

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**Form 10-K**

[ X ] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2001

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  
(I.R.S. Employer Identification No.)

1801 Elmwood Avenue  
Buffalo, New York 14207  
(Address of principal executive office)

Registrant's telephone number including area code: (716) 447-9013

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

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

\$.01 par value Common Stock; \$.01 par value Class B Stock  
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of March 8, 2002, 8,105,176 shares were outstanding, consisting of 5,852,812 shares of Common Stock \$.01 Par Value and 2,252,364 shares of Class B Stock \$.01 Par Value. The aggregate market value of the shares of Common Stock and Class B Stock of Astronics Corporation held by non-affiliates was approximately \$65,859,247 (assuming conversion of all of the outstanding Class B Stock into Common Stock and assuming the affiliates of the Registrant to be its directors, executive officers and persons known to the Registrant to beneficially own more than 10% of the outstanding capital stock of the Corporation).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's 2001 Annual Report to Shareholders are incorporated into Parts II and III of this Report. Portions of the Company's Proxy Statement for the 2002 Annual Meeting of Shareholders dated March 25, 2002 are incorporated by reference into Part III of this Report.

**PART I**

**Item 1. BUSINESS**

"Operations in Different Industries" on page 18 of the Annual Shareholders' Report for the year ended December 31, 2001 is incorporated herein by reference.

## General Development of Business

The major factors affecting the development of the business in 2001 are discussed under the caption "Net Sales" on page 21 of the Annual Shareholders' Report for the year ended December 31, 2001, and is incorporated herein by reference.

## Sources and Availability of Raw Materials

"Quantitative and Qualitative Disclosures About Market Risks" on page 23 of the Annual Shareholders' Report for the year ended December 31, 2001 is incorporated herein by reference.

## Seasonality

The Printing-Packaging segment is somewhat seasonal. Typical annual business patterns see 55 - 58% of this segment's revenues realized in the second half of the year, with the fourth quarter generally being the strongest.

## Practices as to Maintaining Working Capital

"Liquidity" on page 22 of the Annual Shareholders' Report for the year ended December 31, 2001 is incorporated herein by reference.

## Competitive Conditions

Astronics experiences considerable competition in its segments, principally in the areas of product performance and price, from various competitors, many of which are substantially larger and have greater resources. Success in the Aerospace-Electronics segment depends upon product innovation, customer support, responsiveness, and cost management. Astronics continues to invest in developing the technologies and engineering support critical to competing in our Aerospace-Electronics markets. Success in Printing-Packaging is dependent upon competitive pricing, innovative and responsive customer support and short lead time delivery performance. Astronics has invested and will continue to invest in state-of-the-art process and systems technology.

## Backlog

"Backlog" on page 23 of the Annual Shareholders' Report for the year ended December 31, 2001 is incorporated herein by reference.

## Patents

The Company has a number of patents and has filed numerous applications for others. While the aggregate protection of these patents is of value, the Company does not consider that the successful conduct of any material part of its business is dependent upon the protection afforded by these patents. The Company's patents and patent applications relate to electroluminescence, instrument panels, keyboard technology and various components used in their manufacture. The Company regards its expertise and techniques as proprietary and relies upon trade secret laws and contractual arrangements to protect its rights.

## Research Activities

The Company is engaged in a variety of research and development activities directed to the substantial improvement or new application of the Company's technologies. The extent of the Company's engagement in basic research, however, is not material.

## Employees

The Company employed approximately 700 employees as of December 31, 2001, including 432 in the Aerospace-Electronics segment, 263 in the Printing-Packaging segment and 5 at the corporate level, compared to 703 as of December 31, 2000, including 435 in the Aerospace-Electronics segment, 268 in the Printing-Packaging segment and 6 at the corporate level as of that date. The Company considers its relations with its employees to be good.

## **Item 2. PROPERTIES**

### Corporate Headquarters

The Company's corporate office occupies approximately 2,000 square feet at 1801 Elmwood Avenue, Buffalo,

NY 14207, in a building which is shared with the Printing-Packaging segment.

#### Aerospace-Electronics

The Company owns manufacturing and office facilities of approximately 70,000 square feet in the Buffalo, New York area and 80,000 square feet in Lebanon, New Hampshire. Montreal, Quebec, Canada operations are in leased facilities of approximately 15,000 square feet. The lease expires in 2006.

#### Printing-Packaging

The Company owns buildings totaling approximately 250,000 square feet in the Buffalo, New York area for its manufacturing and office facilities.

The Company believes that its properties are suitable and adequate for the purpose for which they are employed. Additions and expansions are made as needed. In general, the capacity of the Company's properties are in excess of its current requirements.

### **Item 3. LEGAL PROCEEDINGS**

There are no material pending legal proceedings, other than routine litigation incidental to the business, to which the Registrant or any of its subsidiaries is a party or of which any of their property is the subject.

### **Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

## **PART II**

### **Item 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Information with respect to the market price of and dividends on the Company's Common Stock and related shareholder matters appears on the inside back cover and pages 20, 23 and 25 of the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2001, and is incorporated herein by reference.

### **Item 6. SELECTED FINANCIAL DATA**

Selected Financial Data appears on page 20 of the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2001, and is incorporated herein by reference.

### **Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's discussion and analysis of financial condition, changes in financial condition and results of operations appears on pages 21 through 23 of the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2001, and is incorporated herein by reference.

### **Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk disclosures appears on page 23 of the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2001, and is incorporated herein by reference.

### **Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The Financial Statements of Astronics Corporation which are incorporated by reference in this Annual Report on Form 10-K are described in the accompanying Index to Financial Statements at Item 14 of this Report.

### **Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

## **PART III**

**Item 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT**

The information regarding directors is contained under the captions "Election of Directors" and "Record Date and Voting Securities" in the Company's definitive Proxy Statement dated March 25, 2002 and is incorporated herein by reference.

Certain information regarding executive officers is contained under the captions "Executive Compensation" and "Record Date and Voting Securities" in the Company's definitive Proxy Statement dated March 25, 2002 and on the back inside cover of the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2001, submitted herewith as an exhibit, which are both incorporated herein by reference.

The executive officers of the Company, their ages, their positions and offices with the Company, and the date each assumed their office with the Company are as follows:

| <u>Name and Age of Executive Officer</u> | <u>Positions and Offices with Astronics</u>                                           | <u>Year First Elected Officer</u> |
|------------------------------------------|---------------------------------------------------------------------------------------|-----------------------------------|
| Kevin T. Keane<br>Age 69                 | Chairman of the Board, President, Chief Executive Officer and Director of the Company | 1970                              |
| Peter J. Gundermann<br>Age 39            | President, Luminescent Systems, Inc., an Astronics subsidiary                         | 2001                              |
| Daniel G. Keane<br>Age 36                | President, MOD-PAC CORP, an Astronics subsidiary                                      | 2001                              |
| C. Anthony Rider<br>Age 50               | Vice President-Finance and Treasurer, and Chief Financial Officer of the Company.     | 2000                              |

Prior to joining the Company in July 2000, Mr. Rider was a partner in the firm of Ernst & Young LLP in the Buffalo, New York office. The principal occupation and employment for all other executives listed above for the past five years has been with the Company.

**Item 11. EXECUTIVE COMPENSATION**

The information contained under the caption "Executive Compensation" in the Company's definitive Proxy Statement dated March 25, 2002 is incorporated herein by reference.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The information contained under the caption "Record Date and Voting Securities" in the Company's definitive Proxy Statement dated March 25, 2002 is incorporated herein by reference.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information contained under the caption "Certain Relationships and Related Transactions" in the Company's definitive Proxy Statement dated March 25, 2002 is incorporated herein by reference.

**PART IV**

**Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K**

(a) The documents filed as a part of this report are as follows:

1. Consolidated Financial Statements
2. Financial Statement Schedules

See Index to Financial Statements and Financial Statement Schedules.

All other consolidated financial schedules are omitted because they are inapplicable, not required, or the information is included elsewhere in the consolidated financial statements or the notes thereto.

### 3. Exhibits

| <u>Exhibit No.</u> | <u>Description</u>                                                                                                                                                                                                                                                                                                                     |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3(a)               | Restated Certificate of Incorporation, as amended; incorporated by reference to exhibit 3(a) of the Registrant's December 31, 1988 Annual Report on Form 10-K.                                                                                                                                                                         |
| (b)                | By-Laws, as amended; incorporated by reference to exhibit 3(b) of the Registrant's December 31, 1996 Annual Report on Form 10-K.                                                                                                                                                                                                       |
| 10.1*              | Restated Thrift and Profit Sharing Retirement Plan; incorporated by reference to exhibit 10.1 of the Registrant's December 31, 1994 Annual Report on Form 10-KSB.                                                                                                                                                                      |
| 10.2*              | Incentive Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 26, 1982.                                                                                                                                                                                                            |
| 10.3*              | Director Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 16, 1984.                                                                                                                                                                                                             |
| 10.4*              | 1992 Incentive Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 30, 1992.                                                                                                                                                                                                       |
| 10.5*              | 1993 Director Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 19, 1993.                                                                                                                                                                                                        |
| 10.6*              | 1997 Director Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 14, 1997.                                                                                                                                                                                                        |
| 10.7*              | 2001 Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 19, 2001.                                                                                                                                                                                                                 |
| 10.8*              | Non-Qualified Supplemental Retirement Plan; incorporated by reference from the Registrant's 1999 Annual Report on Form 10-K.                                                                                                                                                                                                           |
| 13                 | 2001 Annual Report to Shareholders; filed herewith.<br>(Except for those portions which are expressly incorporated by reference in this Annual Report on Form 10-K, this exhibit is furnished for the information of the Securities and Exchange Commission and is not deemed to be filed as part of this Annual Report on Form 10-K.) |
| 21                 | Subsidiaries of the Registrant; filed herewith.                                                                                                                                                                                                                                                                                        |
| 23                 | Consent of Independent Auditors; filed herewith.                                                                                                                                                                                                                                                                                       |

\*identifies a management contract or compensatory plan or arrangement as required by Item 14(a)(3) of Form 10-K.

#### (b) Reports on Form 8-K

None

<PAGE F-1>

### ASTRONICS CORPORATION

#### INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

The consolidated financial statements, together with the report thereon of Ernst & Young LLP dated January 25, 2002, appearing on pages 8 to 19 of the accompanying 2001 Annual Report to Shareholders are incorporated by reference in this Annual Report on Form 10-K.

