nor estimable at such times.

In 2019, a former customer filed a lawsuit alleging damages associated with defective product. Mediation of the matter was held in November 2022. The Company agreed to make a payment of \$2.0 million to settle the matter, and such amount has been reflected in the Selling, General and Administrative line in the three and nine month periods ended October 1, 2022. The Company expects to be indemnified by other parties for approximately \$1.5 million and will record the gain as an offset to Selling, General and Administrative expense when received, likely in the fourth quarter of 2022.

Other than these proceedings, we are not party to any significant pending legal proceedings that management believes will result in a material adverse effect on our financial condition or results of operations.

15) Segment Information

Below are the sales and operating loss by segment for the three and nine months ended October 1, 2022 and October 2, 2021 and a reconciliation of segment operating loss to loss before income taxes. Operating loss 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.

(In thousands)	Nine Months Ended		Three Months Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Sales:				
Aerospace	\$ 322,871	\$ 266,425	\$ 112,177	\$ 95,775
Less Inter-segment Sales	(10)	(23)	—	(9)
Total Aerospace Sales	322,861	266,402	112,177	95,766
Test Systems	53,899	62,811	19,261	16,128
Less Inter-segment Sales	(19)	(357)	—	(53)
Total Test Systems Sales	53,880	62,454	19,261	16,075
Total Consolidated Sales	\$ 376,741	\$ 328,856	\$ 131,438	\$ 111,841
Segment Measure of Operating Loss and Margins				
Aerospace	\$ (7,085)	\$ (6,352)	\$ (6,859)	\$ 1,917
	(2.2)%	(2.4)%	(6.1)%	2.0 %
Test Systems	(4,125)	(1,958)	(2,312)	(2,201)
	(7.7)%	(3.1)%	(12.0)%	(13.7)%
Total Segment Measure of Operating Loss	(11,210)	(8,310)	(9,171)	(284)
	(3.0)%	(2.5)%	(7.0)%	(0.3)%
Deductions from Segment Measure of Operating Loss				
Net Gain on Sale of Business	(11,284)	—	—	—
Interest Expense, Net of Interest Income	5,812	5,252	2,519	1,795
Corporate Expenses and Other	16,847	13,247	5,570	4,760
Loss Before Income Taxes	\$ (22,585)	\$ (26,809)	\$ (17,260)	\$ (6,839)

During the three and nine months ended October 1, 2022, the Company settled a customer accommodation dispute for \$2.1 million and a litigation for \$2.0 million, both recorded within Selling, General and Administrative expense and impacting Aerospace segment profitability.

Total Assets:

(In thousands)	October 1, 2022	December 31, 2021
Aerospace	\$ 478,385	\$ 458,334
Test Systems	108,473	105,335
Corporate	12,029	45,469
Total Assets	\$ 598,887	\$ 609,138

16) Fair Value

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. Fair value is 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.

The Company follows 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.

On October 4, 2019, the Company acquired the stock of the primary operating subsidiaries as well as certain other assets from mass transit and defense market test solution provider, Diagnosys Test Systems Limited for \$7.0 million in cash, plus an earn-out estimated at a fair value of \$2.5 million at the time of acquisition. The terms of the Diagnosys acquisition allow for a potential earn-out of up to an additional \$13.0 million over the three years post-acquisition based on achievement of new order levels of over \$72.0 million during that period. The fair value assigned to the earnout was determined using the real options method, which requires Level 3 inputs such as new order forecasts, discount rate, volatility factors, and other market variables to assess the probability of Diagnosys achieving certain order levels over the period. Based on actual and forecasted new orders, the fair value was zero as of October 1, 2022 and December 31, 2021. The fair value was reduced to zero during the second quarter of 2021, with the contingent consideration liability fair value adjustment of \$2.2 million recorded within the Selling, General and Administrative line in the Consolidated Condensed Statement of Operations in the nine months ended October 2, 2021.

There were no other financial assets or liabilities carried at fair value measured on a recurring basis at October 1, 2022 or December 31, 2021.

On a Non-recurring Basis:

There were no non-recurring fair value measurements performed in the nine months ended October 1, 2022 and October 2, 2021.

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.

