

ASTRONICS CORP
Form 10-Q
November 08, 2010

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

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended October 2, 2010 or**

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

Commission File Number 0-7087

ASTRONICS CORPORATION

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of
incorporation or organization)

16-0959303

(IRS Employer Identification Number)

130 Commerce Way, East Aurora, New York

(Address of principal executive offices)

14052

(Zip code)

(716) 805-1599

(Registrant's telephone number, including area code)

NOT APPLICABLE

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

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

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

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "large accelerated filer", an "accelerated filer", a "non-accelerated filer" and a "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting
Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 2, 2010, 10,940,843 shares of common stock were outstanding consisting of 8,765,657 shares of common stock (\$.01 par value) and 2,175,186 shares of Class B common stock (\$.01 par value).

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ASTRONICS CORPORATION

Consolidated Condensed Balance Sheets

October 2, 2010 with Comparative Figures for December 31, 2009

(dollars in thousands except per share amounts)

	October 2, 2010 (Unaudited)	December 31, 2009
Current Assets:		
Cash and Cash Equivalents	\$ 22,051	\$ 14,949
Accounts Receivable, net of allowance for doubtful accounts	28,701	30,560
Inventories	35,012	31,909
Other Current Assets	5,785	5,075
Total Current Assets	91,549	82,493
Property, Plant and Equipment net of accumulated depreciation and amortization of \$25,334 and \$23,859, respectively	30,983	31,243
Deferred Income Taxes	7,258	8,131
Other Assets	3,593	3,763
Intangible Assets, net of accumulated amortization	5,179	5,591
Goodwill	7,562	7,493
Total Assets	\$ 146,124	\$ 138,714
Current Liabilities:		
Current Maturities of Long-term Debt	\$ 5,324	\$ 6,238
Accounts Payable	10,377	7,405
Accrued Expenses	10,961	8,620
Accrued Income Taxes	659	242
Billings in Excess of Recoverable Costs and Accrued Profits on Uncompleted Contracts	1,491	2,179
Customer Advance Payments and Deferred Revenue	2,032	4,952
Total Current Liabilities	30,844	29,636
Long-term Debt	33,650	38,538
Other Liabilities	9,246	10,427
Total Liabilities	73,740	78,601
Shareholders' Equity:		
Common Stock, \$.01 par value Authorized 20,000,000 Shares, issued 8,944,095 in 2010 and 8,684,088 in 2009	89	87

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Convertible Class B Stock, \$.01 par value	Authorized 5,000,000 Shares, issued		
2,477,061 in 2010 and 2,571,245 in 2009		25	26
Additional Paid-in Capital		14,126	12,340
Accumulated Other Comprehensive Loss		(151)	(158)
Retained Earnings		60,576	50,099
		74,665	62,394
Less Treasury Stock: 480,313 shares in both 2010 and 2009		2,281	2,281
Total Shareholders' Equity		72,384	60,113
Total Liabilities and Shareholders' Equity		\$ 146,124	\$ 138,714

See notes to consolidated condensed financial statements

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ASTRONICS CORPORATION
Consolidated Condensed Statements of Operations and Retained Earnings
 Nine Months and Three Months Ended October 2, 2010
 With Comparative Figures for 2009
 (Unaudited)
 (in thousands, except per share data)

	Nine Months Ended		Three Months Ended	
	October 2, 2010	October 3, 2009	October 2, 2010	October 3, 2009
Sales	\$ 143,931	\$ 145,625	\$ 49,906	\$ 48,586
Costs and Expenses:				
Cost of products sold	108,807	118,251	37,013	38,466
Gross Profit	35,124	27,374	12,893	10,120
Selling, general and administrative expenses	17,196	18,711	5,667	6,202
Income from operations	17,928	8,663	7,226	3,918
Interest expense, net of interest income of \$24 and \$7 in 2010 and \$- and \$- in 2009 for the nine and three months ended, respectively	1,962	1,307	641	407
Other expense (income)	(13)	(1,020)	12	(107)
Income Before Income Taxes	15,979	8,376	6,573	3,618
Provision for Income Taxes	5,502	2,523	1,926	1,122
Net Income	10,477	5,853	\$ 4,647	\$ 2,496
Retained Earnings:				
Beginning of period	50,099	53,901		
End of period	\$ 60,576	\$ 59,754		
Earnings per share:				
Basic	\$ 0.97	\$ 0.55	\$ 0.43	\$ 0.23
Diluted	\$ 0.94	\$ 0.53	\$ 0.41	\$ 0.23
Average Common Shares Outstanding:				
Basic	10,805	10,720	10,813	10,775
Diluted	11,198	10,943	11,340	11,031

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION
Consolidated Condensed Statements of Cash Flows
 Nine Months Ended October 2, 2010
 With Comparative Figures for 2009
 (Unaudited)
 (dollars in thousands)