Financial schedules for the years 2001, 2000, and 1999:

|                                   | <u>Page</u> |
|-----------------------------------|-------------|
| Valuation and Qualifying Accounts | F-2         |

&lt;PAGE F-2&gt;

**SCHEDULE II****ASTRONICS CORPORATION****VALUATION AND QUALIFYING ACCOUNTS**

(in thousands)

| <u>Year</u> | <u>Description</u>              | <u>Balance at<br/>the<br/>Beginning<br/>of Period</u> | <u>Charged to<br/>Costs and<br/>Expense</u> | <u>Write-offs/<br/>Recoveries</u> | <u>Balance at<br/>End of Period</u> |
|-------------|---------------------------------|-------------------------------------------------------|---------------------------------------------|-----------------------------------|-------------------------------------|
| 2001        | Allowance for Doubtful Accounts | \$182                                                 | \$ 95                                       | \$ (29)                           | \$ 248                              |
| 2000        | Allowance for Doubtful Accounts | \$178                                                 | \$ 54                                       | \$ (50)                           | \$ 182                              |
| 1999        | Allowance for Doubtful Accounts | \$238                                                 | \$(55)                                      | \$ (5)                            | \$ 178                              |

&lt;PAGE&gt;

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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, on March 27, 2002.

**Astronics Corporation**

By: /s/ Kevin T. Keane  
 Kevin T. Keane, President  
 and Chief Executive Officer

By: /s/ C. Anthony Rider  
 C. Anthony Rider, Vice-President-Finance  
 and Treasurer, Principal Financial and  
 Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <u>Signature</u>                                      | <u>Title</u> | <u>Date</u>    |
|-------------------------------------------------------|--------------|----------------|
| <u>/s/ Robert T. Brady</u><br>Robert T. Brady         | Director     | March 27, 2002 |
| <u>/s/ John B. Drenning</u><br>John B. Drenning       | Director     | March 27, 2002 |
| <u>/s/ Peter J. Gundermann</u><br>Peter J. Gundermann | Director     | March 27, 2002 |
| <u>/s/ Daniel G. Keane</u><br>Daniel G. Keane         | Director     | March 27, 2002 |

/s/ Kevin T. Keane  
Kevin T. Keane

Director

March 27, 2002

/s/ Robert J. McKenna  
Robert J. McKenna

Director

March 27, 2002

## ASTRONICS CORPORATION

### INDEX TO EXHIBITS

| <u>Exhibit No.</u> | <u>Description</u>                                                                                                                                                                                                                                                                                                                    |
|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3(a)               | Restated Certificate of Incorporation, as amended; incorporated by reference to exhibit 3(a) of the Registrant's December 31, 1988 Annual Report on Form 10-K.                                                                                                                                                                        |
| (b)                | By-Laws, as amended; incorporated by reference to the Registrant's December 31, 1996 Annual Report on Form 10-K.                                                                                                                                                                                                                      |
| 10.1*              | Restated Thrift and Profit Sharing Retirement Plan; incorporated by reference to the Registrant's December 31, 1994 Annual Report on Form 10-KSB.                                                                                                                                                                                     |
| 10.2*              | Incentive Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 26, 1982.                                                                                                                                                                                                           |
| 10.3*              | Director Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 16, 1984.                                                                                                                                                                                                            |
| 10.4*              | 1992 Incentive Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 30, 1992.                                                                                                                                                                                                      |
| 10.5*              | 1993 Director Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 19, 1993.                                                                                                                                                                                                       |
| 10.6*              | 1997 Director Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 14, 1997.                                                                                                                                                                                                       |
| 10.7*              | 2001 Incentive Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 19, 2001.                                                                                                                                                                                                      |
| 10.8*              | Non-Qualified Supplemental Retirement Plan; incorporated by reference from the Registrant's 1999 Annual Report on Form 10-K.                                                                                                                                                                                                          |
| 13                 | 2001 Annual Report to Shareholders; filed herewith.<br>(Except for those portions which are expressly incorporated by reference to the Annual Report on Form 10-K, this exhibit is furnished for the information of the Securities and Exchange Commission and is not deemed to be filed as part of this Annual Report on Form 10-K.) |
| 21                 | Subsidiaries of the Registrant; filed herewith.                                                                                                                                                                                                                                                                                       |
| 23                 | Consent of Independent Auditors; filed herewith.                                                                                                                                                                                                                                                                                      |

\*identifies a management contract or compensatory plan or arrangement as required by Item 14(a)(3) of Form 10-K.

**ASTRONICS CORPORATION**  
**ANNUAL REPORT 2001**

**Astronics Corporation**

Astronics Corporation is a diversified manufacturer operating in two business segments.

The Aerospace-Electronics segment is a world wide leader and provider of specialized lighting and control systems for the aircraft industry. Our systems can be found in an extensive list of military, commercial and business jets.

Astronics' Printing-Packaging segment is an industry leader that produces stock and custom folding cartons for a wide range of industrial and consumer products companies. This group also specializes in business office products and custom social accessories.

Both segments have been part of Astronics for nearly 30 years - a diversification strategy that has served us well. Today these diverse business segments represent our core business.

Uncertain times, such as the US manufacturing economy is currently experiencing, have reaffirmed the importance of our diversity. Each segment has, in the last few years, expanded its product offerings and market channels - dramatically increasing their strength and long-term prospects for growth.

For the fourth year in a row, Astronics has been named as one of the Forbes "200 Best Small Companies".

**ON THE COVER**

The cover of this year's annual report displays our new corporate logo. This identity signifies some of the primary characteristics which Astronics has been built upon. Strength, diversity and progression into a dynamic future.

As the company grows and solidifies a presence among the global marketplace, we felt it was fitting to introduce a signature to reflect this. We hope you like it.

<PAGE 3>

**MESSAGE TO OUR SHAREHOLDERS**

We are pleased to report record sales and earnings for the 2001 year. EBITDA (earnings before interest, taxes, depreciation and amortization) was more than 20 percent of net sales. Our debt is at favorable interest levels and under 27 percent of capitalization with increasing cash balances and a return on beginning 2001 equity of 19 percent.

But, notwithstanding this, the terror and tragedy of September 11 has affected us, and we also have experienced negative impacts from the worst economy in the last twenty years. The commercial and business jet aircraft business sharply slowed since September, industrial customers during the year have consumed their inventories and slowed purchases, and products we make for personal digital devices have all but stopped during 2001 as a business.

As a whole we continue to gain significantly and in some cases substantially in our business capabilities, technology, and process competencies opportunity for higher than industry's expectations for growth and development. While not all goals were reached during the year, our total success was one of new records. Most of our core business areas continue to gain ground and provide increasing success for the company. A number of astute observers of our Company have noted a potential downturn after the third quarter of 2002, in overall shipments by reason of the completion of our large F-16 contract. Based on currently landed business and expectations for existing, emerging and new business during 2002, we will overrun most or all of the completion of the F-16 program as we reasonably have overcome the downward pressures of 2001, particularly the fourth quarter.

The key drivers for this remain our persistent commitment to broaden our product lines, create systems integration solutions rather than just product offerings, successfully integrate state of the art technologies and make a substantial thrusts into new markets such as the global short run digital to print industry utilizing our unique state of the art process technology. This particular initiative, for example, is currently and in the future expected to grow with compound rates that may approximate 50 percent a year and rapidly become the major growth driver for our Printing-Packaging segment.

None of this is possible without the dedication, and support of our many employees, suppliers, customers and shareholders. Together you provide the critical matrix that allows our insight and initiative to thrive.

We are going to face new and significant opportunities and challenges in 2002 and beyond, and are confident that the future holds many new successes for us. We look forward to the process.

Kevin T. Keane  
President and Chief Executive Officer, Astronics



January 31, 2002

2001 was a very strong year for our Aerospace and Electronics business, with new records set in most every important category. Compared to 2000, sales grew 20% to \$54.5 million, and pretax income grew 40% to \$7 million.

Our performance resulted from a broad range of initiatives pursued in recent years, but clearly the most important was the continued strength of our program to provide the U.S. Air Force with F-16 lighting systems compatible with night vision goggles. This program accounted for \$24 million in shipments for the year.

All of our major product areas had a solid year with strong customer relationships maintained across the product line. We found success with many of the new products and capabilities we introduced during the year including first wins in the flight simulator and military land vehicle markets.

Despite our satisfaction with 2001, the year ended with concern. Widespread economic weakness and the recent terrorist attacks in New York City and Washington D.C. have cast a shadow on expectations for 2002. Further, the production phase of our F-16 night vision program is scheduled to end in the second half of the year.

Still, we believe we are increasingly well-positioned for a bright and successful future. We take satisfaction in our diversified business base as our sales are spread across the military aviation, commercial transport, and business jet segments of the aerospace industry. Consequently, we believe we are well positioned to prosper in today's turbulent economic times.

Peter J. Gundermann  
President, Luminescent Systems, Inc.  
January 31, 2002

Printing-Packaging had a strong year of growth in 2001. Net sales grew by 17 percent to reach \$30.8 million. We continue to leverage our world-class capabilities into new markets. We have a long history of short-run production in both the packaging and social stationery industries. In partnership with Internet distributors, we are aggressively pursuing opportunities in the short run commercial print industry. Our net sales in this exciting new market segment grew to over \$3 million in 2001 - a 400 percent increase over our 2000 sales of \$.7 million. We are well positioned for continued strong growth in Internet based sales.

We see tremendous growth potential from our short run commercial print market channel over the next five to ten years. We believe the market will undergo rapid consolidation as the Internet facilitates remote sales and service to small print buyers. Our world class printing capabilities enable us to become one of the prime consolidators in the industry.

We also continue to outpace the industry in our packaging operation. The folding carton markets had a soft year, however, we were able to continue our expansion throughout the Northeast. Our commitment to advanced technology has allowed us to build a highly efficient operation that allows us to compete very effectively in this consolidating industry. Although the packaging industry as a whole grows at an inflationary rate of 2-3 percent per year, we have successfully increased our operations over 10 percent per year for the last 30 years. We expect our industry outperformance to continue as we successfully execute our strategy.

We look forward to another strong year in 2002.

Daniel G. Keane  
President, MOD-PAC CORP  
January 31, 2002

<PAGE 4>

## AEROSPACE-ELECTRONICS

### Highlights for 2001:

- **20% increase in Net Sales reaching \$54.5 million**
- **Pre-Tax Earnings up 40% over 2000**
- **Over \$24 million in shipments for the F-16 NVIS program**
- **Expansion of Canadian facility to accommodate increased international sales**

Operations for our Aerospace-Electronics segment are conducted through our Luminescent Systems, Inc. subsidiary, which we refer to as "LSI." LSI primarily designs, manufactures, and markets specialized lighting and control systems for aircraft use. Our aircraft lighting products can be broken into three different categories: cockpit, cabin and exterior lighting systems. Our

expertise centers on our knowledge of aircraft operating environments and the performance characteristics of various lighting technologies including incandescent, light-emitting diodes, electroluminescent and photoluminescent. We also manufacture a full range of supporting electronics to drive the lighting systems including power supplies, dimmers, ambient light sensors and inverters. Our expertise in packaging these lighting elements and controls brings solutions to our customers.