17) Restructuring Charges

The COVID-19 pandemic has significantly impacted the global economy, and particularly the aerospace industry, resulting in reduced expectations of the Company's anticipated future operating results. As a result, the Company executed restructuring activities in the form of workforce reduction, primarily in the second quarter of 2020, to align capacity with expected demand. Additional restructuring activities occurred during 2021 to align the workforce to expected activities and to consolidate certain facilities.

Restructuring-related severance charges and other charges were insignificant in the three and nine months ended October 1, 2022. There were \$0.5 million and \$0.7 million in restructuring-related non-severance charges recorded in the three and nine months ended October 2, 2021.

The following table reconciles the beginning and ending liability for restructuring charges:

	2022
(In thousands)	
Balance as of January 1	\$ 2,400
Restructuring Charges	199
Cash Paid	(2,554)
Balance as of October 1	\$ 45

The liability is recorded within Accrued Expenses and Other Current Liabilities and is comprised of employee termination benefits expected to be paid within the next 12 months. The cash paid in the nine months ended October 1, 2022 primarily consists of severance payments of \$0.4 million and payments under non-cancelable purchase commitments for inventory which was not expected to be purchased prior to the expiration date of such agreements as a result of the restructuring plan of \$2.1 million.

18) Subsequent Events

On October 21, 2022 and November 14, 2022, the Company executed amendments to its Fifth Amended and Restated Credit Agreement. For more information, see Note 7, Debt.

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, 2021.)

OVERVIEW

Astronics Corporation ("Astronics" or the "Company") is a leading supplier of advanced technologies and products to the global aerospace and defense industries. Our products and services include advanced, high-performance electrical power generation and distribution systems, seat motion solutions, lighting and safety systems, avionics products, aircraft structures, systems certification, and automated test systems.

Our Aerospace segment designs and manufactures products for the global aerospace industry. Product lines include lighting and safety systems, electrical power generation, distribution and seat motions systems, aircraft structures, avionics products, systems certification, and other products. Our primary Aerospace customers are the airframe manufacturers ("OEM") that build aircraft for the commercial, military and general aviation markets, suppliers to those OEM's, aircraft operators such as airlines, suppliers to the aircraft operators, and branches of the U.S. Department of Defense ("USDOD"). Our Test Systems segment designs, develops, manufactures and maintains automated test systems that support the aerospace and defense, communications and mass transit industries 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 OEM's and prime government contractors for both 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 our targeted markets where our technology can be beneficial.

Important factors affecting our growth and profitability are the ongoing impacts of the COVID-19 pandemic and the timing and extent of recovery (as discussed more fully below), supply chain pressures, 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. Future growth and profitability of the Test Systems business is dependent on developing and procuring new and follow-on business. The nature of our Test Systems business is such that it pursues large, often 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. Test Systems segment customers include the USDOD, prime contractors to the USDOD, mass transit operators and prime contractors to mass transit operators.

In September 2021 the Company also entered into an agreement with the U.S. Department of Transportation ("USDOT") under the Aviation Manufacturing Jobs Protection Program ("AMJP") for a grant of up to \$14.7 million. The Company received \$7.4 million under the grant in 2021, \$5.2 million in the first quarter of 2022 and \$2.1 million in the third quarter of 2022. The grant benefit was recognized over the six-month performance period as a reduction to cost of products sold in proportion to the compensation expense that the award is intended to defray. The Company recognized the remaining \$6.0 million of the award during the nine months ended October 1, 2022.

On February 13, 2019, the Company completed a divestiture of its semiconductor test business within the Test Systems segment. The total proceeds of the divestiture included two elements of contingent purchase consideration ("earnout"). In the fourth quarter of 2021, the Company agreed to an earnout payment of \$10.7 million for the calendar 2020 earnout, which was recorded in 2021 as a separate line item below operating loss and was received by the Company in early January 2022. In March 2022, the Company agreed with the earnout calculation for the calendar 2021 earnout in the amount of \$11.3 million. The Company recorded the gain and received the payment in the first quarter of 2022.

CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK

(\$ in thousands)	Nine Months Ended		Three Months Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Sales	\$ 376,741	\$ 328,856	\$ 131,438	\$ 111,841
Gross Profit (sales less cost of products sold)	\$ 50,030	\$ 46,899	\$ 14,388	\$ 17,231
Gross Margin	13.3 %	14.3 %	10.9 %	15.4 %
Selling, General and Administrative Expenses	\$ 76,907	\$ 66,829	\$ 28,702	\$ 21,729
SG&A Expenses as a Percentage of Sales	20.4 %	20.3 %	21.8 %	19.4 %
Net Gain on Sale of Business	\$ (11,284)	\$ —	\$ —	\$ —
Interest Expense, Net of Interest Income	\$ 5,812	\$ 5,252	\$ 2,519	\$ 1,795
Effective Tax Rate	(28.3)%	(1.4)%	13.9 %	(4.9)%
Net Loss	\$ (28,968)	\$ (27,182)	\$ (14,857)	\$ (7,174)

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

CONSOLIDATED THIRD QUARTER RESULTS

Consolidated sales were up \$19.6 million from the third quarter of 2021. Aerospace sales were up \$16.4 million, or 17.1%, and Test Systems sales increased \$3.2 million.

Consolidated cost of products sold in the third quarter of 2022 was \$117.1 million, compared with \$94.6 million in the prior-year period. The increase was primarily due to higher volume combined with material and labor inflation, addressing supply chain constraints to meet customer requirements and the lag in price increases implemented where possible to offset higher costs and product mix. The prior-year period benefited by a \$1.1 million offset to cost of products sold from the AMJP Program grant.

Selling, general and administrative (“SG&A”) expenses were \$28.7 million in the third quarter of 2022 compared with \$21.7 million in the prior-year period primarily due to increased wages and benefits. Third quarter 2022 reflects \$4.6 million related to the settlement of a litigation claim, a customer accommodation dispute, and a lease termination settlement. The Company expects to be indemnified by other parties with respect to the litigation matter for approximately \$1.5 million and will record the gain as an offset to SG&A when received, likely in the fourth quarter of 2022.

Tax benefit in the quarter was \$2.4 million primarily due to changes in the year-to-date and forecasted loss before income taxes.

Consolidated net loss was \$14.9 million, or \$(0.46) per diluted share, compared with net loss of \$7.2 million, or \$(0.23) per diluted share, in the prior year.

Bookings were \$184.2 million, for a book-to-bill ratio of 1.40:1. Backlog at the end of the quarter was \$547.1 million. Approximately \$426.5 million, or 78%, of backlog is expected to be recognized as revenue over the next twelve months and the balance thereafter.

CONSOLIDATED YEAR-TO-DATE RESULTS

Consolidated sales were up \$47.9 million. Aerospace sales were up \$56.5 million from the first nine months of 2021. Test Systems sales decreased \$8.6 million.

Consolidated cost of products sold in 2022 was \$326.7 million, compared with \$282.0 million in the prior-year period. The increase was primarily due to higher volume as the global aerospace industry continues its recovery from the COVID-19 pandemic. The current year period benefited from \$6.0 million recognized as an offset to cost of products sold related to the AMJP award, compared to a benefit from the grant of \$1.1 million in the prior year. Research and development expenses increased \$4.9 million due to higher innovation spend.

SG&A expenses were \$76.9 million in 2022 compared with \$66.8 million the prior-year period primarily due to increased wages and benefits. The current-year period reflects \$4.6 million related to the settlement of a litigation claim, a customer accommodation dispute, and a lease termination settlement. The Company expects to be indemnified by other parties for approximately \$1.5 million related to the litigation claim and will record the gain as an offset to SG&A when received, likely in the fourth quarter of 2022. The prior-year period also benefited from a \$2.2 million non-cash reduction of the fair value of a contingent consideration liability.

The effective tax rate for 2022 was (28.3)%, compared with (1.4)% in the prior year period. In the past, research and development costs were deducted as incurred. However, beginning with the 2022 tax year, these costs are required to be capitalized for tax purposes and amortized over 5 years. The 2022 tax rate was impacted by a valuation allowance applied against the associated deferred tax asset created by the new treatment, due to the Company's cumulative losses over the last three years. This was partially offset by the removal of valuation allowances related to net operating losses, tax credit carryovers, and certain timing differences that are expected to reverse during 2022 as well as a Federal research and development credit expected for 2022.

Consolidated net loss was \$29.0 million, or \$(0.90) per diluted share, compared with net loss of \$27.2 million, or \$(0.88) per diluted share, in the prior year.