	October 2, 2010	October 3, 2009
Cash Flows from Operating Activities:		
Net Income	\$ 10,477	\$ 5,853
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation and Amortization	3,657	5,649
Provision for Non-Cash Losses on Inventory and Receivables	993	849
Stock Compensation Expense	681	586
Deferred Tax Expense	1,288	(403)
Fair Value Adjustment To Contingent Note Payable		(1,000)
Other	(44)	(106)
Cash Flows from Changes in Operating Assets and Liabilities:		
Accounts Receivable	1,906	8,732
Inventories	(4,041)	7,319
Accounts Payable	2,961	(5,754)
Other Current Assets and Liabilities	250	1,328
Billings in Excess of Recoverable Costs and Accrued Profits on Uncompleted Contracts	(688)	2,072
Customer Advanced Payments and Deferred Revenue	(2,920)	(1,473)
Income Taxes	417	1,165
Supplemental Retirement and Other Liabilities	(331)	265
 Cash Provided by Operating Activities	 14,606	 25,082
 Cash Flows from Investing Activities:		
Acquisition of Business		(40,655)
Capital Expenditures	(2,574)	(1,978)
Other	(207)	(45)
 Cash Used For Investing Activities	 (2,781)	 (42,678)
 Cash Flows from Financing Activities:		
Net (Payments) Proceeds Long-term Debt	(5,831)	33,441
Debt Acquisition Costs		(1,377)
Issuance of Stock	1,084	
Other	22	31
 Cash (Used For) Provided By Financing Activities	 (4,725)	 32,095

Effect of Exchange Rates on Cash	2	3
Increase in Cash and Cash Equivalents	7,102	14,502
Cash and Cash Equivalents at Beginning of Period	14,949	3,038
Cash and Cash Equivalents at End of Period	\$ 22,051	\$ 17,540

See notes to consolidated condensed financial statements.

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ASTRONICS CORPORATION
Notes to Consolidated Condensed Financial Statements
October 2, 2010
(Unaudited)

1) Basis of Presentation

The accompanying unaudited statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included.

Operating Results

The results of operations for any interim period are not necessarily indicative of results for the full year. Operating results for the nine and three month periods ended October 2, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included in Astronics Corporation's 2009 annual report on Form 10-K.

Description of the Business

Astronics is a leading supplier of advanced, high-performance lighting systems, electrical power generation systems, aircraft safety systems, electronics systems for the global aerospace industry as well as test, training and simulation systems primarily for the military. We sell our products to airframe manufacturers (OEM's) in the commercial transport, business jet, military markets, FAA/Airport, OEM suppliers, and aircraft operators around the world. The Company has two reportable segments, Aerospace and Test Systems. The Aerospace segment designs and manufactures products for the global aerospace industry. The Test Systems segment designs, develops, manufactures and maintains communications and weapons test systems and training and simulation devices for military applications.

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. Acquisitions are accounted for under the purchase method and, accordingly, the operating results for the acquired companies are included in the consolidated statements of earnings from the respective dates of acquisition.

Revenue and Expense Recognition

In the Aerospace segment, revenue is recognized on the accrual basis at the time of shipment of goods and transfer of title. There are no significant contracts allowing for right of return.

In the Test Systems segment, revenue is recognized from long-term, fixed-price contracts using the percentage-of-completion method of accounting, measured by multiplying the estimated total contract value by the ratio of actual contract costs incurred to date to the estimated total contract costs. Substantially all long-term contracts are with U.S. government agencies and contractors thereto. The Company makes significant estimates involving its usage of percentage-of-completion accounting to recognize contract revenues. The Company periodically reviews contracts in process for estimates-to-completion, and revises estimated gross profit accordingly. While the Company believes its estimated gross profit on contracts in process is reasonable, unforeseen events and changes in circumstances can take place in a subsequent accounting period that may cause the Company to revise its estimated gross profit on one or more of its contracts in process. Accordingly, the ultimate gross profit realized upon completion of such contracts can vary significantly from estimated amounts between accounting periods.

Cost of products sold includes the costs to manufacture products such as direct materials and labor and manufacturing overhead as well as all engineering and developmental costs. Shipping and handling costs are expensed as incurred and are included in costs of products sold. The Company is engaged in a variety of engineering and design activities

as well as basic research and development activities directed to the substantial improvement or new application of the Company's existing technologies. These costs are expensed when incurred and included in cost of sales. Research and development, design and related engineering amounted to approximately \$6.9 million and \$6.8 million for the three months and \$21.0 million and \$20.6 million for the nine months ended October 2, 2010 and October 3, 2009, respectively.

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Selling, general and administrative expenses include costs primarily related to our sales and marketing departments and administrative departments.

Fair Value

ASC Topic 820, *Fair value Measurements and Disclosures*, (ASC Topic 820) defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. This statement applies under other accounting pronouncements that require or permit fair value measurements. The statement indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. ASC Topic 820 defines fair value based upon an exit price model.

ASC Topic 820 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The following table provides the financial assets and liabilities carried at fair value measured on a recurring basis as of October 2, 2010 and December 31, 2009:

(in thousands)	Asset	Liability	Level 1	Level 2	Level 3
Interest rate swaps					
October 2, 2010	\$	\$ (662)	\$	\$ (662)	\$
December 31, 2009		(373)		(373)	

Interest rate swaps are securities with no quoted readily available Level 1 inputs, and therefore are measured at fair value using inputs that are directly observable in active markets and are classified within Level 2 of the valuation hierarchy, using the income approach.

In accordance with the provisions of ASC Topic 350 Intangibles Goodwill and Other the Company estimates the fair value of reporting units, utilizing unobservable Level 3 inputs. Level 3 inputs require significant management judgment due to the absence of quoted market prices or observable inputs for assets of a similar nature.

At December 31, 2009, the fair value of goodwill and intangible assets classified using Level 3 inputs were as follows:

The fair value measurement of goodwill in the Test Systems reporting unit is \$2.4 million. Inputs used to calculate the fair value were a combination of revenue growth rates and profit margins based on internal forecasts, terminal value, and weighted-average cost of capital used to discount future cash flows. There was no change in fair value from December 31, 2009.

