

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 April 3, 1999

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 April 3, 1999, 4,882,210 shares of \$.01 par value common stock and 688,364 shares of \$.01 par value Class B common stock were outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ASTRONICS CORPORATION

Consolidated Balance Sheet

April 3, 1999

With Comparative Figures for December 31, 1998

(Dollars in

Thousands)
 April 3, 1999 December 31,
 (Unaudited) 1998

Current Assets:		
Cash	\$ 24	\$ 523
Accounts receivable	5,913	5,435
Inventories	4,984	4,935
Prepaid expenses	858	1,229
	11,779	12,122
Property, Plant and Equipment		
	47,296	44,090
Less accumulated depreciation and amortization	19,860	19,096
	27,436	24,994
Unexpended Industrial Revenue		
Bond Proceeds	2,488	4,657
Other Assets		
	2,013	1,934
	\$ 43,716	\$ 43,707
Current Liabilities:		
Current maturities of		
long-term liabilities	\$ 447	\$ 446
Accounts payable	3,726	2,939
Accrued expenses	1,232	2,085
Income taxes	505	347
	5,910	5,817
Other Liabilities		
	14,141	15,160
Shareholders' Equity:		
Common stock, \$.01 par value		
Authorized 10,000,000 shares,		
issued 5,231,397 in 1999,		
5,225,001 in 1998	52	52
Class B common stock, \$.01 par value		
Authorized 5,000,000 shares,		
issued 688,364 in 1999,		
693,660 in 1998	7	7
- 2 -		
Additional paid-in capital	2,683	2,681
Retained earnings	21,865	20,932
	24,607	23,672
Less shares in Treasury, at cost	942	942
	23,665	22,730
	\$ 43,716	\$ 43,707

See notes to financial statements.

ASTRONICS CORPORATION

Consolidated Statement of Income and Retained Earnings
Period Ended April 3, 1999
With Comparative Figures for 1998

	(Dollars in Thousands)	
	(Unaudited)	
	1999	1998
Net Sales	\$ 12,325	\$ 11,057
Costs and Expenses:		
Cost of products sold	8,726	7,692
Selling, general and administrative expenses	2,137	2,104
Interest expenses, net of interest income of \$5 in 1999 and \$0 in 1998	71	77
Total costs and expenses	<u>10,934</u>	<u>9,873</u>
Income before taxes	<u>1,391</u>	<u>1,184</u>
Provision for income taxes	458	439
Net Income	<u>933</u>	<u>745</u>
Retained Earnings:		
January 1	20,932	16,640
April 3	<u>\$ 21,865</u>	<u>\$ 17,385</u>
Earnings per share:		
Basic	\$.17	\$.14

Diluted	<u> </u>	<u> </u>
	\$.16	\$.13
	<u> </u>	<u> </u>

See notes to financial statements.

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ASTRONICS CORPORATION

Consolidated Statement of Cash Flows
 Three Months Ended April 3, 1999
 With Comparative Figures for 1998

(Dollars in
 Thousands)
 (Unaudited)
 1999 1998
 _____ _____

Cash Flows from Operating Activities:

Net income	\$ 933	\$ 745
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	855	693
Provision for doubtful accounts	35	(30)
Provision for deferred taxes	41	(16)

Cash flows from changes in
operating assets and liabilities:

Accounts receivable	(513)	(749)
Inventories	(49)	81
Prepaid expenses	371	385
Accounts payable	788	1,436
Accrued expenses	(853)	(666)
Income taxes	158	135
Deferred compensation	52	28

Net Cash provided (used) by Operating Activities	<u>\$ 1,818</u>	<u>\$2,042</u>
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Cash Flows from Investing Activities:

Change in other assets	(170)	(5)
Capital expenditures	(3,206)	(3,013)

Net Cash provided (used) by Investing Activities	<u>\$(3,376)</u>	<u>\$(3,018)</u>
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Cash Flows from Financing Activities:

New long-term debt	0	1,200
Principal payments on long-term debt and capital lease obligations	(1,112)	(715)
Unexpended industrial revenue bond proceeds	2,169	0
Proceeds from issuance of stock	2	19

Net Cash provided (used) by Financing Activities	<u>\$ 1,059</u>	<u>\$ 504</u>
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Net increase (decrease) in		
Cash and Cash Equivalents	(499)	(472)
Cash and Cash Equivalents at		
Beginning of Year	523	740
Cash and Cash Equivalents at		
April 3	\$ 24	\$ 268
Disclosure of cash payments for:		
Interest	\$ 101	\$ 95
Income taxes	258	322

See notes to financial statements.