COVID-19 Impacts on Our Business

On March 11, 2020, the World Health Organization classified the COVID-19 outbreak as a pandemic. The spread of the COVID-19 pandemic disrupted businesses on a global scale, led to significant volatility in financial markets and affected the aviation and industrial industries. Substantially all of our operations and production activities have, to-date, remained operational. However, the impacts of the pandemic have placed labor and supply chain pressures on our business and we have been impacted by customer demand variability. Although we saw stable and growing backlog during the first nine months of 2022 in our aerospace business, COVID-19 related disruptions are ongoing and continue to adversely challenge our commercial transport market. While we remain bullish about the aerospace business, we believe the recovery to pre-pandemic activity, particularly in the widebody market, will take longer than originally anticipated at the outset of the pandemic. As economic activity continues to recover, we will continue to monitor the situation, assessing further possible implications on our operations, supply chain, liquidity, cash flow and customer orders.

Outlook

Increasing sales is critical to satisfying our customers' demand, and improving financial results. Revenue has been starting to ramp and we believe it will accelerate as we move forward. As previously reported, we are expecting sales of \$140 million to \$150 million in the fourth quarter of 2022, an increase of 10%, or \$14 million, at the midpoint over the trailing third quarter. This would result in estimated 2022 sales to be up approximately 17% from last year's revenue of \$445 million. While disappointed with the lower sales level for the year than we had previously anticipated, we remain very encouraged with the demand for our products, our position in the industry and the significant opportunities in which we are engaged.

Our initial look at 2023 suggests sales of \$640 million to \$680 million. This expectation is supported by cumulative bookings of \$686 million over the last four quarters and our record backlog of \$547 million. Our supply chain has been a challenge during the last year, but we now see clear signs of improvement and anticipate continued recovery over the course of 2023.

Consolidated backlog at October 1, 2022 was \$547.1 million. Approximately 78% of the backlog is expected to be recognized as revenue in over the next twelve months and the balance thereafter.

Planned capital expenditures for 2022 are expected to be approximately \$9 million to \$10 million.

While core aerospace markets have strengthened as vaccination rates rise and passenger traffic accelerated, the ultimate impact of COVID-19 on our business, results of operations, financial condition and cash flows is dependent on future developments, including the duration of the pandemic, virus variants, vaccination rates and efficacy and the related length of impact on the global economy, supply chain and specifically on the markets we are active in, which are uncertain and cannot be predicted at this time.

SEGMENT RESULTS OF OPERATIONS AND OUTLOOK

Operating loss, as presented below, is sales less cost of products sold and other operating expenses, excluding interest expense, other corporate expenses and other non-operating sales and expenses. Cost of products sold and other operating expenses are directly identifiable to the respective segment. Operating loss is reconciled to loss before income taxes in Note 15 of the Notes to Consolidated Condensed Financial Statements included in this report.

AEROSPACE SEGMENT

(In thousands)	Nine Months Ended		Three Months Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Sales	\$ 322,871	\$ 266,425	\$ 112,177	\$ 95,775
Less Inter-segment Sales	(10)	(23)	—	(9)
Total Aerospace Sales	\$ 322,861	\$ 266,402	\$ 112,177	\$ 95,766
Operating (Loss) Profit	\$ (7,085)	\$ (6,352)	\$ (6,859)	\$ 1,917
Operating Margin	(2.2)%	(2.4)%	(6.1)%	2.0 %

Aerospace Sales by Market

(In thousands)	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Commercial Transport	\$ 211,721	\$ 143,550	\$ 78,389	\$ 57,549
Military	41,336	54,847	12,463	17,064
General Aviation	48,748	41,131	14,751	12,109
Other	21,056	26,874	6,574	9,044
	<u>\$ 322,861</u>	<u>\$ 266,402</u>	<u>\$ 112,177</u>	<u>\$ 95,766</u>

Aerospace Sales by Product Line

(In thousands)	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Electrical Power & Motion	\$ 132,757	\$ 102,742	\$ 46,155	\$ 38,650
Lighting & Safety	90,339	76,929	29,740	25,461
Avionics	67,453	47,355	24,172	14,491
Systems Certification	6,656	7,937	3,985	6,099
Structures	4,600	4,565	1,551	2,021
Other	21,056	26,874	6,574	9,044
	<u>\$ 322,861</u>	<u>\$ 266,402</u>	<u>\$ 112,177</u>	<u>\$ 95,766</u>