The fair value measurement of indefinite-lived trade name intangible assets in the Test Systems reporting unit is \$0.5 million. Inputs used to calculate the fair value were internal forecasts used to estimate discounted future cash flows. There was no change in fair value from December 31, 2009.

The fair value measurement of amortized intangible assets in the Test Systems reporting unit is \$3.5 million. Inputs used to calculate the fair value were internal forecasts used to estimate discounted future cash flows.

There was no change in fair value from December 31, 2009.

As of October 2, 2010, the Company concluded that no indicators of goodwill impairment existed and an interim test was not performed.

Table of Contents**Financial Instruments**

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, notes payable, long-term debt and interest rate swaps. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral and the Company does not hold or issue financial instruments for trading purposes. Due to their short-term nature the carrying value of cash and equivalents, accounts receivable, accounts payable, and notes payable approximate fair value. The carrying value of the Company's variable rate long-term debt also approximates fair value due to the variable rate feature of these instruments as well as the lack of changes in the Company's credit history. The carrying value of the subordinated promissory note approximates its fair value based on management's estimation that a current interest rate would not differ materially from the stated rate. The Company's interest rate swaps are recorded at fair value as described under Fair Value.

Derivatives

The Company records all derivatives on the balance sheet at fair value with the related gains or losses deferred in shareholders' equity as a component of Accumulated Other Comprehensive Income (Loss) (AOCI) and any ineffectiveness is recorded to the income statement. The accounting for changes in the fair value of derivatives depends on the intended use and resulting designation. The Company's use of derivative instruments was limited to a cash flow hedge for interest rate risk associated with long-term debt. Interest rate swaps are used to adjust the proportion of total debt that is subject to variable and fixed interest rates. The interest rate swaps are designated as hedges of the amount of future cash flows related to interest payments on variable-rate debt that, in combination with the interest payments on the debt, convert a portion of the variable-rate debt to fixed-rate debt. At October 2, 2010, we had interest rate swaps consisting of the following:

- a) An interest rate swap with a notional amount of approximately \$2.9 million, entered into on February 2006, related to the Company's Series 1999 New York Industrial Revenue Bond which effectively fixes the rate at 3.99% plus a spread based on the Company's leverage ratio on this obligation through 2016.
- b) An interest rate swap with a notional amount of \$13.0 million. The swap effectively fixes the LIBOR rate at 2.115% on the notional amount (which decreases in concert with the scheduled note repayment schedule). The swap agreement became effective October 1, 2009 and expires January 30, 2014.

To the extent the interest rate swaps are not perfectly effective in offsetting the change in the value of the payments being hedged; the ineffective portion of these contracts is recognized in earnings immediately. All of the Company's cash flow hedges are considered to be highly effective. Amounts to be reclassified to income through the remainder of 2010 are not expected to be significant.

Long-term Debt and Notes Payable

The Company's Credit Agreement provides for a five-year, \$40 million senior secured term loan with interest at LIBOR plus between 2.25% and 3.50%. The proceeds of the term loan were used to finance the DME acquisition. The Credit Agreement also provided for a revolving credit line of \$35 million for working capital requirements and is committed for three years through January 2012, with interest at LIBOR plus between 2.25% and 3.50%.

The Company's obligations under the Credit Agreement are jointly and severally guaranteed by Astronics Advanced Electronic Systems Corp., Luminescent Systems, Inc. and DME Corporation, each a wholly-owned domestic subsidiary of the Company. The obligations are secured by a first priority lien on substantially all of the Company's and the guarantors' assets and 100% of the issued and outstanding equity interest of each subsidiary.

The Company had no balance outstanding on its revolving credit facility at October 2, 2010 and December 31, 2009, respectively. The revolving credit facility provides for borrowing up to \$35.0 million. For working capital requirements, the Company had available on its credit facility, \$21.9 million and \$15.5 million at October 2, 2010 and December 31, 2009, respectively. The credit facility allocates up to \$20 million of the revolving credit line for the issuance of letters of credit, including certain existing letters of credit totaling approximately \$13.1 million at October 2, 2010.

Foreign Currency Translation

The Company accounts for its foreign currency translation in accordance with ASC Topic 830, *Foreign Currency Translation*. The aggregate transaction gain or loss included in determining net income was insignificant for the

periods ending October 2, 2010 and October 3, 2009.

Table of Contents**Income Taxes**

The FASB issued ASC Topic 740-10 *Overall Uncertainty in Income Taxes* (ASC Topic 740-10) which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. ASC Topic 740-10 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The Company is subject to the provisions of ASC Topic 740-10 and has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions.

Should the Company need to accrue a liability for unrecognized tax benefits, any interest associated with that liability will be recorded as interest expense. Penalties, if any, would be recognized as operating expenses. There are no penalties or interest liability accrued as of October 2, 2010 and December 31, 2009. The years under which we conducted our evaluation coincided with the tax years currently still subject to examination by major federal and state tax jurisdictions, those being 2006 through 2010.

Accounting Pronouncements Adopted in 2010

On January 1, 2010, the Company adopted the new provisions of ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures about Fair Value Measurements* (ASU No. 2010-06). ASU No. 2010-06 provides revised guidance on improving disclosures about valuation techniques and inputs to fair value measurements. The impact on the Company's disclosures was not significant.