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 ASTRONICS CORPORATION

Notes to Financial Statements

April 3, 1999

The accompanying unaudited statements have been prepared in accordance with generally accepted accounting principles for

interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The results of operations for any interim period are not necessarily indicative of results for the full year. Operating results for the three-month period ended April 3, 1999 are not necessarily indicative of the results that may be expected for the year ended December 31, 1999.

The balance sheet at December 31, 1998 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included in the Company's 1998 annual report.

Inventories are stated at the lower of cost or market, cost being determined in accordance with the first-in, first-out method. Inventories at April 3 are as follows:

(in thousands)

	April 3, 1999 (Unaudited)	December 31, 1998
	_____	_____
Finished goods	\$ 1,423	\$ 1,357
Work in progress	1,068	1,064
Raw material	2,493	2,514
	_____	_____
	\$ 4,984	\$ 4,935

Other liabilities consist of the following:

(in thousands)

	April 3, 1999 (Unaudited)	December 31, 1998
	_____	_____
Long-Term Debt	\$ 10,309	\$ 11,319
Long-Term Obligations under Capital Leases	687	789
Deferred Income Taxes	1,111	1,070
Deferred Compensation	2,034	1,982
	_____	_____
	\$ 14,141	\$ 15,160
	=====	=====

ASTRONICS CORPORATION

Notes to Financial Statements (Continued)

April 3, 1999

The Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," at December 31, 1998 which changes the way the Company reports information about its operating segments.

The Company operates in two areas: Aerospace and Electronics, and Specialty Packaging. Operations in Aerospace and Electronics involve the design, manufacturing and marketing of state-of-the-art and advanced technological components incorporated into functional systems including instrument panels, photo reproductions and keyboard technologies. Customers are typically well known companies in the automotive, aerospace, defense, and electronics industries worldwide. Operations in Specialty Packaging involve the design, manufacturing and marketing of folding paperboard packaging for customers' delivery of their products and high quality custom imprinting of napkins,

invitation and other paper products. The Company is a dominant provider of custom folding boxes in chosen markets.

(in thousands)	Three Months Ended April 3, 1999		Three Months Ended April 4, 1998	
	Aerospace and Electronics Packaging	Specialty Packaging	Aerospace and Electronics Packaging	Specialty Packaging
Sales to external customers	\$ 6,838	\$ 5,487	\$ 5,808	\$ 5,249
Income before taxes	978	455	745	476
Segment assets	19,168	24,102	12,539	22,289

The Aerospace and Electronics segment is in the process of completing an 80,000 square foot facility to replace four leased facilities in its New Hampshire operation. The asset value of the land, building construction in progress, equipment, and unexpended Industrial Revenue Bond proceeds accounts for the major increase in segment assets from 1998 to 1999.

A reconciliation of combined income before taxes for the three-month period is as follows:

(in thousands)	Three Months Ended	
	April 3, 1999	April 4, 1998
Income before taxes from segments	\$1,433	\$1,221
Corporate expenses, net	(42)	(37)
Income before taxes	\$1,391	\$1,184

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 Sales		Period-to-Period Increase (Decrease)
	Three months ended April 3, 1999	Three months ended April 3, 1998	
Net Sales:			
Aerospace and Electronics Specialty Packaging	55.5%	52.5%	17.7 %
	44.5	47.5	4.5 %
	100%	100%	11.5 %
Cost of products sold	70.8	69.6	13.4 %
Selling, general and administrative expenses	17.3	19.0	1.6 %
Interest expenses, net	.6	.7	(7.8)%
	88.7%	89.3%	10.7 %