(In thousands)	October 1, 2022	December 31, 2021
Total Assets	\$ 478,385	\$ 458,334
Backlog	\$ 464,307	\$ 334,659

AEROSPACE THIRD QUARTER RESULTS

Aerospace segment sales increased \$16.4 million, or 17.1%, to \$112.2 million. Commercial aerospace sales increased 36.2%, or \$20.8 million, and drove the improvement. Sales to this market were \$78.4 million compared with \$57.5 million in the third quarter of 2021. Improving domestic airline travel that is driving higher fleet utilization and increased narrowbody production rates drove demand for Astronics' products.

General Aviation sales increased \$2.6 million, or 21.8%, to \$14.8 million due in part to higher demand in the business jet market for antenna systems and enhanced vision system products. The Company expects the strong end user demand in the business jet industry to drive higher OEM production rates in the near future, resulting in further increases in demand for its products.

Military Aircraft sales decreased \$4.6 million, or 27.0%, to \$12.5 million. The prior-year period benefited from incremental non-recurring engineering revenue associated with development programs and higher sales of avionics products.

Other revenue decreased \$2.5 million to \$6.6 million driven by decreased contract manufacturing programs.

Aerospace segment operating loss was \$6.9 million compared with operating profit of \$1.9 million for the same period last year. Higher operating losses were driven by inflationary impacts on input costs and inefficiencies associated with production execution due to supply chain constraints that restricted shipment volume, as well as the settlement of a litigation claim and a customer accommodation dispute that resulted in \$4.1 million of expense during the quarter. We expect to be indemnified by other parties for approximately \$1.5 million related to the litigation claim and will record that gain when such proceeds are received, likely in the fourth quarter. Operating profit in the prior-year period benefited from the \$1.1 million AMJP benefit.

AEROSPACE YEAR-TO-DATE RESULTS

Aerospace segment sales increased \$56.5 million, or 21.2%, to \$322.9 million. Sales continued to be positively affected by reasons discussed above.

Aerospace segment operating loss was \$7.1 million compared with operating loss of \$6.4 million for the same period last year. Aerospace segment experienced increased sales and the \$6.0 million AMJP benefit in the 2022 period compared to an AMJP benefit of \$1.1 million in the prior year, however, the operating loss was impacted by continued increases to input costs caused by inflationary impacts and supply chain constraints. Additionally, the 2022 period included \$4.1 million related to the settlement of a litigation claim and a customer accommodation dispute and a \$2.5 million increase of expense associated with the reinstated 401K contribution. As previously noted, we expect to be indemnified by other parties for approximately \$1.5 million related to the litigation claim and will record that gain when such proceeds are received, likely in the fourth quarter.

AEROSPACE OUTLOOK

Aerospace bookings in the third quarter of 2022 were \$165.7 million, for a book-to-bill ratio of 1.48:1. The Aerospace segment's backlog at the end of the third quarter of 2022 was \$464.3 million with approximately \$375.2 million expected to be recognized as revenue over the next twelve months.

TEST SYSTEMS SEGMENT

(In thousands)	Nine Months Ended		Three Months Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Sales	\$ 53,899	\$ 62,811	\$ 19,261	\$ 16,128
Less Inter-segment Sales	(19)	(357)	—	(53)
Total Test Systems Sales	\$ 53,880	\$ 62,454	\$ 19,261	\$ 16,075
Operating Loss	\$ (4,125)	\$ (1,958)	\$ (2,312)	\$ (2,201)
Operating Margin	(7.7)%	(3.1)%	(12.0)%	(13.7)%

All Test Systems sales are to the Aerospace and Defense Market.

(In thousands)	October 1, 2022	December 31, 2021
Total Assets	\$ 108,473	\$ 105,335
Backlog	\$ 82,807	\$ 81,033

TEST SYSTEMS THIRD QUARTER RESULTS

Test Systems segment sales were \$19.3 million, up \$3.2 million compared with the prior-year period driven by higher defense revenue.

Test Systems' operating loss was \$2.3 million compared with operating loss of \$2.2 million in the third quarter of 2021. Continued lower volume has driven operating losses in the third quarters of 2022 and 2021. The current year included a lease termination settlement of \$0.5 million.