2) Inventories

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

(in thousands)	October 2, 2010	December 31, 2009
Finished Goods	\$ 7,293	\$ 6,075
Work in Progress	7,005	3,275
Raw Material	20,714	22,559
	\$ 35,012	\$ 31,909

The Company records valuation reserves to provide for excess, slow moving or obsolete inventory or to reduce inventory to the lower of cost or market value. In determining the appropriate reserve, the Company considers the age of inventory on hand, the overall inventory levels in relation to forecasted demands as well as reserving for specifically identified inventory that the Company believes is no longer salable.

3) Goodwill and Intangible Assets

The following table summarizes the changes in the carrying amount of goodwill for 2010:

(in thousands)	December 31, 2009	Foreign Currency Translation	October 2, 2010
Aerospace	\$ 5,093	\$ 69	\$ 5,162
Test Systems	2,400		2,400
Total	\$ 7,493	\$ 69	\$ 7,562

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The following table summarizes acquired intangible assets as follows:

(in thousands)	Weighted Average Life	October 2, 2010		December 31, 2009	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	12 Years	\$ 1,271	\$ 561	\$ 1,271	\$ 487
Trade Names	N/A	1,053		1,053	
Completed and Unpatented Technology	10 - 15 Years	3,177	908	3,177	718
Government Contracts	6 Years	347	327	347	284
Backlog and Customer Relationships	3 - 20 Years	3,385	2,258	3,385	2,153
Total Intangible Assets		\$ 9,233	\$ 4,054	\$ 9,233	\$ 3,642

All acquired intangible assets other than goodwill and trade names are being amortized. Amortization expense was approximately \$0.1 million and \$0.8 million for the three months and \$ 0.4 million and \$2.2 million for the nine months ended October 2, 2010 and October 3, 2009, respectively. Amortization expense for each of the next five years is estimated to be approximately \$0.1 million for the balance of 2010 and \$0.4 million each for 2011, 2012, 2013, 2014 and 2015.

4) Comprehensive Income and Accumulated Other Comprehensive Income

The components of comprehensive income are as follows:

(in thousands)	Nine Months Ended		Three Months Ended	
	October 2, 2010	October 3, 2009	October 2, 2010	October 3, 2009
Net income	\$ 10,477	\$ 5,853	\$ 4,647	\$ 2,496
Other comprehensive income:				
Foreign currency translation adjustments	125	424	172	260
Accumulated Retirement Liability Adjustment net of tax of \$38 and \$49 in 2010 and \$12 and \$16 in 2009 for the nine and three months ended, respectively.	70	91	23	30
Loss on derivatives, net of tax of \$101 and \$42 in 2010 and \$26 and \$71 in 2009 for the nine and three months ended, respectively.	(188)	(76)	(49)	(133)
Comprehensive income	\$ 10,484	\$ 6,292	\$ 4,793	\$ 2,653

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

(in thousands)	October 2, 2010	December 31, 2009

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Accumulated foreign currency translation	\$	1,230	\$	1,105
Accumulated loss on derivative adjustment		(430)		(242)
Accumulated retirement liability adjustment		(951)		(1,021)
Accumulated other comprehensive income	\$	(151)	\$	(158)

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The Company has a non-qualified supplemental retirement defined benefit plan for certain executives. The following table sets forth information regarding the net periodic pension cost for the plan.

(in thousands)	Nine Months Ended		Three Months Ended	
	October 2, 2010	October 3, 2009	October 2, 2010	October 3, 2009
Service cost	\$ 30	\$ 39	\$ 10	\$ 13
Interest cost	246	275	82	92
Amortization of prior service cost	81	81	27	27
Amortization of net actuarial losses		24		8
Net periodic cost	\$ 357	\$ 419	\$ 119	\$ 140

Participants in the non-qualified supplemental retirement plan are entitled to paid medical, dental and long-term care insurance benefits upon retirement under the plan. The following table sets forth information regarding the net periodic cost recognized for those benefits:

(in thousands)	Nine Months Ended		Three Months Ended	
	October 2, 2010	October 3, 2009	October 2, 2010	October 3, 2009
Service cost	\$ 3	\$ 6	\$ 1	\$ 2
Interest cost	39	37	13	12
Amortization of prior service cost	18	24	6	8
Amortization of net actuarial losses	9	9	3	3
Net periodic cost	\$ 69	\$ 76	\$ 23	\$ 25

6) Sales to Major Customers

The Company has a significant concentration of business with two customers.

Sales to Panasonic Avionics Corporation amounted to approximately 24% and 20% for the three months and 27% and 19% for the nine months ended October 2, 2010 and October 3, 2009, respectively. Accounts receivable from this customer amounted to \$ 4.4 and \$ 3.9 million as of October 2, 2010 and December 31, 2009, respectively.

Sales to the United States Government amounted to approximately 17% and 22% for the three months and 14% and 19% for the nine months ended October 2, 2010 and October 3, 2009, respectively. Accounts receivable from this customer amounted to \$3.4 and \$2.6 million as of October 2, 2010 and December 31, 2009, respectively.

7) Product Warranties

In the ordinary course of business, the Company warrants its products against defects in design, materials and workmanship typically over periods ranging from twelve to sixty months. The Company determines warranty reserves needed by product line based on experience and current facts and circumstances. Activity in the warranty accrual is summarized as follows:

(in thousands)	Nine Months Ended		Three Months Ended	
	October 2, 2010	October 3, 2009	October 2, 2010	October 3, 2009
Balance at beginning of period	\$ 3,147	\$ 1,212	\$ 2,703	\$ 1,260

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Warranties issued	1,481	1,836	543	1,139
Warranties settled	(1,692)	(1,125)	(923)	(476)
Reassessed warranty exposure	(1,144)		(531)	
Balance at end of period	\$ 1,792	\$ 1,923	\$ 1,792	\$ 1,923

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Below are the sales and operating profit by segment for the nine months and three months ended October 2, 2010 and October 3, 2009 and a reconciliation of segment operating profit to earnings before income taxes. Operating profit is the net sales less cost of sales and other operating expenses excluding interest and other expenses and corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment.