LSI sells to airframe manufacturers, avionics companies, airlines and the U.S. Government. Our products are found on commercial transports, business and general aviation aircraft, and military aircraft. The aerospace industry is a relationship industry that is characterized by long-term design production programs. As a result, we enjoy relationships, some exceeding 20 years, with customers throughout the industry. Our success in cultivating these relationships is due in large part to our responsive as well as cost-effective manufacturing and engineering capabilities.

Speed and flexibility are critical to our manufacturing operations. Speed allows us to respond to opportunities in the market faster than our competitors and address the needs of existing customers, while flexibility allows us to provide customized manufacturing solutions to the specialized needs of our customers. Over time, our speed and flexibility enhance the value of our customer relationships thereby creating a competitive advantage as customers come to depend on us for future product developments.

We continue to leverage the capabilities developed under the F-16 program and seek other international military night vision opportunities and non-aerospace military programs such as ground assault vehicles. We also plan to leverage these capabilities for use in the commercial section. In addition, we are developing a steady stream of spare parts business as a result of the F-16 program.

LSI sells cockpit and external lighting systems for military aircraft and, to a lesser extent, cabin escape systems. We are participating in several large programs expected to commence in the near future for the F-22, V-22 and JPATS manufactured by Lockheed, Boeing, and Raytheon, respectively. We will continue to pursue both new and retrofit design upgrades including the lighting system to upgrade to night vision goggle compatibility. Examples include the F-16 fleet upgrade, which we are currently working on, and the C-130 AMP program recently awarded to Boeing, a portion of which we expect to fulfill.

<PAGE 5>

At LSI, we will continue to work closely with leading manufacturers including Collins, Honeywell, Smiths Industries, Talis Systems and Universal Instruments, all of which are important LSI customers. These companies mount our keyboards and indicator panels to the front of their assemblies and then ship them to the airframe manufacturers for installation in an aircraft.

We sell cockpit lighting systems to leading business jet and general aviation airframe manufacturers including Raytheon, Cessna and Lear Jet. Growth in the market was strong in recent years and is predicted to remain strong as a result of technological innovation, such as that envisioned by the anticipated 2003 certification of the Eclipse, and continued growth in fractional ownership programs, which are emerging as important distribution channels for business jets.

LSI primarily sells cabin lighting systems to leading commercial transport manufacturers including Boeing, Airbus, Bombardier and Embraer. We continue to focus our resources to address the expected growth of new and replacement regional jets, as well as new full-sized models.

LSI also sells emergency escape path systems to over 250 airlines around the world including United Airlines, Virgin Atlantic, Air France, Qantas, Singapore Airlines and Cathay Pacific, making us a leading supplier of this product line.

Our goal is to increase market share and outperform the industry in both revenue growth and profits.

We believe we can achieve this by:

- Systematically identifying and pursuing the most promising customer projects in our targeted markets.
- Expanding our product line offerings to leverage our existing relationships with airframe manufacturers.
- Capitalizing on industry outsourcing trends.

<PAGE 6>

## PRINTING-PACKAGING

### Highlights for 2001:

- **Annual net sales up 17% totaling over \$30.8 million**
- **Achieved a growth rate at ten times the industry average**

- **Internet sales increased 400 percent over 2001**

Principal operations for our Printing-Packaging segment are conducted through our MOD-PAC subsidiary and its Krepe-Kraft division. Our Printing-Packaging business primarily designs, manufactures and markets standard, which we refer to as "stock boxes," and custom folding cartons, printed office products and quick print imprinted items including custom printed invitations, napkins and accessories for all social and business events. By possessing all capabilities in-house, we provide optimum efficiency and quality while retaining a wide range of flexibility. By providing high quality products at a competitive price on a just-in-time basis, we have achieved a leadership position in our targeted markets. We strive to become the sole or preferred supplier for most of our market customer base. We focus primarily on the pharmaceutical, healthcare, food, confectionery, and automotive industries, where packaging requirements are more complex and demanding due to variations in packaging materials, shapes and sizes, custom colors, varying storage conditions and marketing enhancements.

In addition to increasing sales with our existing customers, we attract new customers by capitalizing on our quick cycle times, reduced inventory and increased print sophistication. Our early adoption of technological advancements and our highly focused business strategy have created a significant opportunity to address the needs of the quick print market.

We are expanding our presence in the quick print markets via a new ten year exclusive partnership with VistaPrint Corporation, an internet distributor. We are carefully aligning VistaPrint's internet capabilities with our specific workflow processes. VistaPrint offers online design of stationery needs including business cards, letterhead and postcards. We produce and ship VistaPrint's orders directly to its customers in 2 to 3 days. We handle in excess of 10,000 orders per day. VistaPrint is initially targeting the rapidly growing global Small Office/Home Office market in the U.S., and in September of 2001, launched web sites in the United Kingdom and Germany.

MOD-PAC sells a comprehensive line of stock boxes available for same day shipment from our catalog. Customers can order as little as 50 units or as much as a truckload. In addition, we personalize our packaging with imprinting and graphic designs.

Our custom packaging products meet the unique requirements of our customers such as protective structure, marketing aesthetics and product differentiation. Moreover, we facilitate the design and manufacturing of specialized products through utilization of advanced computer aided design and manufacturing systems.

We offer various lines of printing products for both commercial and retail use. Our commercial products include a line of business cards, letterhead, post cards and folders, available in stock and custom versions. Our retail products include custom print invitations, napkins and accessories for all social and business events.

<PAGE 7>

At MOD-PAC CORP we differentiate ourselves by offering a comprehensive line of solutions that address the specialized needs of our customers. As key elements of our operating strategy, we:

- Offer our products and services to selected markets. We are building our success by providing quick print and packaging services to targeted markets that offer attractive margins and growth opportunities. Each of our targeted markets are characterized by significant customer service requirements.
- Maintain product and technological leadership through continued development and innovation. We will continue to invest in leading technology to maintain our competitive advantage in the current market, as well as position ourselves to capitalize on future technological innovation in the printing and packaging industry. Through our investments in leading technology, we believe we can strengthen our manufacturing capabilities and capture market share.
- Provide one-stop shopping printing and packaging services. We are increasing our efforts to integrate our smaller personalized imprinting and finishing division with our larger printing and packaging capabilities, enabling us to fully service customers when they have very small print runs. We continuously look to add value and meet additional customer needs, thus strengthening relationships.

<PAGE 8>

## **ASTRONICS CORPORATION**

### **Consolidated Financial Statements**

#### **CONSOLIDATED STATEMENT OF INCOME**

(In thousands, except per share data)

|                   | Year ended December 31, |             |             |
|-------------------|-------------------------|-------------|-------------|
|                   | <u>2001</u>             | <u>2000</u> | <u>1999</u> |
| Net Sales         | \$85,377                | \$71,968    | \$50,637    |
| Cost and Expenses | 64,022                  | 52,770      | 26,096      |

|                                                                       |              |              |              |
|-----------------------------------------------------------------------|--------------|--------------|--------------|
| Cost of products sold                                                 | 04,032       | 32,110       | 30,080       |
| Selling, general and administrative expenses                          | 10,874       | 9,590        | 7,362        |
| Interest expense, net of interest income of<br>\$199, \$200 and \$142 | <u>520</u>   | <u>678</u>   | <u>257</u>   |
|                                                                       | 75,426       | 63,038       | 43,705       |
| Income Before Taxes                                                   | 9,951        | 8,930        | 6,932        |
| Provision for income taxes                                            | <u>3,453</u> | <u>2,835</u> | <u>2,137</u> |
| Net Income                                                            | \$ 6,498     | 6,095        | \$ 4,795     |
| Earnings per Share                                                    |              |              |              |
| Basic                                                                 | \$ .81       | \$ .78       | \$ .62       |
| Diluted                                                               | \$ .78       | \$ .74       | \$ .59       |

See notes to financial statements.

<PAGE 9>

#### CONSOLIDATED BALANCE SHEET

|                                                                                                   | December 31,    |                 |
|---------------------------------------------------------------------------------------------------|-----------------|-----------------|
| (In thousands, except share data)                                                                 | 2001            | 2000            |
| <b>Current Assets</b>                                                                             |                 |                 |
| Cash and cash equivalents                                                                         | \$9,176         | \$45            |
| Accounts receivable, net of allowance for doubtful<br>accounts of \$248 in 2001 and \$182 in 2000 | 11,828          | 12,837          |
| Inventories                                                                                       | 9,012           | 10,521          |
| Prepared expenses                                                                                 | <u>564</u>      | <u>512</u>      |
| Total Current Assets                                                                              | 30,580          | 23,915          |
| <b>Property, Plant and Equipment, at cost</b>                                                     |                 |                 |
| Land                                                                                              | 1,505           | 1,505           |
| Buildings and improvements                                                                        | 19,187          | 19,014          |
| Machinery and equipment                                                                           | 38,190          | 36,928          |
| Construction in progress                                                                          | <u>200</u>      | <u>--</u>       |
|                                                                                                   | 59,082          | 57,447          |
| Less accumulated depreciation and amortization                                                    | <u>25,097</u>   | <u>21,321</u>   |
| Net Property, Plant and Equipment                                                                 | 33,985          | 36,216          |
| Unexpended Industrial Revenue Bond Proceeds                                                       | 644             | 1,701           |
| Other Assets                                                                                      | <u>5,838</u>    | <u>5,188</u>    |
|                                                                                                   | <u>\$71,047</u> | <u>\$67,020</u> |
| <b>Current Liabilities</b>                                                                        |                 |                 |
| Current maturities of long-term debt                                                              | 1,147           | \$1,276         |
| Accounts payable                                                                                  | 4,244           | 5,583           |
| Accrued payroll and employee benefits                                                             | 2,567           | 2,335           |
| Other accrued expenses                                                                            | 637             | 573             |
| Income taxes                                                                                      | <u>339</u>      | <u>427</u>      |
| Total Current Liabilities                                                                         | 8,934           | 10,194          |
| Long-term Debt                                                                                    | 15,819          | 17,746          |
| Supplemental Retirement Plan                                                                      | 3,868           | 3,049           |
| Other Liabilities                                                                                 | 682             | 609             |
| Deferred Income Taxes                                                                             | 1,073           | 1,232           |
| <b>Shareholders' Equity</b>                                                                       |                 |                 |
| Common Stock, \$.01 par value                                                                     | 60              | 54              |
| Authorized 10,000,000 shares, issued                                                              |                 |                 |

|                                                                     |                                                                             |               |               |
|---------------------------------------------------------------------|-----------------------------------------------------------------------------|---------------|---------------|
| Class B Stock, \$0.01 par value                                     | 5,975,409 in 2001; 5,434,403 in 2000                                        | 25            | 12            |
|                                                                     | Authorized 5,000,000 shares, issued<br>2,524,432 in 2001; 1,190,753 in 2000 |               |               |
| Additional Paid-in Capital                                          |                                                                             | 3,433         | 3,100         |
| Accumulated Other Comprehensive Income                              |                                                                             | 35            | 7             |
| Retained Earnings                                                   |                                                                             | <u>38,278</u> | <u>31,809</u> |
|                                                                     |                                                                             | 41,831        | 34,982        |
| Less Treasury Stock: 414,669 shares in 2001; 318,260 shares in 2000 |                                                                             | <u>1,160</u>  | <u>792</u>    |
| Total Shareholders' Equity                                          |                                                                             | <u>40,671</u> | <u>34,190</u> |
|                                                                     |                                                                             | \$71,047      | \$67,020      |

See notes to financial statements.