TEST SYSTEMS YEAR-TO-DATE RESULTS

Test Systems segment sales were \$53.9 million, down \$8.6 million compared with the prior-year period driven by lower revenue on defense and mass transit programs.

Test Systems operating loss was \$4.1 million compared with operating loss of \$2.0 million in the prior-year period. An increased operating loss in 2022 was driven by lower volume. The current year included a lease termination settlement of \$0.5 million.

TEST SYSTEMS OUTLOOK

Bookings for the Test Systems segment in the quarter were \$18.4 million, for a book-to-bill ratio of 0.96:1 for the quarter. The Test Systems segment's backlog at the end of the third quarter of 2022 was \$82.8 million, with approximately \$51.3 million expected to be recognized as revenue over the next twelve months.

Our Test business achieved a big win during the quarter when we were down-selected by the U.S. Army as the winner of a major radio test competition. A directed procurement is underway to finalize the terms of a contract, a process that is expected to be completed soon. Preliminarily, the Company expects the program could generate sales of \$150 million to \$200 million in the coming years.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities:

Cash used for operating activities totaled \$39.1 million for the first nine months of 2022, as compared with \$18.5 million cash used for operating activities during the same period in 2021. Cash flow from operating activities decreased compared with the same period of 2021 primarily related to increases in net operating assets, primarily accounts receivable and inventory, more than offsetting cash received from income tax refunds and the AMJP program. Accounts receivable has increased with a higher volume of sales while inventory balances have increased to fulfill customer demand in upcoming quarters coupled with increased lead times on certain key components required inventory to be purchased further in advance.

Investing Activities:

Cash provided by investing activities was \$17.7 million for the first nine months of 2022 compared with \$4.6 million in cash used for investing activities in the same period of 2021. Investing cash flows in 2022 were positively impacted by the receipt of \$10.7 million and \$11.3 million related to the calendar 2020 and 2021 earnouts, respectively, from the sale of the semiconductor business. The Company expects capital spending in 2022 to be in the range of \$9 million and \$10 million.

Financing Activities:

Cash used for financing activities totaled \$4.9 million for the first nine months of 2022, as compared with \$12.3 million cash provided by financing activities during the same period in 2021. Cash used for financing activities increased compared with the same period of 2021 due to net payments on our senior credit facility of \$4.0 million in the first nine months of 2022, coupled with \$1.0 million in costs associated with amending our credit facility.

The Company's long-term debt consists of borrowings under its Fifth Amended and Restated Credit Agreement (the "Agreement"). On March 1, 2022, the Company executed an amendment to the Agreement, which reduced the revolving credit line from \$375 million to \$225 million and extended the maturity date of the loans under the facility from February 16, 2023 to May 30, 2023. The definition of Adjusted EBITDA was modified to exclude income from earnout payments and asset sales. On August 9, 2022, the Company executed a further amendment to the Agreement, which reduced the revolving credit line from \$225 million to \$190 million until September 12, 2022 with further reductions to \$180 million effective September 12, 2022 and \$170 million effective October 11, 2022. The amendment extended the maturity date of the loans under the facility from May 30, 2023 to August 31, 2023. On October 21, 2022, the Company executed an additional amendment to the Agreement, under which the lenders waived enforcement of their rights against the Company arising from the Company's failure to comply with the maximum net leverage ratio and minimum liquidity covenants, each as of September 30, 2022. The amendment increased the revolving credit line to \$180 million as of October 21, 2022, with a reduction to \$170 million effective November 21, 2022. Under the provisions of this amendment, the inclusion of any "going concern" language in the Company's financial statements would constitute an event of default.

A further amendment to the Agreement was executed on November 14, 2022 (the "Amended Facility"), which extended the maturity date of the loans under the facility from August 31, 2023 to November 30, 2023. Under the Amended Facility, the revolving credit line is set at \$180 million, with a reduction to \$170 million effective December 21, 2022. The amendment requires the Company to maintain minimum liquidity, defined as unrestricted cash plus the unused revolving credit commitments, of \$10 million as of November 30, 2022 and December 31, 2022, and \$15 million at the end of any month thereafter. The Amended Facility requires the Company to comply with a minimum Adjusted EBITDA covenant on a trailing twelve month basis, set at \$15 million as of December 31, 2022 and March 31, 2023, and \$25 million in each quarter thereafter. The amendment eliminated the net leverage ratio covenant for the remaining term of the agreement.