(in thousands)	Nine Months Ended		Three Months Ended	
	October 2, 2010	October 3, 2009	October 2, 2010	October 3, 2009
Sales				
Aerospace	\$ 132,813	\$ 118,992	\$ 46,024	\$ 38,958
Test Systems	11,118	26,633	3,882	9,628
Sales	\$ 143,931	\$ 145,625	\$ 49,906	\$ 48,586
Operating Profit (Loss) and Margins				
Aerospace	\$ 22,275 17%	\$ 11,779 10%	\$ 8,780 19%	\$ 4,684 12%
Test Systems	(1,371) (12)%	430 2%	(565) (15)%	483 5%
Total Operating Profit	20,904	12,209	8,215	5,167
Deductions from Operating Profit				
Interest Expense	1,962	1,307	641	407
Corporate Expenses and Other*	2,963	2,526	1,001	1,142
Income Before Income Taxes	\$ 15,979	\$ 8,376	\$ 6,573	\$ 3,618

* 2009 includes \$1.0 million and 0.1 million in other income for a fair market value adjustment on a contingent \$2.0 million subordinated promissory note in the nine months and three months ended October 3,

2009,
respectively.

Identifiable Assets

(in thousands)	October 2, 2010	December 31, 2009
Aerospace	\$ 94,999	\$ 92,472
Test Systems	14,730	16,073
Corporate	36,395	30,169
Total Assets	\$ 146,124	\$ 138,714

9) Earnings Per Share

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

(in thousands)	Nine Months Ended		Three Months Ended	
	October 2, 2010	October 3, 2009	October 2, 2010	October 3, 2009
Basic earnings per share weighted average shares	10,805	10,720	10,813	10,775
Net effect of dilutive stock options	393	223	527	256
Diluted earnings per share weighted average shares	11,198	10,943	11,340	11,031

Table of Contents**10) Income Taxes**

The effective tax rate was approximately 29.3% and 31.0% for the three months and 34.4% and 30.1% for the nine months ended October 2, 2010 and October 3, 2009, respectively. The effective tax rate for the third quarter of 2010 was impacted primarily by higher state and foreign taxes, offset by the impact of R&D tax credits in the net amount of \$0.4 million. The effective tax rate for the first nine months of 2010 was impacted primarily by higher state and foreign taxes as well as R&D tax credits in the net amount of a \$0.3 million.

The lower effective rate in 2009 was due primarily to foreign earnings taxed at rates lower than the federal statutory rate for the three and nine months ended October 3, 2009. We recorded a R&D tax benefit of \$0.3 million in the third quarter of 2009 consisting of a \$0.5 million benefit net of a \$0.2 million reserve and a R&D tax benefit of \$0.5 million for the first nine months of 2009 consisting of a \$0.9 million benefit net of a \$0.4 million reserve.

11) Acquisition

On January 30, 2009, the Company acquired 100% of the common stock of DME Corporation (DME). DME is a designer and manufacturer of military test training and simulation equipment and aviation safety products. The following summary, prepared on a pro forma basis, combines the consolidated results of operations of the Company with those of the acquired business as if the acquisition took place on January 1, 2009. The pro forma consolidated results include the impact of certain adjustments, including increased interest expense on acquisition debt, amortization of purchased intangible assets and income taxes.

	Nine Months Ended		Three Months Ended	
	October 2, 2010 as Reported	October 3, 2009 as Pro Forma	October 2, 2010 as Reported	October 3, 2009 as Pro Forma
(in thousands, except earnings per share)				
Sales	\$ 143,931	\$ 150,374	\$ 49,906	\$ 48,586
Net Income	10,477	5,884	4,647	2,496
Basic earnings per share	0.97	0.55	0.43	0.23
Diluted earnings per share	0.94	0.54	0.41	0.23

The pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been in effect for the three months and nine months ended October 3, 2009. The pro forma results are not intended to be a projection of future results.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(The following should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Form 10-K for the year ended December 31, 2009.)

OVERVIEW

Astronics Corporation, through its subsidiaries Astronics Advanced Electronic Systems Corp., DME Corporation, Luminescent Systems Inc. and Luminescent Systems Canada Inc. designs and manufactures electrical power generation systems, control and distribution systems, lighting systems and components, aircraft safety products and test, training and simulation systems. The Company operates in two distinct segments, Aerospace and Test Systems and has six principal facilities located in New York State, Washington State, New Hampshire, two in Florida and one in Quebec, Canada.

Our Aerospace segment serves four primary markets. They are the military, commercial transport, business jet and FAA/airport markets. We serve one primary market in the Test Systems segment, which is the military. Our strategy is to develop and maintain positions of technical leadership in chosen aerospace and test system markets, to leverage those positions to grow the amount of content and volume of product it sells to the markets in those segments and to selectively acquire businesses with similar technical capabilities that could benefit from our leadership position and strategic direction.