<PAGE 10>

#### CONSOLIDATED STATEMENT OF CASH FLOWS

| (in thousands)                                                                                               | Year ended December 31, |                |                 |
|--------------------------------------------------------------------------------------------------------------|-------------------------|----------------|-----------------|
|                                                                                                              | 2001                    | 2000           | 1999            |
| <b>Cash Flows from Operating Activities</b>                                                                  |                         |                |                 |
| Net income                                                                                                   | \$ 6,498                | \$ 6,095       | \$ 4,795        |
| Adjustments to reconcile net income to net cash provided by operating activities:                            |                         |                |                 |
| Depreciation and amortization                                                                                | 4,445                   | 4,248          | 3,688           |
| Provision for doubtful accounts                                                                              | 95                      | 54             | (60)            |
| Provision for deferred taxes                                                                                 | (183)                   | 129            | 180             |
| Loss on disposal of assets                                                                                   | 31                      | -              | -               |
| Cash flows from changes in operating assets and liabilities, net of the effect of acquired or sold business: |                         |                |                 |
| Accounts receivable                                                                                          | 914                     | (5,086)        | (1,357)         |
| Inventories                                                                                                  | 1,509                   | (1,029)        | (3,786)         |
| Prepaid expenses                                                                                             | (52)                    | 8              | 774             |
| Accounts payable                                                                                             | (1,339)                 | (3,317)        | 5,621           |
| Accrued expenses                                                                                             | 296                     | 348            | 165             |
| Income taxes                                                                                                 | (88)                    | 319            | (181)           |
| Supplemental retirement plan and other liabilities                                                           | 564                     | 440            | 241             |
| <b>Net Cash provided by Operating Activities</b>                                                             | <u>12,690</u>           | <u>2,209</u>   | <u>10,080</u>   |
| <b>Cash Flows from Investing Activities</b>                                                                  |                         |                |                 |
| Proceeds from sale of assets                                                                                 | 40                      | 482            | 68              |
| Change in other assets                                                                                       | (271)                   | (573)          | (527)           |
| Capital expenditures                                                                                         | (2,265)                 | (3,981)        | (14,607)        |
| Net payment for assets acquired                                                                              | -                       | <u>(3,616)</u> | -               |
| <b>Net Cash used by Investing Activities</b>                                                                 | <u>(2,496)</u>          | <u>(7,688)</u> | <u>(15,066)</u> |
| <b>Cash Flows from Financing Activities</b>                                                                  |                         |                |                 |
| New long-term debt                                                                                           | 150                     | 3,533          | 7,000           |
| Principal payments on long-term debt                                                                         | (2,225)                 | (1,220)        | (2,845)         |
| Unexpended industrial revenue bond proceeds                                                                  | 1,057                   | 1,807          | 1,149           |
| Proceeds from issuance of stock                                                                              | 428                     | 273            | 312             |
| Fractional shares paid on stock distribution                                                                 | (12)                    | (7)            | -               |
| Purchase of stock for treasury                                                                               | <u>(461)</u>            | <u>(15)</u>    | -               |
| <b>Net Cash (used in) provided by Financing Activities</b>                                                   | <u>(1,063)</u>          | <u>4,371</u>   | <u>5,616</u>    |
| <b>Net increase (decrease) in cash and cash equivalents</b>                                                  | 9,131                   | (1,108)        | 630             |
| Cash and Cash Equivalents at Beginning of Year                                                               | <u>45</u>               | <u>1,153</u>   | <u>523</u>      |
| Cash and Cash Equivalents at End of Year                                                                     | <u>\$9,176</u>          | <u>\$ 45</u>   | <u>\$1,153</u>  |
| <b>Disclosure of Cash Payments for:</b>                                                                      |                         |                |                 |
| Interest                                                                                                     | \$ 760                  | \$ 851         | \$ 373          |

See notes to financial statements.

**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

(dollars and shares in thousands)

|                                                              | Common Stock  |           | Class B Stock |            | Treasury Stock |         | Paid-In Capital | Accumulated Other Comprehensive Income | Retained Earnings | Comprehensive Income |
|--------------------------------------------------------------|---------------|-----------|---------------|------------|----------------|---------|-----------------|----------------------------------------|-------------------|----------------------|
|                                                              | Shares Issued | Par Value | Shares Issued | Par Value  | Shares         | Cost    |                 |                                        |                   |                      |
| Balance at December 31, 1998                                 | 5,225         | \$ 52     | 694           | \$ 7       | 349            | \$ 942  | \$2,681         | \$ ---                                 | \$20,932          |                      |
| Net Income for 1999                                          |               |           |               |            |                |         |                 |                                        | 4,795             | <u>\$4,795</u>       |
| Treasure Stock Sold                                          |               |           |               |            | (30)           | (80)    | 153             |                                        |                   |                      |
| Exercise of Stock Options                                    | 76            | 1         |               |            |                |         | 78              |                                        |                   |                      |
| Class B Stock converted to Common Stock                      | <u>26</u>     | <u>-</u>  | <u>(26)</u>   | <u>-</u>   |                |         |                 |                                        |                   |                      |
| Balance at December 31, 1999                                 | 5,327         | \$ 53     | 668           | \$ 7       | 319            | \$ 862  | \$2,912         | \$ ---                                 | \$25,727          |                      |
| Net Income for 2000                                          |               |           |               |            |                |         |                 |                                        | 6,095             | \$6,095              |
| Currency Translation Adjustments                             |               |           |               |            |                |         |                 | 7                                      |                   | <u>7</u>             |
| Total Comprehensive Income                                   |               |           |               |            |                |         |                 |                                        |                   | <u>\$6,102</u>       |
| Stock Distribution                                           |               |           | 600           | 6          | 29             |         |                 |                                        | (13)              |                      |
| Treasury Stock Sold                                          |               |           |               |            | (31)           | (85)    | 142             |                                        |                   |                      |
| Treasury Stock Purchased                                     |               |           |               |            | 1              | 15      |                 |                                        |                   |                      |
| Exercise of Stock Options                                    | 29            |           | 1             |            |                |         | 46              |                                        |                   |                      |
| Class B Stock converted to Common Stock                      | <u>78</u>     | <u>1</u>  | <u>(78)</u>   | <u>(1)</u> |                |         |                 |                                        |                   |                      |
| Balance at December 31, 2000                                 | 5,434         | \$ 54     | 1,191         | \$ 12      | 318            | \$ 792  | \$3,100         | \$ 7                                   | \$31,809          |                      |
| Net Income for 2001                                          |               |           |               |            |                |         |                 |                                        | 6,498             | \$6,498              |
| Currency Translation Adjustments                             |               |           |               |            |                |         |                 | (17)                                   |                   | (17)                 |
| Interest Rate Swap Adjustments (net of income taxes of \$28) |               |           |               |            |                |         |                 | 45                                     |                   | <u>45</u>            |
| Total Comprehensive Income                                   |               |           |               |            |                |         |                 |                                        |                   | <u>\$6,526</u>       |
| Stock Distribution                                           |               |           | 1699          | 17         | 84             |         |                 |                                        | (29)              |                      |
| Treasury Stock Sold                                          |               |           |               |            | (28)           | (93)    | 137             |                                        |                   |                      |
| Treasury Stock Purchased                                     |               |           |               |            | 41             | 461     |                 |                                        |                   |                      |
| Exercise of Stock Options                                    | 159           | 2         | 16            |            |                |         | 196             |                                        |                   |                      |
| Class B Stock converted to Common Stock                      | <u>382</u>    | <u>4</u>  | <u>(382)</u>  | <u>(4)</u> |                |         |                 |                                        |                   |                      |
| Balance at December 31, 2001                                 | 5,975         | \$ 60     | 2,524         | \$ 25      | 415            | \$1,160 | \$3,433         | \$ 35                                  | \$38,728          |                      |

See notes to financial statements

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1**

**Summary of Significant Accounting Principles and Practices**

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated.

### Revenue and Expense Recognition

Revenue is recognized on the accrual basis, i.e., at the time of shipment of goods. There are no significant contracts allowing for right of return. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Freight charges from carriers that are billed directly to customers are deducted from sales to arrive at net sales. All other shipping and handling costs are expensed as incurred and are included in costs of products sold. Sales exclude discounts and allowances. The Company accounts for its stock-based awards using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25 and its related interpretations.

### Cash and Cash Equivalents

All highly liquid instruments with a maturity of three months or less at the time of purchase are considered cash equivalents.

### Inventories

Inventories are stated at the lower of cost or market, cost being determined in accordance with the first-in, first-out method. Inventories at December 31 are as follows:

|                  | (in thousands) |              |
|------------------|----------------|--------------|
|                  | <u>2001</u>    | <u>2000</u>  |
| Finished Goods   | \$ 2,201       | \$ 2,740     |
| Work in Progress | <u>1,244</u>   | <u>1,564</u> |
| Raw Material     | <u>5,567</u>   | <u>6,217</u> |
|                  | \$ 9,012       | \$ 10,521    |

### Property, Plant and Equipment

Depreciation of property, plant and equipment is computed on the straight-line method for financial reporting purposes and on accelerated methods for income tax purposes. Estimated useful lives of the assets are as follows: buildings, 10-40 years; and machinery and equipment, 4-10 years. Leasehold improvements are amortized over the terms of the lease or the lives of the assets, whichever is shorter.

The cost of properties sold or otherwise disposed of and the accumulated depreciation thereon are eliminated from the accounts, and the resulting gain or loss, as well as maintenance and repair expenses, are reflected in income. Renewals and betterments are capitalized.

### Goodwill

Goodwill, which is included in other assets, represents the excess of purchase price over the fair value of net tangible assets acquired, net of accumulated amortization, and amounted to \$2,464,000 and \$2,698,000 at December 31, 2001 and 2000, respectively. Accumulated amortization amounted to \$727,000 and \$559,000 at December 31, 2001 and 2000, respectively. Goodwill is amortized principally over 15 years on a straight-line basis, starting in the year of acquisition.

### Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities. Deferred tax assets are reduced, if deemed necessary, by a valuation allowance for the amount of tax benefits which are not expected to be realized.

<PAGE 13>

### Earnings Per Share

Earnings per share computations are based upon the following table:

|                                      | (in thousands, except per share data) |             |             |
|--------------------------------------|---------------------------------------|-------------|-------------|
|                                      | <u>2001</u>                           | <u>2000</u> | <u>1999</u> |
| Net Income                           | \$6,498                               | \$6,095     | \$4,795     |
| Basic earnings per share             |                                       |             |             |
| weighted average shares,             | 8,052                                 | 7,831       | 7,709       |
| Net effect of dilutive stock options | <u>294</u>                            | <u>390</u>  | <u>463</u>  |
| Diluted earnings per share           | 8,346                                 | 8,221       | 8,172       |

|                            |               |               |               |
|----------------------------|---------------|---------------|---------------|
| weighted average shares    | <u>8,546</u>  |               |               |
| Basic earnings per share   | <u>\$0.81</u> | <u>\$0.78</u> | <u>\$0.62</u> |
| Diluted earnings per share | \$0.78        | \$0.74        | \$0.59        |

All earnings per share calculations have been retroactively restated to reflect the effect of stock distribution.

### **Class B Stock**

Class B Stock is identical to Common Stock, except Class B Stock has ten votes per share, is automatically converted to Common Stock when sold or transferred, and cannot receive dividends unless an equal or greater amount is declared on Common Stock.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### **Long-lived Assets**

Long-lived assets to be held and used, including goodwill and other intangible assets, are initially recorded at cost. The carrying value of these assets is evaluated for recoverability whenever adverse effects or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are recognized if future undiscounted cash flows and earnings from operations are not expected to be sufficient to recover goodwill and other long-lived assets. The carrying amounts are then reduced by the estimated shortfall of the discounted cash flows.

### **Derivatives**

The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivative depends on the intended use and resulting designation. The Company designates its derivatives based upon the criteria established by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". The Company only has derivatives designated as cash flow hedges at December 31, 2001. For a derivative designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income ("OCI") and subsequently reclassified into earnings when the hedged exposure affects earnings. The ineffective portions of all derivatives are recognized immediately into earnings. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period of change. The Company classifies the cash flows from hedging transactions in the same category as the cash flows from the respective hedged items.

### **Note 2**

#### **New Accounting Pronouncement**

In July 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the First Quarter of 2002. Application of the nonamortization provisions of the Statement is expected to result in an increase in net income of \$160,000 (\$.02 per share) per year. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 and has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

<PAGE 14>

### **Note 3**

#### **Long-term Debt**

Long-term debt consists of the following:

|                                                                      | (in thousands) |             |
|----------------------------------------------------------------------|----------------|-------------|
|                                                                      | <u>2001</u>    | <u>2000</u> |
| Revolving Line of Credit with interest at LIBOR plus 60 basis points | \$3,228        | \$4,133     |
| Industrial Revenue Bonds                                             |                |             |



|                                                                                                                                                                                 |              |              |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| issued through the Erie County, New York<br>Industrial Development Agency payable<br>\$350 annually through 2019 with interest<br>reset weekly (1.7% at December 31, 2001)      | 6,300        | 7,000        |
| Industrial Revenue Bonds                                                                                                                                                        |              |              |
| issued through the Business Finance<br>Authority of the State of New Hampshire<br>payable \$400 annually through 2018 with<br>interest reset weekly (1.8% at December 31, 2001) | 6,850        | 7,250        |
| Other                                                                                                                                                                           | <u>588</u>   | <u>639</u>   |
|                                                                                                                                                                                 | 16,966       | 19,022       |
| Less current maturities                                                                                                                                                         | <u>1,147</u> | <u>1,276</u> |
|                                                                                                                                                                                 | \$15,819     | \$17,746     |

The Industrial Revenue Bonds are held by institutional investors and are guaranteed by a bank letter of credit, which is collateralized by certain property, plant and equipment assets, the carrying value of which approximates the principle balance on the bonds. The revolving line of credit is unsecured and provides for borrowing up to \$12,000,000; interest is at bank prime or LIBOR plus 60 basis points. The line is available through June 30, 2004 and may be converted into a four year term loan. The revolving line of credit, among other requirements, imposes certain covenants with which the Company maintains compliance.

Principal maturities of long-term debt (excluding the revolving line of credit) over the next five years are as follows: \$921,000; \$912,000; \$805,000; \$806,000; and \$808,000.

Interest costs of \$164,000 and \$312,000 were capitalized in 2000 and 1999, respectively; no interest costs were capitalized in 2001.

To offset risks due to fluctuation in interest rates, the Company entered into an interest rate swap on the New York Industrial Revenue Bond through 2005 which effectively fixes the interest rate at 4.09%. At December 31, 2001, the fair value, based on spot prices of similar contracts, of this derivative instrument which is designated as a cash flow hedge, was \$73,000 and is included in other assets on the balance sheet.

#### **Note 4**

##### **Leases**

The Company leases production equipment under operating leases expiring in 2010. These leases commenced in 2001 and rental expense for that year was \$230,000. Minimum future rental payments under non-cancelable lease obligations as of December 31, 2001 are: 2002, \$639,000; 2003, \$639,000; 2004, \$639,000; 2005, \$516,000; 2006, \$424,000; thereafter, \$1,520,000.

#### **Note 5**

##### **Acquisition of Montreal Operations**

On May 15, 2000, the Company acquired all of the common stock of CRL Technologies Inc. (CRL) located near Montreal, Quebec, Canada for \$3,300,000 cash. The transaction was accounted for as a purchase. CRL designs and manufactures avionics keyboards. CRL's results of operations are included in the Company's statement of income since the acquisition date.

#### **Note 6**

##### **Related Party Transactions**

During the years ended December 31, 2001 and December 31, 2000, MOD-PAC CORP, an Astronics subsidiary, performed printing and order fulfillment services for VistaPrint Corporation, resulting in net sales of \$3,220,000 and \$594,000, respectively. VistaPrint owed MOD-PACCORP \$1,360,000 and \$104,000 at December 31, 2001 and 2000, respectively, related to such net sales and \$584,000 at December 31, 2001 for freight charges. Robert S. Keane, the son of Kevin T. Keane, is a shareholder in and the chief executive officer of VistaPrint Corporation. In addition, Kevin T. Keane is a shareholder in VistaPrint Corporation holding less than 5% of its capital stock.

<PAGE 15>

#### **Note 7**

## Stock Option and Purchase Plans

A summary of the Company's stock option and purchase plans activity, and related information for the years ended December 31 follows:

|                                          | <u>2001</u>     |                                           | <u>2000</u>    |                                           | <u>1999</u>    |                                           |
|------------------------------------------|-----------------|-------------------------------------------|----------------|-------------------------------------------|----------------|-------------------------------------------|
|                                          | <u>Options</u>  | Weighted<br>Average<br>Exercised<br>Price | <u>Options</u> | Weighted<br>Average<br>Exercised<br>Price | <u>Options</u> | Weighted<br>Average<br>Exercised<br>Price |
| Outstanding at the beginning of the year | 618,907         | \$4.38                                    | 534,307        | \$3.88                                    | 538,690        | \$2.81                                    |
| Options granted                          | 119,850         | \$12.49                                   | 97,791         | \$9.16                                    | 110,436        | \$8.57                                    |
| Stock distribution                       | 108,781         | \$(1.19)                                  | 54,682         | \$(.25)                                   | -              | -                                         |
| Options exercised                        | (213,070)       | \$2.60                                    | (62,039)       | \$4.47                                    | (106,232)      | \$3.01                                    |
| Options forfeited                        | <u>(24,307)</u> | \$8.45                                    | <u>(5,834)</u> | \$(7.23)                                  | <u>(8,587)</u> | \$7.82                                    |
| Outstanding at the end of the year       | <u>610,161</u>  | \$5.65                                    | <u>618,907</u> | \$4.38                                    | <u>534,307</u> | \$3.88                                    |
| Exercisable at December 31               | 381,123         | \$3.73                                    | 454,833        | \$2.87                                    | 398,696        | \$2.63                                    |

Exercise prices for options outstanding as of December 31, 2001 range from \$1.06 to \$16.76. The weighted average remaining contractual life of these options is 4.8 years.

The Company established Incentive Stock Option Plans for the purpose of attracting and retaining executive officers and key employees, and to align management's interest with those of the shareholders. Generally, the options must be exercised within ten years from the grant date and vest ratably over a five-year period. The exercise price for the options is equal to the fair market value at the date of grant. The Company had options outstanding for 367,098 shares under the plans. At December 31, 2001, 952,250 options are available for future grant under the plan established in 2001.

The Company established the Directors Stock Option Plans for the purpose of attracting and retaining the services of experienced and knowledgeable outside directors, and to align their interest with those of the shareholders. The options must be exercised within ten years from the grant date. The exercise price for the option is equal to the fair market value at the date of grant. The Company had options outstanding for 191,904 shares under the plans at December 31, 2001. At December 31, 2001, 80,514 options are available for future grant under the plan established in 1997.

The Company established the Employee Stock Purchase Plan to encourage employees to invest in the Company. Each option is for one year, but may be canceled by the employee at any time during the year. The exercise price of the option is 85 percent of the market price on the date of grant. The employee pays for the option through a weekly payroll deduction. At December 31, 2001, employees had outstanding options to purchase 51,159 shares at \$7.22 per share on September 30, 2002.

The measurement prescribed by APB Opinion No. 25 does not recognize compensation expense if the exercise price of the stock option equals the market price of the underlying stock on the date of grant. Accordingly, no compensation expense related to stock options has been recorded in the financial statements.