Income before provision for income taxes	11.3%	10.7%	17.5 %
Provision for taxes	3.7	4.0	4.3 %
Net Income	<u>7.6%</u>	<u>6.7%</u>	<u>25.2 %</u>

INTRODUCTION Astronics Corporation operates in two business segments: Aerospace and Electronics; and Specialty Packaging. The Company changed the name of its Electronics Systems segment in 1997 to Aerospace and Electronics to better reflect its products and market focus. This business segment designs, manufactures and markets electroluminescent lamps and incorporates them into escape path lighting systems, aircraft cockpit lighting systems, military aircraft formation lighting, and ruggedized and avionics keyboards.

On April 24, 1998, the Company announced that the United States Air Force (USAF) had selected its Luminescent Systems Inc. subsidiary to design, develop and manufacture night vision lighting modification kits for the NVIS F-16 program. The contract with the Air Force is potentially valued in excess of \$50,000,000. The initial award is for 377 F-16 aircraft to be completed in year 2000 for a revenue value in excess of \$16,000,000. The USAF exercised its second option on February 10, 1999 for an additional 305 units for approximately \$13,500,000. An additional 474 units, upon exercise of the government's option, would be manufactured in the following years.

On March 17, 1999, The Erie County Industrial Development Agency, Buffalo, NY authorized the issuance and sale of Industrial Revenue Bonds up to \$7,500,000 for Luminescent Systems, Inc. to acquire land and construct a new manufacturing facility in East Aurora, NY. On May 12, 1999, the Company acquired 14.9 acres of land and plans to construct a 70,000 square foot facility on this new property.

On December 30, 1998, effective December 1, 1998, the Company renewed its Revolving Line of Credit for \$10,000,000 at the bank's prime rate or LIBOR plus 100 basis points. The Company may convert up to \$9,000,000 into a four-year term loan. This credit facility expires June 1, 2001.

On December 30, 1998, the Company closed an Industrial Revenue tax-exempt bond with the Business Finance Authority of the State of New Hampshire for \$7,250,000. The interest rate floats with tax exempt funds and is reset every seven days. These funds are being used to finance the new Lebanon, New Hampshire facility and manufacturing equipment for expanded production needs.

During the Third Quarter of 1998, the Aerospace and Electronics segment started construction on a new 80,000 square foot building in Lebanon, New Hampshire. This will allow the Company to consolidate its New Hampshire operations, currently in four leased locations, into a single facility. The facility is scheduled for occupancy during the Third Quarter of 1999.

During the Third Quarter of 1998, the New Hampshire operations of the Aerospace and Electronics segment received their ISO 9001 certification. In the Third Quarter of 1997, the Specialty Packaging segment received its ISO 9001 certification.

SALES The Company set a new First Quarter sales record with an increase in 1999 sales of 11.5 percent which compares to a 14.9 percent increase in 1998. Sales were \$12,325,000 in 1999 compared to \$11,057,000 in 1998 and \$9,625,000 in 1997.

Sales within the Aerospace and Electronics segment increased 17.7 percent in 1999 compared to 28.3 percent in 1998, while they were nominally the same in 1997, based on continuing operations. Sales in 1999 and 1998 have been strong in cockpit lighting, emergency egress lighting and formation lights.

Sales in the Specialty Packaging segment increased 4.5 percent in 1999 compared to 3.0 percent in 1998, which compared to 14.2 percent in 1997. The Company continues to expand its market share through focus on customer service with on-time deliveries, high quality products and short turnaround times. Price increases have been nominal, but the pressure to reduce pricing continues to moderate.

BACKLOG The Company's backlog increased to a new record at the end of the First Quarter of 1999 to \$40,977,000 compared to the First Quarter 1998 backlog of \$14,600,000. This compares to \$29,887,000 at December 31, 1998. The backlog at the end of the First Quarter of 1997 was \$10,500,000. The backlog is composed of \$39,660,000 in the Aerospace and Electronics segment and \$1,317,000 in the Specialty Packaging segment.