Key factors affecting our growth and profitability are the rate at which new aircraft are produced, government funding of military programs, our ability to have our products designed into the plans for new aircraft and the rates at which aircraft owners, including commercial airlines, refurbish or install upgrades to their aircraft. Once designed into a new aircraft, the spare parts business is frequently retained by the Company. Each of the markets that we serve is presenting opportunities for our product lines that we expect will provide growth for the Company over the long-term. We continue to look for opportunities in all of our markets to capitalize on our core competencies to expand our existing business and to grow through strategic acquisitions.

CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK

(in thousands)	Nine Months Ended		Three Months Ended	
	October 2, 2010	October 3, 2009	October 2, 2010	October 3, 2009
Sales	\$ 143,931	\$ 145,625	\$ 49,906	\$ 48,586
Gross Margin	24.4%	18.8%	25.8%	20.8%
SG&A Expenses as a Percentage of Sales	11.9%	12.8%	11.4%	12.8%
Other Expenses (Income) as a Percentage of Sales	%	(0.7)%	%	(0.2)%
Interest Expense, net of interest income	\$ 1,962	\$ 1,307	\$ 641	\$ 407
Effective Tax Rate	34.4%	30.1%	29.3%	31.0%
Net Earnings	\$ 10,477	\$ 5,853	\$ 4,647	\$ 2,496

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

Our consolidated sales for the third quarter of 2010 increased by 2.7% to \$49.9 million compared to \$48.6 million for the same period last year. Aerospace sales increased by \$7.1 million while Test Systems sales decreased by \$5.7 million.

Year to date consolidated sales for 2010 decreased by 1.2% to \$143.9 million compared to \$145.6 million for the same period last year. Aerospace sales increased by \$13.8 million while Test Systems sales decreased by \$15.5 million. Revenue in 2009 includes only eight months of revenue from DME, which was acquired on January 30, 2009.

Consolidated gross margins improved from approximately 20.8% in the third quarter of 2009 to approximately 25.8% in the third quarter of 2010. Year to date consolidated gross margins improved from approximately 18.8% in the first nine months of 2009 to approximately 24.4% in the first nine months of 2010. The improved margins were a result of

leverage that was achieved from increased sales volumes in the Aerospace segment as well as reductions to our cost structure and a favorable sales mix for both the third quarter and year to date as compared with last year.

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Selling, general and administrative (SG&A) expenses were approximately \$5.7 million, or 11.4% of sales in the third quarter of 2010, when compared to \$6.2 million, or 12.8% of sales in the same period last year. The third quarter of 2009 includes higher amortization costs relating to the acquired DME intangible assets of approximately \$0.7 million. The lower amortization expense of the current period was somewhat offset by increased selling costs. Selling, general and administrative expenses were approximately \$17.2 million, or 11.9% of sales in the first nine months of 2010, when compared to \$18.7 million, or 12.8% of sales in the same period last year. The first nine months of 2009 includes higher amortization costs relating to the acquired DME intangible assets of \$1.8 million.

Other expenses (income) in the 2009 third quarter and 2009 year to date includes \$0.1 million and \$1.0 million respectively, for income relating to a fair market value adjustment to the contingent \$2.0 million subordinated note payable to the former owners of DME Corporation. This adjustment reduced the carrying value of the note to zero, its estimated fair market value as of the end of the third quarter of 2009. The estimated fair value was based on our estimate at the end of the third quarter of the probability that DME will meet the revenue performance criteria required by the note to trigger the earnout payment. This adjustment to the estimate, net of tax, increased net income by \$0.1 million or \$0.01 per diluted earnings per share for the three months ended October 3, 2009 and increased net income by \$0.7 million or \$0.06 per diluted earnings per share nine months ended October 3, 2009.

Interest Expense, net of interest income for the third quarter increased by \$0.2 million from \$0.4 million to \$0.6 million, due primarily to higher effective interest rates offset by reduced debt levels when compared with the same period last year. Year to date 2010 net interest expense increased by \$0.7 million from \$1.3 million to \$2.0 million, due to higher effective interest rates offset by reduced debt levels when compared with the same period last year. Interest income was negligible for all periods.

The effective tax rate was approximately 29.3% and 31.0% for the third quarter of 2010 and 2009 respectively. The effective tax rate for the third quarter of 2010 was impacted primarily by increased research and development tax credits. The effective tax rate was approximately 34.4% for the first nine months of 2010 and 30.1% for the first nine months of 2009. The increase in the year to date effective rate is due primarily to higher state and foreign taxes as well as lower research and development tax credits.

Net income for the third quarter of 2010 was \$4.6 million or \$0.41 per diluted share, an increase of \$2.1 million from \$2.5 million, or \$0.23 per diluted share in the third quarter of 2009. Net income for the first nine months of 2010 was \$10.5 million or \$0.94 per diluted share, an increase of \$4.6 million from \$5.9 million, or \$0.53 per diluted share in the first nine months of 2009. The earnings per share increase in 2010 compared to 2009 is due to the increase in net income.

SEGMENT RESULTS OF OPERATIONS AND OUTLOOK

Operating profit, as presented below, is sales less cost of sales and other operating expenses, excluding interest expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment. Operating profit is reconciled to earnings before income taxes in Note 8 of the Notes to Consolidated Condensed Financial Statements included in this report.