The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2001; risk-free interest rate of 6%; dividend yield of 0%; volatility factor of the expected market price of the Company's common stock of .349; and a weighted average expected life of the option of 4.65 years. The weighted average grant date fair value of options granted during the year was \$4.82.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, if the Company recorded compensation expense based on the fair value of stock options at the date of grant, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information for the year ended December 31, 2001 is as follows: net income \$6,176,000; basic earnings per share \$.77; and diluted earnings per share \$.75. The pro forma effect on earnings for the year December 31, 2000 is as follows: net income \$5,828,000; basic earnings per share \$.74; and diluted earnings per share \$.71. The pro forma effect on earnings for the year ended December 31, 1999 is as follows: net income \$4,568,000; basic earnings per share \$.59; and diluted earnings per share \$.56.

<PAGE 16>

**Note 8**

## Income Taxes

|                   | (in thousands) |             |             |
|-------------------|----------------|-------------|-------------|
|                   | <u>2001</u>    | <u>2000</u> | <u>1999</u> |
| Currently payable |                |             |             |
| US Federal        | \$3,219        | \$2,349     | \$1,807     |
| Foreign           | 79             | 79          | -           |
| State             | 338            | 278         | 150         |
| Deferred          | <u>(183)</u>   | <u>129</u>  | <u>180</u>  |
|                   | \$3,453        | \$2,835     | \$2,137     |

The effective tax rates differ from the statutory federal income tax as follows:

|                                                     | <u>2001</u>   | <u>2000</u> | <u>1999</u>   |
|-----------------------------------------------------|---------------|-------------|---------------|
| Statutory federal income tax rate                   | 34.0%         | 34.0%       | 34.0%         |
| Tax exempt items, net                               | .8%           | .3%         | .3%           |
| Foreign taxes                                       | .2%           | .3%         | -             |
| State income tax, net of federal income tax benefit | 2.3%          | (.1%)       | 1.4%          |
| Research and development credits                    | (2.7%)        | (1.7%)      | -             |
| Change in valuation allowance                       | 1.7%          | (1.6%)      | (3.2%)        |
| Other                                               | <u>(1.6%)</u> | <u>.5%</u>  | <u>(1.7%)</u> |
|                                                     | 34.7%         | 31.7%       | 30.8%         |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31, 2001 and 2000 are as follows:

|                                                                                           | (in thousands) |              |
|-------------------------------------------------------------------------------------------|----------------|--------------|
|                                                                                           | <u>2001</u>    | <u>2000</u>  |
| Long-term deferred tax liabilities:                                                       | \$3,344        | \$3,309      |
| Tax depreciation over book depreciation                                                   |                |              |
| Long-term deferred assets:                                                                |                |              |
| State investment tax credit carryforwards                                                 | 1,609          | 1,188        |
| Deferred compensation                                                                     | 1,108          | 972          |
| Other-net                                                                                 | <u>177</u>     | <u>369</u>   |
| Total long-term deferred tax assets                                                       | 2,894          | 2,529        |
| Valuation allowance for deferred tax assets related to investment tax credit carryforward | <u>(623)</u>   | <u>(452)</u> |
| Net long-term deferred tax asset                                                          | <u>2,271</u>   | <u>2,077</u> |
| Net long-term deferred tax liability_                                                     | \$1,073        | \$1,232      |

At December 31, 2001, the Company had state investment tax credit carryforwards of \$2,428,000 expiring through 2016.

## Note 9

### Profit Sharing/401(k) Plan

The Company has a qualified Profit Sharing/401(k) Plan for the benefit of its eligible full-time employees. The Profit Sharing/401(k) Plan provides for annual contributions based on percentages of pre-tax income. In addition, employees may contribute a portion of their salary to the 401(k) which is partially matched by the Company. The plan may be amended or terminated at any time. Total charges to income for the plan were \$1,178,000, \$866,000 and \$803,000 in 2001, 2000 and 1999, respectively.

**Note 10****Supplemental Retirement Plan**

In December 1999, the Company adopted a non-qualified supplemental retirement defined benefit plan (the "Plan") for certain executives. The Plan provides for benefits based upon average annual compensation and years of service, less offsets for Social Security and Profit Sharing benefits. It is the Company's intent to fund the benefits as they become payable. The following table sets forth the benefit obligation and amounts recognized in the balance sheet as of December 31, 2001 and 2000 along with the net period cost for the years then ended.

|                                              | <u>2001</u>    | <u>2000</u>    |
|----------------------------------------------|----------------|----------------|
| Change in Benefit Obligation                 |                |                |
| Benefit Obligation at beginning of year      | \$3,900        | \$3,395        |
| Service Cost                                 | 102            | 39             |
| Interest Cost                                | 289            | 271            |
| Actuarial Losses                             | 1,584          | 195            |
| Benefits Paid                                | <u>(112)</u>   | <u>-</u>       |
| Benefit Obligation at end of year            | <u>\$5,763</u> | <u>\$3,900</u> |
| Benefit Obligation at Year-End               |                |                |
| Unfunded Benefit Obligation                  | \$5,763        | \$3,900        |
| Unrecognized Prior Service Costs             | (1,552)        | (1,661)        |
| Unrecognized Actuarial Loss                  | <u>(1,665)</u> | <u>(195)</u>   |
| Net Amount Recognized                        | <u>2,546</u>   | <u>2,044</u>   |
| Amounts Recognized in Balance Sheet          | \$ 111         | \$ 100         |
| Accrued Expenses - Current                   | 3,868          | 3,049          |
| Supplemental Retirement Plan                 | <u>(1,433)</u> | <u>(1,105)</u> |
| Net Amount Recognized                        | <u>\$2,546</u> | <u>\$2,044</u> |
| Net Period Cost                              |                |                |
| Service Cost - Benefits Earned During Period | \$ 102         | \$ 39          |
| Interest Cost                                | 289            | 271            |
| Amortization of Prior Service Cost           | 109            | 109            |
| Amortization of Net Actuarial Losses         | <u>8</u>       | <u>-</u>       |
| Net Periodic Cost                            | <u>\$ 508</u>  | <u>\$ 419</u>  |
| Discount Rate                                | 7.0%           | 7.5%           |
| Future Average Compensation Increases        | 5%             | 5%             |

The benefit obligation represents the actuarial present value of benefits attributed to employee service rendered, assuming future compensation levels are used to measure the obligation. FASB Statement No. 87, "Employers' Accounting for Pensions," requires the Company to recognize a minimum pension liability equal to the actuarial present value of the accumulated benefit obligations. An intangible asset is required and has been recorded since the excess of the accumulated benefit obligation over the pension cost recognized relates to prior service costs.

**Note 11****Selected Quarterly Financial Information**

|                          | Quarter Ended           |                          |                        |                         |                         |                          |                        |                         |
|--------------------------|-------------------------|--------------------------|------------------------|-------------------------|-------------------------|--------------------------|------------------------|-------------------------|
|                          | Dec. 31,<br><u>2001</u> | Sept. 30,<br><u>2001</u> | July 1,<br><u>2001</u> | April 1,<br><u>2001</u> | Dec. 31,<br><u>2000</u> | Sept. 30,<br><u>2000</u> | July 1,<br><u>2000</u> | April 1,<br><u>2000</u> |
| Net Sales                | \$22,674                | \$20,836                 | \$21,944               | \$19,923                | \$23,309                | \$17,408                 | \$16,101               | \$15,150                |
| Gross Profit             | 5,894                   | 5,597                    | 5,186                  | 4,668                   | 6,922                   | 4,690                    | 4,060                  | 3,526                   |
| Income Before Tax        | 3,129                   | 2,585                    | 2,398                  | 1,839                   | 3,718                   | 2,135                    | 1,708                  | 1,369                   |
| Net Income               | 2,123                   | 1,690                    | 1,479                  | 1,206                   | 2,529                   | 1,440                    | 1,118                  | 1,008                   |
| Basic earnings per share | .27                     | .21                      | .19                    | .14                     | .32                     | .19                      | .14                    | .13                     |

|                            |     |     |     |     |     |     |      |     |
|----------------------------|-----|-----|-----|-----|-----|-----|------|-----|
| Diluted earnings per share | .26 | .20 | .18 | .14 | .31 | .18 | .13. | .12 |
|----------------------------|-----|-----|-----|-----|-----|-----|------|-----|

<PAGE 18>

## Note 12

### Operations in Different Industries

The Company operates in two business segments: The Aerospace-Electronics segment concentrates on the design and manufacture of specialized lighting and control systems for aircraft. These systems typically encompass the electrical circuitry, lighting and control fixtures as well as the light elements. System components include power supplies, battery-based backup systems, dimmers, keyboards, control panels and specialized lighting fixtures. The systems are typically used in aircraft cockpits (avionics systems), cabins (escape path systems), and exteriors (position lighting systems). Customers included well-known aircraft manufacturers, operators and avionics companies. The Aerospace-Electronics segment also manufactures electroluminescent lamps used primarily to backlight liquid crystal displays in a wide array of consumer electronics applications, including watches, pagers, cell phones and personal digital assistants.

Astronics Printing-Packaging segment is a leading manufacturer of stock folding cartons for small to medium size confectionery store operators in North America. Custom folding cartons are also manufactured for a wide range of industrial and consumer products companies. This segment also custom prints invitations, napkins and accessories for all social and business events. Printed office products include business cards, post cards and presentation folders. The Company is a dominant provider of custom folding boxes in chosen markets.

In 2001, 2000 and 1999, approximately 44%, 44% and 12% respectively, of Aerospace-Electronics' sales were to the US Air Force. Corporate assets consist mainly of cash, cash equivalents and furniture and equipment.

|                                   | (in thousands)                    |                           |                  |                     |
|-----------------------------------|-----------------------------------|---------------------------|------------------|---------------------|
|                                   | <u>Aerospace-<br/>Electronics</u> | <u>Printing-Packaging</u> | <u>Corporate</u> | <u>Consolidated</u> |
| Sales to external customers:      |                                   |                           |                  |                     |
| 2001                              | \$ 54,535                         | \$ 30,842                 | \$ -             | \$ 85,377           |
| 2000                              | 45,504                            | 26,464                    | -                | 71,968              |
| 1999                              | 26,312                            | 24,325                    | -                | 50,637              |
| Interest expense, net:            |                                   |                           |                  |                     |
| 2001                              | \$ 574                            | \$ 24                     | \$ (78)          | \$ 520              |
| 2000                              | 350                               | 50                        | 278              | 678                 |
| 1999                              | (51)                              | 78                        | 230              | 257                 |
| Income before taxes:              |                                   |                           |                  |                     |
| 2001                              | \$ 6,977                          | \$ 3,062                  | \$ (88)          | \$ 9,951            |
| 2000                              | 4,977                             | 3,865                     | 88               | 8,930               |
| 1999                              | 2,982                             | 3,544                     | 406              | 6,932               |
| Identifiable assets:              |                                   |                           |                  |                     |
| 2001                              | \$ 34,041                         | \$ 25,749                 | \$ 11,257        | \$ 71,047           |
| 2000                              | 38,653                            | 26,455                    | 1,912            | 67,020              |
| 1999                              | 30,831                            | 26,445                    | 2,576            | 59,852              |
| Capital Expenditures:             |                                   |                           |                  |                     |
| 2001                              | \$ 797                            | \$ 1,427                  | \$41             | \$ 2,265            |
| 2000                              | 2,428                             | 1,316                     | 237              | 3,981               |
| 1999                              | 9,650                             | 4,957                     | -                | 14,607              |
| Depreciation and<br>Amortization: |                                   |                           |                  |                     |
| 2001                              | \$ 1,350                          | \$ 3,004                  | \$ 91            | \$ 4,445            |
| 2000                              | 1,414                             | 2,938                     | 62               | 4,414               |
| 1999                              | 883                               | 2,754                     | 51               | 3,688               |
| Sales by geographic locations:    |                                   |                           |                  |                     |
|                                   | \$ 41,672                         | \$ 30,786                 | \$ -             | \$ 72,458           |

|      |               |              |           |      |              |
|------|---------------|--------------|-----------|------|--------------|
| 2001 | North America | 4,083        | 6         | -    | 4,089        |
|      | South America | 5,590        | -         | -    | 5,590        |
|      | Other         | <u>3,190</u> | <u>50</u> | -    | <u>3,240</u> |
|      |               | \$ 54,535    | \$ 30,842 | -    | \$ 85,377    |
| 2000 | North America | \$ 36,244    | \$ 26,373 | \$ - | \$ 62,617    |
|      | Europe        | 4,197        | 4         | -    | 4,201        |
|      | South America | 1,497        | -         | -    | 1,497        |
|      | Other         | <u>3,566</u> | <u>87</u> | -    | <u>3,653</u> |
|      |               | \$ 45,504    | \$ 26,464 | -    | \$ 71,968    |
| 1999 | North America | \$ 19,529    | \$ 24,236 | \$ - | \$ 43,765    |
|      | Europe        | 3,009        | 5         | -    | 3,014        |
|      | South America | 996          | 2         | -    | 998          |
|      | Other         | <u>2,778</u> | <u>82</u> | -    | <u>2,860</u> |
|      |               | \$ 26,312    | \$ 24,325 | -    | \$ 50,637    |

<PAGE 19>

## REPORT OF INDEPENDENT AUDITORS

### ERNST & YOUNG LLP

To the Shareholders and Board of Directors of Astronics Corporation

We have audited the accompanying consolidated balance sheets of Astronics Corporation as of December 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Astronics Corporation at December 31, 2001 and 2000 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Buffalo, New York  
January 25, 2002

## MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The management of Astronics Corporation is responsible for the contents of the consolidated financial statements, which are prepared in conformity with accounting principles generally accepted in the United States. The consolidated financial statements necessarily include amounts based on judgements and estimates. Financial information elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

The Company maintains an accounting system which includes controls designed to provide reasonable assurance as to the integrity and reliability of the financial records and the protection of assets. The role of Ernst & Young LLP, the independent auditors, is to provide an independent examination of the consolidated financial statements and the underlying transactions in accordance with generally accepted auditing standards.

The Audit Committee of the Board of Directors, composed solely of directors who are not members of management, meets periodically with management and the independent auditors to ensure that their respective responsibilities are properly discharged.

/s/ Kevin T. Keane  
President and Chief Executive Officer  
Financial Officer

/s/ C. Anthony Rider  
Vice President-Finance, Treasurer and Chief

**FIVE YEAR COMPARISON OF SELECTED FINANCIAL DATA**

(in thousands, except per share data)

|                                                          | <u>2001</u> | <u>2000</u> | <u>1999</u> | <u>1998</u> | <u>1997</u> |
|----------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| For the year:                                            |             |             |             |             |             |
| Net Sales                                                | \$85,377    | \$71,968    | \$50,637    | \$46,073    | \$40,972    |
| Net income                                               | 6,498       | 6,095       | 4,795       | 4,304       | 3,551       |
| Per share:                                               |             |             |             |             |             |
| Basic earning per share                                  | .81         | .78         | .62         | .56         | .47         |
| Diluted earnings per share                               | .78         | .74         | .59         | .53         | .44         |
| Shares used in computation of basic earnings per share   | 8,052       | 7,831       | 7,709       | 7,618       | 7,558       |
| Shares used in computation of diluted earnings per share | 8,346       | 8,221       | 8,172       | 8,155       | 8,065       |
| At the end of year:                                      |             |             |             |             |             |
| Total assets                                             | \$71,047    | \$67,020    | \$59,852    | \$43,707    | \$30,241    |
| Net investment in property, plant and equipment          | 33,985      | 36,216      | 36,169      | 24,994      | 18,160      |
| Working Capital                                          | 21,646      | 13,721      | 5,443       | 6,305       | 4,299       |
| Long-term debt                                           | 15,819      | 17,746      | 15,947      | 12,108      | 3,304       |
| Shareholder's equity                                     | 40,671      | 34,190      | 27,837      | 22,730      | 18,198      |

**STOCK PRICES**

The adjacent table sets forth the range of prices for the Company's Common Stock, traded on the Nasdaq National Market System, for each quarterly period during the last two years. The approximate number of shareholders of record as of February 12, 2002 was 876 for Common Stock and 1,026 for Class B Stock.

|        | <u>2001</u>      | <u>2000</u>      |
|--------|------------------|------------------|
| First  | \$9.19 - \$11.94 | \$ 6.36 - \$8.73 |
| Second | 9.16 - 16.40     | 5.91 - 8.59      |
| Third  | 7.72 - 12.36     | 6.73 - 8.00      |
| Fourth | 8.49 - 14.20     | 7.78 - 9.60      |

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following table sets forth an income statement with percentage of net sales and the percentage

|                                              | <u>2001</u>   |             | <u>2000</u>   |             | <u>1999</u>   |             | <u>period to period</u> |              |
|----------------------------------------------|---------------|-------------|---------------|-------------|---------------|-------------|-------------------------|--------------|
|                                              | \$            | %           | \$            | %           | \$            | %           | 2000-2001               | 1999-2000    |
| (dollars in thousands)                       |               |             |               |             |               |             |                         |              |
| Net Sales                                    |               |             |               |             |               |             |                         |              |
| Aerospace-Electronics                        | 54,535        | 63.9        | 45,504        | 63.2        | 26,312        | 52.0        | 19.8%                   | 72.9%        |
| Printing-Packaging                           | <u>30,842</u> | <u>36.1</u> | <u>26,464</u> | <u>36.8</u> | <u>24,325</u> | <u>48.0</u> | 16.5%                   | 8.8%         |
|                                              | 85,377        | 100.0       | 71,968        | 100.0       | 50,637        | 100.0       | 18.6%                   | 42.1%        |
| Cost of goods sold                           | 64,032        | 75.0        | 52,770        | 73.3        | 36,086        | 71.3        | 21.3%                   | 46.2%        |
| Selling, general and administrative expenses | <u>10,874</u> | <u>12.7</u> | <u>9,590</u>  | <u>13.3</u> | <u>7,362</u>  | <u>14.5</u> | 13.4%                   | 30.3%        |
| Operating Income                             | 10,471        | 12.3        | 9,608         | 13.4        | 7,189         | 14.2        | 9.0%                    | 33.6%        |
| Other deductions:                            |               |             |               |             |               |             |                         |              |
| Interest expense, net                        | <u>520</u>    | <u>.6</u>   | <u>678</u>    | <u>1.0</u>  | <u>257</u>    | <u>.5</u>   | (23.3%)                 | 163.8%       |
| Income before taxes                          | 9,951         | 11.7        | 8,930         | 12.4        | 6,932         | 13.7        | 11.4%                   | 28.8%        |
| Provision for income taxes                   | <u>3,453</u>  | <u>4.1</u>  | <u>2,835</u>  | <u>3.9</u>  | <u>2,137</u>  | <u>4.2</u>  | <u>21.8%</u>            | <u>32.7%</u> |

|            |       |     |       |     |       |     |      |       |
|------------|-------|-----|-------|-----|-------|-----|------|-------|
| Net income | 6,498 | 7.6 | 6,095 | 8.5 | 4,795 | 9.5 | 6.6% | 27.1% |
|------------|-------|-----|-------|-----|-------|-----|------|-------|

## Net Sales

Consolidated net sales for 2001 increased by \$13.4 million to \$85.4 million from \$72 million in 2000, an increase of 18.6%. The Aerospace-Electronics segment accounted for \$9 million of this increase while the remaining \$4.4 million came from our Printing-Packaging segment. The increase in the Aerospace-Electronics sales is comprised of a \$5.8 million increase in net sales under our night vision cockpit modification program with the US Air Force for the F-16. Revenues from this program were \$24.1 million in 2001 compared to \$18.3 million in 2000. Another \$2.4 million of the 2001 increase in Aerospace-Electronics net sales is attributable to the avionics keyboard manufacturer acquired in May of 2000. In 2000 we reported seven and one-half months of sales from this operation, or \$1.9 million compared to a full year in 2001 of \$4.3 million. Printing-Packaging's increase in net sales for 2001 was attributable to the \$2.6 million increase in its Internet based short-run commercial printing product line, which was introduced in May of 2000. Sales for the short-run commercial printing product line reached \$3.2 million in 2001 compared to \$.6 million in 2000. The balance of the 2001 Printing-Packaging net sales increase, \$1.8 million, was in the custom folding carton product line.

Consolidated net sales for 2000 increased by \$21.4 million to \$72 million from \$50.6 million in 1999, an increase of 42.1%. The Aerospace-Electronics segment accounted for \$19.2 million of this increase while the remaining \$2.2 million came from our Printing-Packaging segment. The increase in the Aerospace-Electronics sales is comprised of a \$15.3 million increase in net sales under the F-16 program. Revenues from this program were \$18.3 million in 2000 compared to \$3 million in 1999. Another \$1.9 million of the 2000 increase in Aerospace-Electronics net sales is attributable the acquisition in May of 2000 of an avionics keyboard manufacturer located near Montreal Quebec, Canada. Printing-Packaging's increase in net sales for 2000 was attributable to a \$1.6 million increase in the custom folding carton product line and the introduction of the short-run commercial printing product line which produced \$.6 million in net sales.

<PAGE 22>

## Expenses

Cost of goods sold, as a percentage of net sales, increased 1.7% to 75% in 2001 as reductions in the cost of goods sold percentage in Aerospace-Electronics were offset by the increase in Printing-Packaging which was caused by the change in product mix and costs incurred as a result of expanding the custom folding carton and commercial printing product lines.

Cost of goods sold, as a percentage of net sales, increased 2.0% to 73.3% in 2000 as both segments incurred increases in the cost of goods sold percentage. The increase in Aerospace-Electronics was due to the ramp-up of production on the F-16 program. Printing-Packaging's increase was caused by the change in product mix and costs incurred as a result of expanding the custom folding carton product line.

Selling, general and administrative expenses decreased as a percentage of sales in both 2001 and 2000 as compared to the respective prior year. The majority of these costs are for employee services, sales and marketing expenses and operating supplies, which the company has been able to contain in proportion to sales growth.

## Income Before Taxes

Income Before Taxes in 2001 increased to \$9.95 million an increase of \$1.02 million, or 11.4% over 2000's \$8.93 million. This 11.4% increase was a result of the 18.6% increase in sales partially offset by lower margins on sales.

Income Before Taxes in 2000 increased to \$8.93 million an increase of \$2.0 million, or 28.8% over 2000's \$6.93 million. This 28.8% increase was a result of the 42.1% increase in sales partially offset by lower margins on sales.

## Income Taxes

The Company's effective tax rate in 2001 was 34.7% up from the effective tax rate of 31.7% in 2000. The effective tax rate in 1999 of 30.8% was lower than the 2000 rate. The effective tax rate in 2000 benefited from research and development credits and New York State investment tax credits. The effective tax rates in 1999 benefited from a reduction in the valuation allowance for New York State investment tax credits occasioned by changes in the states tax law.

## Liquidity

Cash flow from operating activities in 2001 was \$12.7 million compared to \$2.2 million in 2000 and \$10.1 million in 1999. The decline in cash flow from operating activities in 2000 of \$7.9 million followed by the increase in 2001 of \$10.5 is mainly a result of an increase in 2000 of the net investment in working capital components in order to support the 42.1% increase in sales in 2000. Although 2001's sales increased another 18.6% in 2001, the net investment in working capital components decreased by \$1.3 million.

Cash used in investing activities was \$2.5 million in 2001 compared to \$7.7 million in 2000 and \$15.1 million in 1999. Capital



expenditures in 2001 of \$2.3 million were mostly for production equipment and were down from 2000's level of \$4 million mainly because we elected to acquire the property rights for about \$4 million of production equipment through long-term operating leases. Capital expenditures in 2000 were mainly for production equipment and were down \$10.6 million from \$14.6 million in 1999 because 1999 included \$8.2 million in expenditures for the facility modernization and expansion program in our Aerospace-Electronics segment, which began in August of 1999 and was completed in early 2000. In 2000, the Company also invested \$3.6 million for business acquisitions; there were no acquisitions of businesses in 2001 or 1999.

At December 21, 2001, the Company's outstanding commitments for capital expenditures were less than \$1 million as compared to \$4.1 million at

December 31, 2000 and \$3.3 million at December 31, 1999. The Company's main sources of liquidity are its cash balances and amount available under its line of credit, which at December 31, 2001, were \$9.2 million and \$8.8 million, respectively.

### **Quantitative and Qualitative Disclosures About Market Risk**

As a result of short cycle times, the company does not have any long-term commitments to purchase production raw materials or sell products that would present significant risks due to price fluctuations.

The Company's foreign operations do not result in significant currency risks because nearly all of the Company's consolidated net sales are denominated in U.S. dollars and net assets held in, or measured in, currencies other than the U.S. dollar are insignificant.

Risk due to fluctuation in interest rates is a function of the Company's floating rate debt obligations, which total approximately \$17 million at December 31, 2001. To offset this exposure, the Company entered into an interest rate swap on its New York Industrial Revenue Bond through 2005, which effectively fixes the interest rate at 4.09% on this \$6,300,000 obligation. As a result, a change of 1% in interest rates would impact annual net income by less than \$100,000.

### **Dividends**

In the fourth quarter of 2001 and 2000, the Company paid a 25% and 10% share distribution, respectively. Management believes that it should retain capital generated from operating activities for investments in increased capacity, technologies, processes and equipment, acquisitions and debt retirement. Accordingly, there are no plans to institute a cash dividend program.

### **Backlog**

At December 31, 2001, the Company's backlog was \$29 million as compared to just over \$40 million at December 31, 2000 and 1999. The decrease is mainly attributable to the F-16 program which concludes in the second half of 2002. Approximately \$25 million of the backlog at December 31, 2001, is scheduled to ship in 2002. At December 31, 2001, we were in final negotiations on the spares contract for the F-16 night vision compatible cockpits that resulted in our being awarded a contract, valued at over \$30 million, which we announced on January 22, 2002. Amounts under this contract will be counted in the Company's backlog as the US Air Force schedules deliveries.

<PAGE 23>

### **FORWARD LOOKING STATEMENTS**

This Annual Report to Shareholders contains certain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are identified by the use of the words "believes," "expects," "intends," "anticipates" and words of similar import. Readers are cautioned not to place undue reliance on these forward looking statements as various uncertainties and risks could cause actual results to differ materially from those anticipated in these statements. These uncertainties and risks include (i) the timeliness of product deliveries by vendors and other vendor performance issues, (ii) a slowdown in anticipated orders from the U.S. government and other customers, and (iii) an inability to control the increased growth in expenses that will accompany the Company's anticipated sales growth, among others.

<PAGE 24>

### **Board of Directors**

Robert T. Brady  
Chairman of the Board, President and Chief Executive Officer, Moog, Inc.

John B. Drenning  
Secretary, Partner in the law firm Hodgson Russ LLP

Peter J. Gundermann  
President, Luminescent Systems, Inc.

Daniel G. Keane  
President, MOD-PAC CORP

Kevin T. Keane  
Chairman of the Board, President and Executive Officer, Astronics Corporation

Robert J. McKenna  
President and Chief Executive Officer, Wenger Corporation

## **OFFICERS**

Charles H. Biddlecom  
Vice President-Marketing, MOD-PAC CORP

Claude Bougie  
Vice President, LSI-Canada, Inc.

Donna L. Eckman  
Vice President, Krepe-Kraft

Leo T. Eckman  
President, Krepe-Kraft

Peter J. Gundermann  
President, Luminescent Systems, Inc.

Frank G. Johns, III  
Vice President, Luminescent Systems, Inc.

Daniel G. Keane  
President, MOD-PAC CORP

Kevin T. Keane  
Chairman of the Board, President and Chief Executive Officer, Astronics Corporation

James S. Kramer  
Vice President, Luminescent Systems, Inc.

Richard Miller  
Vice President, Luminescent Systems, Inc.

Philip C. Rechin  
Vice President-Sales, MOD-PAC CORP

C. Anthony Rider  
Vice President-Finance and Treasurer,  
Chief Financial Officer, Astronics Corporation

Diane M. Sims  
Vice President-Marketing, Krepe-Kraft

<PAGE 25>

## **STOCK EXCHANGE LISTING**

The Company's stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol ATRO.

## **TRANSFER AGENT AND REGISTRAR**

American Stock Transfer and Trust Company  
New York, New York

## **ATTORNEYS**

Hodgson Russ LLP  
Buffalo, New York

## **INDEPENDENT AUDITORS**

Ernst & Young LLP  
Buffalo, New York

## **SHAREHOLDER ADMINISTRATION**

Please direct inquiries relating to shareholder accounting records and stock transfers to:

American Stock Transfer & Trust Company  
59 Maiden Lane  
New York, NY 10038

Please report change of address promptly to ensure timely receipt of Company communications. Mail a signed and dated letter or postcard stating the name in which the stock is registered, and your previous and current addresses.

## **FORM 10-K ANNUAL REPORT**

The Company's Form 10-K Annual Report to the Securities and Exchange Commission provides certain additional information. A copy of this report may be obtained upon request to Shareholder Relations, Astronics Corporation, 1801 Elmwood Avenue, Buffalo, NY 14207

## **ANNUAL MEETING**

April 25, 2002 - 10:00 A.M.  
Luminescent Systems Incorporated  
130 Commerce Way  
East Aurora, New York

## **QUARTERLY EARNINGS RELEASES AND CONFERENCE CALLS**

We will mail copies of our quarterly earnings press release to our shareholders. Release dates for the 2002 quarterly results are:

First Quarter - April 24, 2002  
Second Quarter - July 25, 2002  
Third Quarter - October 24, 2002  
Fourth Quarter - January 30, 2003

Conference calls are scheduled for 11:00 am on the above dates.

<PAGE 26>

## **COMPANIES OF ASTRONICS**

Aerospace -Electronics:

Luminescent Systems, Inc.  
Lebanon, New Hampshire  
East Aurora, New York

Luminescent Systems Europe  
B.V. B. A., Brussels, Belgium

LSI-Canada, Inc.  
Dorval, Quebec  
Canada

Printing -Packaging:

Krepe-Kraft  
Blasdell, New York

MOD-PAC CORP  
Buffalo, New York

## **CONTACT INFORMATION**

Astronics Corporation  
1801 Elmwood Avenue  
Buffalo, New York 14207

E-mail: [invest@astronics.com](mailto:invest@astronics.com)

Web Site: [www.astronics.com](http://www.astronics.com)



**ASTRONICS CORPORATION**

**SUBSIDIARIES OF THE REGISTRANT**

-

| <u>Subsidiary</u>         | <u>Ownership Percentage</u> | <u>State (Province), Country of Incorporation</u> |
|---------------------------|-----------------------------|---------------------------------------------------|
| Luminescent Systems, Inc. | 100%                        | New York, USA                                     |
| MOD-PAC CORP              | 100%                        | New York, USA                                     |
| LSI - Canada, Inc.        | 100%                        | Quebec, Canada                                    |
| Astronics Air, LLC        | 100%                        | New York, USA                                     |

## Consent and Report of Independent Auditors

Board of Directors  
Astronics Corporation

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Astronics Corporation of our report dated January 25, 2002, included in the 2001 Annual Report to Shareholders of Astronics Corporation.

Our audits also included the financial statement schedule of Astronics Corporation listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 33-42981) and the Registration Statement on Form S-8 (No. 333-87463) pertaining to the Employee Stock Purchase Plan of Astronics Corporation of our reports dated January 25, 2002, with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) for the year ended December 31, 2001.

We also consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 33-65141) filed with the Securities and Exchange Commission for the registration of 732,132 shares of Astronics Corporation common stock of our reports dated January 25, 2002, with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) for the year ended December 31, 2001.

ERNST & YOUNG LLP

Buffalo, New York  
March 22, 2002