EXPENSES Cost of products sold increased 13.4 percent in 1999, compared to sales growth of 11.5 percent. As a percent of sales, these costs increased slightly in 1999 to 70.8 percent of sales compared to 69.6 percent of sales in 1998 and 69.0 percent in 1997. Material costs were nominally the same in 1999, 1998, and 1997 at 20.6 percent of sales, 20.2 percent of sales and 20.2 percent of sales, respectively. Employee costs have remained steady in 1999 and 1998, while they were slightly lower in 1997. As a percent of sales, they were 30.8 percent, 30.8 percent, and 28.0 percent, respectively. As a percent of sales, supply costs increased in 1999 to 7.3 percent, compared to 6.4 percent in 1998 and 8.5 percent in 1997. This reflects timing of purchases and the cost of bringing certain outsourced operations in house. Depreciation, as a percent of sales, also increased. As a percent of sales, depreciation for the First Quarter of 1999, 1998 and 1997 was 5.7 percent, 5.2 percent, and 5.6 percent, respectively. The remaining general categories

increased/decreased less than one percentage point of sales. The net results of the above produced gross profits of \$3,599,000 in 1999, \$3,365,000 in 1998, and \$2,982,000 in 1997.

Selling, general and administrative expenses continued to decrease as a percentage of sales: 17.3 percent in 1999, 19.0 percent in 1998 and 19.5 percent in 1997. The majority of these costs are for employee services, marketing expenses and operating supplies. Operating income increased to \$1,462,000, or 11.9 percent of sales, in 1999, compared to \$1,261,000, or 11.4 percent of sales, in 1998, and compared to \$1,109,000 in 1997, or 11.5 percent of sales.

INTEREST Interest costs, net, decreased. In 1999, the expense was \$71,000, or .6 percent of sales, compared to \$77,000, or .7 percent of sales in 1998, and \$109,000, or 1.1 percent of sales in 1997. The decrease in borrowings reflect the strong cash flow which allows steady reduction of indebtedness. The interest costs on the December 1998 bonds is being capitalized as part of the cost of the facility. As the project is completed, the interest costs will be expensed, probably starting in the Third Quarter.

INCOME BEFORE

TAXES As a result of the increase in sales of 11.5 percent in 1999 and 14.9 percent in 1998, and with overall costs increasing at a slightly slower pace, the Company reported income before taxes \$1,391,000, or 11.3 percent in 1999, compared to \$1,184,000, or 10.7 percent of sales in 1998, compared to \$1,000,000 or 10.4 percent of sales in 1997.

TAXES The Company's tax provision takes into account the federal and state taxes for which it is liable. The Company records its tax expense under the FASB 109 guidelines. As of January 1, 1999, the Company established Astronics Foreign Sales Corporation, which reduces its taxes on sales made to customers in foreign countries. Normally, the First Quarter's tax provision is higher as all minimum taxes are accrued during this period. The 1999 provision for taxes is \$458,000, or 3.7 percent of sales, compared to the 1998 provision of \$439,000, or 4.0 percent of sales. The First Quarter of 1999 benefitted from the establishment of the Foreign Sales Corporation and a revision of the 1998 tax provision.

NET INCOME Net income for the First Quarter of 1999 established a new record for the quarter: \$933,000, or \$.16 per diluted share, compared to \$745,000, or \$.13 per diluted share, earned in 1998, and compared to \$583,000, or \$.10 per diluted share in 1997.

LIQUIDITY Cash flow from operating activities was \$1,818,000 in 1999 compared to \$2,042,000 in 1998, and compared to \$675,000 in 1997. The Company invested \$3,206,000 in capital expenditures in 1999 compared to \$3,013,000 in 1998, and compared to \$159,000 in the First Quarter of 1997. The Company reduced its indebtedness by \$1,112,000 in the First Quarter of 1999, compared to \$715,000 in the First Quarter of 1998, while in 1998 it borrowed \$1,200,000 for working capital. This compared to a reduction in indebtedness of \$760,000 in the First Quarter of 1997, when the Company borrowed

\$250,000 for working capital purposes. The Company has a \$10,000,000 revolving line of credit available for additional working capital needs, of which it had utilized \$2,800,000 at the end of the First Quarter of 1999, \$3,000,000 at the end of the First Quarter of 1998, and \$2,750,000 at the end of the First Quarter of 1997. 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 1999.

COMMITMENTS The Company has outstanding commitments for capital investments of approximately \$5,400,000 at the end of the First Quarter of 1999, compared to \$2,400,000 at the end of the First Quarter of 1998, and compared to \$2,000,000 at the end of the First Quarter of 1997. The Company has outstanding approximately \$1,500,000 to complete the New Hampshire manufacturing facility and \$2,800,000 for two new die cutters. The balance of the commitments are in the normal course of business. During the Second Quarter of 1997, the Company repurchased its shares of common stock owned by ATRO Companies Profit Sharing/401(k) Plan for \$532,000. 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.

YEAR 2000 The Company employs several different computer systems for financial, engineering and manufacturing purposes. The Company purchases these systems, both hardware and software. Therefore, it does not have programmers writing code internally. During 1998 and 1997, the Company installed upgrades to some of its systems that are Year 2000 compliant and switched software for other functions that are Year 2000 compliant. All operating systems are now Year 2000 compliant, except for the Human Resources system and a voice mail system. The Human Resource system will be replaced in the Third Quarter of 1999. The voice mail system software upgrade will also be implemented in the Third Quarter. The Company has tested various systems and will continue to test applications it runs, as well as those it interfaces with including customers, vendors, and other outside sources. The Company believes it is ready for Year 2000 except for the above-mentioned programs. The total invested for software upgrades to date is approximately \$150,000 and the Company's budget for additional upgrades and new software in 1999 is approximately \$40,000.

The Company has interfaced with the suppliers of production, engineering and administrative equipment that have embedded chips in their products. The Company is seeking full assurances that these are either Year 2000 compliant, have no date sensitivity, or that necessary upgrades will be available by June 30, 1999.

The risk that the Company faces is in their suppliers of utilities, mainly electric, natural gas, and telecommunication. These vendors have stated that they have or will test their systems before the end of the Second Quarter. They have stated that they do not anticipate any problems. Another area of risk is that several key pieces of manufacturing equipment are made in Europe, where companies reportedly are slowly addressing the Year 2000 issues. The Company plans to have assurance from these suppliers that they have adequate parts in U.S.A. warehouses with Year 2000 compliant delivery systems. If assurances are not adequate, the Company will increase its inventory of vital spare parts. The Company has no other specific contingency plans.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities.

None.

Item 3. Defaults Upon Senior Securities.

None.

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

At the annual meeting of shareholders held on April 29, 1999, the nominees to the Board of Directors were re-elected based on the following results:

Nominees	Votes Withholding	
	Votes For	Authority
Robert T. Brady	9,214,429	453,812
John B. Drenning	9,214,429	453,812
Kevin T. Keane	9,214,292	453,949
Robert J. McKenna	9,214,429	453,812
John M. Yessa	9,214,429	453,812

The selection of Ernst & Young LLP as the Registrant's auditors was approved by the following vote: 9,468,936 in favor; 11,146 against; and 188,159 abstentions.

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

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

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: May 17, 1999

ASTRONICS CORPORATION

/s/ John M. Yessa

(Signature)

John M. Yessa
Vice President-Finance
and Treasurer

COMPUTATION OF PER SHARE EARNINGS

(in thousands, except for per share data)

Quarter Ended April 3

1999 1998

Net income	<u> </u>	<u> </u>
	\$ 933	\$ 745
	=====	=====
Basic earnings per share		
weighted average shares	5,570	5,526
Net effect of dilutive		
stock options	<u> </u>	<u> </u>
	398	364
Diluted earnings per share		
weighted average shares	<u> </u>	<u> </u>
	5,968	5,890
	=====	=====
Basic earnings per share	<u> </u>	<u> </u>
	\$.17	\$.14
	=====	=====
Diluted earnings per share	<u> </u>	<u> </u>
	\$.16	\$.13
	=====	=====

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