At October 1, 2022, there was \$159.0 million outstanding on the revolving credit facility and there remained \$19.9 million available subject to the minimum liquidity covenant discussed above, net of outstanding letters of credit. The credit facility allocates up to \$20 million of the \$180 million revolving credit line for the issuance of letters of credit, including certain existing letters of credit. At October 1, 2022, outstanding letters of credit totaled \$1.1 million. Interest is payable on the unpaid principal amount of the facility at a rate equal to the Secured Overnight Financing Rate ("SOFR", which shall be at least 1.00%), plus 5.50%. Effective January 17, 2023, interest is payable on the unpaid principal amount of the facility at a rate equal to SOFR (which shall be at least 1.00%), plus 8.50%. The Company also pays a commitment fee to the lenders in an amount

equal to 0.40% on the undrawn portion of the Amended Facility. Each amendment executed in 2022 required payment of a consent fee of 5 to 10 basis points of the commitment for each consenting lender.

The Amended Facility restricts dividend payments and share repurchases through the maturity date of the Amended Facility. The Company's obligations under the Amended Facility are jointly and severally guaranteed by each domestic subsidiary of the Company other than non-material subsidiaries.

The obligations are secured by a first priority lien on substantially all of the Company's and the guarantors' assets. In the event of voluntary or involuntary bankruptcy of the Company or any subsidiary, all unpaid principal and other amounts owing under the Amended Facility 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.

We are currently in the process of evaluating terms and conditions for a new long-term financing arrangement, which includes an asset-based lending agreement and separate term loan agreement, and expect to complete the process in the coming weeks. The extent to which we will be able to effect such refinancing, replacement or maturity extension on terms that are favorable to us or at all is dependent on a number of uncertain factors, including then-prevailing credit and other market conditions, economic conditions, particularly in the aerospace and defense markets, disruptions or volatility caused by factors such as COVID-19, regional conflicts, inflation, and supply chain disruptions. In addition, rising interest rates could limit our ability to refinance our existing credit facility when it matures or cause us to pay higher interest rates upon refinancing. As the Company's long-term debt approaches maturity, if the Company is unable to refinance, replace or extend the maturity on its credit facility, the Company's liquidity, results of operations, and financial condition could be materially adversely impacted. If we are unable to obtain a new long-term financing facility before we file our 2022 Form 10-K to replace our existing debt facility, borrowings outstanding under our existing credit facility will come due within 12 months of that filing date and could result in substantial doubt about our ability to continue as a going concern in the event that we are not reasonably assured to have sufficient cash balances to repay the remaining obligations at maturity.

The Company expects its sales growth and improvement in inventory management will provide sufficient cash flows to fund operations. However, the Company may also evaluate various actions and alternatives to enhance its cash generation from operating activities, which could include manufacturing efficiency initiatives, working with vendors and suppliers to reduce lead times and expedite shipment of critical components, and working with customers to expedite receivable collections.

Our ability to maintain sufficient liquidity is highly dependent upon achieving expected operating results. Failure to achieve expected operating results could have a material adverse effect on our liquidity, our ability to obtain financing, and our operations in the future.

OFF BALANCE SHEET ARRANGEMENTS

We do not have any material off balance sheet arrangements that have or are reasonably likely to have a material future effect on our results of operations or financial condition.

BACKLOG

The Company's backlog at October 1, 2022 was \$547.1 million compared with \$415.7 million at December 31, 2021 and \$354.4 million at October 2, 2021.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Except as noted below, our contractual obligations and commitments have not changed materially from the disclosures in our 2021 Annual Report on Form 10-K.

Purchase obligations are comprised of the Company's commitments for goods and services in the normal course of business and amount to approximately \$151.6 million payable in the coming year at October 1, 2022 and \$134.0 million at December 31, 2022.

As a result of amendments to our credit facility since December 31, 2021, future interest payments are expected to be \$15.7 million through the expiration of the credit facility.

Absent any legislative changes, the Company expects to pay approximately \$5 million to \$6 million in income tax payments related to the 2022 tax year. These expected tax payments are the result of the requirement to capitalize and amortize certain research and development expenses for U.S. tax purposes beginning in 2022.