AEROSPACE

(in thousands)	Nine Months Ended		Three Months Ended	
	October 2, 2010	October 3, 2009	October 2, 2010	October 3, 2009
Sales	\$ 132,813	\$ 118,992	\$ 46,024	\$ 38,958
Operating profit	\$ 22,275	\$ 11,779	\$ 8,780	\$ 4,684
Operating Margin	16.8%	9.9%	19.1%	12.0%
Total Assets			October 2, 2010	Dec 31, 2009
Backlog			\$ 94,999	\$ 92,472
			\$ 97,970	\$ 75,639

Table of Contents**Aerospace Sales by Market**

(in thousands)	Nine Months Ended		Three Months Ended	
	October 2, 2010	October 3, 2009	October 2, 2010	October 3, 2009
Commercial Transport	\$ 80,963	\$ 66,623	\$ 28,627	\$ 22,230
Military	25,267	29,544	7,349	9,203
Business Jet	17,257	16,863	5,285	4,947
FAA/Airport	9,326	5,962	4,763	2,578
	\$ 132,813	\$ 118,992	\$ 46,024	\$ 38,958

Aerospace Sales by Product Line

(in thousands)	Nine Months Ended		Three Months Ended	
	October 2, 2010	October 3, 2009	October 2, 2010	October 3, 2009
Cabin Electronics	\$ 63,491	\$ 48,484	\$ 22,908	\$ 16,586
Aircraft Lighting	48,720	49,430	15,400	15,500
Airframe Power	11,276	15,116	2,953	4,294
Airfield Lighting	9,326	5,962	4,763	2,578
	\$ 132,813	\$ 118,992	\$ 46,024	\$ 38,958

Sales to the Commercial Transport market increased in the third quarter as a result of increased volume due primarily to a general improvement of the financial condition of the commercial airlines and their increased installation of in-flight entertainment and in-seat power systems that increased demand for our Cabin Electronics products. Military sales were down for the quarter due to lower volume of Aircraft Lighting and Airframe Power sales. Airframe Power sales decreased because sales of the Tactical Tomahawk power conditioning unit concluded in the third quarter of 2009. Sales to the Business Jet market were slightly higher due to increased volume from our Aircraft lighting and Airframe Power product lines. The sales increase to the FAA/Airport market was due to increased volume primarily relating to sales generated by two airport projects during the quarter.

Year to date, the sales increase of the Commercial Transport market was a result of increased volume due to a general improvement of the financial condition of the commercial airlines and their increased installation of in-flight entertainment and in-seat power systems that increased demand for our Cabin Electronics products. Military sales were lower primarily as a result of the conclusion of shipments of our power conditioning unit for the Tactical Tomahawk missile in the third quarter of 2009. Sales to the Business Jet market were slightly higher, as increased Airframe power sales were partially offset by a decrease of Aircraft Lighting product sales.

Aerospace operating profit for the third quarter of 2010 was \$8.8 million, or 19.1% of sales, compared with \$4.7 million, or 12.0% of sales, in the same period last year. Year to date, operating profit for 2010 was \$22.3 million, or 16.8% of sales, compared with \$11.8 million or 9.9% of sales, in the same period last year. Margin improvement was due to the leverage provided on the increased sales volume, the effect of cost reductions and favorable product mix for both the third quarter and year to date as compared with the same periods of 2009.

2010 Outlook for Aerospace As a result of our first nine months actual sales and our strong bookings and backlog during the period we expect our Aerospace segment's revenue for 2010 to be in the range of \$176 million to \$178 million. Aerospace bookings for the first nine months of 2010 totaled \$ 155.1 million. The Aerospace segments backlog at the end of the third quarter of 2010 was \$98.0 million with approximately \$41 million expected to be

shipped over the remaining part of 2010.

Table of Contents**TEST SYSTEMS**

(in thousands)	Nine Months Ended		Three Months Ended	
	October 2, 2010	October 3, 2009	October 2, 2010	October 3, 2009
Sales	\$ 11,118	\$ 26,633	\$ 3,882	\$ 9,628
Operating profit (loss)	\$ (1,371)	\$ 430	\$ (565)	\$ 483
Operating Margin	(12.3)%	1.6%	(14.6)%	5.0%
			October 2, 2010	Dec 31, 2009
Total Assets			\$ 14,730	\$ 16,073
Backlog			\$ 12,041	\$ 9,755

Test Systems Sales by Market

(in thousands)	Nine Months Ended		Three Months Ended	
	October 2, 2010	October 3, 2009	October 2, 2010	October 3, 2009
Military	\$ 11,118	\$ 26,633	\$ 3,882	\$ 9,628

All of the Test Systems segment revenue is from the Military market. Sales in the 2010 third quarter were \$3.9 million compared to

\$9.6 million for the same period in 2009. For the first nine months of 2010, sales were \$11.1 million compared to \$26.7 million for the first nine months of 2009. The decrease in the Test Systems segment sales reflects the low rate of new orders received during the past year and the resulting low backlog level.

Test Systems operating loss for the third quarter of 2010 was \$0.6 million, or (14.6)% of sales, compared with an operating profit of \$0.5 million or 5.0% of sales, in the same period last year. For the first nine months of 2010 year the operating loss was \$1.4 million, or (12.3)% of sales, compared with an operating profit of \$0.4 million, or 1.6% of sales, in the same period last year. The increased operating losses were due to low sales volume. This was somewhat offset by lower amortization costs relating to purchased intangible assets as compared with the same period last year. Additionally, the 2010 third quarter and year to date operating loss reflects a reduction in our estimated warranty liability of \$0.5 million and \$1.1 million respectively for the segment.

