

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal quarter ended June 28, 1997

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-7087

ASTRONICS CORPORATION

\_\_\_\_\_  
(Exact Name of Registrant as Specified in Its Charter)

New York

16-0959303

\_\_\_\_\_  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

1801 Elmwood Avenue, Buffalo, New York

14207

\_\_\_\_\_  
(Address of Principal Executive Office)

\_\_\_\_\_  
(Zip Code)

716-447-9013

\_\_\_\_\_  
(Registrant's Telephone Number, Including Area Code)

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

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

\_\_\_\_\_  
(Title of Class)

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

Yes  No

As of June 28, 1997, 4,229,938 shares of \$.01 par value common stock and  
745,837 shares of \$.01 par value Class B common stock were outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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ASTRONICS CORPORATION

Consolidated Balance Sheet

June 28, 1997

With Comparative Figures for December 31, 1996

ASSETS

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(Dollars in Thousands)  
 June 28, 1997    December 31,  
 (Unaudited)     1996

-----

Current Assets:

Cash	\$ 199	\$ 1,130
Accounts receivable	4,111	3,688
Inventories:		
Finished goods	2,073	1,826
Work in process	735	744
Raw material	2,126	2,292
Prepaid expenses	127	578
	-----	-----
Total current assets	9,371	10,258

Property, Plant and Equipment    33,597     31,714

Less accumulated depreciation  
 and amortization            15,283     14,072

-----  
 Net property, plant and  
 equipment            18,314     17,642

Other Assets                    1,874     1,965

-----  
 \$ 29,559     \$ 29,865  
 =====

See notes to financial statements.

ASTRONICS CORPORATION

Consolidated Balance Sheet

June 28, 1997

With Comparative Figures for December 31, 1996

LIABILITIES AND SHAREHOLDERS' EQUITY

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(Dollars in Thousands)  
 June 28, 1997    December 31,  
 (Unaudited)     1996

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Current Liabilities:

Current maturities of long-term debt	\$ 2,095	\$ 2,246
Accounts payable	2,720	2,463
Accrued expenses	1,411	1,757
Income taxes	(14)	937
	-----	-----

Total current liabilities            6,212     7,403

Long-Term Debt	3,779	3,798		
Long-Term Obligations under Capital Leases	1,397	1,600		
Deferred Income Taxes	732	545		
Supplemental Retirement Obligations	1,751	1,677		
Shareholders' Equity:				
Common stock, \$.01 par value Authorized 10,000,000 shares, issued 4,603,120 in 1997, 4,519,219 in 1996	46	45		
Class B common stock, \$.01 par value Authorized 5,000,000 shares, issued 745,837 in 1997, 749,161 in 1996	7	7		
Additional paid-in capital	2,445	2,297		
Retained earnings	14,318	13,089		
	-----	-----		
	16,816	15,438		
Less shares in Treasury, at cost	(1,128)	(596)		
	-----	-----		
Total shareholders' equity	15,688	14,842		
	-----	-----		
	\$ 29,559	\$ 29,865		
	=====	=====		

See notes to financial statements.

#### ASTRONICS CORPORATION

#### Consolidated Statement of Income and Retained Earnings Period Ended June 28, 1997 With Comparative Figures for 1996

(Dollars in Thousands)  
(Unaudited)

	SIX MONTHS		THREE MONTHS	
	1997	1996	1997	1996

Net Sales	\$19,313	\$19,252	\$9,688	\$9,683
Costs and Expenses:				
Cost of products sold	13,240	13,883	6,597	7,035
Selling, general and administrative expenses	3,825	3,826	1,952	1,874
Interest expenses, net of interest earned of \$13 in 1997 and \$8 in 1996	235	454	126	223
	-----	-----	-----	-----
Total costs and expenses	17,300	18,163	8,675	9,132
	-----	-----	-----	-----
Income before provision for taxes on income	2,013	1,089	1,013	551
Provision for taxes on income	784	346	367	174
	-----	-----	-----	-----

Net Income	1,229	743	646	377
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Retained Earnings:

January 1	13,089	10,447
	-----	-----
June 28	\$14,318	\$11,190
	=====	=====

Income per Common Share	\$ .23	\$ .14	\$ .12	\$ .07
	=====	=====	=====	=====

See notes to financial statements.

ASTRONICS CORPORATION

Consolidated Statement of Cash Flows  
Three Months Ended June 28, 1997  
With Comparative Figures for 1996

(Dollars in Thousands)  
(Unaudited)  
1997      1996  
----      ----

Cash Flows from Operating Activities:

Net income	\$ 1,229	\$ 743
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,342	1,247
Provision for doubtful accounts	(43)	153
Provision for deferred taxes	187	47
Cash flows from changes in operating assets and liabilities:		
Accounts receivable	(380)	206
Inventories	(72)	323
Prepaid expenses	451	725
Accounts payable	257	237
Accrued expenses	(346)	(112)
Income taxes payable	(951)	(123)
Supplemental retirement obligations	74	0
	-----	-----

Net Cash provided (used) by Operating Activities:	\$ 1,748	\$ 3,446
	-----	-----

Cash Flows from Investing Activities:

Proceeds from sale of assets	0	219
Change in other assets	(41)	(57)
Capital expenditures	(1,882)	(2,417)
	-----	-----

Net Cash provided (used) by Investing Activities	\$(1,923)	\$(2,255)
	-----	-----

Cash Flows from Financing Activities:

New long-term debt	950	0
Principal payments on long-term debt and capital lease obligations	(1,323)	(1,418)
Proceeds from issuance of stock	149	68
Purchase of Treasury Stock	(532)	0

Net Cash provided (used) by Financing Activities	----- \$ (756) -----	----- \$(1,350) -----
---	----------------------------	-----------------------------

Net increase (decrease) in Cash and Cash Equivalents	(931)	(159)
---	-------	-------

Cash and Cash Equivalents at Beginning of Year	1,130	772
---	-------	-----

Cash and Cash Equivalents at June 28	<u>199</u>	<u>613</u>
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Disclosure of cash payments for:		
Interest	\$ 254	\$ 473
Income taxes	1,548	416

See notes to financial statements.

ASTRONICS CORPORATION

Notes to Financial Statements

June 28, 1997

- 1) The interim financial statements are unaudited, but, in the opinion of management, reflect all adjustments necessary for a fair presentation of results for such periods. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's annual report for the year ended December 31, 1996.

ASTRONICS CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table sets forth as a percent of net sales certain items reflected in the financial data and the percentage increase (decrease) of such items as compared to the prior period.

	Percent of Net Sales		Period-to-Period
	Six months ended June 28,		Increase (Decrease)
	1997	1996	1996-1997
	----	----	-----
Net Sales:			
Electronic Systems	50.6%	57.6%	(11.8)%
Specialty Packaging	49.4	42.4	16.7 %
	-----	-----	
	100.0%	100.0%	.3 %

Cost of products sold	68.6	72.1	(4.6)%
Selling, general and administrative expenses	19.8	19.9	--
Interest expenses, net	1.2	2.3	(48.2)%
	-----	-----	
	89.6%	94.3%	(4.8)%
Income before provision for income taxes	10.4%	5.7%	84.8%
Provision for taxes	4.0	1.8	126.6%
	-----	-----	
Net Income	6.4%	3.9%	65.4%
	=====	=====	

INTRODUCTION Astronics Corporation operates in two business segments: Electronic Systems and Specialty Packaging.

On October 30, 1996, effective September 30, 1996, Astronics Corporation sold its Rodgard Division, a manufacturer of thick walled elastomeric products. Sales for the nine months of 1996 totaled \$1,494,000, and sales for the 1995 year were \$2,568,000.

On November 29, 1995, The Company acquired the business and assets of Loctite Luminescent Systems, Inc., in Lebanon, NH. This business complements the electroluminescent business already performed by the Company's Electronic Systems segment. The newly acquired business and

the existing enterprise were combined in a single business unit under the name of Luminescent Systems, Inc. The Company operates plants in New Hampshire and New York.

During the First Quarter a new accounting pronouncement was issued for the calculation of earnings per share. This is FASB Statement No. 128, Earnings per Share. The affect of this statement will be shown in the year end financials. While the Company has not finalized its application, it believes this will have a favorable impact on basic earnings per share between five and ten percent.

On July 1, 1997, the Company renegotiated the interest rate terms of its Revolving Line of Credit. Under the new terms, interest is LIBOR plus 100 basis points or the bank's prime rate.

SALES A new record for sales was set as sales increased slightly in the First Half of 1997 to \$19,313,000 from \$19,252,000 for the same period of 1996. In 1996, sales increased 43.1 percent from 1995 sales of \$13,450,000. Sales from continuing operations [eliminating the Rodgard Division sales for 1996] for the First Half of 1997 compared to 1996 shows growth of 5.9 percent.

Sales within the Electronic Systems segment, based on continuing operations, were nominally the same. The Company continues to work on the development contracts that it received in 1996, with anticipation that some will be completed in 1997,

resulting in additional billings and the beginning of follow-on production. In 1996, sales increased 87.3 percent, substantially the result of the November, 1995 acquisition.

Sales in the Specialty Packaging segment increased 16.7 percent in 1997 compared to 1996. This compares to an increase of 8.4 percent in 1996. The Company continues to expand its market share through focus on customer service with on time deliveries, high quality and short turnaround times. Price increases have been nominal, but the pressure to reduce pricing has moderated.

**BACKLOG** The backlog for the Company at the end of the First Half of 1997 was \$11,048,000, an increase of \$942,000 since December 31, 1996. This compares to \$10,817,000 at the end of the First Half of 1996. The backlog is composed of \$9,027,000 in the Electronic Systems segment and \$2,021,000 in the Specialty Packaging segment.

**EXPENSES** Cost of products sold decreased as a percentage of sales to 68.6 percent in 1997, compared to 72.1 percent of sales in 1996, and compared to 70.0 percent in 1995. The decreased costs came from improved productivity which has resulted in reduced material usage costs and from the substantial completion of process change costs relating to tooling and supply costs. Material costs decreased to 19.7 percent in 1997, compared to 24.9 percent in 1996, and 25.7 percent in 1995. Employee costs increased in 1997 to 28.8 percent compared to 27.1 percent in 1996 as a percent of sales. This compared to 23.3 percent in 1995. The increase over the 1995 expense level is in additional personnel supporting the technical aspects of the business, mainly in the Electronic Systems Segment. The Company has completed a significant portion of its retooling for new equipment in the Specialty Packaging area. It has also finished the majority of the transition changes with the facility and operations of the business acquired in 1995. The remaining general categories increased less than one percentage point of sales. This resulted in an increase in gross profit of 13.1 percent to \$6,073,000. In 1996, gross profit increased 33.1 percent to \$5,369,000.

Selling, general and administrative expenses continued to decrease as a percentage of sales: 19.8 percent in 1997, 19.9 percent in 1996, and 22.5 percent in 1995. The majority of these costs are for employee services (54.4 percent), marketing expenses (14.0 percent), and operating supplies (12.8 percent). The Company has a policy that it reserves all trade receivables over 120 days (150 days in 1996), or earlier if there are substantial questions. During the First Half of 1997, the company expensed \$66,000, compared to an expense of \$184,000 in 1996, and \$305,000 in 1995. Operating income increased to \$2,248,000 in 1997, or 11.6 percent of sales, compared to \$1,543,000, or 8.0 percent in 1996, and compared to \$1,007,000, or 7.5 percent in 1995.

**INTEREST** Interest costs, net, decreased in the First Half of 1997 to \$235,000, or 1.2 percent of sales,



compared to \$454,000, or 2.3 percent of sales in 1996, and compared to \$214,000 in 1995, or 1.6 percent of sales. The 1997 decrease reflects the strong cash flow experienced in 1996 which enabled the accelerated reduction of the revolving line of credit. The 1996 increase reflected the financing of the November 1995 acquisition. While the Company increased its borrowing for the acquisition in 1995, and for working capital in late 1995 and early 1996 and in 1997, it has

steadily reduced prior debt as scheduled. The revolving line of credit is priced at LIBOR plus 125 basis points through June 30, 1996. Gross interest expense was \$248,000 in 1997, \$462,000 in 1996, and \$287,000 in 1995.

**SUMMARY** When the above is combined, the Company earned, before provision for taxes, \$2,013,000, or 10.4 percent in 1997, \$1,089,000, or 5.7 percent in 1996, and \$793,000, or 5.9 percent in 1995 on sales.

**TAXES** The Company's tax provision takes into account the federal and state taxes for which it is liable. The Company has nearly depleted its tax credits available for the Electronic Systems business in New York State. This will result in higher taxes in future quarters. The 1997 tax provision is \$784,000, compared to \$346,000 in 1996, and \$345,000 in 1995. The 1996 provision reflected favorable changes in the New York State tax law for the First Half of 1996 and for the 1995 year. The tax provision, as a percentage of sales, is 4.0 percent in 1997, 1.8 percent in 1996, and 2.6 in 1995. The Company records its tax expense under the FASB 109 guidelines.

**NET INCOME** Net income for the First Half of 1997 was a new record for that period: \$1,229,000, or \$.23 per share in 1997, which compared to \$743,000, or \$.14 per share in 1996, and \$448,000, or \$.09 per share in 1995.

**LIQUIDITY** The Company's working capital increased in the First Half of 1997 by \$304,000 compared to a decrease in 1996 of \$1,544,000 and a decrease of \$1,832,000 in the First Half of 1995. The Company's investment in new equipment, processes and facilities was \$1,882,000 in the First Half of 1997, compared to \$2,417,000 in 1996, and to \$2,003,000 in 1995. The Company reduced its indebtedness by \$1,323,000 in the First Half of 1997, compared to \$1,418,000 in 1996, and to \$1,112,000 in 1995. During the Second Quarter, the Company repurchased its shares owned by ATRO Companies Profit Sharing/401(k) Plan for \$532,000. Also, the Company borrowed an additional \$950,000 in the First Half of 1997 towards working capital needs. The Company has an \$11,000,000 revolving line of credit available for additional working capital needs, of which it had utilized \$3,450,000 at the end of the First Half of 1997, compared to \$6,500,000 at the same time in 1996. The Company feels that its beginning cash balance, the cash flow from internal operations and the available balance of the revolving line of credit are adequate to meet the Company's operational and investment plans for 1997.

**COMMITMENTS** The Company has outstanding commitments for capital investments of approximately \$4,000,000 at

the end of the First Half of 1997. This includes an investment in packaging equipment of approximately \$3,400,000, which is scheduled for installation in the First Quarter of 1998. The Company has commitments for items that it purchases in the normal on-going affairs of the business. The Company is not aware of any obligations in excess of normal market conditions, nor of any long-term commitments that would affect its financial condition.

## PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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None.

Item 2. Changes in Securities.

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None.

Item 3. Defaults Upon Senior Securities.

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None.

Item 4. Submission of Matters to a Vote of Securities Holders.  
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None.

Item 5. Other Information.  
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None.

Item 6. Exhibits and Reports on Form 8-K.  
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Exhibit 11. Computation of Per Share Earnings.

#### SIGNATURES

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

DATED: August 12, 1997

ASTRONICS CORPORATION  
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/S/ John M. Yessa  
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John M. Yessa  
Vice President-Finance and  
Treasurer

EXHIBIT 11

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COMPUTATION OF PER SHARE EARNINGS

(in thousands, except for per share data)  
 Quarter Ended June 28

	1997	1996	1995	
	----	----	----	
Primary				
Average shares outstanding		5,002	4,796	4,826
Net effect of dilutive stock options based on the treasury stock method using average market price		343	370	--
	-----	-----	-----	
Total	5,345	5,166	4,826	
	=====	=====	=====	
Net income	\$1,229	\$ 743	\$ 448	
	=====	=====	=====	
Per share amount	\$ .23	\$ .14	\$ .09	
	=====	=====	=====	
Fully Diluted				
Average shares outstanding		5,002	4,796	4,826
Net effect of dilutive stock options based on the treasury stock method using quarter-end market price		347	406	--
	-----	-----	-----	
Total	5,349	5,202	4,826	
	=====	=====	=====	
Net income	\$1,229	\$ 743	\$ 448	
	=====	=====	=====	
Per share amount	\$ .23	\$ .14	\$ .09	
	=====	=====	=====	

FINANCIAL DATA SCHEDULE

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