MARKET RISK

Interest on our revolving credit facility is payable on the unpaid principal amount of the facility at a rate equal to the SOFR (which shall be at least 1.00%), plus 5.50%. Effective January 17, 2023, interest is payable on the unpaid principal amount of the facility at a rate equal to SOFR (which shall be at least 1.00%), plus 8.50%. As SOFR is a relatively new reference rate with a limited history, there may or may not be more volatility than with other reference rates such as LIBOR, which may result in increased borrowing costs for the Company. A hypothetical increase in the SOFR of 100 basis points would impact annual income by approximately \$1.6 million, before income taxes.

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 primarily to the Euro and the Canadian dollar. The Company believes that the impact of changes in foreign currency exchange rates in 2022 have not been significant.

CRITICAL ACCOUNTING POLICIES

Refer to Note 2 of the Notes to Consolidated Condensed Financial Statements included in this report for the Company's critical accounting policies with respect to revenue recognition. For a complete discussion of the Company's other critical accounting policies, refer to the Company's annual report on Form 10-K for the year ended December 31, 2021.

RECENT ACCOUNTING PRONOUNCEMENTS

Refer to Note 1 of the Notes to Consolidated Condensed Financial Statements included in this report.

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," "approximate," "estimates," "predicts," "potential," "outlook," "forecast," "anticipates," "presume" and "assume," are forward-looking statements. 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.

Item 4. Controls and Procedures

a. Evaluation of Disclosure 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 October 1, 2022. 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 October 1, 2022.

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.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Currently, we are involved in legal proceedings relating to an allegation of patent infringement and, based on rulings to date we have concluded that losses related to these proceedings are probable. For a discussion of contingencies related to legal proceedings, see Note 14 of the Notes to Consolidated Condensed Financial Statements.

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, 2021, 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.

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

The following table summarizes our purchases of our common stock for the three months ended October 1, 2022.

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Dollar Value of Shares that may yet be Purchased Under the Program (1)</u>
July 3, 2022 - October 1, 2022	—	\$ —	—	\$ 41,483,815

- (1) Previously, the Board of Directors authorized share repurchase programs that authorized repurchases up to certain monetary limits in accordance with applicable securities laws on the open market or through privately negotiated transactions. Under those programs, we purchased approximately 3,498,000 shares for \$100 million.

On September 17, 2019, the Board of Directors authorized an additional share repurchase program. This program authorizes repurchases of up to \$50 million of common stock. Cumulative repurchases under this plan were approximately 310,000 shares at a cost of \$8.5 million before the 10b5-1 plan associated with the share repurchase program was terminated on February 3, 2020. There have been no repurchases since that date.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit 10.1	Amendment No. 3 to the Fifth Amended and Restated Credit Agreement, filed as Exhibit 10.1 on Form 8-K filed on August 10, 2022 (File No. 000-07087).
Exhibit 10.2	Amendment No. 4 to the Fifth Amended and Restated Credit Agreement, filed as Exhibit 10.1 on Form 8-K filed on October 24, 2022 (File No. 000-07087).
Exhibit 10.3	Amendment No. 5 to the Fifth Amended and Restated Credit Agreement, filed as Exhibit 10.1 on Form 8-K filed on November 15, 2022 (File No. 000-07087).
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.

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: <u>November 15, 2022</u>	By: <u>/s/ David C. Burney</u> David C. Burney Executive Vice President and Chief Financial Officer (Principal Financial Officer)

SECTION 302 CERTIFICATION

Certification of Chief Executive Officer pursuant to Exchange Act rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Peter J. Gundermann, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Astronics Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: 11/15/2022

/s/ Peter J. Gundermann

Peter J. Gundermann

President and Chief Executive Officer

SECTION 302 CERTIFICATION

Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David C. Burney, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Astronics Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: 11/15/2022

/s/ David C. Burney

David C. Burney

Chief Financial Officer

**Certification pursuant to
18 U.S.C. Section 1350,
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officers of Astronics Corporation (the "Company") hereby certify that:

The Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2022 fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.
November 15, 2022

/s/ Peter J. Gundermann

Peter J. Gundermann

Title: Chief Executive Officer

November 15, 2022

/s/ David C. Burney

David C. Burney

Title: Chief Financial Officer

This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liability of that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent specifically incorporated by the Company into such filing.