2010 Outlook for Test Systems We expect 2010 sales for our Test Systems segment to be in the range of \$ 16 million to \$17 million. The forecast has been lowered from our previous forecast as bookings have remained lower than expected. Test Systems segment bookings for the first nine months of 2010 totaled \$13.4 million. The backlog at the end of the third quarter of 2010 was \$12.0 million.

LIQUIDITY

Cash provided by operating activities totaled \$14.6 million during the first nine months of 2010, as compared with \$25.1 million of cash provided by operations during the first nine months of 2009. The change was due primarily to increased investment in net operating assets in 2010 as compared to a decrease in net investment in net operating assets during the same period of 2009 offset by higher net income in 2010.

Cash used in investing activities was \$2.8 million in the first nine months of 2010, a decrease in use of \$40.1 million when compared to \$42.7 million used in the first nine months of 2009. This decrease was primarily due to the acquisition of DME in the prior year.

In the first nine months of 2010 cash used for financing activities totaled \$4.7 million compared to cash provided by financing activities of \$32.1 million in the first nine months of 2009. The change was due primarily to the additional debt in 2009 used to acquire DME and the use of cash in 2010 to pay down debt.

Our expectation for 2010 is that capital equipment expenditures will approximate \$3.0 million to \$4.0 million. Future capital requirements depend on numerous factors, including expansion of existing product lines and introduction of new products. Management believes that the Company's cash flow from operations and revolving credit facility will be sufficient to provide funding for future capital requirements.

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Our obligations under our Credit Agreement are jointly and severally guaranteed by Astronics Advanced Electronic Systems Corp., Luminescent Systems, Inc. and DME Corporation, each a wholly-owned domestic subsidiary of the Company. The obligations are secured by a first priority lien on substantially all of the Company's and the guarantors' assets and 100% of the issued and outstanding equity interest of each subsidiary.

There was no balance outstanding on our revolving credit facility at October 2, 2010. The revolving credit facility provides for borrowing up to \$35.0 million. The credit facility allocates up to \$20 million of the revolving credit line for the issuance of letters of credit, including certain existing letters of credit totaling approximately \$13.1 million at October 2, 2010. For working capital requirements, the Company had available on its credit facility, \$21.9 million and \$15.5 million at October 2, 2010 and December 31, 2009, respectively. At October 2, 2010, we were in compliance with all of the covenants pursuant to the credit facility.

BACKLOG

The Company's backlog at October 2, 2010 was \$110.0 million compared with \$85.4 million at December 31, 2009 and \$101.0 million at October 3, 2009.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Company's contractual obligations and commercial commitments have not changed materially from those disclosed in the Company's Form 10-K for the year ended December 31, 2009.

MARKET RISK

The Company believes that there have been no material changes in the current year regarding the market risk information for its exposure to currency exchange rates or interest rate fluctuations. Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 for a complete discussion of the Company's market risk.

CRITICAL ACCOUNTING POLICIES

Refer to the Company's annual report on Form 10-K for the year ended December 31, 2009 for a complete discussion of the Company's critical accounting policies.

RECENT ACCOUNTING PRONOUNCEMENTS

See Part 1, Note 1 to the Financial Statements - Basis of Presentation, Accounting Pronouncements Adopted in 2010.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report contains certain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involves uncertainties and risks. These statements are identified by the use of the may, will, should, believes, expects, expected, intends, plans, projects, estimates, predicts, p anticipates, presume and assume, 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 the success of the Company with effectively executing its plans; successfully integrating its acquisitions; the timeliness of product deliveries by vendors and other vendor performance issues; changes in demand for our products from the U.S. government and other customers; the acceptance by the market of new products developed; our success in cross-selling products to different customers and markets; changes in government contracts; the state of the commercial and business jet aerospace market; the Company's success at increasing the content on current and new aircraft platforms; the level of aircraft build rates; as well as other general economic conditions and other factors. Certain of these factors, risks and uncertainties are discussed in the sections of this report entitled Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Market Risk in Item 2, above.

Item 4. Controls and Procedures

- a) The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of October 2, 2010. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of October 2, 2010.
- b) Changes in Internal Control over Financial Reporting There have been no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1a Risk Factors

In addition to other information set forth in this report, you should carefully consider the factors discussed in Part 1, Item 1A. Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2009, which could materially affect our business, financial condition or results of operations. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations.

In the Test Systems segment, revenue is recognized from long-term, fixed-price contracts using the percentage-of-completion method of accounting, measured by multiplying the estimated total contract value by the ratio of actual contract costs incurred to date to the estimated total contract costs. Substantially all long-term contracts are with U.S. government agencies and contractors thereto. The Company has significant estimates involving its usage of percentage-of-completion accounting to recognize contract revenues. While the Company believes its estimated gross profit on contracts in process is reasonable, unforeseen events and changes in circumstances can take place in a subsequent accounting period that may cause the Company to prospectively revise its estimated gross profit on one or more of its contracts in process. Accordingly, the ultimate gross profit realized upon completion of such contracts can vary significantly from estimated amounts between accounting periods.

The Company has a significant concentration of business with two customers, Panasonic Avionics Corporation and the US Government, where a significant reduction in sales would negatively impact our sales and earnings. We provide Panasonic with cabin electronics products which, in total were approximately 24% and 27% of revenue during the third quarter and year to date of 2010, respectively. We provide the US Government with military products which, in total were approximately 17% and 14% of revenue during the third quarter and year to date of 2010, respectively.

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

(c) The following table summarizes the Company's purchases of its common stock for the quarter ended October 2, 2010: