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

Form 10-K

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

For the Fiscal Year Ended December 31, 2012

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.)

130 Commerce Way, East Aurora, N.Y. 14052
(Address of principal executive office)

Registrant's telephone number, including area code (716) 805-1599

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

Securities registered pursuant to Section 12 (g) of the Act:
$.01 par value Common Stock; $.01 par value Class B Stock
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 for 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 ☐

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 (§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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. 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 Act). Yes ☐ No ☒

As of January 31, 2013, 14,477,994 shares were outstanding, consisting of 10,947,713 shares of Common Stock $.01 Par Value and 3,530,281shares of Class B Stock $.01 Par Value. The aggregate market value, as of the last business day of the Company's most recently completed second fiscal quarter, of the shares of Common Stock and Class B Stock of Astronics Corporation held by non-affiliates was approximately $214,897,000 (assuming conversion of all of the outstanding Class B Stock into Common Stock and assuming the affiliates of the Registrant to be its directors, executive officers and persons known to the Registrant to beneficially own more than 10% of the outstanding capital stock of the Corporation).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the 2013 Annual Meeting of Shareholders to be held May 14, 2013 are incorporated by reference into Part III of this Report.

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FORWARD LOOKING STATEMENTS

This Annual 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," "potential," "outlook," "forecast," "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; 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."

PART I

ITEM 1. *BUSINESS*

Astronics is a leading supplier of products to the aerospace and defense industries. Our products include advanced, high-performance lighting systems, electrical power generation systems, aircraft safety systems, electrical power distribution systems and avionics products for the global aerospace industry as well as test, training and simulation systems primarily for the military.

We have eight primary locations, seven in the United States and one in Canada. We design and build our products through our wholly owned subsidiaries Astronics Advanced Electronic Systems Corp. ("AES"), Ballard Technology, Inc. ("Ballard"), DME Corporation ("DME"), Luminescent Systems, Inc. ("LSI"), Luminescent Systems Canada, Inc. ("LSI Canada") and Max-Viz, Inc. ("Max-Viz"). We have two reportable segments, Aerospace and Test Systems. On November 30, 2011, Astronics acquired 100% of the stock of Ballard. Ballard designs and manufactures avionics databus solutions for defense and commercial aerospace applications. On July 30, 2012 Astronics acquired by merger, 100% of the stock of Max-Viz, Inc. Max-Viz designs and manufactures industry-leading enhanced vision systems for defense and commercial aerospace applications for the purpose of improving situational awareness. Both Ballard and Max-Viz are part of our Aerospace segment.

Products and Customers

Our Aerospace segment designs and manufactures products for the global aerospace industry. Product lines include Aircraft Lighting, Cabin Electronics, Airframe Power, Avionics Products and Airfield Lighting. Our Aerospace customers are the airframe manufacturers (OEM's) that build aircraft for the commercial, military and general aviation markets, suppliers to those OEM's, aircraft operators such as airlines and branches of the U.S. Department of Defense as well as the Federal Aviation Administration and airport operators. During 2012, this segment's sales were divided 70% to the commercial transport market, 14% to the military aircraft market, 12% to the business jet market and 4% to the FAA/airport market. Most of this segment's sales are a result of contracts or purchase orders received from customers, placed on a day-to-day basis or for single year procurements rather than long-term multi-year contract commitments. On occasion the Company does receive contractual commitments or blanket purchase orders from our customers covering multiple year deliveries of hardware to our customers.

Our Test Systems segment designs, develops, manufactures and maintains communications and weapons test systems and training and simulation devices for military applications. In the Test Systems Segment, Astronics' products are sold primarily to the U.S. military, foreign militaries and manufacturers of military communication systems. During 2012, this segment's sales were all to the military markets. This segment's revenue is recognized at time of shipment and transfer of title and from long-term, primarily 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. We make significant estimates involving usage of percentage-of-completion accounting to recognize contract revenues. We periodically review contracts in process for estimates-to-completion, and revise estimated gross profit accordingly. While we believe our 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 us to revise our estimated gross profit on one or more of our contracts in process. Accordingly, the ultimate gross profit realized upon completion of such contracts can vary significantly from estimated amounts between accounting periods.

Sales by Segment, Geographic Region, Major Customer and Canadian Operations are provided in Note 18 of Item 8, Financial Statements and Supplementary Data in this report.

We have a significant concentration of business with two major customers, Panasonic Avionics Corporation and to various Department of Defense branches of the U.S. Government. Sales to Panasonic Avionics accounted for 38.0% of sales in 2012, 35.7% of sales in 2011 and 26.5% of sales in 2010. Accounts receivable from this customer at December 31, 2012 and 2011 were $17.4 million and $9.9 million, respectively. Sales to the U.S. Government accounted for 7.2% of sales in 2012, 9.0% of sales in 2011 and 15.0% of sales in 2010. Accounts receivable from this customer at December 31, 2012 and 2011 were $2.6 million and $3.9 million, respectively.

Strategy

Our strategy is to develop and maintain positions of technical leadership in our chosen aerospace and defense markets, leveraging those positions to grow the amount of content and volume of product sold to those markets and to selectively acquire businesses that could benefit from our leadership position and strategic direction.

Practices as to Maintaining Working Capital

Liquidity is discussed in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in the Liquidity section of this report.

Competitive Conditions

We experience considerable competition in the market sectors we serve, principally with respect to product performance and price, from various competitors, many of which are substantially larger and have greater resources. Success in the markets we serve depends upon product innovation, customer support, responsiveness, and cost management. We continue to invest in developing the technologies and engineering support critical to competing in our markets.

Government Contracts

All U.S. Government contracts, including subcontracts where the U.S. Government is the ultimate customer, may be subject to termination at the election of the government. Our revenue stream relies on military spending. Approximately 18% of our consolidated sales was made to the military market.

Raw Materials

Materials, supplies and components are purchased from numerous sources. We believe that the loss of any one source, although potentially disruptive in the short-term, would not materially affect our operations in the long-term.

Seasonality

Our business is typically not seasonal.

Backlog

At December 31, 2012, our backlog was $ 114.5 million. At December 31, 2011, our backlog was $106.3 million. Backlog in the Aerospace segment was $110.9 million of which $94.2 million is expected to be realized in 2013. Backlog in the Test Systems segment was $3.6 million at December 31, 2012 all of which is expected to be realized in 2013.

Patents

We have a number of patents. While the aggregate protection of these patents is of value, our only material business that is dependent upon the protection afforded by these patents is our cabin power distribution products. Our patents and patent applications relate to electroluminescence, instrument panels, keyboard technology and a broad patent covering the cabin power distribution technology. We regard our expertise and techniques as proprietary and rely upon trade secret laws and contractual arrangements to protect our rights. We have trademark protection in major markets.

Research, Development and Engineering Activities

We are 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 our existing technologies. These costs are expensed when incurred and included in cost of sales. Research, development and engineering costs amounted to approximately $44.9 million in 2012, $36.1 million in 2011 and $28.3 million in 2010.

Employees

We employed 1,156 employees as of December 31, 2012. We consider our relations with our employees to be good. None of our employees are subject to collective bargaining agreements.

Stock Distribution

On October 15, 2012, the Company announced a three-for-twenty distribution of Class B Stock to holders of both Common and Class B Stock. Stockholders received three shares of Class B Stock for every twenty shares of Common and Class B Stock held on the record date of October 29, 2012. Fractional shares were paid in cash. All share quantities, share prices and per share data reported throughout this report have been adjusted to reflect the impact of this distribution.

Available information

We file our financial information and other materials as electronically required by the SEC with the SEC. These materials can be accessed electronically via the Internet at www.sec.gov. Such materials and other information about the Company are also available through our website at www.astronics.com.

ITEM 1A. *RISK FACTORS*

The loss of Panasonic Avionics Corporation or the U. S. Government as major customers or a significant reduction in sales to either or both of those two customers would reduce our sales and earnings. In 2012 we had a concentration of sales to Panasonic representing approximately 38.0% of our sales and to the U.S. Government representing approximately 7.2% of our sales. The loss of one or both of these customers or a significant reduction in sales to them would significantly reduce our sales and earnings.

The amount of debt we have outstanding, as well as any debt we may incur in the future, could have an adverse effect on our operational and financial flexibility. As of December 31, 2012, we had approximately $30.0 million of debt outstanding, of which $20.7 million is long-term debt. Changes to our level of debt subsequent to December 31, 2012 could have significant consequences to our business, including the following:

- Depending on interest rates and debt maturities, a substantial portion of our cash flow from operations could be dedicated to paying principal and interest on our debt, thereby reducing funds available for our acquisition strategy, capital expenditures or other purposes;
- A significant amount of debt could make us more vulnerable to changes in economic conditions or increases in prevailing interest rates;
- Our ability to obtain additional financing for acquisitions, capital expenditures or for other purposes could be impaired;
- The increase in the amount of debt we have outstanding increases the risk of non-compliance with some of the covenants in our debt agreements which require us to maintain specified financial ratios; and
- We may be more leveraged than some of our competitors, which may result in a competitive disadvantage.

We are subject to debt covenant restrictions. Our credit facility contains several financial and other restrictive covenants. A significant decline in our operating income could cause us to violate our covenants. A covenant violation would require a waiver by the lenders or an alternative financing arrangement be achieved. This could result in our being unable to borrow under our bank credit facility or being obliged to refinance and renegotiate the terms of our bank indebtedness. Historically both choices have been available to us however it is difficult to predict the availability of these options in the future.

Our future operating results could be impacted by estimates used to calculate impairment losses on long term assets. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires Management to make significant and subjective estimates and assumptions that may affect the reported amounts of long term assets in the financial statements. These estimates are integral in the determination of whether a potential impairment loss exists as well as the calculation of that loss. Actual future results could differ from those estimates.

A write-off of all or part of our goodwill or other intangible assets could adversely affect our operating results, net worth and cause us to violate covenants in our bank credit facility. At December 31, 2012, goodwill and purchased intangible assets were approximately 10.3% and approximately 7.8% of our total assets respectively. Our goodwill and other intangible assets may increase in the future since our strategy includes growing through acquisitions. We may have to write off all or part of our goodwill or purchased intangible assets if their value becomes impaired. Although this write-off would be a non-cash charge, it could reduce our earnings and net worth significantly.

The markets we serve are cyclical and sensitive to domestic and foreign economic conditions and events, which may cause our operating results to fluctuate. In our Aerospace segment, demand by the business jet markets for our products is dependent upon several factors, including capital investment, product innovations, economic growth and wealth creation, and technology upgrades. In addition, the commercial airline industry is highly cyclical and sensitive to fuel price increases, labor disputes, global economic conditions, availability of capital to fund new aircraft purchases and upgrades of existing aircraft and passenger demand. A change in any of these factors could result in a reduction in the amount of air travel and the ability of airlines to invest in new aircraft or to upgrade existing aircraft. These factors would reduce orders for new aircraft and would likely reduce airlines spending for cabin upgrades for which we supply products, thus reducing our sales and profits. A reduction in air travel may also result in our commercial airline customers being unable to pay our invoices on a timely basis or not at all.

We are a supplier on various new aircraft programs just entering or expected to begin production in the future such as the Boeing 787, F-35 Joint Strike Fighter and Lear 85. As with any new program there is risk as to whether the aircraft or program will be successful and accepted by the market. As is customary for our business we purchase inventory and invest in specific capital equipment to support our production requirements generally based on delivery schedules provided by our customer. If a program or aircraft is not successful we may have to write off all or a part of the inventory, accounts receivable and capital equipment related to the program. A write off of these assets could result in a significant reduction of earnings and cause covenant violations relating to our debt agreements. This could result in our being unable to borrow additional funds under our bank credit facility or being obliged to refinance or renegotiate the terms of our bank indebtedness.

In our Test Systems segment, demand for our products is dependent upon several factors, including government funding levels for our products, our ability to compete successfully for those contracts and our ability to develop products to satisfy the demands of our customers. A change in any of these factors could result in a reduction of our sales and profits.

Our products are sold in highly competitive markets. Some of our competitors are larger; more diversified corporations and have greater financial, marketing, production and research and development resources. As a result, they may be better able to withstand the effects of periodic economic downturns. Our operations and financial performance will be negatively impacted if our competitors:

- Develop products that are superior to our products;
- Develop products that are more competitively priced than our products;
- Develop methods of more efficiently and effectively providing products and services or
- Adapt more quickly than we do to new technologies or evolving customer requirements.

We believe that the principal points of competition in our markets are product quality, price, design and engineering capabilities, product development, conformity to customer specifications, quality of support after the sale, timeliness of delivery and effectiveness of the distribution organization. Maintaining and improving our competitive position will require continued investment in manufacturing, engineering, quality standards, marketing, customer service and support and our distribution networks. If we do not maintain sufficient resources to make these investments, or are not successful in maintaining our competitive position, our operations and financial performance will suffer.

Our future success depends to a significant degree upon the continued contributions of our management team and technical personnel. The loss of members of our management team could have a material and adverse effect on our business. In addition, competition for qualified technical personnel in our industry is intense, and we believe that our future growth and success will depend on our ability to attract, train and retain such personnel.

Future terror attacks, war, or other civil disturbances could negatively impact our business. Continued terror attacks, war or other disturbances could lead to further economic instability and decreases in demand for our products, which could negatively impact our business, financial condition and results of operations. Terrorist attacks world-wide have caused instability from time to time in global financial markets and the aviation industry. The long-term effects of terrorist attacks on us are unknown. These attacks and the U.S. Government's continued efforts against terrorist organizations may lead to additional armed hostilities or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may further contribute to economic instability.

If we are unable to adapt to technological change, demand for our products may be reduced. The technologies related to our products have undergone, and in the future may undergo, significant changes. To succeed in the future, we will need to continue to design, develop, manufacture, assemble, test, market and support new products and enhancements on a timely and cost effective basis. Our competitors may develop technologies and products that are more effective than those we develop or that render our technology and products obsolete or uncompetitive. Furthermore, our products could become unmarketable if new industry standards emerge. We may have to modify our products significantly in the future to remain competitive, and new products we introduce may not be accepted by our customers.

Our new product development efforts may not be successful, which would result in a reduction in our sales and earnings. We may experience difficulties that could delay or prevent the successful development of new products or product enhancements, and new products or product enhancements may not be accepted by our customers. In addition, the development expenses we incur may exceed our cost estimates, and new products we develop may not generate sales sufficient to offset our costs. If any of these events occur, our sales and profits could be adversely affected.

We depend on government contracts and subcontracts with defense prime contractors and sub-contractors that may not be fully funded, may be terminated, or may be awarded to our competitors. The failure to be awarded these contracts or failure to receive funding or the termination of one or more of these contracts could reduce our sales. Sales to the U.S. Government and its prime contractors and subcontractors represent a significant portion of our business. The funding of these programs is generally subject to annual congressional appropriations, and congressional priorities are subject to change. In addition, government expenditures for defense programs may decline or these defense programs may be terminated. A decline in governmental expenditures or the termination of existing contracts may result in a reduction in the volume of contracts awarded to us. We have resources applied to specific government contracts and if any of those contracts were terminated, we may incur substantial costs redeploying those resources.

If our subcontractors or suppliers fail to perform their contractual obligations, our prime contract performance and our ability to obtain future business could be materially and adversely impacted. Many of our contracts involve subcontracts with other companies upon which we rely to perform a portion of the services we must provide to our customers. There is a risk that we may have disputes with our subcontractors, including disputes regarding the quality and timeliness of work performed by the subcontractor or customer concerns about the subcontractor. Failure by our subcontractors to satisfactorily provide on a timely basis the agreed-upon supplies or perform the agreed-upon services may materially and adversely impact our ability to perform our obligations with our customer. Subcontractor performance deficiencies could result in a customer terminating our contract for default. A default termination could expose us to liability and substantially impair our ability to compete for future contracts and orders. In addition, a delay in our ability to obtain components and equipment parts from our suppliers may affect our ability to meet our customers' needs and may have an adverse effect upon our profitability.

Our results of operations are affected by our fixed-price contracts, which could subject us to losses in the event that we have cost overruns. For the year ended December 31, 2012, fixed-price contracts represented almost all of the Company's sales. On fixed-price contracts, we agree to perform the scope of work specified in the contract for a predetermined price. Depending on the fixed price negotiated, these contacts may provide us with an opportunity to achieve higher profits based on the relationship between our costs and the contract's fixed price. However, we bear the risk that increased or unexpected costs may reduce our profit.

Some of our contracts contain late delivery penalties. Failure to deliver in a timely manner due to supplier problems, development schedule slides, manufacturing difficulties, or similar schedule related events could have a material adverse effect on our business.

The failure of our products may damage our reputation, necessitate a product recall or result in claims against us that exceed our insurance coverage, thereby requiring us to pay significant damages. Defects in the design and manufacture of our products may necessitate a product recall. We include complex system design and components in our products that could contain errors or defects, particularly when we incorporate new technology into our products. If any of our products are defective, we could be required to redesign or recall those products or pay substantial damages or warranty claims. Such an event could result in significant expenses, disrupt sales and affect our reputation and that of our products. We are also exposed to product liability claims. We carry aircraft and non-aircraft product liability insurance consistent with industry norms. However, this insurance coverage may not be sufficient to fully cover the payment of any potential claim. A product recall or a product liability claim not covered by insurance could have a material adverse effect on our business, financial condition and results of operations.

Changes in discount rates and other estimates could affect our future earnings and equity. Pension obligations and the related costs are determined using actual results and actuarial valuations that involve several assumptions. The most critical assumption is the discount rate. Other assumptions include salary increases and retirement age. The discount rate assumptions are based on current market conditions and are outside of our control. Changes in these assumptions could affect our future earnings and equity.

We are subject to financing and interest rate exposure risks that could adversely affect our business, liquidity and operating results. Changes in the availability, terms and cost of capital, increases in interest rates or a reduction in credit rating could cause our cost of doing business to increase and place us at a competitive disadvantage. At December 31, 2012, approximately 23% of our debt was at fixed interest rates with the remaining percentage subject to variable interest rates.

Contracting in the defense industry is subject to significant regulation, including rules related to bidding, billing and accounting kickbacks and false claims, and any non-compliance could subject us to fines and penalties or possible debarment. Like all government contractors, we are subject to risks associated with this contracting. These risks include the potential for substantial civil and criminal fines and penalties. These fines and penalties could be imposed for failing to follow procurement integrity and bidding rules, employing improper billing practices or otherwise failing to follow cost accounting standards, receiving or paying kickbacks or filing false claims. We have been, and expect to continue to be, subjected to audits and investigations by government agencies. The failure to comply with the terms of our government contracts could harm our business reputation. It could also result in suspension or debarment from future government contracts.

If we fail to meet expectations of securities analysts or investors due to fluctuations in our revenue or operating results, our stock price could decline significantly. Our revenue and earnings may fluctuate from quarter to quarter due to a number of factors, including delays or cancellations of programs. It is likely that in some future quarters our operating results may fall below the expectations of securities analysts or investors. In this event, the trading price of our stock could decline significantly.

Our stock price is volatile. For the year ended December 31, 2012, our stock price ranged from a low of $19.85 to a high of $31.82. The price of our common stock has been and likely will continue to be subject to wide fluctuations in response to a number of events and factors, such as:

- quarterly variations in operating results;
- variances of our quarterly results of operations from securities analyst estimates;
- changes in financial estimates;
- announcements of technological innovations, new products; and
- news reports relating to trends in our markets.

In addition, the stock market in general, and the market prices for companies in the aerospace industry in particular, have experienced significant price and volume fluctuations that often have been unrelated to the operating performance of the companies affected by these fluctuations. These broad market fluctuations may adversely affect the market price of our common stock, regardless of our operating performance.

We may incur losses and liabilities as a result of our acquisition strategy. Growth by acquisition involves risks that could adversely affect our financial condition and operating results, including:

- diversion of management time and attention from our core business,
- the potential exposure to unanticipated liabilities,
- the potential that expected benefits or synergies are not realized and that operating costs increase,
- the risks associated with incurring additional acquisition indebtedness, including that additional indebtedness could limit our cash flow availability for operations and our flexibility,
- difficulties in integrating the operations and personnel of acquired companies, and
- the potential loss of key employees, suppliers or customers of acquired businesses.

In addition, any acquisition, once successfully integrated, could negatively impact our financial performance if it does not perform as planned, does not increase earnings, or does not prove otherwise to be beneficial to us.

We currently are involved or may become involved in the future, in legal proceedings that, if adversely adjudicated or settled, could materially impact our financial condition. As an aerospace company, we may become a party to litigation in the ordinary course of our business, including, among others, matters alleging product liability, warranty claims, breach of commercial or government contract or other legal actions. In general, litigation claims can be expensive and time consuming to bring or defend against and could result in settlements or damages that could significantly impact results of operations and financial condition.

We are a defendant in an action filed in the Regional State Court of Mannheim, Germany (Lufthansa Technik AG v. Astronics Advanced Electronics Systems Corp.) relating to an allegation of patent infringement. The damages sought include injunctive relief, as well as monetary damages. We dispute the allegation and are vigorously defending ourselves in this action. We have filed a nullity action with the Federal Patent Court in Munich Germany, requesting the court to revoke the German part of the European patent that is subject to the claim. In November 2011, the Regional State Court of Manheim Germany, issued an interim decision to the effect that the infringement litigation proceedings be stayed until the Federal Patent Court decides on the concurrent nullity action. At this time we are unable to provide a reasonable estimate of our potential liability or the potential amount of loss related to this action, if any. If the outcome of this litigation is adverse to us, our results and financial condition could be materially affected.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None

ITEM 2. *PROPERTIES*

On December 31, 2012, we occupied 597,500 square feet of space in the United States and Canada, distributed as follows:

	Owned	Leased	Total
Aerospace			
East Aurora, NY	125,000	—	125,000
Redmond, WA	—	100,000	100,000
Kirkland, WA	92,000	7,600	99,600
Ft. Lauderdale, FL	96,000	—	96,000
Lebanon, NH	80,000	—	80,000
Montreal, Quebec, Canada	—	25,300	25,300
Everett, WA	—	16,000	16,000
Portland, OR	—	3,500	3,500
Hillsboro, OR	—	1,100	1,100
Aerospace Square Feet	393,000	153,500	546,500
Test Systems			
Orlando, FL	—	51,000	51,000
Test Systems Square Feet	—	51,000	51,000
Total Square Feet	393,000	204,500	597,500

Our corporate headquarters is located in East Aurora, New York. The lease in Montreal expires in July, 2018. The lease for the Redmond facility expires in March, 2013. We relocated this operation to the Kirkland facility in December, 2012. The lease for the Kirkland warehouse facility expires in March, 2016. The lease for the Everett facility expires in September 2014. The lease for the Portland facility expires in January 2016. The lease for the Hillsboro facility expires in February 2013 and is renewed annually. The lease for the Orlando facility expires in February, 2015 with one renewal option for seven years. Upon the expiration of our current leases, we believe that we will be able to either secure renewal terms or enter into leases for alternative locations at market terms. We believe that our properties have been adequately maintained and are generally in good condition.

ITEM 3. *LEGAL PROCEEDINGS*

The Company is subject to various legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect these matters will have a material adverse effect on our business, financial position, results of operations, or cash flows. However, the results of these matters cannot be predicted with certainty. Should the Company fail to prevail in any legal matter or should several legal matters be resolved against the Company in the same reporting period, then the financial results of that particular reporting period could be materially adversely affected.

On November 11, 2010, AE Liquidation Inc. filed an action in the United States Bankruptcy Court for the District of Delaware (*AE Liquidation, Inc., et al v. Luminescent Systems Inc., and AE Liquidation, Inc., et al., v Astronics Advanced Electronic Systems Corp.)* seeking to recover $1.4 million of alleged preferential payments received from Eclipse Aviation Corporation. The Company disputes the Trustee's allegations and believes any loss, as a result of future proceedings would not have a material adverse effect on our business. We intend to defend this claim vigorously.

We are a defendant in an action filed in the Regional State Court of Mannheim, Germany (Lufthansa Technik AG v. Astronics Advanced Electronics Systems Corp.) relating to an allegation of patent infringement. The damages sought include injunctive relief, as well as monetary damages. We dispute the allegation and are vigorously defending ourselves in this action. We have filed a nullity action with the Federal Patent Court in Munich Germany, requesting the court to revoke the German part of the European patent that is subject to the claim. In November 2011, the Regional State Court of Manheim Germany, issued an interim decision to the effect that the infringement litigation proceedings be stayed until the Federal Patent Court decides on the concurrent nullity action. At this time we are unable to provide a reasonable estimate of our potential liability or the potential amount of loss related to this action, if any. If the outcome of this litigation is adverse to us, our results and financial condition could be materially affected.

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

ITEM 4. *MINE SAFETY DISCLOSURES*

Not Applicable

PART II

ITEM 5. *MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

The table below sets forth the range of prices for the Company's Common Stock, traded on the NASDAQ National Market System, for each quarterly period during the last two years. The approximate number of shareholders of record as of January 31, 2013, was 857 for Common Stock and 1,237 for Class B Stock.

2012	High	Low
First	$ 31.82	$ 27.29
Second	30.60	21.43
Third	27.15	23.59
Fourth	26.77	19.85

2011	High	Low
First	$ 20.10	$ 15.57
Second	25.10	16.75
Third	26.81	20.85
Fourth	32.90	24.25

The Company has not paid any cash dividends in the three-year period ended December 31, 2012. The Company has no plans to pay cash dividends as it plans to retain all cash from operations as a source of capital to finance growth in the business.

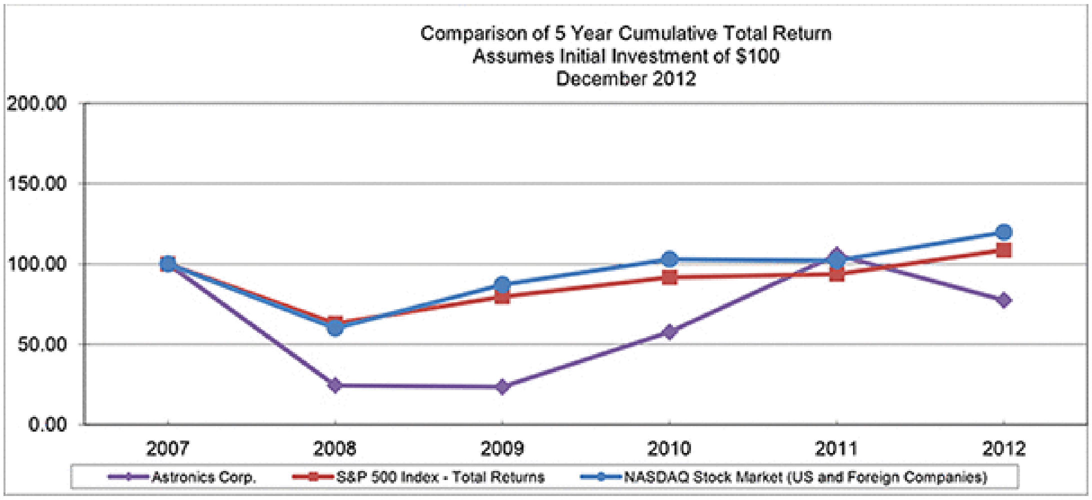
On October 15, 2012, the Company announced a three-for-twenty distribution of Class B Stock to holders of both Common and Class B Stock. Stockholders received three shares of Class B Stock for every twenty shares of Common and Class B Stock held on the record date of October 29, 2012. Fractional shares were paid in cash. All share quantities, share prices and per share data reported throughout this report have been adjusted to reflect the impact of this distribution.

With respect to information regarding our securities authorized for issuance under equity incentive plans, the information contained in the section entitled "Equity Compensation Plan Information" of our definitive Proxy Statement for the 2013 Annual Meeting of Shareholders is incorporated herein by reference.

We did not repurchase any shares of our common stock in 2012. In October of 2012, all shares held in the treasury were permanently retired.

The following graph charts the annual percentage change in return on the Company's common stock compared to the S&P 500 Index — Total Return and the NASDAQ US and Foreign Securities:

Comparison of 5 Year Cumulative Total Return
Assumes Initial Investment of $100
December 2012



		2007	2008	2009	2010	2011	2012
Astronics Corp.	Return %		(75.59)	(3.93)	145.61	83.40	(26.71)
	Cum $	100.00	24.41	23.45	57.59	105.63	77.42
S&P 500 Index—Total Returns	Return %		(36.99)	26.45	15.06	2.11	16.00
	Cum $	100.00	63.01	79.67	91.67	93.61	108.59
NASDAQ Stock Market (US and Foreign Companies)	Return %		(40.04)	45.33	18.05	(0.85)	17.40
	Cum $	100.00	59.96	87.14	102.87	102.00	119.75

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ITEM 6. *SELECTED FINANCIAL DATA*

Five-Year Performance Highlights

	2012(5)	2011(4)	2010	2009(3)	2008
(Amounts in thousands, except for employee and per share data)					
PERFORMANCE:					
Sales	**$ 266,446**	$228,163	$195,754	$191,201	$173,722
Impairment Loss (2)	**$ —**	$ (2,500)	$ —	$ (19,381)	$ —
Net Income (Loss)	**$ 21,874**	$ 21,591	$ 14,948	$ (3,802)	$ 8,361
Net Margin	**8.2%**	9.5%	7.6%	(2.0) %	4.8%
Diluted Earnings (Loss) per Share (1)	**$ 1.45**	$ 1.45	$ 1.05	$ (0.28)	$ 0.63
Weighted Average Shares Outstanding – Diluted (1)	**15,131**	14,848	14,274	13,577	13,472
Return on Average Equity	**19.2%**	24.0%	21.8%	(6.4)%	15.6%
YEAR-END FINANCIAL POSITION:					
Working Capital	**$ 60,042**	$ 58,833	$ 65,855	$ 52,857	$ 43,360
Total Assets	**$ 211,989**	$174,905	$ 150,888	$ 138,714	$ 104,674
Indebtedness	**$ 29,983**	$ 33,263	$ 38,578	$ 44,776	$ 14,446
Shareholders' Equity	**$125,134**	$ 102,863	$ 77,215	$ 60,113	$ 58,255
Book Value Per Share (1)	**$ 8.65**	$ 7.24	$ 5.58	$ 4.41	$ 4.49
OTHER YEAR-END DATA:					
Depreciation and Amortization	**$ 6,905**	$ 4,943	$ 4,881	$ 7,342	$ 4,142
Capital Expenditures	**$ 16,720**	$ 14,281	$ 3,568	$ 2,466	$ 4,325
Shares Outstanding (1)	**14,461**	14,199	13,848	13,631	12,986
Number of Employees	**1,156**	1,081	1,010	1,035	989

(1) – Diluted Earnings (Loss) Per-Share, Weighted Average Shares Outstanding-Diluted, Book Value Per-Share and Shares Outstanding have been adjusted for the impact of the October 15, 2012 three-for-twenty Class B stock distribution and the August 16, 2011 one-for-ten Class B stock distribution.

(2) –The Company recorded a $2.4 million goodwill impairment charge and a $0.1 million impairment charge to purchased intangible assets during the fourth quarter of 2011. The Company recorded a $14.2 million goodwill impairment charge and a $5.2 million impairment charge to purchased intangible assets during the fourth quarter of 2009. Refer to "Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition" and Notes 4 and 5 of our consolidated financial statements for additional information on Intangible Assets and Goodwill.

(3) – Information includes the results of DME, acquired on January 30, 2009, from the acquisition date forward.

(4) – Information includes the results of Ballard, acquired on November 30, 2011, from the acquisition date forward.

(5) – Information includes the results of Max-Viz, acquired on July 30, 2012, from the acquisition date forward.

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

OVERVIEW

Astronics Corporation, through its subsidiaries Astronics Advanced Electronic Systems Corp., Luminescent Systems Inc., Luminescent Systems Canada Inc., DME Corporation, Max-Viz, Inc. and Ballard Technology, Inc. designs and manufactures electrical power generation systems, electrical power control and distribution systems, lighting systems and components, aircraft safety products, avionics solutions and test, training and simulation systems.

Our strategy is to invest significantly in engineering, research and development to develop and maintain positions of technical leadership. We expect to leverage those positions to increase our ship set content, growing the amount of content and volume of products we sell and to selectively acquire businesses with similar technical capabilities.

We have two reportable segments, Aerospace and Test Systems. Our Aerospace segment has seven principal operating facilities located in New York State, New Hampshire, Florida, Oregon and Quebec, Canada and two in Washington State. Our Test Systems segment has one facility located in Florida.

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.

Sales to the commercial transport market totaled approximately 67.3% of our total revenue in 2012. Our cabin electronics products which provide in-seat power for airline passengers as well as power for in-flight entertainment systems (IFE) found on commercial airlines around the world, accounted for the majority of our sales to this market. Since 2005 our sales to the commercial transport markets increased from approximately $31.2 million to approximately $179.1 million in 2012. In addition to supplying cabin electronics products to this market, we also supply lighting products used in the cabin and cockpit of commercial airlines and airframe power management products. Maintaining and growing our sales to the commercial transport market will depend on airlines capital spending budgets for cabin up-grades as well as the purchase of new aircraft such as the Boeing 787, Airbus A380 and Airbus A350. This spending by the airlines is impacted by their profits, cash flow and available financing as well as competitive pressures between the airlines to improve the travel experience for their passengers. We expect that these new aircraft, once in production will be equipped with more IFE and in-seat power than previous generation aircraft. Our ability to maintain and grow sales to this market depends on our ability to maintain our technological advantages over our competitors and maintain our relationships with major in-flight entertainment suppliers and global airlines.

Sales to the military aerospace market includes our aircraft lighting, airframe power and avionics products. In 2012, Aerospace military sales represented approximately 13.7% of consolidated sales. The military market is dependent on governmental funding which can change from year to year. Risks are that overall spending may be reduced in the future, specific programs may be eliminated or that we fail to win new business through the competitive bid process. Astronics does not have significant reliance on any one program such that cancellation of a particular program will cause material financial loss. We believe that we will continue to have opportunities similar to past years regarding this market.

Sales to the business jet market are primarily aircraft lighting, airframe power and avionics products. Sales to the business jet market accounted for approximately 11.0% of our consolidated sales in 2012. Sales to the business jet market are driven by our ship set content on new aircraft and build rates of new aircraft. Business jet OEM build rates continue to be significantly impacted by slow global wealth creation and corporate profitability which have been negatively affected during the past several years by the slow recovery from the global recession. Our sales to the business jet market will continue to be challenged in the upcoming year as business jet aircraft production rates are not expected to increase significantly during 2013 as the global economy continues to struggle. Additionally, there continues to be a large supply of high quality used aircraft in the market competing with new aircraft for customers. Despite the current market conditions, we continue to see opportunities on new aircraft currently in the design phase to employ our power, lighting and avionics technologies in the business jet market. There is risk involved in the development of any new aircraft including the risk that the aircraft will not ultimately be produced or that it will be produced in lower quantities than originally expected and thus impacting our return on our engineering and development efforts.

Sales to the FAA/airport market account for approximately 3.7% of our consolidated sales in 2012 and were comprised of sales of airfield lighting products including navigational lighting aids, providing design-build lighting solutions to simplify lighting installation projects and provide seamless airfield upgrades for airports. Future FAA/airport market sales are dependent on funding availability for airport upgrades and successfully competing for those opportunities.

Our Test Systems segment accounted for 4.3% of our consolidated sales in 2012, all to the military market.

Important 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. New aircraft build rates and aircraft owners spending on upgrades and refurbishments is cyclical and dependent on the strength of the global economy. Once designed into a new aircraft, the spare parts business is frequently retained by the Company.

Each of the markets that we serve presents opportunities 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.

Challenges which continue to face us include improving shareholder value through increasing profitability. Increasing profitability is dependent on many things, primarily revenue growth and the Company’s ability to control operating expenses and to identify means of creating improved productivity. Revenue is driven by increased build rates for existing aircraft, market acceptance and economic success of new aircraft, continued government funding of defense programs, the Company’s ability to obtain production contracts for parts we currently supply or have been selected to design and develop for new aircraft platforms and continually identifying and winning new business for our Test Systems segment. Reduced aircraft build rates driven by a weak economy, tight credit markets, reduced air passenger travel and an increasing supply of used aircraft on the market would likely result in reduced demand for our products, which will result in lower profits. Reduction of defense spending may result in fewer opportunities for us to compete, which could result in lower profits in the future. Many of our newer development programs are based on new and unproven technology and at the same time we are challenged to develop the technology on a schedule that is consistent with specific programs. We will continue to address these challenges by working to improve operating efficiencies and focusing on executing on the growth opportunities currently in front of us.

ACQUISITIONS

On July 30, 2012 we acquired by merger, 100% of the stock of Max-Viz, Inc. (“Max-Viz”), a manufacturer of industry-leading Enhanced Vision Systems for defense and commercial aerospace applications for the purpose of improving situational awareness. The addition of Max-Viz diversifies the products and technologies that Astronics offers. We purchased the outstanding stock of Max-Viz for $10.7 million in cash plus contingent purchase consideration up to a maximum of $8.0 million subject to meeting certain revenue growth targets over the next three years. Max-Viz’s unaudited 2012 revenue prior to the acquisition date was approximately $3.7 million. Max-Viz is included in our Aerospace reporting segment.

The additional contingent purchase consideration is recorded at its estimated fair value at the date of acquisition based upon the Company’s assessment of the probability of Max-Viz achieving the revenue growth targets. The goodwill recognized is comprised primarily of intangible assets that do not require separate recognition. Substantially all of the goodwill and purchased intangible assets are expected to be deductible for tax purposes over 15 years. The purchase price allocation for the 2012 acquisition is complete.

On November 30, 2011 we acquired 100% of the stock of Ballard Technology, Inc. (“Ballard”) a manufacturer of avionics databus products. Ballard is included in our aerospace reporting segment. The addition of Ballard diversifies the products and technologies that Astronics offers. We purchased the outstanding stock of Ballard for approximately $23.9 million in cash plus contingent purchase consideration up to a maximum of $5.5 million subject to meeting certain revenue growth targets over the next five years. The additional purchase consideration was recorded at its estimated fair value of approximately $0.7 million at the date of acquisition based upon the Company’s assessment of the probability of Ballard achieving the revenue growth targets.

CRITICAL ACCOUNTING POLICIES

Our financial statements and accompanying notes are prepared in accordance with U.S. generally accepted accounting principles. The preparation of the Company’s financial statements requires management to make estimates, assumptions and judgments that affect the amounts reported. These estimates, assumptions and judgments are affected by management’s application of accounting policies, which are discussed in the Notes to Consolidated Financial Statements, Note 1 of Item 8, Financial Statements and Supplementary Data of this report. The critical accounting policies have been reviewed with the Audit Committee of our Board of Directors.

Revenue Recognition

In the Test Systems segment, revenue of approximately 37%, 70% and 95% for the years ending December 31, 2012, 2011 and 2010 respectively, was 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. Revenue not recognized using the percentage-of-completion method is recognized at the time of shipment of goods and transfer of title.

Accounts Receivable and Allowance for Doubtful Accounts

We record a valuation allowance to account for potentially uncollectible accounts receivable. The allowance is determined based on Management’s knowledge of the business, specific customers, review of receivable aging and a specific identification of accounts where collection is at risk. At December 31, 2012, the allowance for doubtful accounts for accounts receivable was $0.7 million, or 1.4 % of gross accounts receivable. At December 31, 2011, the allowance for doubtful accounts for accounts receivable was $0.6 million, or 1.8% of gross accounts receivable.

Inventory Valuation

We record 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, Management 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 we believe is no longer salable. At December 31, 2012, our reserve for inventory valuation was $12.0 million, or 19.8% of gross inventory. At December 31, 2011, our reserve for inventory valuation was $10.6 million, or 20.9% of gross inventory.

Deferred Tax Asset Valuation Allowances

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We record a valuation allowance to reduce deferred tax assets to the amount of future tax benefit that we believe is more likely than not to be realized. Significant assumptions regarding future profitability is required to estimate the value of these deferred tax assets. We consider recent earnings projections, allowable tax carryforward periods, tax planning strategies and historical earnings performance to determine the amount of the valuation allowance. Changes in these factors could cause us to adjust our valuation allowance, which would impact our income tax expense and the carrying value of these assets when we determine that these factors have changed.

As of December 31, 2012 we had net deferred tax assets of $14.0 million, net of a $2.2 million valuation allowance. As of December 31, 2011, we had net deferred tax assets of $10.2 million, net of a $1.9 million valuation allowance. These assets principally relate to goodwill and intangible assets, employee benefit liabilities, asset reserves, depreciation and state and foreign general business tax credit carry-forwards. Because of the uncertainty as to the Company's ability to generate sufficient future taxable income in certain States, the Company has recorded valuation allowances accordingly.

Impairment of long-lived assets

Goodwill Impairment Testing

Our goodwill is the result of the excess of purchase price over net assets acquired from acquisitions. As of December 31, 2012, we had approximately $21.9 million of goodwill. As of December 31, 2011, we had approximately $17.2 million of goodwill. The change in goodwill is due primarily to the acquisition of Max-Viz in July 2012, increasing goodwill by $4.7 million.

We identify our reporting units by assessing whether the components of our operating segments constitute businesses for which discrete financial information is available and segment management regularly reviews the operating results of those components. The Test Systems operating segment is its own reporting unit while the other reporting units are one level below our Aerospace operating segment.

Companies may perform a qualitative assessment as the initial step in the annual goodwill impairment testing process for all or selected reporting units. Companies are also allowed to bypass the qualitative analysis and perform a quantitative analysis if desired. Economic uncertainties and the length of time from the calculation of a baseline fair value are factors that we would consider in determining whether to perform a quantitative test.

When we evaluate the potential for goodwill impairment using a qualitative assessment, we consider factors including, but not limited to, macroeconomic conditions, industry conditions, the competitive environment, changes in the market for our products and services, regulatory and political developments, entity specific factors such as strategy and changes in key personnel and overall financial performance. If, after completing this assessment, it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, we proceed to a quantitative two-step impairment test.

Quantitative testing first requires a comparison of the fair value of each reporting unit to the carrying value. We use the discounted cash flow method to estimate the fair value of each of our reporting units. The discounted cash flow method incorporates various assumptions, the most significant being projected revenue growth rates, operating profit margins and cash flows, the terminal growth rate and the discount rate. Management projects revenue growth rates, operating margins and cash flows based on each reporting unit's current business, expected developments and operational strategies. If the carrying value of the reporting unit exceeds its fair value, goodwill is considered impaired and any loss must be measured.

In measuring the impairment loss, the implied fair value of goodwill is determined by assigning a fair value to all of the reporting unit's assets and liabilities, including any unrecognized intangible assets, as if the reporting unit had been acquired in a business combination at fair value. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss would be recognized in an amount equal to that excess.

We performed qualitative assessments for the four reporting units which have goodwill and concluded that it is more likely than not that their fair values exceed their carrying values. Based on our annual qualitative assessments of our reporting units, we concluded that goodwill was not impaired.

Amortized Intangible Asset Impairment Testing

Amortizable intangible assets with a carrying value of $16.0 million at December 31, 2012 are amortized over their assigned useful lives. We test these long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. The recoverability test consists of comparing the projected undiscounted cash flows, with its carrying amount. An impairment loss would then be recognized for the carrying amount in excess of its fair value.

Depreciable Asset Impairment Testing

Property, plant and equipment with a carrying value of $53.5 million at December 31, 2012 are depreciated over their assigned useful lives. We test these long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. The recoverability test consists of comparing the projected undiscounted cash flows, with its carrying amount. An impairment loss would then be recognized for the carrying amount in excess of its fair value.

Supplemental Executive Retirement Plan (SERP)

We maintain two non-qualified defined benefit supplemental retirement plans (“SERP” and “SERP II”) for certain executive officers and retired former executive officers. Expense for these plans in 2012 was $1.4 million. Plan obligations and the related costs are determined using actuarial valuations that involve several assumptions that may be highly uncertain and may have a material impact on the financial statements if different reasonable assumptions had been used. The most critical assumptions include the discount rate, future wage increases, retirement age and life expectancy. The discount rate is used to state expected future cash flows at present value. Using a lower discount rate increases the present value of pension obligations and increases pension expense. For determining the discount rate the Company considers long-term interest rates for high-grade corporate bonds. The discount rate for determining the expense recognized in 2012 was 4.5% compared with 5.5% in 2011. We will use a discount rate of 4.2% in determining our 2013 expense. The assumption for compensation increases takes a long-term view of inflation and performance based salary adjustments based on the Company’s approach to executive compensation. The rate used for future wage increases was 5.0%. It was assumed that each participant retires after fully vesting in the plan at age 62 or 65. A 100 point increase in the discount rate we used would negligibly impact our annual pension expense for 2013. If we had assumed annual wage increases of 6% our 2013 pension expense would increase approximately $0.1 million.

Stock-Based Compensation

We have stock-based compensation plans, which include non-qualified stock options as well as incentive stock options. Expense recognized for stock-based compensation was $1.4 million for the year ended 2012, $1.1 million for the year ended 2011 and $0.9 million for the year ended 2010. We determine the fair value of the option awards at the date of grant using a Black-Scholes model. Option pricing models require management to make assumptions and to apply judgment to determine the fair value of the award. These assumptions and judgments include estimating the future volatility of our stock price, expected dividend yield, future employee stock option exercise behaviors and future employee turnover rates. Changes in these assumptions can materially affect the fair value estimate.

CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK

(Dollars in thousands)	2012(2)	2011(1)	2010
Sales	$266,446	$228,163	$195,754
Gross Margin	26.1%	26.5%	24.3%
Impairment Loss	$ —	$ 2,500	$ —
SG&A Expenses as a Percentage of Sales	13.8%	11.9%	11.8%
Interest Expense	$ 1,042	$ 1,806	$ 2,551
Effective Tax Rate	30.7%	25.6%	31.5%
Net Earnings	$ 21,874	$ 21,591	$ 14,948

(1) Our results of operations for 2011 include the operations of Ballard Technology Inc. beginning November 30, 2011, the effective date of the acquisition.
(2) Our results of operations for 2012 include the operations of Max-Viz, Inc. beginning July 30, 2012, the effective date of the acquisition.

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

CONSOLIDATED OVERVIEW OF OPERATIONS

The increase in consolidated sales in 2012 compared to 2011 and 2011 compared to 2010 was due to sales volume growth in our Aerospace segment offset partially by reduced sales volume in our Test Systems segment.

Gross margins decreased in 2012 to 26.1% compared with 2011 at 26.5%. The slight decrease in margins were primarily the result increased engineering and development (“E&D”) expense and lower margins in our Test Systems segment due to lower sales levels.

Gross margins improved in 2011 to 26.5% compared with 2010 at 24.3%. The improved margins were a result of increased margins in the Aerospace segment due to leverage on increased sales volume offset somewhat by lower margins in our Test Systems segment and increased engineering and development ("E&D") expense.

Selling, general and administrative ("SG&A") expenses were $36.8 million or 13.8% of sales in 2012, compared with $27.2 million, or 11.9% of sales in 2011. The SG&A increase in 2012 compared with 2011 was due primarily to higher legal expenses and the inclusion of Ballard, acquired in November 2011 and the addition of Max-Viz, acquired in July of 2012. SG&A costs relating to the Ballard and Max-Viz SG&A added $6.1 million in 2012 compared to 2011 and legal costs increased $1.4 million in 2012 compared with 2011. Additionally, compensation costs increased in 2012 compared to 2011primarilly as a result of increased pension expense.

Selling, general and administrative ("SG&A") expenses were $27.2 million or 11.9% of sales in 2011, compared to $23.2 million, or 11.8% of sales in 2010. The SG&A increase in 2011 compared with 2010 was due primarily to higher legal costs of $1.4 million, increased bad debt expenses of $0.5 million and increased compensation costs as compared with the prior year.

In 2011, as a result of declining sales and low new orders, our forecast future cash flow for our Test Systems segment indicated that its carrying value exceeded its book value. As a result we recorded an impairment charge of $2.5 million to write down the carrying value of our Test Systems goodwill to zero and certain intangible assets to fair value. There were no impairment charges in 2012 and 2010.

Interest expense decreased in 2012 compared to 2011 as well as 2011 compared to 2010, due to a combination of lower rates and reduced debt levels when compared with the same period in the prior year.

The effective tax rate for 2012 is higher than 2011 primarily from the 2011 reduction of reserves for uncertain tax positions that did not occur in 2012. The effective tax rate for 2011 is lower than 2010 primarily from the reduction of reserves for uncertain tax positions relating to the tax years 2006 through 2010 and a higher domestic production activity deduction.

The effective income tax rate in 2012 was 30.7% compared to 25.6% for 2011. The 2011 tax rate reflects the favorable resolution of research and development tax credits relating to prior years and the reduction of reserves established in prior years related to those credits. The 2012 tax rate does not reflect the impact of any estimate of 2012 research and development tax credits, as the tax law extending these credits was not enacted until 2013. Had the law been enacted in 2012, we estimate we would have recognized approximately $0.7 million in tax benefits. We expect to recognize this benefit in the first quarter of 2013.

2013 Outlook

We expect consolidated sales in 2013 to be between $275 million and $310 million. Our consolidated backlog at December 31, 2012 was $114.5 million of which approximately $97.8 million is expected to ship in 2013. We expect our capital equipment spending in 2013 to be in the range of $5 million to $10 million and our engineering and development costs to be in the range of $42 million to $46 million.

SEGMENT RESULTS OF OPERATIONS AND OUTLOOK

Operating profit, as presented below, is sales less cost of sales and other operating expenses excluding interest expense, corporate expenses and other non-operating revenue and expenses. Cost of sales and operating expenses are directly attributable to the respective segment. Operating profit is reconciled to earnings before income taxes in Note 18 of Item 8, Financial Statements and Supplementary Data, of this report.

AEROSPACE

(in thousands, except percentages)	2012	2011	2010
Sales	$254,955	$213,874	$179,586
Operating Profit	$ 44,137	$ 40,400	$ 30,112
Operating Margin	17.3%	18.9%	16.8%

(in thousands)	2012	2011
Total Assets	$ 177,168	$136,930
Backlog	$ 110,915	$ 97,903

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Sales by Market (in thousands)	2012	2011	2010
Commercial Transport	$ 179,104	$ 143,337	$109,956
Military	36,511	35,394	34,867
Business Jet	29,379	25,983	22,548
FAA/Airport	9,961	9,160	12,215
	$254,955	$213,874	$179,586

Sales by Product Line (in thousands)	2012	2011	2010
Cabin Electronics	$ 141,458	$114,540	$ 86,511
Aircraft Lighting	69,597	69,653	65,009
Airframe Power	18,678	20,109	15,851
Avionics	15,261	412	—
Airfield Lighting	9,961	9,160	12,215
	$254,955	$213,874	$179,586

Aerospace sales for 2012 increased by $41.1 million, or 19.2%, to $255.0 million from $213.9 million in 2011. Sales growth was primarily driven by increased sales of cabin electronics to the commercial transport market as well as the impact of the acquisition of Ballard. Military sales were up slightly due primarily to the acquisition of Ballard being somewhat offset by lower volume of aircraft lighting and airframe power product military sales. Sales to the business jet market were higher due primarily to the acquisition of Max-Viz and increased volume of aircraft lighting products somewhat offset by decreased volume from our airframe power product line.

Aerospace sales for 2011 increased by $34.3 million, or 19.1%, to $213.9 million from $179.6 million in 2010. Sales growth was primarily driven by increased sales of cabin electronics' in-seat power systems and increased aircraft lighting products to the commercial transport market as volumes increased. Military sales were up slightly due primarily to increased volume of airframe power product sales relating to increased delivery of Tactical Tomahawk missile power control units, offset somewhat by a lower volume of aircraft lighting sales. Sales to the business jet market were higher due primarily to increased volume from our airframe power product line. The sales decrease to the FAA/Airport market was due to lower volume and fewer turn-key programs.

Operating margins for our Aerospace segment decreased in 2012 to 17.3% from 18.9% in 2011. Operating margins decreased as the leverage provided on the increased sales volume was more than offset by higher E&D ("engineering and development") expense and increased SG&A costs. E&D costs in 2012 increased compared with 2011 by $9.1 million to $41.9 million in 2012. SG&A costs increases were related to compensation, legal and warranty costs, compared with 2011.

Operating margins for our Aerospace segment increased in 2011 to 18.9% from 16.8% in 2010. The operating margins increased due to the leverage provided on the increased sales volume partially offset by higher E&D costs and increased SG&A costs. SG&A costs increases were related to legal, compensation costs and bad debt expense compared with 2010.

It is our intention to continue investing in capabilities and technologies as needed that allows us to execute our strategy to increase the ship set content and value we provide on aircraft in all markets that we serve. The rate of spending on these activities, however, will continue to be driven by market opportunities.

The backlog for our Aerospace segment at December 31, 2012 was $110.9 million compared with $97.9 million at December 31, 2011.

2013 Outlook for Aerospace – We expect 2013 Aerospace segment sales to be in the range of $265 million to $300 million.

TEST SYSTEMS

(in thousands, except percentages)	2012	2011	2010
Sales	$11,491	$14,289	$16,168
Operating Loss	$ (4,985)	$ (4,760)	$ (1,806)
Operating Margin	(43.4)%	(33.3)%	(11.2)%

(in thousands)	2012	2011
Total Assets	$18,121	$ 20,020
Backlog	$ 3,565	$ 8,409

Sales in 2012, 2011 and 2010 were all to the military market. The Test Systems segment continues to face headwinds as military spending has slowed and opportunities for large programs are fewer. With the lack of large programs we have continued to utilize our engineering capacity to continue to develop our next generation family of synthetic radio testers which we believe will provide a firm base line of repeating business for the future.

In 2011, an impairment charge relating to the write-down of goodwill and intangible assets of $2.5 million is included in our Test Systems operating loss of $4.8 million for the year. There were no impairment charges in 2012 or 2010.

The backlog for Test Systems was $3.6 million at December 31, 2012 compared with $8.4 million at December 31, 2011.

2013 Outlook for Test Systems – We expect 2013 Test Systems sales to be approximately $10 million.

OFF BALANCE SHEET ARRANGEMENTS

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

CONTRACTUAL OBLIGATIONS

The following table represents contractual obligations as of December 31, 2012:

	Payments Due by Period				
(In thousands)	Total	2013	2014-2015	2016-2017	After 2017
Purchase Obligations	$ 49,255	$ 47,170	$ 2,085	$ —	$ —
Long-term Debt	29,983	9,268	7,525	9,235	3,955
Supplemental Retirement Plan and Post Retirement Obligations	15,635	392	782	782	13,679
Operating Leases	4,314	1,814	1,849	527	124
Interest on Long-term Debt	1,759	578	524	311	346
Other Long-term Liabilities	1,957	457	1,055	370	75
Total Contractual Obligations	$102,903	$59,679	$13,820	$11,225	$18,179

Notes to Contractual Obligations Table

Purchase Obligations — Purchase obligations are comprised of the Company's commitments for goods and services in the normal course of business.

Long-Term Debt — See item 8, Financial Statements and Supplementary Data, Note 6, Long-Term Debt and Note Payable in this report.

Operating Leases — Operating lease obligations are primarily related to facility leases for our AES, DME, Ballard, Max-Viz and our Canadian operations.

LIQUIDITY AND CAPITAL RESOURCES

(in thousands)	2012	2011	2010
Net cash provided (used) by:			
Operating Activities	$ 24,178	$ 27,908	$ 16,503
Investing Activities	(27,379)	(38,132)	(3,614)
Financing Activities	(341)	(1,565)	(5,131)

Our cash flow from operations and available borrowing capacity provide us with the financial resources needed to run our operations and reinvest in our business.

Operating Activities

Cash flow provided by operating activities was $24.2 million in 2012 compared with $27.9 million in 2011. The decrease of $3.7 million in 2012 was mainly a result of increased cash used for net working capital components due primarily to timing of inventory purchases and the collection of accounts receivable and customer advanced payments.

Cash flow provided by operating activities was $27.9 million in 2011 compared with $16.5 million in 2010. The increase of $11.4 million was mainly a result of higher net income and higher non-cash expenses including the $2.5 million impairment loss, offset by increased cash used for working capital components in 2011.

Our cash flows from operations are primarily dependent on our net income adjusted for non-cash expenses and the timing of collections of receivables, level of inventory and payments to suppliers. Sales are influenced significantly by the build rates of new aircraft, which are subject to general economic conditions, airline passenger travel and spending for government and military programs. Over time, sales will also be impacted by our success in executing our strategy to increase ship set content and obtain production orders for programs currently in the development stage. A significant change in new aircraft build rates could be expected to impact our profits and cash flow. A significant change in government procurement and funding and the overall health of the worldwide airline industry could be expected to impact our profits and cash flow as well.

Investing Activities

Cash used for investing activities in 2012 was approximately $27.4 million including the acquisition of Max-Viz for $10.7 million and $16.7 million for fixed assets including the completion of the building in Kirkland, WA that we acquired in 2011. AES relocated to this facility in 2012. In 2012 we spent $12.0 million to complete the Kirkland building and $4.7 million on other capital equipment. Cash used for investing activities in 2011 was approximately $38.1 million including $23.9 million for the Ballard acquisition, $10.1 million for real estate and $4.1 million for capital equipment. Cash used for investing activities in 2010 was approximately $3.6 million, used primarily for capital equipment.

Excluding expenditures for real estate which we don't expect to be recurring, cash invested for capital expenditures for the last three years ranged between $4.7 million and $3.6 million. Our expectation for 2013 is that we will invest between $5.0 million and $10.0 million. Future capital requirements depend on numerous factors, including expansion of existing product lines and introduction of new products. Management believes that our cash flow from operations and current borrowing arrangements will provide for these necessary capital expenditures.

Financing Activities

Our ability to maintain sufficient liquidity is highly dependent upon achieving expected operating results. Failure to achieve expected operating results could have a material adverse effect on our liquidity, our ability to obtain financing and our operations in the future. Our obligations under our Credit Agreement are jointly and severally guaranteed by Astronics Advanced Electronic Systems Corp., Luminescent Systems, Inc., DME Corporation, Max-Viz, Inc. and Ballard Technology, Inc., 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.

In 2011, the Company extended and modified its existing credit facility by entering into a Second Amended and Restated Credit Agreement (the "Credit Agreement"), dated as of August 31, 2011, with HSBC Bank USA, National Association, Bank of America, N.A. and Manufacturers and Traders Trust Company. The Credit Agreement provides for the continuation of the Company's revolving credit line in the amount of $35 million, less outstanding letters of credit, for an additional five years through August 31, 2016 and for the continuation of the Company's existing $13 million term loan maturing January 30, 2014, with interest on both loans at a rate of LIBOR plus between 1.50% and 2.50% based on the Company's Leverage Ratio.

The Credit Agreement contains various financial covenants. The covenant for minimum fixed charge coverage, defined as the ratio of the sum of net income, interest expense, provision for taxes based on income, total depreciation expense, total amortization expense, other non-cash items reducing net income minus other non-cash items increasing net income minus capital expenditures, minus cash taxes paid and dividends paid to interest expense plus scheduled principal payments on long-term debt calculated on a rolling four-quarter basis to be not less than 1.25 to 1 for each fiscal quarter ending on or after September 30, 2011. The Company's minimum fixed charge coverage was 2.37 to 1 at December 31, 2012. The covenant for maximum leverage, defined as the ratio of the sum of net income, interest expense, provision for taxes based on income, total depreciation expense, total amortization expense, other non-cash items reducing net income minus other non-cash items increasing net income to funded debt calculated on a rolling four-quarter basis is not to exceed 3.25 to 1 for each fiscal quarter ending on or after September 30, 2011. The Company's maximum leverage was 0.71 to 1 at December 31, 2012. The covenant for maximum capital expenditures is $15 million annually, excluding $18.3 million relating to the acquisition and completion of the Ft. Lauderdale and Kirkland properties. The Company's capital expenditures in 2012, excluding the completion to date of the Kirkland property, was $4.7 million.

There was $7.0 million outstanding on our revolving credit facility at December 31, 2012. For working capital requirements, the Company had available on its credit facility $17.9 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 $10.1 million at December 31, 2012 In addition, the Company is required to pay a commitment fee quarterly at a rate of between 0.25% and 0.35% per annum on the unused portion of the total revolving credit commitment, also based on the Company's Leverage Ratio.

In the event of voluntary or involuntary bankruptcy of the Company or any subsidiary, all unpaid principal and other amounts owing under the Credit Agreement automatically become due and payable. Other events of default, such as failure to make payments as they become due and breach of financial and other covenants, give the Agent the option to declare all such amounts immediately due and payable. At December 31, 2012, we were in compliance with all of the covenants pursuant to the credit facility.

The Company's cash needs for working capital, debt service and capital equipment during 2013 is expected to be met by cash flows from operations and cash balances and if necessary, utilization of the revolving credit facility.

DIVIDENDS

Management believes that it should retain the capital generated from operating activities for investment in advancing technologies, acquisitions and debt retirement. Accordingly, there are no plans to institute a cash dividend program.

BACKLOG

At December 31, 2012, the Company's backlog was approximately $114.5 million compared with approximately $106.3 million at December 31, 2011.

RELATED-PARTY TRANSACTIONS

None.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1 of the Consolidated Financial Statements at Item 8 of this report.

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

The Company has limited exposure to fluctuation in Canadian currency exchange rates to the U.S. dollar. Nearly all of the Company's consolidated sales are transacted in U.S. dollars. Net assets held in or measured in Canadian dollars amounted to $6.6 million at December 31, 2012. Annual disbursements transacted in Canadian dollars were approximately $8.7 million in 2012. A 10% change in the value of the U.S. dollar versus the Canadian dollar would impact net income by approximately $0.6 million.

Risk due to fluctuation in interest rates is a function of the Company's floating rate debt obligations, which total approximately $23.1 million at December 31, 2012. To offset this exposure, the Company entered into two interest rate swaps to fix the interest rate on a portion of the underlying debt for a set period of time.

a) An interest rate swap with a notional amount of approximately $1.9 million at December 31, 2012, entered into in 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 $5.0 million at December 31, 2012, entered into on March 19, 2009 related to the Company's term note issued January 30, 2009. The swap effectively fixes the rate at 2.115% plus a spread based on the Company's leverage ratio 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.

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Astronics Corporation.

We have audited the accompanying consolidated balance sheets of Astronics Corporation as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Astronics Corporation at December 31, 2012 and 2011 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Astronics Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Buffalo, New York
February 22, 2013

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2012 based upon the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting is effective as of December 31, 2012.

We completed an acquisition in 2012, which was excluded from our management's report on internal control over financial reporting as of December 31, 2012. On July 30, 2012, we acquired Max-Viz, Inc. This acquisition was included in our 2012 consolidated financial statements and constituted $11.0 million and $10.0 million of total and net assets, respectively, as of December 31, 2012 and $ 2.7 million and $0.8 million of sales and net loss, respectively, for the year then ended.

Ernst & Young LLP, independent registered public accounting firm, has audited our consolidated financial statements included in this Annual Report on Form 10-K and, as part of their audit, has issued their report, included herein, on the effectiveness of our internal control over financial reporting.

By: /s/ Peter J. Gundermann — February 22, 2013

Peter J. Gundermann
President & Chief Executive Officer
(Principal Executive Officer)

/s/ David C. Burney — February 22, 2013

David C. Burney
Vice President-Finance, Chief Financial Officer & Treasurer
(Principal Financial and Accounting Officer)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Astronics Corporation.

We have audited Astronics Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Astronics Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Controls over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Max-Viz, Inc., which is included in the December 31, 2012 consolidated financial statements of Astronics Corporation and constituted $11.0 million and $10.0 million of total and net assets, respectively, as of December 31, 2012 and $2.7 million and $0.8 million of net sales and net loss, respectively, for the year then ended. Our audit of internal control over financial reporting of Astronics Corporation also did not include an evaluation of the internal control over financial reporting of Max-Viz, Inc.

In our opinion, Astronics Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Astronics Corporation as of December 31, 2012 and 2011 and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2012 of Astronics Corporation and our report dated February 22, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Buffalo, New York
February 22, 2013

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ASTRONICS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)	Year Ended December 31, 2012	2011	2010
Sales	$266,446	$ 228,163	$195,754
Cost of Products Sold	197,004	167,667	148,187
Gross Profit	69,442	60,496	47,567
Impairment Loss	—	2,500	—
Selling, General and Administrative Expenses	36,817	27,175	23,187
Income from Operations	32,625	30,821	24,380
Interest Expense, Net of Interest Income	1,042	1,806	2,551
Income Before Income Taxes	31,583	29,015	21,829
Provision for Income Taxes	9,709	7,424	6,881
Net Income	$ 21,874	$ 21,591	$ 14,948
Basic Earnings Per Share	$ 1.53	$ 1.55	$ 1.09
Diluted Earnings Per Share	$ 1.45	$ 1.45	$ 1.05

See notes to consolidated financial statements.

ASTRONICS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	Year Ended December 31, 2012	2011	2010
Net Income	$ 21,874	$21,591	$14,948
Other Comprehensive Income:			
Foreign Currency Translation Adjustments	183	(90)	217
Mark to Market Adjustments for Derivatives – Net of Tax	114	82	(96)
Retirement Liability Adjustment – Net of Tax	(4,194)	(876)	35
Other Comprehensive (Loss) Income	(3,897)	(884)	156
Comprehensive Income	$17,977	$ 20,707	$15,104

See notes to consolidated financial statements.

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ASTRONICS CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)	December 31, 2012	2011
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 7,380	$ 10,919
Accounts Receivable, Net of Allowance for Doubtful Accounts	45,473	35,669
Inventories	48,624	40,094
Prepaid Expenses	1,566	2,421
Deferred Income Taxes	4,967	3,207
Total Current Assets	108,010	92,310
Property, Plant and Equipment, at Cost:		
Land	5,424	2,819
Buildings and Improvements	37,045	22,760
Machinery and Equipment	43,342	37,289
Construction in Progress	1,456	7,702
	87,267	70,570
Less Accumulated Depreciation	33,730	29,448
Net Property, Plant and Equipment	53,537	41,122
Deferred Income Taxes	9,019	7,039
Intangible Assets, Net of Accumulated Amortization	16,523	14,000
Other Assets	2,977	3,249
Goodwill	21,923	17,185
Total Assets	$ 211,989	$174,905
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current Maturities of Long-term Debt	$ 9,268	$ 5,290
Accounts Payable	10,592	10,559
Accrued Payroll and Employee Benefits	10,228	9,261
Customer Advanced Payments and Deferred Revenue	12,286	5,796
Billings in Excess of Recoverable Costs and Accrued Profits on Uncompleted Contracts	188	264
Other Accrued Expenses	5,406	2,307
Total Current Liabilities	47,968	33,477
Long-term Debt	20,715	27,973
Supplemental Retirement Plan and Other Liabilities for Pension Benefits	15,243	7,765
Other Liabilities	2,929	2,827
Total Liabilities	86,855	72,042
Shareholders' Equity		
Common Stock, $.01 par value, Authorized 20,000,000 Shares 10,865,212 Shares Issued and Outstanding at December 31, 2012 9,680,825 Shares Issued and 9,502,279 Shares Outstanding at December 31, 2011	109	97
Convertible Class B Stock, $.01 par value, Authorized 5,000,000 Shares 3,595,732 Shares Issued and Outstanding at December 31, 2012 5,079,268 Shares Issued and 4,729,473 Shares Outstanding at December 31, 2011	36	51
Additional Paid-in Capital	22,883	19,260
Accumulated Other Comprehensive Loss	(4,783)	(886)
Retained Earnings	106, 889	86,622
	125,134	105,144
Less Treasury Stock: 0 Shares in 2012 and 528,341 Shares in 2011	—	2,281
Total Shareholders' Equity	125,134	102,863
Total Liabilities and Shareholders' Equity	$ 211,989	$174,905

See notes to consolidated financial statements.

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ASTRONICS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Year Ended December 31, 2012	2011	2010
Cash Flows from Operating Activities			
Net Income	$ 21,874	$ 21,591	$ 14,948
Adjustments to Reconcile Net Income to Cash Provided By Operating Activities:			
Impairment Loss	—	2,500	—
Depreciation and Amortization	6,905	4,943	4,881
Provision for Non-Cash Losses on Inventory and Receivables	1,632	802	1,134
Stock Compensation Expense	1,351	1,061	884
Deferred Tax Expense (Benefit)	(1,544)	423	1,385
Other	154	(220)	67
Cash Flows from Changes in Operating Assets and Liabilities:			
Accounts Receivable	(8,097)	(3,042)	(290)
Inventories	(9,330)	(883)	(6,891)
Prepaid Expenses	335	291	(650)
Accounts Payable	(537)	(349)	3,156
Accrued Expenses	3,374	638	318
Customer Advanced Payments and Deferred Revenue	6,490	1,943	(1,099)
Billings in Excess of Recoverable Costs and Accrued Profits on Uncompleted Contracts	(76)	(1,255)	(660)
Income Taxes Payable	669	(404)	(347)
Supplemental Retirement Plan and Other Liabilities	978	(131)	(333)
Cash Provided By Operating Activities	24,178	27,908	16,503
Cash Flows from Investing Activities			
Acquisition of Business	(10,659)	(23,926)	—
Capital Expenditures	(16,720)	(14,281)	(3,568)
Other	—	75	(46)
Cash Used For Investing Activities	(27,379)	(38,132)	(3,614)
Cash Flows from Financing Activities			
Principal Payments on Long-term Debt	(10,307)	(5,302)	(6,245)
Proceeds from Note Payable	10,000	—	—
Payments on Note Payable	(3,000)	—	—
Debt Acquisition Costs	—	(143)	—
Proceeds from Exercise of Stock Options	1,714	2,266	1,092
Income Tax Benefit from Exercise of Stock Options	1,252	1,614	22
Cash Used For Financing Activities	(341)	(1,565)	(5,131)
Effect of Exchange Rates on Cash	3	(1)	2
(Decrease) Increase in Cash and Cash Equivalents	(3,539)	(11,790)	7,760
Cash and Cash Equivalents at Beginning of Year	10,919	22,709	14,949
Cash and Cash Equivalents at End of Year	$ 7,380	$ 10,919	$22,709
Disclosure of Cash Payments for:			
Interest	$ 1,068	$ 1,900	$ 2,604
Income Taxes, net	$ 9,330	$ 5,785	$ 5,812

See notes to consolidated financial statements.

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ASTRONICS CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

($ In thousands)	Year Ended December 31, 2012	2011	2010
Common Stock			
Beginning of Year	$ 97	$ 89	$ 87
Exercise of Stock Options and Stock Compensation Expense – Net of Taxes	2	3	1
Retirement of Treasury Stock	(2)	—	—
Class B Stock Converted to Common Stock	12	5	1
End of Year	$ 109	$ 97	$ 89
Convertible Class B Stock			
Beginning of Year	$ 51	$ 55	$ 56
Exercise of Stock Options and Stock Compensation Expense – Net of Taxes	—	1	—
Retirement of Treasury Stock	(3)	—	—
Class B Stock Converted to Common Stock	(12)	(5)	(1)
End of Year	$ 36	$ 51	$ 55
Treasury Stock			
Beginning of Year	$ (2,281)	$ (2,281)	$ (2,281)
Retirement of Treasury Shares	2,281	—	—
End of Year	$ —	$ (2,281)	$ (2,281)
Additional Paid in Capital			
Beginning of Year	$ 19,260	$ 14,307	$ 12,310
Retirement of Treasury Stock	(693)	—	—
Exercise of Stock Options and Stock Compensation Expense—Net of Taxes	4,316	4,953	1,997
End of Year	$ 22,883	$ 19,260	$ 14,307
Accumulated Comprehensive Loss			
Beginning of Year	$ (886)	$ (2)	$ (158)
Foreign Currency Translation Adjustments	183	(90)	217
Mark to Market Adjustments for Derivatives – Net of Taxes	114	82	(96)
Retirement Liability Adjustment – Net of Taxes	(4,194)	(876)	35
End of Year	$ (4,783)	$ (886)	$ (2)
Retained Earnings			
Beginning of Year	$ 86,622	$ 65,047	$50,099
Net income	21,874	21,591	14,948
Retirement of Treasury Stock	(1,583)	—	—
Cash in Lieu of Fractional Shares from Stock Distribution	(24)	(16)	—
End of Year	$106,889	$ 86,622	$65,047
Total Shareholders' Equity	$ 125,134	$102,863	$77,215

Shares (in thousands)	2012	2011	2010
Common Stock			
Beginning of Year	9,681	8,973	8,684
Exercise of Stock Options	194	232	150
Retirement of Treasury Shares	(179)	—	—
Class B Stock Converted to Common Stock	1,169	476	139
End of Year	10,865	9,681	8,973
Convertible Class B Stock			
Beginning of Year	5,079	5,482	5,582
Exercise of Stock Options	35	73	39
Retirement of Treasury Shares	(349)	—	—
Class B Stock Converted to Common Stock	(1,169)	(476)	(139)
End of Year	3,596	5,079	5,482
Treasury Stock			
Beginning of Year	528	528	528
Retirement of Treasury Shares	(528)	—	—
End of Year	—	528	528

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND PRACTICES

Description of the Business

Astronics is a leading supplier of advanced, high-performance lighting systems, electrical power generation and distribution systems, avionics databus solutions and aircraft safety 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 and military markets as well as tier one and tier two OEM suppliers, aircraft owners and operators and the FAA. The Company provides its products through its wholly owned subsidiaries Luminescent Systems, Inc. ("LSI"), Luminescent Systems Canada, Inc.("LSI Canada"), DME Corporation ("DME"), Ballard Technology, Inc. ("Ballard"), Max-Viz, Inc. ("Max-Viz") and Astronics Advanced Electronic Systems Corp. ("AES"). On July 30, 2012 Astronics acquired by merger, 100% of the stock of Max-Viz. Max-Viz is a manufacturer of industry-leading enhanced vision systems for defense and commercial aerospace applications for the purpose of improving situational awareness. Max-Viz is part of our Aerospace segment.

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, 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 acquisition method and, accordingly, the operating results for the acquired companies are included in the consolidated statements of operations from the respective dates of acquisition.

Revenue and Expense Recognition

In the Aerospace segment, revenue is recognized primarily 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 of approximately 37%, 70% and 95% for the years ended December 31, 2012, 2011 and 2010 respectively, was 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. Revenue not recognized using the percentage-of-completion method is recognized at the time of shipment of goods and transfer of title.

Cost of Products Sold, Engineering and Development and Selling, General and Administrative Expenses

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. 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 products sold. Research and development, design and related engineering amounted to $44.9 million in 2012, $36.1 million in 2011 and $28.3 million in 2010. Selling, general and administrative expenses include costs primarily related to our sales, marketing and administrative departments.

Shipping and Handling

Shipping and handling costs are expensed as incurred and are included in costs of products sold.

Stock Distribution

On October 15, 2012, the Company announced a three-for-twenty distribution of Class B Stock to holders of both Common and Class B Stock. Stockholders received three shares of Class B Stock for every twenty shares of Common and Class B Stock held on the record date of October 29, 2012. Fractional shares were paid in cash. All share quantities, share prices and per share data reported throughout this report have been adjusted to reflect the impact of this distribution. Actual Class B shares outstanding did not exceed the amount authorized at any time, due to the conversion of Class B shares to common stock prior to the stock distribution. However for presentation purposes the number of Class B shares outstanding has been restated to present the distribution as of the beginning of the first period presented.

Equity-Based Compensation

The Company accounts for its stock options following Accounting Standards Codification ("ASC") Topic 718 *Compensation – Stock Compensation* ("ASC Topic 718"). This Topic requires all equity-based payments to employees, including grants of employee stock options, to be recognized in the statement of earnings based on the grant date fair value of the award. For awards with graded vesting, the Company uses a straight-line method of attributing the value of stock-based compensation expense, subject to minimum levels of expense, based on vesting.

Under ASC Topic 718, stock compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Vesting requirements vary for directors, officers and key employees. In general, options granted to outside directors vest six months from the date of grant and options granted to officers and key employees vest with graded vesting over a five-year period, 20% each year, from the date of grant.

The tax benefit from share based payment arrangements were approximately \$1.2 million in 2012, \$1.6 million in 2011 and insignificant in 2010. These were classified as cash flows from financing activities.

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

The Company will record a valuation allowance to account for potentially uncollectible accounts receivable. The allowance is determined based on Management's knowledge of the business, specific customers, review of the receivables' aging and a specific identification of accounts where collection is at risk. Account balances are charged against the allowance after all means of collections have been exhausted and recovery is considered remote. The Company typically does not require collateral.

Inventories

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

Property, Plant and Equipment

Depreciation of property, plant and equipment is computed using the straight-line method for financial reporting purposes and using accelerated methods for income tax purposes. Estimated useful lives of the assets are as follows: buildings, 25-40 years; machinery and equipment, 4-10 years. Leasehold improvements are amortized over the shorter of the terms of the lease or the estimated useful lives of the assets.

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

Depreciation expense was approximately \$4.4 million, \$4.0 million and \$3.8 million in 2012, 2011 and 2010, respectively.

Long-Lived Assets

Long-lived assets to be held and used are initially recorded at cost. The carrying value of these assets is evaluated for recoverability whenever adverse effects or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are recognized if future undiscounted cash flows from operations are not expected to be sufficient to recover long-lived assets. The carrying amounts are then reduced to fair value, which is typically determined by using a discounted cash flow model.

Goodwill

The Company tests goodwill at the reporting unit level on an annual basis or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company has six reporting units, however only four reporting units have goodwill and are subject to the goodwill impairment test at November 1, 2012.

We may elect to perform a qualitative assessment that considers economic, industry and company-specific factors for all or selected reporting units. If, after completing the assessment, it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, we proceed to a quantitative test. We may also elect to perform a quantitative test instead of a qualitative test for any or all of our reporting units.

Quantitative testing requires a comparison of the fair value of each reporting unit to its carrying value. We use the discounted cash flow method to estimate the fair value of our reporting units. The discounted cash flow method incorporates various assumptions, the most significant being projected revenue growth rates, operating margins and cash flows, the terminal growth rate and the weighted average cost of capital. If the carrying value of the reporting unit exceeds its fair value, goodwill is considered impaired and any loss must be measured. To determine the amount of the impairment loss, the implied fair value of goodwill is determined by assigning a fair value to all of the reporting units assets and liabilities, including any unrecognized intangible assets as if the reporting unit had been acquired in a business combination at fair value. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss would be recognized in an amount equal to that excess.

See Note 5 for further information regarding the goodwill impairment charges in 2011 relating to our Test Systems reporting unit. There were no impairment charges in 2012 and 2010.

Intangible Assets

Acquired intangibles are generally valued based upon future economic benefits such as earnings and cash flows. Acquired identifiable intangible assets are recorded at cost and are amortized over their estimated useful lives. Acquired intangible assets with an indefinite life are not amortized, but are reviewed for impairment at least annually or more frequently whenever events or changes in circumstances indicate that the carrying amount of those assets are below its estimated fair value.

Impairment is tested under ASC 350, *Intangibles—Goodwill and Other,* as amended by Accounting Standards Update (“ASU”) 2012-02, by first performing a qualitative analysis in a manner similar to the testing methodology of goodwill discussed previously. The qualitative factors applied under this new provision indicated no impairment to the Company’s indefinite lived intangible assets in 2012. See Note 4 for further information regarding the impairment charges in 2011 relating to intangible assets in our Test Systems reporting unit.

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. The Company does not hold or issue financial instruments for trading purposes. Due to their short-term nature, the carrying values of cash and equivalents, accounts receivable, accounts payable, and notes payable approximate fair value. The carrying value of the Company’s variable rate long-term debt instruments also approximates fair value due to the variable rate feature of these instruments. 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 Note 14—Fair Value.

Derivatives

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. The Company records all derivatives on the balance sheet at fair value. The related gains or losses, to the extent the derivatives are effective as a hedge, are deferred in shareholders’ equity as a component of Accumulated Other Comprehensive Income (Loss) (AOCI) and reclassified into earnings at the time interest expense is recognized on the associated long-term debt. Any ineffectiveness is recorded in the Consolidated Statements of Operations.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses during the reporting periods in the financial statements and accompanying notes. Actual results could differ from those estimates.

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 operations was insignificant for 2012, 2011 and 2010.

Dividends

The Company has not paid any cash dividends in the three-year period ended December 31, 2012. It has no plans to pay cash dividends as it plans to retain all cash from operations as a source of capital to finance growth in the business.

Loss Contingencies

Loss contingencies may from time to time arise from situations such as claims and other legal actions. Loss contingencies are recorded as liabilities when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable. Disclosure is required when there is a reasonable possibility that the ultimate loss will exceed the recorded provision. Contingent liabilities are often resolved over long time periods. In recording liabilities for probable losses, management is required to make estimates and judgments regarding the amount or range of the probable loss. Management continually assesses the adequacy of estimated loss contingencies and, if necessary, adjusts the amounts recorded as better information becomes known.

Acquisitions

The Company accounts for its acquisitions under ASC Topic 805, *Business Combinations and Reorganizations* ("ASC Topic 805"). ASC Topic 805 provides guidance on how the acquirer recognizes and measures the consideration transferred, identifiable assets acquired, liabilities assumed, non-controlling interests, and goodwill acquired in a business combination. ASC Topic 805 also expands required disclosures surrounding the nature and financial effects of business combinations. Acquisition costs are expensed as incurred. Acquisition expenses in 2012, 2011 and 2010 were insignificant. See Note 19 regarding the acquisition of Max-Viz on July 30, 2012.

Newly Adopted and Recent Accounting Pronouncements

On January 1, 2012, the Company adopted the new provisions of ASU No. 2011-05, *Comprehensive Income (Topic 220)*. The amendments in this Update require an entity to report all non-owner changes in stockholders' equity either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The ASU prohibits the presentation of the components of comprehensive income in the statement of stockholder's equity. The amendments are effective for annual and interim periods beginning after December 15, 2011 and should be applied retrospectively. In December 2011, the Financial Accounting Standards Board issued ASU No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.* The amendments in this Update defer the effective date pertaining only to reclassification adjustments out of accumulated other comprehensive income in Accounting Standards Update 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, until the Financial Accounting Standards Board is able to reconsider those presentation requirements. Other than requiring an additional statement and disclosures, the impact on the Company's financial statements was not significant.

On January 1, 2012, the Company adopted the new provisions of ASU No. 2011-04, *Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The amendments provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. The amendments also change certain fair value measurement principles and enhance the disclosure requirements, particularly for Level 3 fair value measurements. The amendments are effective during interim and annual periods beginning after December 15, 2011 and should be applied prospectively. Other than requiring additional disclosures, the adoption of this amendment did not have a material impact on the Company's financial statements.

On January 1, 2012, the Company adopted the new provisions of ASU No. 2011-08, *Intangibles—Goodwill and Other (Topic 350).* The amendments in this Update will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this pronouncement had no impact on the Company's financial statements.

In July 2012, the FASB issued ASU No. 2012-02, *Intangibles-Goodwill and Other (Topic 350)*: Testing Indefinite-Lived Intangible Assets for Impairment." The amendment provides an option to make a qualitative assessment about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it is necessary to perform a quantitative impairment test. The amendment also enhances the consistency of impairment testing guidance by making impairment testing requirements for indefinite-lived intangible assets equivalent to that of other long-lived assets. The amendment is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company adopted this amendment in the fourth quarter of 2012 as early adoption is permitted. The adoption of this standard is not expected to have a material impact on our financial statements.

The Company's management has reviewed recent accounting pronouncements issued through the date of the issuance of financial statements. In management's opinion, none of these new pronouncements apply or will have a material effect on the Company's financial statements

NOTE 2 — ACCOUNTS RECEIVABLE

Accounts receivable at December 31 consists of:

(In thousands)	2012	2011
Trade Accounts Receivable	$44,196	$ 33,178
Long-term Contract Receivables:		
Amounts Billed	907	1,068
Unbilled Recoverable Costs and Accrued Profits	1,020	2,068
Total Long-term Contract Receivables	1,927	3,136
Total Receivables	46,123	36,314
Less Allowance for Doubtful Accounts	(650)	(645)
	$ 45,473	$35,669

NOTE 3 — INVENTORIES

Inventories at December 31 are as follows:

(In thousands)		
Finished Goods	$10,864	$ 7,420
Work in Progress	8,960	8,477
Raw Material	28,800	24,197
	$48,624	$ 40,094

At December 31, 2012, the Company's reserve for inventory valuation was $12.0 million, or 19.8% of gross inventory. At December 31, 2011, the Company's reserve for inventory valuation was $10.6 million, or 20.9% of gross inventory.

NOTE 4 — INTANGIBLE ASSETS

The following table summarizes acquired intangible assets as follows:

	December 31, 2012			December 31, 2011	
(In thousands)	Weighted Average Life	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	12 Years	$ 1,271	$ 784	$ 1,271	$ 685
Trade Names	10 Years	2,453	162	1,853	7
Completed and Unpatented Technology	11 Years	6,377	1,749	5,277	1,242
Backlog and Customer Relationships	12 Years	13,085	3,968	9,985	2,452
Total Intangible Assets	11 Years	$23,186	$ 6,663	$18,386	$ 4,386

Amortization is computed on the straight-line method for financial reporting purposes. Amortization expense for intangibles was $2.3 million, $0.5 million and $0.6 million for 2012, 2011 and 2010, respectively. The Company has a $0.5 million identifiable asset with an indefinite life included above in Trade Names at December 31, 2012.

Based upon acquired intangible assets at December 31, 2012, amortization expense for each of the next five years is estimated to be:

(In thousands)	
2013	$ 1,727
2014	1,518
2015	1,474
2016	1,470
2017	1,462

For the Company's indefinite-lived intangible asset, the impairment test consists of comparing the fair value, determined using the relief from royalty method, with its carrying amount. An impairment loss would be recognized for the carrying amount in excess of its fair value. For the years ended December 31, 2012 and 2010, the Company recorded no impairment charge to any of its indefinite-lived intangible assets. For the year ended December 31, 2011, the Company recorded a $0.1 million impairment charge related to Trade Names assigned to the Company's Test Systems reporting unit, as of the annual impairment test date of November 1, 2011. Impairment losses are reported on the Impairment Loss line of the Consolidated Statements of Operations.

NOTE 5 — GOODWILL

The following table summarizes the changes in the carrying amount of goodwill for 2012 and 2011:

(In thousands)	2012	2011
Balance at Beginning of the Year	$ 17,185	$ 7,610
Acquisition	4,665	12,023
Impairment Charge	—	(2,400)
Foreign Currency Translations	73	(48)
Balance at End of the Year	$ 21,923	$ 17,185
Goodwill	$ 38,465	$ 33,727
Accumulated Impairment Losses	(16,542)	(16,542)
Goodwill—Net	$ 21,923	$ 17,185

As discussed in Note 1, goodwill is not amortized but is periodically tested for impairment. For the four reporting units with goodwill in 2012, the Company performed a qualitative assessment of the goodwill's carrying value. The assessment indicated no impairment to the carrying value of goodwill in any of the Company's reporting units and no impairment charge recognized.

During fiscal 2011, the weak economic conditions resulted in a decline in business and a reduction in forecasted cash flows in the Test Systems reporting unit. Based on this evaluation, we determined that the fair value of the Test Systems reporting unit was less than its carrying value. None of the reporting units in the Aerospace Segment indicated impairment. Following this assessment, ASC Topic 350 required us to perform a second step in order to determine the implied fair value of goodwill in the Test Systems reporting unit and to compare it to its carrying value. The activities in the second step included hypothetically valuing all of the tangible and intangible assets of the impaired reporting unit using market participant assumptions, as if the reporting unit had been acquired in a business combination as of the date of the valuation.

As a result of this assessment in 2011, the Company recorded an impairment charge of approximately $2.4 million in the December 31, 2011 Consolidated Statements of Operations. The impairment loss is reported on the Impairment Loss line of the Consolidated Statements of Operations. None of this loss related to goodwill is immediately deductible for tax purposes. The majority of goodwill is amortized over 15 years for tax purposes. At December 31, 2012 and 2011, the Test Systems segment has no recorded goodwill, as a result of impairment charges recorded in 2011 and 2009.

There was no impairment to the carrying value of goodwill in 2012 or 2010.

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NOTE 6 — LONG-TERM DEBT AND NOTE PAYABLE

Long-term debt consists of the following:

(In thousands)	2012	2011
Revolving Credit Line, payable August 31, 2016. Interest is at LIBOR plus between 1.50% and 2.50% (1.7% at December 31, 2012).	$ 7,000	$ —
Senior Term Note, payable $2.0 million quarterly in 2013 with a balloon payment of $5.0 million in January 2014. Interest is at LIBOR plus between 1.50% and 2.50% (1.7% at December 31, 2012).	13,000	17,000
Subordinated promissory note with interest fixed at 6.0%.	—	5,000
Series 2007 Industrial Revenue Bonds issued through the Erie County, New York Industrial Development Agency payable $340 annually through 2027 with interest reset weekly (1.9% at December 31, 2012).	5,060	5,400
Series 1999 Industrial Revenue Bonds issued through the Erie County, New York Industrial Development Agency payable $350 annually through 2019 with interest reset weekly (1.9% at December 31, 2012).	1,895	2,245
Series 1998 Industrial Revenue Bonds issued through the Business Finance Authority of the State of New Hampshire payable $400 annually through 2018 with interest reset weekly (1.9% at December 31, 2012).	2,450	2,850
Note Payable at Canadian Prime payable $14 monthly through 2016 plus interest (3.0% at December 31, 2012).	566	733
Capital Lease Obligations and Other	12	35
	29,983	33,263
Less Current Maturities	9,268	5,290
	$20,715	$27,973

Principal maturities of long-term debt are approximately:

(In thousands)	
2013	$ 9,268
2014	6,262
2015	1,263
2016	8,145
2017	1,090
Thereafter	3,955
	$29,983

The Company extended and modified its existing credit facility by entering into a Second Amended and Restated Credit Agreement (the "Credit Agreement"), effective August 31, 2011. The Credit Agreement provides for the continuation of the Company's revolving credit line in the amount of $35 million, less outstanding letters of credit, for an additional five years through August 31, 2016 and for the continuation of the Company's existing $13 million senior term note maturing January 30, 2014, with interest on both loans at a rate of LIBOR plus between 1.50% and 2.50% based on the Company's Leverage Ratio, as defined in the Credit Agreement. The credit facility allocates up to $20 million of the $35 million revolving credit line for the issuance of letters of credit, including certain existing letters of credit. The credit facility is secured by substantially all of the Company's assets.

The Credit Agreement contains various financial covenants. The covenant for minimum fixed charge coverage, defined as the ratio of the sum of net income, interest expense, provision for taxes based on income, total depreciation expense, total amortization expense, other non-cash items reducing net income minus other non-cash items increasing net income minus capital expenditures, minus cash taxes paid and dividends paid to interest expense plus scheduled principal payments on long-term debt calculated on a rolling four-quarter basis to be not less than 1.25 to 1 for each fiscal quarter ending on or after September 30, 2011. The Company's minimum fixed charge coverage was 2.37 to 1 at December 31, 2012. The covenant for maximum leverage, defined as the ratio of the sum of net income, interest expense, provision for taxes based on income, total depreciation expense, total amortization expense, other non-cash items reducing net income minus other non-cash items increasing net income to funded debt calculated on a rolling four-quarter basis is not to exceed 3.25 to 1 for each fiscal quarter ending on or after September 30, 2011. The Company's maximum leverage was 0.71 to 1 at December 31, 2012. The covenant for maximum capital expenditures is $15 million annually, excluding $18.3 million relating to the acquisition and completion of the Ft. Lauderdale and Kirkland properties. The Company's capital expenditures in 2012, excluding the acquisition and completion to date of the Ft. Lauderdale and Kirkland properties, were $4.7 million.

There was $7.0 million outstanding on our revolving credit facility at December 31, 2012, which is reported as long term. The Company had $17.9 million available on its credit facility. The credit facility allocates up to $20 million of the revolving credit line for the issuance of letters of credit. At December 31, 2012, outstanding letters of credit totaled $10.1 million. In addition, the Company is required to pay a commitment fee quarterly at a rate of between 0.25% and 0.35% per annum on the unused portion of the total revolving credit commitment, also based on the Company's Leverage Ratio.

Prior to the August 31, 2011 amendment of the credit facility, the Company's Credit Agreement provided for a revolving credit line of $35 million for working capital requirements which was committed through January 2012, with interest at LIBOR plus between 2.75% and 4.50%. In addition, the Company was required to pay a commitment fee of between 0.30% and 0.50% on the unused portion of the total credit commitment for the preceding quarter, based on the Company's leverage ratio under the Credit Agreement.

The $5.0 million subordinated promissory note with interest fixed at 6.0% was paid in its entirety in January, 2012.

In the event of voluntary or involuntary bankruptcy of the Company or any subsidiary, all unpaid principal and other amounts owing under the Credit Agreement automatically become due and payable. Other events of default, such as failure to make payments as they become due and breach of financial and other covenants, give the Agent the option to declare all such amounts immediately due and payable.

The Industrial Revenue Bonds are held by institutional investors and are guaranteed by a bank letter of credit, which is collateralized by certain property, plant and equipment assets, the carrying value of which approximates the principal balance on the bonds. The Company has a standby unsecured bank letter of credit guaranteeing the note payable in Canada, the amount of which approximates the principal balance on the note.

NOTE 7 — WARRANTY

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, which is included in other accrued expenses on the Consolidated Balance Sheets, is summarized as follows:

(In thousands)	2012	2011	2010
Balance at Beginning of the Year	$ 1,092	$ 1,699	$ 3,147
Warranties Issued	2,430	1,446	2,259
Reassessed Warranty Exposure	—	(95)	(1,144)
Warranties Settled	(971)	(1,958)	(2,563)
Balance at End of the Year	$2,551	$ 1,092	$ 1,699

NOTE 8 — INCOME TAXES

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

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 uncertain 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 December 31, 2012 or 2011, nor are any penalties or interest costs included in expense for each of the years ended December 31, 2012, 2011 and 2010. 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 2010 through 2012 for federal purposes and 2009 through 2012 for state purposes.

Pretax income from the Company’s foreign subsidiaries amounted to $1.0 million, $0.9 million and $0.1 million for 2012, 2011 and 2010, respectively. The balances of pretax earnings for each of those years were domestic.

The provision (benefit) for income taxes consists of the following:

(In thousands)	2012	2011	2010
Current			
US Federal	$11,173	$6,840	$ 5,327
State	78	114	131
Foreign	2	47	38
Deferred	(1,544)	423	1,385
	$ 9,709	$ 7,424	$6,881

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

	2012	2011	2010
Statutory Federal Income Tax Rate	35.0%	35.0%	35.0%
Permanent Items, Net	(1.8)%	(2.1)%	(1.3)%
Foreign Tax Benefits	(1.2)%	(1.0)%	(0.1)%
State Income Tax (Benefits), Net of Federal Income Tax Benefit	(0.1)%	1.4%	0.6%
Research and Development Tax Credits	(1.1)%	(6.1)%	(3.0)%
Other	(0.1)%	(1.6)%	0.3%
Effective Tax Rate	30.7%	25.6%	31.5%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company’s deferred tax assets and liabilities as of December 31, are as follows:

(In thousands)	2012	2011
Deferred Tax Assets:		
Goodwill and Intangible Assets	$ 6,918	$ 7,226
Asset Reserves	4,901	3,633
Deferred Compensation	6,656	3,907
State Investment Tax Credit Carryforwards, Net of Federal Tax	665	657
Customer Advanced Payments and Deferred Revenue	1,113	476
State Net Operating Loss Carryforwards and Other	729	567
Total Gross Deferred Tax Assets	20,982	16,466
Valuation Allowance for State and Foreign Deferred Tax Assets and Tax Credit Carryforwards, Net of Federal Tax	(2,190)	(1,898)
Deferred Tax Assets	18,792	14,568
Deferred Tax Liabilities:		
Depreciation	4,806	4,322
Deferred Tax Liabilities	4,806	4,322
Net Deferred Tax Asset	$13,986	$ 10,246

The net deferred tax assets and liabilities presented in the Consolidated Balance Sheets are as follows at December 31:

(In thousands)	2012	2011
Deferred Tax Asset — Current	$ 4,967	$ 3,207
Deferred Tax Asset — Long-term	9,019	7,039
Net Deferred Tax Asset	$13,986	$10,246

At December 31, 2012, state and foreign tax credit carryforwards amounted to approximately $1.4 million. These state and foreign tax credit carryforwards will expire from 2015 through 2027.

Due to the uncertainty as to the Company’s ability to generate sufficient taxable income in certain states in the future and utilize certain of the Company’s state operating loss carryforwards before they expire, the Company has recorded a valuation allowance accordingly. These state net operating loss carryforwards amount to approximately $13.2 million and expire at various dates from 2027 through 2032. The excess tax benefits associated with stock option exercises are recorded directly to shareholders’ equity only when realized. As a result, the excess tax benefits included in certain state net operating loss carryforwards but not reflected in deferred tax assets was approximately $5.0 million.

We have unrecognized tax benefits which, if ultimately recognized, will reduce our annual effective tax rate. Reserves for uncertain income tax positions have been recorded pursuant to ASC Topic 740-10. An estimate of the range of possible change during 2013 to the reserves cannot be made as of December 31, 2012. A reconciliation of the total amounts of unrecognized tax benefits, excluding interest and penalties which are insignificant, is as follows:

(in thousands)	2012	2011	2010
Balance at Beginning of the Year	$ 880	$ 1,470	$ 940
Decreases as a Result of Tax Positions Taken in Prior Years	(220)	(1,090)	(270)
Increases as a Result of Tax Positions taken in the Current Year	180	500	800
Balance at End of the Year	$ 840	$ 880	$1,470

In January 2013, the American Taxpayer Relief Act of 2012 extended the research and development tax credits for the year ended December 31, 2012. As the new law was not enacted until 2013, the 2012 tax provision contains no estimated benefit for research and development tax credits. Had the law been enacted in 2012, the company would have recognized approximately $0.7 million in tax benefits (net of a $0.7 million reserve). The Company will recognize this benefit in the first quarter of 2013.

NOTE 9 — PROFIT SHARING/401(K) PLAN

The Company and all its subsidiaries, excluding Ballard and Max-Viz, participate in the ATRO Profit Sharing/401K Plan. This plan is a qualified profit sharing/401(k) Plan for the benefit of eligible full-time employees. The plan provides for annual contributions based on percentages of pretax income. In addition, employees may contribute a portion of their salary to the 401(k) plan which is partially matched by the Company. The plan may be amended or terminated at any time. The DME Profit Sharing/401(k) Savings Plan and Trust was merged into the ATRO Profit Sharing/401K Plan for the benefit of its eligible full-time employees on January 1, 2011.

Through December 31, 2012, Ballard had a qualified 401(k) Savings Plan (the "Savings Plan") for the benefit of its eligible full-time employees. Employees could contribute from 1% to 15% of their eligible salary to the Savings Plan. The Savings Plan provided for annual Company contributions of 3% of total eligible salaries, regardless of whether the employee contributes to the Savings Plan. The Savings Plan will be merged into the ATRO Profit Sharing/401K plan on January 1, 2013.

Through December 31, 2012, Max-Viz had a 401(k) Savings and Retirement Plan (the "Retirement Plan") to provide for voluntary salary deferral contributions on a pre-tax basis. Max-Viz could make discretionary matching contributions. The Retirement Plan will be merged into the ATRO Profit Sharing/401K plan on January 1, 2013.

Total charges to income before income taxes for these plans were $3.0 million, $2.6 million and $1.9 million in 2012, 2011 and 2010, respectively.

NOTE 10— SUPPLEMENTAL RETIREMENT PLAN AND RELATED POST RETIREMENT BENEFITS

The Company has two non-qualified supplemental retirement defined benefit plans ("SERP" and "SERP II") for certain current and retired executive officers. On March 6, 2012 the Company adopted SERP II for eligible current executive officers. The Company recorded a liability at the date of adoption of the new plan in the amount of approximately $5.8 million for the projected benefit obligation.

The accumulated benefit obligation of the plans as of December 31, 2012 and 2011 amounts to $9.5 million and $5.9 million, respectively.

The Plans provide for benefits based upon average annual compensation and years of service and in the case of SERP, there are offsets for Social Security and Profit Sharing benefits. It is the Company's intent to fund the plans as plan benefits become payable, since no assets exist at December 31, 2012 or 2011 for either of the plans.

The Company accounts for the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plans in accordance with the recognition and disclosure provisions of ASC Topic 715, *Compensation, Retirement Benefits* ("ASC Topic 715"), which requires the Company to recognize the funded status in its balance sheet, with a corresponding adjustment to AOCI, net of tax. These amounts will be subsequently recognized as net periodic pension cost pursuant to the Company's historical policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of AOCI. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in AOCI.

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Unrecognized prior service costs of $3.8 million ($5.8 million net of $2.0 million in taxes) and unrecognized actuarial losses of $2.1 million ($3.3 million net of $1.2 million in taxes) are included in AOCI at December 31, 2012 and have not yet been recognized in net periodic pension cost. The prior service cost included in AOCI and expected to be recognized in net periodic pension cost during the fiscal year-ended December 31, 2013 is $0.3 million ($0.5 million net of $0.2 million in taxes). The actuarial loss included in AOCI expected to be recognized in net periodic pension cost during the fiscal year-ended December 31, 2013 is $0.1 million, net of taxes.

The reconciliation of the beginning and ending balances of the projected benefit obligation of the plans for the years ended December 31 is as follows:

(In thousands)	2012	2011
Funded Status		
Projected Benefit Obligation		
Beginning of the Year — January 1	$ 7,588	$ 6,141
Adoption of SERP II	5,790	—
Service Cost	303	46
Interest Cost	548	328
Actuarial Loss	1,161	1,421
Benefits Paid	(348)	(348)
End of the Year — December 31	$15,042	$7,588

The increase in the 2012 projected benefit obligation is due primarily to the adoption of SERP II, the decrease in the discount rate and differences between estimated and actual salaries. The increase in the 2011 projected benefit obligation is due primarily to the decrease in the discount rate and differences between estimated and actual salaries.

The assumptions used to calculate the projected benefit obligation as of December 31 are as follows:

	2012	2011
Discount Rate	4.20%	4.50%
Future Average Compensation Increases	5.00%	5.00%

The plans are unfunded at December 31, 2012 and are recognized in the accompanying Consolidated Balance Sheets as a current accrued pension liability of $0.3 million and a long-term accrued pension liability of $14.7 million. This also is the expected future contribution to the plan, since the plan is unfunded.

The following table summarizes the components of the net periodic cost for the years ended December 31:

(In thousands)	2012	2011	2010
Net Periodic Cost			
Service Cost — Benefits Earned During Period $	$ 303	$ 46	$ 38
Interest Cost	548	328	330
Amortization of Prior Service Cost	426	109	109
Amortization of Losses	91	11	—
Net Periodic Cost $	$1,368	$494	$477

The assumptions used to determine the net periodic cost are as follows:

	2012	2011	2010
Discount Rate	4.50%	5.50%	6.00%
Future Average Compensation Increases	5.00%	5.00%	5.00%

The Company expects the benefits to be paid in each of the next five years to be $0.3 million and $1.5 million in the aggregate for the next five years after that. This also is the expected Company contribution to the plans.

Participants in SERP are entitled to paid medical, dental and long-term care insurance benefits upon retirement under the plan. The measurement date for determining the plan obligation and cost is December 31.

The reconciliation of the beginning and ending balances of the accumulated postretirement benefit obligation for the years ended December 31 is as follows:

(In thousands)	2012	2011
Funded Status		
Accumulated Postretirement Benefit Obligation		
Beginning of the Year — January 1	$568	$511
Service Cost	2	2
Interest Cost	24	27
Actuarial Loss	42	68
Benefits Paid	(43)	(40)
End of the Year — December 31	$593	$568

The assumptions used to calculate the accumulated postretirement benefit obligation as of December 31 are as follows:

	2012	2011
Discount Rate	4.20%	4.50%

The following table summarizes the components of the net periodic cost for the years ended December 31:

(In thousands)	2012	2011	2010
Net Periodic Cost			
Service Cost — Benefits Earned During Period	$ 2	$ 2	$ 4
Interest Cost	24	27	50
Amortization of Prior Service Cost	26	25	25
Amortization of (Gains) Losses	—	(4)	11
Net Periodic Cost	$ 52	$ 50	$ 90

The assumptions used to determine the net periodic cost are as follows:

	2012	2011	2010
Discount Rate	4.50%	5.50%	6.00%
Future Average Healthcare Benefit Increases	6.00%	9.00%	10.00%

The Company estimates that the prior service costs and net losses in AOCI for medical, dental and long-term care insurance benefits as of December 31, 2012, that will be recognized as components of net periodic benefit cost during the year ended December 31, 2013 for the Plan will be insignificant. For measurement purposes, a 5.7% and 10.8% increase in the cost of health care benefits was assumed for 2013 and 2014 respectively and a range between 6.1% and 5.1% from 2015 through 2050. A one percentage point increase or decrease in this rate would change the post retirement benefit obligation insignificantly. The Company expects the benefits to be paid in each of the next five years to be approximately forty-three thousand dollars per year and $0.2 million in the aggregate for the next five years after that. This also is the expected Company contribution to the plan, as it is unfunded.

NOTE 11 — SHAREHOLDERS' EQUITY

Reserved Common Stock

At December 31, 2012, approximately 6.5 million shares of common stock were reserved for issuance upon conversion of the Class B stock, exercise of stock options and purchases under the Employee Stock Purchase Plan. Class B Stock is identical to Common Stock, except Class B Stock has ten votes per share, is automatically converted to Common Stock on a one for one basis when sold or transferred, and cannot receive dividends unless an equal or greater amount of dividends is declared on Common Stock.

Comprehensive Income and Accumulated Other Comprehensive Income (Loss)

Comprehensive income consists of net income and the after-tax impact of currency translation adjustments, mark to market adjustments for derivatives and retirement liability adjustments. Income taxes related to derivatives and retirement liability adjustments within other comprehensive income are generally recorded based on an effective tax rate of approximately 35%. No income tax effect is recorded for currency translation adjustments.

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

(In thousands)	2012	2011
Foreign Currency Translation Adjustments	$ 1,415	$ 1,232
Mark to Market Adjustments for Derivatives – Before Tax	(218)	(393)
Tax Benefit	76	137
Mark to Market Adjustments for Derivatives – After Tax	(142)	(256)
Retirement Liability Adjustment – Before Tax	(9,316)	(2,865)
Tax Benefit	3,260	1,003
Retirement Liability Adjustment – After Tax	(6,056)	(1,862)
Accumulated Other Comprehensive Loss	$ (4,783)	$ (886)

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

(In thousands)	2012	2011	2010
Foreign Currency Translation Adjustments	183	(90)	217
Reclassification to Interest Expense	209	298	380
Mark to Market Adjustments for Derivatives	(34)	(171)	(527)
Tax Benefit (Expense)	(61)	(45)	51
Mark to Market Adjustments for Derivatives	114	82	(96)
Retirement Liability Adjustment	(6,451)	(1,348)	54
Tax Benefit (Expense)	2,257	472	(19)
Retirement Liability Adjustment	(4,194)	(876)	35
Other Comprehensive (Loss) Income	$ (3,897)	$ (884)	$ 156

NOTE 12 — EARNINGS PER SHARE

Earnings per share computations are based upon the following table:

(In thousands, except per share data)	2012	2011	2010
Net Income	$ 21,874	$ 21,591	$ 14,948
Basic Earnings Weighted Average Shares	14,286	13,959	13,713
Net Effect of Dilutive Stock Options	845	889	561
Diluted Earnings Weighted Average Shares	15,131	14,848	14,274
Basic Earnings Per Share	$ 1.53	$ 1.55	$ 1.09
Diluted Earnings Per Share	$ 1.45	$ 1.45	$ 1.05

NOTE 13 — STOCK OPTION AND PURCHASE PLANS

The Company has stock option plans that authorize the issuance of options for shares of Common Stock to directors, officers and key employees. Stock option grants are designed to reward long-term contributions to the Company and provide incentives for recipients to remain with the Company. The exercise price, determined by a committee of the Board of Directors, may not be less than the fair market value of the Common Stock on the grant date. Options become exercisable over periods not exceeding ten years. The Company's practice has been to issue new shares upon the exercise of the options.

Stock compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Vesting requirements vary for directors, officers and key employees. In general, options granted to outside directors vest six months from the date of grant and options granted to officers and key employees straight line vest over a five-year period from the date of grant.

	2012	2011	2010
Weighted Average Fair Value of the Options Granted	$11.91	$15.18	$8.12

The weighted average fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2012	2011	2010
Risk-free Interest Rate	0.89% – 1.00%	1.55% – 2.82%	2.33% – 3.04%
Dividend Yield	0.0%	0.0%	0.0%
Volatility Factor	0.52 – 0.64	0.52 – 0.53	0.41 – 0.53
Expected Life in Years	5.0 – 8.0	7.0 – 8.0	7.0 – 8.0

To determine expected volatility, the Company uses historical volatility based on weekly closing prices of its Common Stock and considers currently available information to determine if future volatility is expected to differ over the expected terms of the options granted. The risk-free rate is based on the United States Treasury yield curve at the time of grant for the appropriate term of the options granted. Expected dividends are based on the Company's history and expectation of dividend payouts. The expected term of stock options is based on vesting schedules, expected exercise patterns and contractual terms.

The following table provides compensation expense information based on the fair value of stock options for the years ended December 31, 2012, 2011 and 2010:

(In thousands)	2012	2011	2010
Stock Compensation Expense	$ 1,351	$ 1,061	$ 884
Tax Benefit	(136)	(93)	(84)
Stock Compensation Expense, Net of Tax	$ 1,215	$ 968	$ 800

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

(Aggregate intrinsic value in thousands)	2012			2011			2010		
	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at January 1	1,384,538	$ 8.05	$ 20,532	1,586,860	$ 6.70	$ 38,778	1,560,158	$ 5.99	$ 16,551
Options Granted	108,750	$ 21.69	$ 129	70,782	$ 26.93	$ 299	116,317	$ 14.12	$ 289
Options Exercised	(225,558)	$ 4.40	$ (4,168)	(273,104)	$ 5.10	$ (7,112)	(89,615)	$ 3.94	$ (1,135)
Options Forfeited	—	$ —	$ —	—	$ —	$ —	—	$ —	$ —
Outstanding at December 31	1,267,730	$ 9.87	$ 16,493	1,384,538	$ 8.05	$ 31,965	1,586,860	$ 6.70	$ 15,706
Exercisable at December 31	973,716	$ 8.06	$ 14,431	1,067,287	$ 6.56	$ 26,237	1,196,049	$ 5.77	$ 12,953

The aggregate intrinsic value in the preceding table represents the total pretax option holder's intrinsic value, based on the Company's closing stock price of Common Stock which would have been received by the option holders had all option holders exercised their options as of that date. The Company's closing stock price of Common Stock was $22.88, $31.14 and $16.60 as of December 31, 2012, 2011 and 2010, respectively.

The weighted average fair value of options vested during 2012, 2011 and 2010 was $7.41, $4.25 and $3.72, respectively. The total fair value of options that vested during the year amounted to $1.0 million, $0.6 million and $0.7 million for the years ended December 31, 2012, 2011 and 2010, respectively. At December 31, 2012, total compensation costs related to non-vested awards not yet recognized amounts to $2.8 million and will be recognized over a weighted average period of 2.4 years.

The following is a summary of weighted average exercise prices and contractual lives for outstanding and exercisable stock options as of December 31, 2012:

	Outstanding			Exercisable		
Exercise Price Range	Shares	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Shares	Weighted Average Remaining Life in Years	Weighted Average Exercise Price
$3.22 — $ 4.14	335,328	1.6	$ 3.55	335,328	1.6	$ 3.55
$5.81 — $ 8.48	507,567	5.8	6.40	398,837	5.5	6.44
$10.98 — $12.09	119,295	4.2	11.21	119,295	4.2	11.21
$16.81 — $29.85	305,540	8.4	22.07	120,256	7.2	22.89
	1,267,730	5.2	9.87	973,716	4.2	8.06

The Company established Incentive Stock Option Plans for the purpose of attracting and retaining executive officers and key employees, and to align management's interest with those of the shareholders. Generally, the options must be exercised within ten years from the grant date and vest ratably over a five-year period. The exercise price for the options is equal to the share price at the date of grant. At December 31, 2012, the Company had options outstanding for 1,039,478 shares under the plans. At December 31, 2012, there were 486,030 options available for future grant under the plan established in 2011.

The Company established the Directors Stock Option Plans for the purpose of attracting and retaining the services of experienced and knowledgeable outside directors, and to align their interest with those of the shareholders. The options must be exercised within ten years from the grant date. The exercise price for the option is equal to the share price at the date of grant and vests six months from the grant date. At December 31, 2012, the Company had options outstanding for 228,252 shares under the plans. At December 31, 2012, there were 136,296 options available for future grant under the plan established in 2005.

In addition to the options discussed above, the Company has established the Employee Stock Purchase Plan to encourage employees to invest in Astronics Corporation. The plan provides employees the opportunity to invest up to 20% of their cash compensation (up to an annual maximum of approximately $21,700) in Astronics common stock at a price equal to 85% of the fair market value of the Astronics common stock, determined each October 1. Employees are allowed to enroll annually. Employees indicate the number of shares they wish to obtain through the program and their intention to pay for the shares through payroll deductions over the annual cycle of October 1 through September 30. Employees can withdraw anytime during the annual cycle, and all money withheld from the employees pay is returned with interest. If an employee remains enrolled in the program, enough money will have been withheld from the employees' pay during the year to pay for all the shares that the employee opted for under the program. At December 31, 2012, employees had subscribed to purchase 61,606 shares at $22.76 per share. The weighted average fair value of the options was approximately $5.98, $4.75 and $3.30 for options granted during the year ended December 31, 2012, 2011 and 2010, respectively.

The fair value for the options granted under the Employee Stock Purchase Plan was estimated at the date of grant using a Black- Scholes option pricing model with the following weighted-average assumptions:

	2012	2011	2010
Risk-free Interest Rate	0.17%	0.10%	0.25%
Dividend Yield	0.0%	0.0%	0.0%
Volatility Factor	.37	.52	.40
Expected Life in Years	1.0	1.0	1.0

NOTE 14 — 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. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and involves consideration of factors specific to the asset or liability.

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.

On a Recurring Basis:

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The following table provides the financial assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2012 and December 31, 2011:

(In thousands)	Classification	Total	Level 1	Level 2	Level 3
Interest Rate Swaps	Other Liabilities				
December 31, 2012		$(218)	$—	$(218)	$ —
December 31, 2011		(393)	—	(393)	—
Acquisition Contingent Consideration	Other Liabilities				
December 31, 2012		$ (814)	$—	$ —	$(814)
December 31, 2011		(720)	—	—	(720)

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 (See Note 15).

Our Level 3 fair value liabilities represent contingent consideration recorded related to the Ballard acquisition to be paid up to a maximum of $5.5 million if certain revenue growth targets are met over the next five years and the Max-Viz acquisition to be paid up to a maximum of $8.0 million if certain revenue growth targets are met over the next three years. The amounts recorded were calculated using an estimate of the probability of the future cash outflows. The varying contingent payments were then discounted to the present value utilizing a discounted cash flow methodology. The contingent consideration liabilities have no observable Level 1 or Level 2 inputs. There were no significant changes in the fair value of the liability related to the Ballard acquisition from December 31, 2011 or the Max-Viz acquisition from July 30, 2012.

On a Non-recurring Basis:

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. The Company utilizes a discounted cash flow method to estimate the fair value of reporting units utilizing unobservable inputs. The fair value measurement of the reporting unit under the step-one and step-two analysis of the quantitative goodwill impairment test are classified as Level 3 inputs.

Intangible assets that are amortized are evaluated for recoverability whenever adverse effects or changes in circumstances indicate that the carrying value may not be recoverable. The recoverability test consists of comparing the undiscounted projected cash flows with the carrying amount. Should the carrying amount exceed undiscounted projected cash flows, an impairment loss would be recognized to the extent the carrying amount exceeds fair value. For the Company's indefinite-lived intangible asset, the impairment test consists of comparing the fair value, determined using the relief from royalty method, with its carrying amount. An impairment loss would be recognized for the carrying amount in excess of its fair value.

At December 31, 2012, the fair value of goodwill and intangible assets classified using Level 3 inputs are as follows:

- Beginning January 1, 2012, previously unamortized trade names in the Test Systems segment with a fair value of $0.4 million are now being amortized over 10 years. The fair value measurement of total amortized intangible assets in the Test Systems reporting unit is $3.9 million. Inputs used to calculate the fair value were internal forecasts used to estimate undiscounted future cash flows. There was no change in fair value from December 31, 2011.
- The Ballard goodwill and intangible assets acquired on November 30, 2011, were valued at fair value using a discounted cash flow methodology and are classified as Level 3 inputs.
- The Max-Viz goodwill and intangible assets acquired on July 30, 2012, were valued at fair value using a discounted cash flow methodology and are classified as Level 3 inputs.

Due to their short-term nature, the carrying value of cash and equivalents, accounts receivable, accounts payable, and notes payable approximate fair value. The carrying value of the Company's variable rate long-term debt instruments also approximates fair value due to the variable rate feature of these instruments.

During 2011, in accordance with the provisions of ASC Topic 350, *Intangibles – Goodwill and Other*, the Company recorded a $2.4 million goodwill impairment charge related to the Test System reporting unit to write down goodwill to its implied fair value of zero. The Company utilizes a discounted cash flow analysis to estimate the fair value of reporting units utilizing unobservable inputs. The fair value measurement of the reporting unit under the step-one and step-two analysis of the goodwill impairment test are classified as Level 3 inputs. There were no impairment charges to goodwill in any of the Company's reporting units in 2012 and 2010.

During 2011, the Company recorded an impairment charge to write down to fair value indefinite-lived trade name intangible assets of its Test System reporting unit. The impairment charge for the trade names was $0.1 million based on the determined fair value of $0.4 million. This impairment charge is the result of the revised downward estimates of future revenues and cash flows of the Test Systems reporting unit. The fair value measurements are calculated using unobservable inputs classified as Level 3 inputs, requiring significant management judgment due to the absence of quoted market prices or observable inputs for assets of a similar nature. There were no impairment charges to any of the Company's intangible assets in either of the Company's segments in 2012 and 2010.

NOTE 15 — DERIVATIVE FINANCIAL INSTRUMENTS

At December 31, 2012, we had interest rate swaps consisting of the following:

a) An interest rate swap with a notional amount of approximately $1.9 million at December 31, 2012, entered into on February 6, 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 February 1, 2016.

b) An interest rate swap with a notional amount of $5.0 million at December 31, 2012, entered into on March 19, 2009 related to the Company's term note issued January 30, 2009. The swap effectively fixes the rate at 2.115% plus a spread based on the Company's leverage ratio 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.

At December 31, 2012 and 2011, the fair value of interest rate swaps was a liability of $0.2 million and $0.4 million, respectively, which is included in other liabilities (See Note 14—Fair Value). Amounts expected to be reclassified to earnings in the next 12 months is not expected to be significant.

Activity in AOCI related to these derivatives is summarized below:

(In thousands)	2012	2011	2010
Derivative Balance at the Beginning of the Year in AOCI	$(256)	$ (338)	$ (242)
Net Deferral in AOCI of Derivatives:			
Net (Increase) Decrease in Fair Value of Derivatives	(34)	(171)	(527)
Tax Effect	14	61	184
	(20)	(110)	(343)
Net Reclassification from AOCI into Earnings:			
Reclassification from AOCI into Earnings – Interest Expense	209	298	380
Tax Effect	(75)	(106)	(133)
	134	192	247
Net Change in Derivatives for the Year	114	82	(96)
Derivative Balance at the End of the Year in AOCI	$ (142)	$(256)	$ (338)

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 as interest expense. Ineffectiveness, if any, was not significant for the years ended December 31, 2012, 2011 and 2010. The Company classifies the cash flows from hedging transactions in the same category as the cash flows from the respective hedged items. Amounts from ineffectiveness, if any, to be reclassified during 2013 are not expected to be significant.

NOTE 16 — SELECTED QUARTERLY FINANCIAL INFORMATION

The following table summarizes selected quarterly financial information for 2012 and 2011:

(Unaudited) (In thousands, except for per share data)	Quarter Ended Dec. 31, 2012	Sept. 29, 2012	June 30, 2012	March 31, 2012	Dec. 31, 2011	Oct. 1, 2011	July 2, 2011	April 2, 2011
Sales	$ 67,420	$68,899	$64,989	$65,138	$61,156	$ 56,404	$55,475	$55,128
Gross Profit (sales less cost of products sold)	17,551	16,717	17,054	18,120	17,349	14,255	14,386	14,506
Impairment Loss	—	—	—	—	2,500	—	—	—
Income Before Tax	7,690	7,381	7,510	9,002	7,178	7,505	6,708	7,624
Net Income	5,655	4,930	5,194	6,095	5,169	6,665	4,548	5,209
Basic Earnings Per Share	0.39	0.35	0.36	0.43	0.36	0.48	0.31	0.37
Diluted Earnings Per Share	0.37	0.33	0.34	0.40	0.34	0.45	0.30	0.35

NOTE 17 — COMMITMENTS AND CONTINGENCIES

The Company leases certain facilities and equipment under various lease contracts with terms that meet the accounting definition of operating leases. These arrangements may include fair value renewal or purchase options. Rental expense for the years ended December 31, 2012, 2011 and 2010 was $3.2 million, $3.0 million and $3.5 million, respectively. The following table represents future minimum lease payment commitments as of December 31, 2012:

(In thousands)	
2013	$1,814
2014	1,332
2015	517
2016	278
2017	249
Thereafter	124
	$ 4,314

From time to time the Company may enter into purchase agreements with suppliers under which there is a commitment to buy a minimum amount of product. Purchase commitments outstanding at December 31, 2012 were $49.3 million. These commitments are not reflected as liabilities in the Company's Consolidated Balance Sheets.

Legal Proceedings

The Company is subject to various legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect these matters will have a material adverse effect on our business, financial position, results of operations, or cash flows. However, the results of these matters cannot be predicted with certainty. Should the Company fail to prevail in any legal matter or should several legal matters be resolved against the Company in the same reporting period, then the financial results of that particular reporting period could be materially adversely affected.

On November 11, 2010, AE Liquidation Inc. filed an action in the United States Bankruptcy Court for the District of Delaware (*AE Liquidation, Inc., et al v. Luminescent Systems Inc., and AE Liquidation, Inc., et al., v Astronics Advanced Electronic Systems Corp.)* seeking to recover $1.4 million of alleged preferential payments received from Eclipse Aviation Corporation. The Company disputes the Trustee's allegations and believes any loss, as a result of future proceedings would not have a material adverse effect on our business. We intend to defend this claim vigorously.

We are a defendant in an action filed in the Regional State Court of Mannheim, Germany (Lufthansa Technik AG v. Astronics Advanced Electronics Systems Corp.) relating to an allegation of patent infringement. The damages sought include injunctive relief, as well as monetary damages. We dispute the allegation and are vigorously defending ourselves in this action. We have filed a nullity action with the Federal Patent Court in Munich Germany, requesting the court to revoke the German part of the European patent that is subject to the claim. In November 2011, the Regional State Court of Manheim Germany, issued an interim decision to the effect that the infringement litigation proceedings be stayed until the Federal Patent Court decides on the concurrent nullity action. At this time we are unable to provide a reasonable estimate of our potential liability or the potential amount of loss related to this action, if any. If the outcome of this litigation is adverse to us, our results and financial condition could be materially affected.

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NOTE 18 — SEGMENTS

Segment information and reconciliations to consolidated amounts for the years ended December 31 are as follows:

(In thousands)	2012	2011	2010
Sales:			
Aerospace	$254,955	$ 213,874	$179,586
Test Systems	11,491	14,289	16,168
Total Sales	$ 266,446	$228,163	$195,754
Operating Profit (Loss) and Margins:			
Aerospace	$ 44,137	$ 40,400	$ 30,112
	17.3%	18.9%	16.8%
Test Systems	(4,985)	(4,760)	(1,806)
	(43.4)%	(33.3)%	(11.2)%
Total Operating Profit	39,152	35,640	28,306
	14.7%	15.6%	14.5%
Deductions from Operating Profit:			
Interest Expense	(1,042)	(1,806)	(2,551)
Corporate and Other Expenses, Net	(6,527)	(4,819)	(3,926)
Earnings before Income Taxes	$ 31,583	$ 29,015	$ 21,829
Depreciation and Amortization:			
Aerospace	$ 6,043	$ 3,929	$ 3,695
Test Systems	634	584	659
Corporate	228	430	527
Total Depreciation and Amortization	$ 6,905	$ 4,943	$ 4,881
Identifiable Assets:			
Aerospace	$ 177,168	$ 136,930	$ 96,787
Test Systems	18,121	20,020	24,785
Corporate	16,700	17,955	29,316
Total Assets	$211,989	$174,905	$ 150,888
Capital Expenditures:			
Aerospace	$ 16,324	$ 14,195	$ 2,438
Test Systems	396	86	619
Corporate	—	—	511
Total Capital Expenditures	$ 16,720	$ 14,281	$ 3,568

Operating profit is sales less cost of products sold and other operating expenses, excluding interest expense and other corporate expenses. Cost of products sold and other operating expenses are directly identifiable to the respective segment.

For the years ended December 31, 2012 and 2010, there was no goodwill or purchased intangible impairment losses in either the Aerospace or Test System segment. For the year ended December 31, 2011, the operating loss in the Test Systems segment includes a goodwill impairment loss of approximately $2.4 million and a purchased intangible asset impairment loss of approximately $0.1 million. In the Aerospace segment, goodwill amounted to $21.9 million and $17.2 million at December 31, 2012 and 2011, respectively. In the Test Systems segment there was no goodwill as of December 31, 2012 and 2011.

The following table summarizes the Company’s sales by geographic region for the years ended December 31:

(In thousands)	2012	2011	2010
North America	$ 233,245	$196,447	$168,556
Europe	16,188	16,238	11,294
Asia	14,030	12,544	13,026
South America	1,937	2,678	2,457
Other	1,046	256	421
	$266,446	$228,163	$ 195,754

Sales recorded by the Company's Canadian operations were $13.0 million in 2012, $12.2 million in 2011 and $9.1 million in 2010. Net income from this location was $1.0 million in 2012, $0.9 million in 2011 and $0.1 million in 2010. Net assets held outside of the United States total $6.7 million at December 31, 2012 and $6.6 million at December 31, 2011. The exchange loss included in determining net income was $0.1 million in each of the years ending 2012, 2011 and 2010. Cumulative translation adjustments amounted to $1.4 million and $1.2 million at December 31, 2012 and 2011, respectively.

The Company has a significant concentration of business with two major customers, Panasonic Aviation Corporation and various departments of the U.S. Government, primarily branches of the Department of Defense and the Federal Aviation Administration. The following is information relating to the activity with those customers:

	2012	2011	2010
Percent of Consolidated Revenue			
Panasonic	38.0%	35.7%	26.5%
U.S. Government	7.2%	9.0%	15.0%

(In thousands)	2012	2011
Accounts Receivable ad December 31,		
Panasonic	$17,412	$9,878
U.S. Government	2,556	3,866

Sales to Panasonic are all in the Aerospace segment. Sales to the US Government occur in both segments. The Company's property, plant and equipment are all located in North America.

NOTE 19 — ACQUISITIONS

In 2011, we completed one business combination. On November 30, 2011 we acquired Ballard Technology, Inc. ("Ballard") a manufacturer of avionics interface solutions. Ballard is included in our Aerospace reporting segment. The addition of Ballard diversifies the products and technologies that Astronics offers. We purchased 100% of the outstanding stock of Ballard for approximately $23.9 million in cash plus an additional purchase consideration of a maximum of $5.5 million subject to meeting certain revenue growth targets over the next five years. The additional purchase consideration was recorded at its estimated fair value of approximately $0.7 million at the date of acquisition based upon the Company's assessment of the probability of Ballard achieving the revenue growth targets. There was no significant change in the fair value estimate of the contingent consideration, from the date of acquisition to December 31, 2012.

On July 30, 2012 we acquired by merger, 100% of the stock of Max-Viz, Inc. ("Max-Viz"), a manufacturer of industry-leading Enhanced Vision Systems for defense and commercial aerospace applications for the purpose of improving situational awareness. The addition of Max-Viz diversifies the products and technologies that Astronics offers. Max-Viz is included in our Aerospace reporting segment. We purchased the outstanding stock of Max-Viz for $10.7 million in cash plus contingent purchase consideration up to a maximum of $8.0 million subject to meeting certain revenue growth targets over the next three years. The additional contingent purchase consideration of $0.1 million is recorded at its estimated fair value at the date of acquisition based upon the Company's assessment of the probability of Max-Viz achieving the revenue growth targets. There was no significant change in the fair value estimate of the contingent consideration, from the date of acquisition to December 31, 2012. The goodwill recognized is comprised primarily of intangible assets that do not require separate recognition. Substantially all of the goodwill and purchased intangible assets are expected to be deductible for tax purposes over 15 years. The purchase price allocation for the 2012 acquisition is complete.

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

Not applicable.

ITEM 9A. *CONTROLS AND PROCEDURES*

Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of Company Management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures are effective as of the end of the period covered by this report, to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is made known to them on a timely basis, and that these disclosure controls and procedures are effective to ensure such information is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

Management's report on Internal Control over Financial Reporting

See the report appearing under item 8, Financial Statements and Supplemental Data, Managements report on Internal Control Over Financial Reporting.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. *OTHER INFORMATION*

On March 6, 2012 the Company adopted the Astronics Corporation Supplemental Retirement Plan II.

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PART III

ITEM 10. *DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT*

The information regarding directors is contained under the captions “Election of Directors” and “Security Ownership of Certain Beneficial Owners and Management” is incorporated herein by reference to the 2013 Proxy to be filed within 120 days of the end of our fiscal year is incorporated herein by reference.

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

Name and Age of Executive Officer	Positions and Offices with Astronics	Year First Elected Officer
Peter J. Gundermann Age 50	President, Chief Executive Officer and Director of the Company	2001
David C. Burney Age 50	Vice President-Finance, Treasurer, Secretary and Chief Financial Officer of the Company	2003
Mark A. Peabody Age 53	Astronics Advanced Electronic Systems Executive Vice President	2010
James S. Kramer Age 49	Luminescent Systems Inc. Executive Vice President	2010

The principal occupation and employment for all executives listed above for the past five years has been with the Company.

The Company has adopted a Code of Business Conduct and Ethics that applies to the Chief Executive Officer, Chief Financial Officer as well as other directors, officers and employees of the Company. This Code of Business Conduct and Ethics is available upon request without charge by contacting Astronics Corporation, Investor Relations at (716) 805-1599. The Code of Business Conduct and Ethics is also available on the Investor Relations section of the Company’s website at www.astronics.com

ITEM 11. *EXECUTIVE COMPENSATION*

The information contained under the caption “Executive Compensation” and “Summary Compensation Table” in the Company’s definitive Proxy Statement to be filed within 120 days of the end of our fiscal year is incorporated herein by reference.

ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS*

The information contained under the captions “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” and “Executive Compensation” in the Company’s definitive Proxy Statement to be filed within 120 days of the end of our fiscal year is incorporated herein by reference.

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS AND DIRECTOR INDEPENDENCE*

The information contained under the captions “Certain Relationships and Related Party Transactions and Director Independence” and “Proposal One: Election of Directors — Board Independence” in the Company’s definitive Proxy Statement to be filed within 120 days of the end of our fiscal year is incorporated herein by reference.

ITEM 14. *PRINCIPAL ACCOUNTANT FEES AND SERVICES*

The information contained under the caption “Audit and Non-Audit Fees” in the Company’s definitive Proxy Statement to be filed within 120 days of the end of our fiscal year is incorporated herein by reference.

PART IV

ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULE*

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

1. *The following financial statements are included:*

   (i) Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010

   (ii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011, and 2010

   (iii) Consolidated Balance Sheets as of December 31, 2012 and 2011

   (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010

   (v) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2012, 2011 and 2010

   (vi) Notes to Consolidated Financial Statements

   (vii) Reports of Independent Registered Public Accounting Firm

   (viii) Management's Report on Internal Control Over Financial Reporting

2. *Financial Statement Schedule*

   Schedule II. Valuation and Qualifying Accounts

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

3. Exhibits

Exhibit No.	Description
3 (a)	Restated Certificate of Incorporation, as amended; filed March 3, 2011
(b)	By-Laws, as amended, incorporated by reference to the registrant's 2008 Annual Report on Form 10-K, Exhibit 3(b), filed March 11, 2009
4.1 (a)	$60,000,000 Credit Agreement with HSBC Bank USA, dated May 13, 2008, incorporated by reference to the registrant's Form 8-K, Exhibit 10.1, filed May 16, 2008
(b)	Amended and Restated Credit Agreement with HSBC Bank USA, dated January 27, 2009, incorporated by reference to the registrant's Form 8-K, Exhibit 10.1, filed January 30, 2009
(c)	Amendment No. 2 to the Amended and Restated Credit Agreement dated as of December 23, 2009 among Astronics Corporation, the Lenders party thereto, HSBC Bank USA, National Association., incorporated by reference to the registrant's Form 8-K, Exhibit 10.1, filed December 28, 2009
(d)	Second Amended and Restated Credit Agreement, dated as of August 31, 2011, among Astronics Corporation, HSBC Bank USA, National Association, Bank of America, N.A. and Manufacturers and Traders Trust Company, incorporated by reference to the registrant's Form 8-K, Exhibit 10.1, filed September 1, 2011
10.1*	Restated Thrift and Profit Sharing Retirement Plan, incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.1, filed March 3, 2011
10.3*	1997 Director Stock Option Plan, incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.3, filed March 3, 2011
10.4*	2001 Stock Option Plan, incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.4, filed March 3, 2011
10.5*	Non-Qualified Supplemental Retirement Plan, incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.5, filed March 3, 2011
10.6*	Employment Termination Benefits Agreement dated December 16, 2003 between Astronics Corporation and Peter J. Gundermann, President and Chief Executive Officer of Astronics Corporation, incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.6, filed March 3, 2011

10.7*	Employment Termination Benefits Agreement dated December 16, 2003 between Astronics Corporation and David C. Burney, Vice President and Chief Financial Officer of Astronics Corporation, incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.7, filed March 3, 2011
10.8*	2005 Director Stock Option Plan, incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.8, filed March 3, 2011
10.9	Stock Purchase Agreement By and Among Astronics Corporation, DME Corporation and the Shareholders of DME Corporation dated January 28, 2009, incorporated by reference to the registrant's Form 8-K, Exhibit 10.1, filed January 30, 2009
10.10*	Supplemental Retirement Plan, Amended and Restated, March 6, 2012, filed herewith.
10.11*	First Amendment of the Employment Termination Benefits Agreement dated December 30, 2008 between Astronics Corporation and Peter J. Gundermann, President and Chief Executive Officer of Astronics, incorporated by reference to the registrant's 2008 Annual Report on Form 10-K, Exhibit 10.11, filed March 11, 2009 of Astronics Corporation.
10.12*	First Amendment of the Employment Termination Benefits Agreement dated December 30, 2008 between Astronics Corporation and David C. Burney, Vice President and Chief Financial Officer of Astronics Corporation , incorporated by reference to the registrant's 2008 Annual Report on Form 10-K, Exhibit 10.12, filed March 11, 2009
10.13*	Employment Termination Benefits Agreement Dated February 18, 2005 between Astronics Corporation and Mark A. Peabody, Executive Vice President of Astronics Advanced Electronic Systems, Inc., incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.13, filed March 3, 2011
10.14*	First Amendment of the Employment Termination Benefits Agreement dated December 31, 2008 between Astronics Corporation and Mark A. Peabody, Executive Vice President of Astronics Advanced Electronic Systems, Inc., incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.14, filed March 3, 2011
10.15*	Form of Indemnification Agreement as executed by each of Astronics Corporation's Directors and Executive Officers, incorporated by reference to the registrant's 2010 Annual Report on Form 10-K, Exhibit 10.15, filed March 3, 2011
10.16	Stock Purchase Agreement by and among Ballard Technology, Inc. and its Shareholders (the Sellers) and Astronics Corporation (Purchaser) Dated as of November 30, 2011, , incorporated by reference to the registrant's Form 8-K, Exhibit 10.1, filed November 30, 2011.
10.17*	2011 Employee Stock Option Plan, incorporated by reference to the registrant's Form S-8, Exhibit 4.1 filed on August 4, 2011.
10.18*	Supplemental Retirement Plan II, filed herewith.
10.19	Agreement and Plan of Merger dated as of July 30, 2012 by and among Astronics Corporation, MV Acquisition Corp., Max-Viz Inc. and Gerard H. Langeler as the Shareholders' Representative incorporated by reference to the registrant's Form 8-K, Exhibit 10.1, filed July 30, 2012.
21**	Subsidiaries of the Registrant; filed herewith.
23**	Consent of Independent Registered Public Accounting Firm; filed herewith.
31.1**	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002; filed herewith
31.2**	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002; filed herewith
32**	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002; filed herewith

101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Identifies a management contract or compensatory plan or arrangement as required by Item 15(a) (3) of Form 10-K.
** Submitted electronically herewith

SCHEDULE II

Valuation and Qualifying Accounts

Year	Description	Balance at the Beginning of Period	Acquisitions	Charged to Cost and Expense	(Write-Offs) Recoveries / Other	Balance at End of Period
(In thousands)						
2012	Allowance for Doubtful Accounts	$ 645	$ 130	$ 88	$ (213)	$ 650
	Reserve for Inventory Valuation	10,599	137	1,544	(254)	12,026
	Deferred Tax Valuation Allowance	1,898	—	292	—	2,190
2011	Allowance for Doubtful Accounts	$ 274	$ —	$ 466	$ (95)	$ 645
	Reserve for Inventory Valuation	11,183	—	336	(920)	10,599
	Deferred Tax Valuation Allowance	890	—	531	477	1,898
2010	Allowance for Doubtful Accounts	$ 372	$ —	$ 17	$ (115)	$ 274
	Reserve for Inventory Valuation	11,621	—	1,117	(1,555)	11,183
	Deferred Tax Valuation Allowance	731	—	264	(105)	890

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned; thereunto duly authorized, on February 22, 2013.

Astronics Corporation

By /s/ Peter J. Gundermann Peter J. Gundermann President and Chief Executive Officer	By /s/ David C. Burney David C. Burney, Vice President-Finance, Chief Financial Officer and Treasurer

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

Signature	Title	Date
/s/ Peter J. Gundermann Peter J. Gundermann	President and Chief Executive Officer (Principal Executive Officer)	February 22, 2013
/s/ David C. Burney David C. Burney	Vice President-Finance, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	February 22, 2013
/s/ Raymond W. Boushie Raymond W. Boushie	Director	February 22, 2013
/s/ Robert T. Brady Robert T. Brady	Director	February 22, 2013
/s/ John B. Drenning John B. Drenning	Director	February 22, 2013
/s/ Peter J. Gundermann Peter J. Gundermann	Director	February 22, 2013
/s/ Kevin T. Keane Kevin T. Keane	Director	February 22, 2013
/s/ Robert J. McKenna Robert J. McKenna	Director	February 22, 2013

EXHIBIT 10.10

ASTRONICS CORPORATION
SUPPLEMENTAL RETIREMENT PLAN

(AMENDED AND RESTATED: MARCH 6, 2012)

ARTICLE I
PURPOSE, DEFINITIONS, AND EFFECTIVE DATE

Section 1.1. Purpose of the Plan.

This Astronics Corporation Supplemental Retirement Plan (the "Plan") is an unfunded, nonqualified deferred compensation plan maintained for the purpose of providing additional retirement benefits for a select group of management or highly compensated employees of Astronics Corporation, and participation in the Plan is limited consistent with that purpose. Benefits under the Plan are intended to supplement benefits provided under the ATRO Companies Profit Sharing Plan/401(k) Plan and benefits received from Social Security. The Plan was amended and restated effective January 1, 2002, and further amended effective January 1, 2005 to comply with the requirements of Section 409A of the Internal Revenue Code of 1986 (the "Code"). This restatement is intended to incorporate the 2005 amendment into the Plan, to clarify the effect of the amendment on the Plan terms, and to restructure the Plan for greater overall clarity.

Section 1.2. Effective Date.

The Effective Date of this amended and restated Plan is March 6, 2012.

Section 1.3. Definitions.

For purposes of this Plan, the following terms have the meanings stated below unless the context clearly indicates otherwise:

(a). **"Board"** means the Board of Directors of the Company.

(b). **"Cause"** means any act that is materially inimical to the best interests of the Company and that constitutes, on the part of the Participant, intentional or grievous wrong, including but not limited to, common law fraud, a felony, or other gross malfeasance of duty.

(c). **"Change of Control"** means the transfer, in one or more transactions extending over a period of not more than 24 months, of Common Stock of the Company possessing 25% or more of the total voting power of all shares of Common Stock. A transfer shall be deemed to occur if shares of Common Stock are either transferred or made the subject of options, warrants, or similar rights granting a third party the opportunity to acquire ownership or voting control of such Common Stock.

(d). **"Common Stock"** means the Class A and Class B $.01 par value shares of the capital stock of the Company, as well as all other securities with voting rights or convertible into securities with voting rights.

(e). **"Company"** means Astronics Corporation and its wholly or partially owned subsidiaries, as well as any of its or their successors or assigns, whether by transfer, merger, consolidation, acquisition of all or substantially all of the business assets, change in identity, or otherwise by operation of law.

(f). **"Compensation Committee"** means the Executive Compensation Committee of the Board, as it is constituted from time to time.

(g). **"Disability"** means a "disability" as defined in the Qualified Retirement Plan.

(h). **"Eligible Officer"** means an officer of the Company who participates in the Qualified Retirement Plan, or an officer or executive of an affiliate or subsidiary of the Company who participates in the Qualified Retirement Plan.

(i). **“<u>Involuntary Termination</u>”** means a termination of a Participant’s employment relationship with the Company, other than for death, Disability, retirement, or Cause, (1) by or at the instigation of the Company, or (2) by or at the instigation of the Participant where the Participant’s Pay has been diminished or reduced to a greater extent than any diminution or reduction of the Company’s officers generally.

(j). **“<u>Participant</u>”** means an Eligible Officer who has been designated a Participant in the Plan pursuant to Article III. The term “Participant” includes a person who has ceased to actively participate in the Plan but who has not received payment of all of his Plan Benefits.

(k). **“<u>Pay</u>”** means the base salary paid to an Eligible Officer for a calendar year plus any bonus or incentive payments payable in cash and earned for or attributable to that year, whether or not the base salary, bonus or incentive payments are actually paid during that year.

(l). **“<u>Qualified Retirement Plan</u>”** means the ATRO Companies Profit Sharing Plan/401(k) Plan, or any successor tax qualified retirement plan maintained by the Company, as in effect as of the date that a Benefit is calculated under the Plan.

(m). **“<u>Separation from Service</u>”** means a termination of a Participant’s employment with the Company on account of retirement, death, Disability, or other voluntary or involuntary separation from service, determined in accordance with the provisions of Code Section 409A.

(n). **“<u>Supplemental Benefit</u>”** or **“<u>Benefit</u>”** means the annual income, if any, payable to a Participant or Surviving Spouse pursuant to Article IV of the Plan.

(o). **“<u>Surviving Spouse</u>”** or **“<u>Spouse</u>”** means a surviving spouse who is a beneficiary entitled to receive some or all of the benefits, directly or indirectly, payable under the Qualified Retirement Plan upon the death of a Participant.

(p). **“<u>Termination on a Change of Control</u>”** means a termination of a Participant’s employment relationship with the Company, other than for death, Disability, retirement, or Cause, (1) by or at the instigation of the Company within two years after a Change of Control, or (2) by or at the instigation of the Participant within two years of the Change of Control in those circumstances where the duties, responsibilities, status, base pay or perquisites of office and employment have been diminished or downgraded, or substantially increased (other than base pay and perquisites) without the Participant’s actual or implied consent; provided, however, that a general decrease in base pay which is approved by a majority of the affected Participants will be considered as having been consented to for purposes of this Plan.

<u>ARTICLE II</u>
<u>ADMINISTRATION AND AMENDMENT</u>

<u>Section 2.1. Administration.</u>

The Plan is operated under the direction of the Compensation Committee, which has all authority and powers necessary to administer the Plan and construe the Plan terms, make factual determinations, resolve any ambiguities or inconsistencies, determine eligibility for participation or benefits, and decide all questions arising in the Plan administration, interpretation or application. The Compensation Committee’s actions or decisions in all matters (other than matters regarding a Participant upon or after the Participant’s Termination on a Change of Control) shall be final and binding upon all Participants, Spouses or other persons having or claiming an interest in this Plan.

<u>Section 2.2. Amendment or Discontinuation.</u>

While the Company expects to continue the Plan indefinitely, it reserves the right to amend the Plan from time to time or to discontinue the Plan at any time, by action of its Board. No amendment or discontinuance of the Plan shall impair or adversely affect any Benefits accrued under the Plan as of the date of such action, except with the consent of the Participant or Surviving Spouse entitled to receive such Benefits. In the event of an amendment of the Plan adversely affecting Benefits or discontinuance of the Plan, the amount of each Participant’s Supplemental Benefits shall be determined under Article IV as if each Participant had retired as of the date of such amendment or discontinuance. If the Plan is not being terminated and liquidated as part of the amendment or discontinuance, the Participant will continue to vest in his Benefit in accordance with Article III. Accordingly, the Participant will become vested in and eligible to receive his Supplemental Benefits when the Participant has satisfied the vesting requirements provided under Article III.

If the Plan is being terminated and liquidated in accordance with the requirements of Code Section 409A, the Participant will become 100% vested in his Supplemental Benefit and the present value of the Benefit will be paid in a single lump sum payment as soon as administratively practicable following the termination of the Plan, The present value of a Benefit payable under this Section will be the actuarial present value of the accrued Supplemental Benefit as determined using the mortality table prescribed by the Secretary of the Treasury under Section 417(e)(3)(B) of the Code, as in effect for such period, and applicable interest rate described by Section 417(e) of the Code in effect for the second month preceding the month in which the 409A Change in Control Event occurs.

ARTICLE III
PARTICIPATION AND VESTING

Section 3.1. Participation.

An Eligible Officer becomes a Participant in the Plan on the date that the Eligible Officer is designated as a Participant by the Board.

Section 3.2. Vesting.

Subject to Sections 3.3 and 3.4(b), a Participant is 100% fully vested in and eligible to receive his Supplemental Benefits under the Plan if:

(a). the Participant has at least ten continuous years of service with the Company; and

(b). the Participant has attained (1) age 65 or later, or (2) age 60 or later with a combined total of age and years of service with the Company at least equal to 90.

Section 3.3. Acceleration of Vesting.

(a). In the event of a Participant's termination of employment before vesting due to a Disability, the Participant will become 100% vested in and eligible for a Supplemental Benefit under Article IV of the Plan.

(b). In the event of an Involuntary Termination or a Termination on a Change of Control, a Participant who has at least ten years of continuous service with the Company will become 100% vested in and eligible for a Supplemental Benefit under this Plan.

(c). In the event of a Change of Control, a Participant who has at least ten years of continuous service with the Company will become 100% vested in and eligible for a Supplemental Benefit under Articles IV and V of the Plan.

(d). In the event of a Participant's death, a Surviving Spouse will become vested in and eligible for a Supplemental Benefit under Article IV of the Plan.

Section 3.4. Forfeiture.

(a). On a Participant's Separation from Service, if the Participant's Benefit is not vested under Section 3.2 or 3.3, the Participant's Supplemental Benefit will be immediately forfeited and no Supplemental Benefit will be payable under the Plan.

(b). Notwithstanding any other provision in this Plan, in the event of a Participant's involuntary termination of employment by the Company for Cause, the Participant's Supplemental Benefit, whether vested or unvested, will be immediately forfeited and no Supplemental Benefit will be payable under the Plan.

ARTICLE IV
BENEFITS

Section 4.1. Supplemental Benefit.

(a). A Participant with 25 or more years of service with the Company will receive a Supplemental Benefit under the Plan equal to the excess, if any, of "(a)" over "(b)" + "(c)" where "(a)" is 65% of the average of the highest consecutive three-year Pay paid to the Participant prior to retirement, "(b)" is an amount equal to the accumulated Company contributions (other than employee pre-tax and after-tax contributions and matching contributions) allocated to an account or accounts for the Participant under the Qualified Retirement Plan from time to time, adjusted for earnings each year at the one-year Treasury Bill rate compounded annually and assuming that each year's contributions were deposited on the following March 1st, calculated at the Participant's retirement, converted into an immediate annuity payment in the form of a joint and 100% survivor annuity payable to the Participant and his Spouse based on a discount factor equal to the prime rate as published in the Wall Street Journal on the date of retirement and the 1983 Group Annuity Mortality Tables weighted equally for males and females, and "(c)" is the primary Social Security benefit of the Participant at age 65.

(b). For an Participant with 10-24 years of service, “(a)” will be determined according to the following schedule:

Years of Service	(a) Total Combined Benefit Target
24	64%
23	63%
22	62%
21	61%
20	60%
19	59%
18	58%
17	57%
16	56%
15	55%
14	54%
13	53%
12	52%
11	51%
10	50%

Section 4.2. Early Retirement.

(a). A Participant who retires from the service of the Company after attaining age 60, but before attaining age 65, and who possesses a combined total of age and years of service with the Company at least equal to 90, will receive a Supplemental Benefit adjusted as follows: The Supplemental Benefit payable under this Plan shall be reduced by 0.5% for each full month by which the date of the commencement of Benefits precedes the Participant’s attainment of age 65. For example, assume a Participant with 25 years of service with the Company retires on his 62 nd birthday and that the average of his highest consecutive three-year Pay prior to retirement is $153,846 per year. If the Participant were age 65 at the date of his retirement, he would receive an annual Benefit of $100,000 ($153,846 x 65%). However, because he must commence receiving his Benefit at age 62, the annual $100,000 Benefit will be reduced by 0.5% for each month by which the date of commencement precedes his attainment of age 65. As a result, he would receive an annual Benefit commencing at age 62 of $82,000 ($100,000—$18,000 [$100,000 x 18% [36 months x 0.5%]] = $82,000). Notwithstanding the foregoing, a Supplemental Benefit payable to a Participant who terminates employment due to a Disability will not be subject to reduction for early payment.

(b). In the event of commencement of Supplemental Benefits prior to attainment of age 62, the Supplemental Benefit payable under this Plan shall include a Social Security “bridge” payment equal to the amount of the Social Security benefit at age 62, until such time as the Eligible Officer attains age 62.

(c). In the event of commencement of Supplemental Benefits between age 62 and age 65, the Social Security benefit amount to be used in determining the Supplemental Benefit payable under this Plan shall be the Social Security benefit amount payable on the actual date of retirement.

Section 4.3. Surviving Spouse.

(a). If a Participant dies after commencement of payment under Section 5.1, the Participant's Surviving Spouse, if any, will continue to receive for the life of the Spouse an amount equal to 100% of the Participant's monthly Supplemental Benefit at the same time and in the same form as the Supplemental Benefit would have been paid to the Participant had he or she lived.

(b). If the Participant dies before commencement of the Supplemental Benefit payments, the Surviving Spouse will receive payment of 100% of the monthly Supplemental Benefit that would have been payable to the Participant under the benefit formula provided in Section 4.1 had the Participant lived. Notwithstanding the previous sentence, if the Participant had not attained age 65 at the time of his death, the Supplemental Benefit payable to the Surviving Spouse will be determined as if the Participant had attained age 65 on the day before his death. Payment to the Surviving Spouse under this Subsection will be made in equal monthly installments for the life of the Spouse. Payment will commence on, or as soon as practicable after, the later of the date of the Participant's death or the date the Participant would have attained age 60 had he or she lived. If payment of the Supplemental Benefit commences before the date the Participant would have attained age 65, the Benefit payable to the Surviving Spouse will be reduced by 0.5% for each full month by which the date of commencement precedes the date the Participant would have attained age 65.

(c). All rights to the Supplemental Benefit will terminate and no other beneficiary will be entitled to payment of any amount under this Plan if (1) a Participant is not survived by a Surviving Spouse at the time of his death, or (2) payment has already commenced to a Surviving Spouse under this Section and the Spouse dies.

Section 4.4. Involuntary Termination of Employment.

In the event of a Participant's Separation from Service due to an Involuntary Termination, a Participant with at least ten years of continuous service with the Company will receive a Supplemental Benefit determined as follows: The Benefit will be determined under Section 4.1, based on the Participant's years of service as of the termination date and using the average of the highest consecutive three-year Pay paid prior to the Involuntary Termination, instead of the average for the Pay paid prior to retirement. For a Participant who has not yet attained age 65 at the time of the Involuntary Termination, the Benefit will be further adjusted by reducing the total combined benefit target specified in Section 4.1 (based on the Participant's years of service) by a factor equal to (a) the combined benefit target, multiplied by (b) 1%, multiplied by (c) the difference between (i) age 65 and (ii) the Participant's age at the time of the Involuntary Termination. For example, the Supplemental Benefit payable to a Participant who is age 45 and who has 15 years of service with the Company at the time of the Involuntary Termination would have a combined benefit target of 44% (55% [based on 15 years of service] – 11% [55% x 1% x 20 [65-45]] = 44%). If a Benefit payable under this Section commences before the date the Participant attains age 65, the Benefit will be reduced by 0.5% for each full month by which the date of commencement precedes the Participant's attainment of age 65.

Section 4.5. Termination on a Change of Control.

In the event of a Participant's Separation from Service due to a Termination on a Change of Control, a Participant with at least ten years of continuous service with the Company will receive a Supplemental Benefit determined as follows: The Benefit will be determined under Section 4.1, based on the Participant's years of service as of the termination date and using the greater of (a) the average of the highest consecutive three-year Pay paid prior to the Change of Control, or (b) the average of the highest consecutive three-year Pay paid prior to termination of employment. If payment of the Benefit commences before the date the Participant attains age 65, the Benefit will be reduced by 0.5% for each full month by which the date of commencement precedes the Participant's attainment of age 65.

Section 4.6. Other Benefits.

While receiving Supplemental Benefits under this Plan, the Participant and his Spouse shall be entitled to Company paid medical and dental insurance, under medical and dental insurance plans made available to employed officers of the Company from time to time or under an equivalent insurance arrangement. In addition, for a Participant and his Spouse whose Supplemental Benefits under this Plan commence on or after January 1, 2002, the Participant and Spouse shall be entitled to Company paid long-term care insurance under a long-term care insurance plan made available to employed officers of the Company from time to time or under an equivalent insurance arrangement.

ARTICLE V
TIME AND FORM OF BENEFIT PAYMENT

Section 5.1. Time of Payment.

Upon a Participant's Separation from Service for any reason other than Cause, subject to Section 5.3, payment of the Supplemental Benefit will commence on, or as soon as practicable after, the later of the Participant's Separation from Service or the date the Participant attains or would have attained age 60.

Section 5.2. Form of Payment.

Supplemental Benefits under the Plan will be paid to a Participant or a Participant's Surviving Spouse in equal monthly installments for the life of the Participant or the Participant's Surviving Spouse, as determined under Article IV.

Section 5.3. Six-Month Delay.

Notwithstanding any other provision in this Plan to the contrary, to the extent that (a) the Participant is determined to be a "specified employee" within the meaning of Code Section 409A, and (b) any amounts payable under this Plan are payable solely because of the Participant's Separation from Service within the meaning of Code Section 409A, then such amounts will not be payable to the Participant before the date that is six months after the Participant's Separation from Service (or, if earlier, the date of death of the Participant). Payments to which a Participant would otherwise be entitled during the first six months following the Participant's termination date will be accumulated and paid on the day that is six months after the termination date. For this purpose, a Benefit payable will be paid as the amount calculated at the time of Separation from Service (without adjustment for delay in payment).

ARTICLE VI
AGREEMENT NOT TO COMPETE

Section 6.1. Agreement Not to Compete.

Payment of the Benefit under this Plan is contingent upon the Participant's agreement not to directly or indirectly engage in or compete with the business of the Company, either as owner, partner or employee for a period of the later to occur of the expiration of three years after retirement or the attainment of 65 years of age (the "Non-Compete Period"). In the event a Participant competes with the business of the Company, payment of the Benefit under this Plan will be suspended so long as the Participant engages in activity deemed to be in competition with the business of the Company during the Non-Compete Period. Notwithstanding the foregoing, this Article VI shall not apply to a Participant after the Participant's Termination on a Change of Control.

ARTICLE VII
MISCELLANEOUS PROVISIONS

Section 7.1. Funding.

This Plan is maintained as an unfunded Plan which is not intended to meet the qualification requirements of Code Section 401. All rights of any Participant or Surviving Spouse under this Plan shall at all times be entirely unfunded and no provision shall at any time be made with respect to segregating any assets of the Company for payment of any amounts due hereunder. No Participant or Surviving Spouse shall have any interest in or any rights against any specific assets of the Company, and a Participant or Surviving Spouse shall have only the rights of a general unsecured creditor of the Company. It is intended that the Plan is an unfunded nonqualified deferred compensation arrangement for income tax purposes. No benefits under this Plan shall be payable from the trust fund maintained under or in accordance with the provisions of the Qualified Retirement Plan.

Section 7.2. Funding Withholding.

The Company has the right to deduct or withhold from the Supplemental Benefit paid under the Plan (or from other amounts payable to the Participant, if necessary) all taxes that are required to be deducted or withheld under any provision of law (including, but not limited to, Social Security and Medicare taxes (FICA) and income tax withholding) now in effect or that may become effective any time during the term of the Plan.

Section 7.3. Funding Social Security and Qualified Retirement Plan.

Any increases in Social Security benefits payable to a Participant after retirement under this Plan and any increases in the Participant's amounts under the Qualified Retirement Plan after retirement under this Plan will not be considered in determining any Benefit payable under this Plan.

Section 7.4. Funding Nonassignability.

No interest of any Participant or Surviving Spouse under this Plan, or any right to receive any payment hereunder, shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind, nor may such interest or right to receive a payment be taken, voluntarily or involuntarily, for the satisfaction of the obligations or debts of, or other claims against such Participant or Surviving Spouse, including, but not limited to, claims for alimony, support, separate maintenance, and claims in bankruptcy proceedings.

Section 7.5. Funding Nonguarantee of Employment.

This Plan shall not be construed as giving any Participant the right to be retained in the employment of the Company.

Section 7.6. Funding Death Benefits.

Except as provided in Section 4.3, there shall be no death benefit payable under this Plan.

Section 7.7. Funding Deferred Retirement.

In the event a Participant retires after age 65, the amount of the Supplemental Benefit payable under this Plan shall be the Participant's Benefit calculated at the actual retirement date (rather than age 65) under the benefit formulas in Article IV. The amount of the Benefit will not be further adjusted for the period from age 65 to the actual retirement date to take into account the delayed commencement date.

Section 7.8. Funding Claims Procedures. If a Participant or Surviving Spouse (the "Claimant") does not receive the Supplemental Benefit to which the Claimant believes he or she is entitled, the Claimant may file a claim in writing with the Compensation Committee. The Compensation Committee will establish a claims procedure with the following provisions:

(a). Notification of Decision. If the claim is wholly or partially denied, the Compensation Committee will notify the Claimant in writing within 90 days after the claim has been received (unless special circumstances require an extension of up to 90 additional days). The written notification must state the specific reasons for the denial of the claim and the specific references to the Plan provisions on which the denial is based. It must describe any additional material the Claimant may need to submit to the Compensation Committee to have the claim approved and must give the reasons the material is necessary. In addition, the notice must explain the claim review procedure and be written in a manner calculated to be understood by the Claimant.

(b). Claim Review Procedure. If the Claimant receives a notice that the claim has been denied, the Claimant, or his or her authorized representative, may appeal to the Compensation Committee for a review of the claim. The Claimant must submit a request for review in writing to the Compensation Committee no later than 60 days after the date the written notice of the claim denial is received. The Claimant, or his or her representative, may then review Plan documents that pertain to the claim and may submit issues and comments in writing to the Compensation Committee. The Compensation Committee must give the claim for review a full and fair review and must deliver to the claimant a written determination of the claim, including specific reasons for the decision, not later than 60 days after the date the Compensation Committee received the request for review (unless special circumstances require an extension of up to 60 additional days). The decision of the Compensation Committee will be final and conclusive (other than matters regarding a Participant upon or after the Participant's Termination on a Change of Control).

Section 7.9. Notice. Each notice and other communication concerning the Plan must be in writing and is deemed given only when (a) delivered in hand, (b) transmitted by telex or telecopier (provided that a copy is sent at approximately the same time by registered or certified mail, return receipt requested), or (c) received by the addressee, if sent by registered or certified mail, return receipt requested, or by Express Mail, Federal Express or other overnight delivery service. Notice must be given to the Company at its principal office and to the Participant at his last known address (or to such other address or telecopier number as a party may specify by notice given to the other party in accordance with this Section).

Section 7.10. New York Law Controlling. The Plan will be construed in accordance with the laws of the State of New York.

Section 7.11. Severability. Every provision of the Plan is intended to be severable. If any provision of the Plan is illegal or invalid for any reason whatsoever, the illegality or invalidity of that provision will not affect the validity or legality of the remainder of the Plan, and the Plan will be construed and enforced as if the illegal or invalid provision had never been made part of the Plan.

Section 7.12. Binding on Successors. The Plan is binding upon the Participants and the Company, their heirs, successors, legal representatives and assigns.

Section 7.13. Code Section 409A Compliance.

Benefits under the Plan are intended to comply with the rules of Code Section 409A and will be construed accordingly. However, the Company will not be liable to any Participant or Surviving Spouse with respect to any adverse tax consequences arising under Section 409A or other provision of the Code. All terms of the Plan that are undefined or ambiguous shall be interpreted in a manner that is consistent with Code Section 409A if necessary to comply with Code Section 409A.

ASTRONICS CORPORATION

Dated: ______________________ By: ______________________

Title

EXHIBIT 10.18

ASTRONICS CORPORATION
SUPPLEMENTAL RETIREMENT PLAN, II

ARTICLE I

PURPOSE, DEFINITIONS, AND EFFECTIVE DATE

Section 1.1. Purpose of the Plan.

This Astronics Corporation Supplemental Retirement Plan, II (the “Plan”) is an unfunded, nonqualified deferred compensation plan maintained for the purpose of providing additional retirement benefits for a select group of management or highly compensated employees of Astronics Corporation, and participation in the Plan is limited consistent with that purpose.

Section 1.2. Effective Date.

The Effective Date of the Plan is March 6, 2012.

Section 1.3. Definitions.

For purposes of this Plan, the following terms have the meanings stated below unless the context clearly indicates otherwise:

(a). **“Board”** means the Board of Directors of the Company.

(b). **“Cause”** means any act that is materially inimical to the best interests of the Company and that constitutes, on the part of the Participant, intentional or grievous wrong, including but not limited to, common law fraud, a felony, or other gross malfeasance of duty.

(c). **“Change of Control”** means the transfer, in one or more transactions extending over a period of not more than 24 months, of Common Stock of the Company possessing 25% or more of the total voting power of all shares of Common Stock. A transfer shall be deemed to occur if shares of Common Stock are either transferred or made the subject of options, warrants, or similar rights granting a third party the opportunity to acquire ownership or voting control of such Common Stock.

(d). **“Common Stock”** means the Class A and Class B $.01 par value shares of the capital stock of the Company, as well as all other securities with voting rights or convertible into securities with voting rights.

(e). **“Code”** means the Internal Revenue Code of 1986, as amended.

(f). **“Company”** means Astronics Corporation and its wholly or partially owned subsidiaries, as well as any of its or their successors or assigns, whether by transfer, merger, consolidation, acquisition of all or substantially all of the business assets, change in identity, or otherwise by operation of law.

(g). **“Compensation Committee”** means the Executive Compensation Committee of the Board, as it is constituted from time to time.

(h). **“Disability”** means a “disability” as defined in the Qualified Retirement Plan.

(i). **“Eligible Officer”** means an officer of the Company, or an officer or executive of an affiliate or subsidiary of the Company.

(j). **“409A Change in Control Event”** means the occurrence of one of the following events constituting a “change in control event” within the meaning of Code Section 409A.

1) Any one person, or more than one person acting as a group (“Group”), acquires ownership of stock of the Company that, together with stock previously held by the acquirer, constitutes more than 80% of the total fair market value or total voting power of the Company’s stock. If any one person or Group is considered to own more than 80% of the total fair market value or total voting power of the Company’s stock, the acquisition of additional stock by the same person or Group does not cause a change in ownership.

2) A majority of Board members is replaced during any 12-month (or shorter) period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election.

(k). **“Involuntary Termination”** means a termination of a Participant’s employment relationship with the Company, other than for death, Disability, retirement, or Cause, (1) by or at the instigation of the Company, or (2) by or at the instigation of the Participant where the Participant’s Pay has been diminished or reduced to a greater extent than any diminution or reduction of the Company’s officers generally.

(l). **“Participant”** means an Eligible Officer who has been designated a Participant in the Plan pursuant to Article III. The term “Participant” includes a person who has ceased to actively participate in the Plan but who has not received payment of all of his or her Plan Benefits.

(m). **<u>"Pay"</u>** means the base salary paid to an Eligible Officer for a calendar year plus any bonus or incentive payments payable in cash and earned for or attributable to that year, whether or not the base salary, bonus or incentive payments are actually paid during that year.

(n). **<u>"Qualified Retirement Plan"</u>** means the ATRO Companies Profit Sharing Plan/401(k) Plan, or any successor tax qualified retirement plan maintained by the Company, as in effect as of the date that a Benefit is calculated under the Plan.

(o). **<u>"Separation from Service"</u>** means a termination of a Participant's employment with the Company on account of retirement, death, Disability, or other voluntary or involuntary separation from service, determined in accordance with the provisions of Code Section 409A.

(p). **<u>"Supplemental Benefit"</u>** or **<u>"Benefit"</u>** means the annual income or lump sum payment, if any, payable to a Participant or Surviving Spouse pursuant to Article IV of the Plan.

(q). **<u>"Surviving Spouse"</u>** or **<u>"Spouse"</u>** means a surviving spouse who is a beneficiary entitled to receive some or all of the benefits, directly or indirectly, payable under the Qualified Retirement Plan upon the death of a Participant.

(r). **<u>"Termination on a Change of Control"</u>** means a termination of a Participant's employment relationship with the Company, other than for death, Disability, retirement, or Cause, (1) by or at the instigation of the Company within two years after a Change of Control, or (2) by or at the instigation of the Participant within two years of the Change of Control in those circumstances where the duties, responsibilities, status, base pay or perquisites of office and employment have been diminished or downgraded, or substantially increased (other than base pay and perquisites) without the Participant's actual or implied consent; provided, however, that a general decrease in base pay which is approved by a majority of the affected Participants will be considered as having been consented to for purposes of this Plan.

ARTICLE II
ADMINISTRATION AND AMENDMENT

Section 2.1. Administration.

The Plan is operated under the direction of the Compensation Committee, which has all authority and powers necessary to administer the Plan and construe the Plan terms, make factual determinations, resolve any ambiguities or inconsistencies, determine eligibility for participation or benefits, and decide all questions arising in the Plan administration, interpretation or application. The Compensation Committee's actions or decisions in all matters (other than matters regarding a Participant upon or after the Participant's Termination on a Change of Control) shall be final and binding upon all Participants, Spouses or other persons having or claiming an interest in this Plan.

Section 2.2. Amendment or Discontinuation.

While the Company expects to continue the Plan indefinitely, it reserves the right to amend the Plan from time to time or to discontinue the Plan at any time, by action of its Board. No amendment or discontinuance of the Plan shall impair or adversely affect any Benefits accrued under the Plan as of the date of such action, except with the consent of the Participant or Surviving Spouse entitled to receive such Benefits. In the event of an amendment of the Plan adversely affecting Benefits or discontinuance of the Plan, the amount of each Participant's Supplemental Benefits shall be determined under Article IV as if each Participant had retired as of the date of such amendment or discontinuance, except that the Participant will continue to vest in his or her Benefit in accordance with Article III. Accordingly, the Participant will become vested in and eligible to receive his or her Supplemental Benefits when the Participant has satisfied the vesting requirements provided under Article III.

ARTICLE III
PARTICIPATION AND VESTING

Section 3.1. Participation.

An Eligible Officer becomes a Participant in the Plan on the date that the Eligible Officer is designated as a Participant by the Board.

Section 3.2. Vesting.

Subject to Sections 3.3 and 3.4(b), a Participant is 100% fully vested in and eligible to receive his or her Supplemental Benefits under the Plan if:

the Participant has at least ten continuous years of service with the Company; and

the Participant has attained (1) age 65 or later, or (2) age 60 or later with a combined total of age and years of service with the Company at least equal to 90.

Section 3.3. Acceleration of Vesting.

In the event of a Participant's termination of employment before vesting due to a Disability, the Participant will become 100% vested in and eligible for a Supplemental Benefit under Article IV of the Plan.

In the event of an Involuntary Termination or a Termination on a Change of Control, a Participant who has at least ten years of continuous service with the Company will become 100% vested in and eligible for a Supplemental Benefit under this Plan.

In the event of a 409A Change in Control Event, a Participant who has at least ten years of continuous service with the Company will become 100% vested in and eligible for a Supplemental Benefit under this Plan.

In the event of a Participant's death, a Surviving Spouse will become vested in and eligible for a Supplemental Benefit under Article IV of the Plan.

Section 3.4. Forfeiture.

On a Participant's Separation from Service, if the Participant's Benefit is not vested under Section 3.2 or 3.3, the Participant's Supplemental Benefit will be immediately forfeited and no Supplemental Benefit will be payable under the Plan.

Notwithstanding any other provision in this Plan, in the event of a Participant's involuntary termination of employment by the Company for Cause, the Participant's Supplemental Benefit, whether vested or unvested, will be immediately forfeited and no Supplemental Benefit will be payable under the Plan.

ARTICLE IV
BENEFITS

Section 4.1. Supplemental Benefit.

A Participant with 25 or more years of service with the Company will receive a Supplemental Benefit under the Plan equal to 50% of the average of the highest consecutive three-year Pay paid to the Participant prior to retirement.

A Participant with 10-24 years of service will receive a Supplemental Benefit under the Plan determined according to the following schedule:

Years of Service	Percentage of Average Highest Consecutive 3-Year Pay
24	49%
23	48%
22	47%
21	46%
20	45%
19	44%
18	43%
17	42%
16	41%
15	40%
14	39%
13	38%
12	37%
11	36%
10	35%

Section 4.2. Early Retirement.

A Participant who retires from the service of the Company after attaining age 60, but before attaining age 65, and who possesses a combined total of age and years of service with the Company at least equal to 90, will receive a Supplemental Benefit adjusted as follows: The Supplemental Benefit payable under this Plan shall be reduced by 0.5% for each full month by which the date of the commencement of Benefits precedes the Participant's attainment of age 65. For example, assume a Participant with 25 years of service with the Company retires on his 62 nd birthday and that the average of his highest consecutive three-year Pay prior to retirement is $200,000 per year. If the Participant were age 65 at the date of his retirement, he would receive an annual Benefit of $100,000 ($200,000 x 50%). However, because he must commence receiving his Benefit at age 62, the annual $100,000 Benefit will be reduced by 0.5% for each month by which the date of commencement precedes his attainment of age 65. As a result, he would receive an annual Benefit commencing at age 62 of $82,000 ($100,000—$18,000 [$100,000 x 18% [36 months x 0.5%]] = $82,000).

Notwithstanding the foregoing, a Supplemental Benefit payable to a Participant who terminates employment due to a Disability will not be subject to reduction for early payment.

Section 4.3. Surviving Spouse.

(a). If a Participant dies after commencement of payment under Section 5.1, the Participant's Surviving Spouse, if any, will continue to receive for the life of the Spouse an amount equal to 100% of the Participant's monthly Supplemental Benefit at the same time and in the same form as the Supplemental Benefit would have been paid to the Participant had he or she lived.

(b). If the Participant dies before commencement of the Supplemental Benefit payments, the Surviving Spouse will receive payment of 100% of the monthly Supplemental Benefit that would have been payable to the Participant under the benefit formula provided in Section 4.1 had the Participant lived. Notwithstanding the previous sentence, if the Participant had not attained age 65 at the time of his or her death, the Supplemental Benefit payable to the Surviving Spouse will be determined as if the Participant had attained age 65 on the day before his or her death. Payment to the Surviving Spouse under this Subsection will be made in equal monthly installments for the life of the Spouse. Payment will commence on, or as soon as practicable after, the later of the date of the Participant's death or the date the Participant would have attained age 60 had he or she lived. If payment of the Supplemental Benefit commences before the date the Participant would have attained age 65, the Benefit payable to the Surviving Spouse will be reduced by 0.5% for each full month by which the date of commencement precedes the date the Participant would have attained age 65.

(c). All rights to the Supplemental Benefit will terminate and no other beneficiary will be entitled to payment of any amount under this Plan if (1) a Participant is not survived by a Surviving Spouse at the time of his or her death, or (2) payment has already commenced to a Surviving Spouse under this Section and the Spouse dies.

Section 4.4. Involuntary Termination of Employment.

In the event of a Participant's Separation from Service due to an Involuntary Termination, a Participant with at least ten years of consecutive service with the Company will receive a Supplemental Benefit determined as follows: The Benefit will be determined under Section 4.1, based on the Participant's years of service as of the termination date and using the average of the highest consecutive three-year Pay paid prior to the Involuntary Termination, instead of the average for the Pay paid prior to retirement. For a Participant who has not yet attained age 65 at the time of the Involuntary Termination, the Benefit will be further adjusted by reducing the applicable percentage specified in Section 4.1 by a percentage factor equal to the (a) the applicable percentage, multiplied by (b) 1%, multiplied by (c) the difference between (i) age 65 and (ii) the Participant's age at the time of the Involuntary Termination. For example, the Supplemental Benefit payable to a Participant who is age 45 and who has 15 years of service with the Company at the time of the Involuntary Termination would be calculated based on a percentage factor of 32% (40% [based on 15 years of service] – 8% [40% x 1% x 20 [65 – 45]] = 32%). If a Benefit payable under this Section commences before the date the Participant attains age 65, the Benefit will be reduced by 0.5% for each full month by which the date of commencement precedes the Participant's attainment of age 65.

Section 4.5. Termination on a Change of Control.

In the event of a Participant's Separation from Service due to a Termination on a Change of Control, a Participant with at least ten years of consecutive service with the Company will receive a Supplemental Benefit determined as follows: The Benefit will be determined under Section 4.1, based on the Participant's years of service as of the termination date and using the greater of (a) the average of the highest consecutive three-year Pay paid prior to the Change of Control, or (b) the average of the highest consecutive three-year Pay paid prior to termination of employment. If payment of the Benefit commences before the date the Participant attains age 65, the Benefit will be reduced by 0.5% for each full month by which the date of commencement precedes the Participant's attainment of age 65.

Section 4.6. 409A Change in Control Event.

On the occurrence of a 409A Change in Control Event, a Participant with at least ten years of consecutive service with the Company will be entitled to a lump sum payment of the present value of his or her Supplemental Benefit determined as of the date of the 409A Change in Control Event. For a Participant who has not yet commenced payment of his or her Supplemental Benefit, the Benefit will be determined under Section 4.1, based on the Participant's years of service as of the 409A Change in Control Event and using the average of the highest consecutive three-year Pay paid prior to the 409A Change in Control Event, instead of the average for the Pay paid prior to retirement. A Participant who has already commenced receiving payment of the Supplemental Benefit at the time of the 409A Change in Control Event will be entitled to a lump sum payment of the present value of the remaining Benefit determined as of the 409A Change in Control Event. The present value of a Benefit payable under this Section will be the actuarial present value of the accrued Supplemental Benefit as determined using the mortality table prescribed by the Secretary of the Treasury under Section 417(e)(3)(B) of the Code, as in effect for such period, and applicable interest rate described by Section 417(e) of the Code in effect for the second month preceding the month in which the 409A Change in Control Event occurs.

ARTICLE V
TIME AND FORM OF BENEFIT PAYMENT

Section 5.1. Time of Payment.

Upon a Participant's Separation from Service for any reason other than Cause, subject to Section 5.3, payment of the Supplemental Benefit will commence on, or as soon as practicable after, the later of the Participant's Separation from Service or the date the Participant attains or would have attained age 60. Payments made on the occurrence of a 409A Change in Control Event will be made as soon as practicable but no later than 60 days following the 409A Change in Control Event.

Section 5.2. Form of Payment.

Except for payments made on a 409A Change in Control Event, Supplemental Benefits under the Plan will be paid to a Participant or a Participant's Surviving Spouse in equal monthly installments for the life of the Participant or the Participant's Surviving Spouse, as determined under Article IV. Benefits payable to a Participant on a 409A Change in Control Event will be paid in a single lump sum payment.

Section 5.3. Six-Month Delay.

Notwithstanding any other provision in this Plan to the contrary, to the extent that (a) the Participant is determined to be a "specified employee" within the meaning of Code Section 409A, and (b) any amounts payable under this Plan are payable solely because of the Participant's Separation from Service within the meaning of Code Section 409A, then such amounts will not be payable to the Participant before the date that is six months after the Participant's Separation from Service (or, if earlier, the date of death of the Participant). Payments to which a Participant would otherwise be entitled during the first six months following the Participant's termination date will be accumulated and paid on the day that is six months after the termination date. For this purpose, a Benefit payable will be paid as the amount calculated at the time of Separation from Service (without adjustment for delay in payment).

ARTICLE VI
AGREEMENT NOT TO COMPETE

Section 6.1. Agreement Not to Compete.

Payment of the Benefit under this Plan is contingent upon the Participant's agreement not to directly or indirectly engage in or compete with the business of the Company, either as owner, partner or employee for a period of the later to occur of the expiration of three years after retirement or the attainment of 65 years of age (the "Non-Compete Period"). In the event a Participant competes with the business of the Company, payment of the Benefit under this Plan will be suspended so long as the Participant engages in activity deemed to be in competition with the business of the Company during the Non-Compete Period. Notwithstanding the foregoing, this Article VI shall not apply to a Participant after the Participant's Termination on a Change of Control.

ARTICLE VII
MISCELLANEOUS PROVISIONS

Section 7.1. Funding.

This Plan is maintained as an unfunded Plan which is not intended to meet the qualification requirements of Code Section 401. All rights of any Participant or Surviving Spouse under this Plan shall at all times be entirely unfunded and no provision shall at any time be made with respect to segregating any assets of the Company for payment of any amounts due hereunder. No Participant or Surviving Spouse shall have any interest in or any rights against any specific assets of the Company, and a Participant or Surviving Spouse shall have only the rights of a general unsecured creditor of the Company. It is intended that the Plan is an unfunded nonqualified deferred compensation arrangement for income tax purposes.

Section 7.2. Withholding. The Company has the right to deduct or withhold from the Supplemental Benefit paid under the Plan (or from other amounts payable to the Participant, if necessary) all taxes that are required to be deducted or withheld under any provision of law (including, but not limited to, Social Security and Medicare taxes (FICA) and income tax withholding) now in effect or that may become effective any time during the term of the Plan.

Section 7.3. Nonassignability.

No interest of any Participant or Surviving Spouse under this Plan, or any right to receive any payment hereunder, shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind, nor may such interest or right to receive a payment be taken, voluntarily or involuntarily, for the satisfaction of the obligations or debts of, or other claims against such Participant or Surviving Spouse, including, but not limited to, claims for alimony, support, separate maintenance, and claims in bankruptcy proceedings.

Section 7.4. Nonguarantee of Employment.

This Plan shall not be construed as giving any Participant the right to be retained in the employment of the Company.

Section 7.5. Death Benefits.

Except as provided in Section 4.3, there shall be no death benefit payable under this Plan.

Section 7.6. Deferred Retirement.

In the event a Participant retires after age 65, the amount of the Supplemental Benefit payable under this Plan shall be the Participant's Benefit calculated at the actual retirement date (rather than age 65) under the benefit formulas in Article IV. The amount of the Benefit will not be further adjusted for the period from age 65 to the actual retirement date to take into account the delayed commencement date.

Section 7.7. Claims Procedures. If a Participant or Surviving Spouse (the "Claimant") does not receive the Supplemental Benefit to which the Claimant believes he or she is entitled, the Claimant may file a claim in writing with the Compensation Committee. The Compensation Committee will establish a claims procedure with the following provisions:

(a). Notification of Decision. If the claim is wholly or partially denied, the Compensation Committee will notify the Claimant in writing within 90 days after the claim has been received (unless special circumstances require an extension of up to 90 additional days). The written notification must state the specific reasons for the denial of the claim and the specific references to the Plan provisions on which the denial is based. It must describe any additional material the Claimant may need to submit to the Compensation Committee to have the claim approved and must give the reasons the material is necessary. In addition, the notice must explain the claim review procedure and be written in a manner calculated to be understood by the Claimant.

(b). Claim Review Procedure. If the Claimant receives a notice that the claim has been denied, the Claimant, or his or her authorized representative, may appeal to the Compensation Committee for a review of the claim. The Claimant must submit a request for review in writing to the Compensation Committee no later than 60 days after the date the written notice of the claim denial is received. The Claimant, or his or her representative, may then review Plan documents that pertain to the claim and may submit issues and comments in writing to the Compensation Committee. The Compensation Committee must give the claim for review a full and fair review and must deliver to the claimant a written determination of the claim, including specific reasons for the decision, not later than 60 days after the date the Compensation Committee received the request for review (unless special circumstances require an extension of up to 60 additional days). The decision of the Compensation Committee will be final and conclusive (other than matters regarding a Participant upon or after the Participant's Termination on a Change of Control).

Section 7.8. Notice. Each notice and other communication concerning the Plan must be in writing and is deemed given only when (a) delivered in hand, (b) transmitted by telex or telecopier (provided that a copy is sent at approximately the same time by registered or certified mail, return receipt requested), or (c) received by the addressee, if sent by registered or certified mail, return receipt requested, or by Express Mail, Federal Express or other overnight delivery service. Notice must be given to the Company at its principal office and to the Participant at his or her last known address (or to such other address or telecopier number as a party may specify by notice given to the other party in accordance with this Section).

Section 7.9. New York Law Controlling. The Plan will be construed in accordance with the laws of the State of New York.

Section 7.10. Severability. Every provision of the Plan is intended to be severable. If any provision of the Plan is illegal or invalid for any reason whatsoever, the illegality or invalidity of that provision will not affect the validity or legality of the remainder of the Plan, and the Plan will be construed and enforced as if the illegal or invalid provision had never been made part of the Plan.

Section 7.11. Binding on Successors. The Plan is binding upon the Participants and the Company, their heirs, successors, legal representatives and assigns.

Section 7.12. Code Section 409A Compliance.

Benefits under the Plan are intended to comply with the rules of Code Section 409A and will be construed accordingly. However, the Company will not be liable to any Participant or Surviving Spouse with respect to any adverse tax consequences arising under Section 409A or other provision of the Code. All terms of the Plan that are undefined or ambiguous shall be interpreted in a manner that is consistent with Code Section 409A if necessary to comply with Code Section 409A.

ASTRONICS CORPORATION

Dated:____________________ By: ____________________

Title

EXHIBIT 21

ASTRONICS CORPORATION

SUBSIDIARIES OF THE REGISTRANT

Subsidiary	Ownership Percentage	State (Province), Country of Incorporation
Luminescent Systems, Inc.	100%	New York, USA
Astronics Advanced Electronic Systems Corp.	100%	Washington, USA
Luminescent Systems Canada, Inc.	100%	Quebec, Canada
Astronics Air, LLC	100%	New York, USA
LSI—Europe B.V.B.A.	100%	Brussels, Belgium
DME Corporation	100%	Florida, USA
Ballard Technology, Inc.	100%	Washington, USA
Max-Viz, Inc.	100%	Oregon, USA

EXHIBIT 23

Consent of Independent Registered Public Accounting Firm

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(a) the Registration Statements (Form S-8 No. 333-139292, Form S-8 No. 333-87463) pertaining to the Astronics Corporation Employee Stock Purchase Plan,

(b) the Registration Statement (Form S-8 No. 333-127137) pertaining to the Astronics Corporation 2005 Director Stock Option Plan,

(c) the Registration Statement (Form S-8 No. 33-65141) pertaining to the 1993 Director Stock Option Plan,

(d) the Registration Statement (Form S-8 No. 333-143564) pertaining to the Astronics Corporation 2001 Stock Option Plan,

(e) the Registration Statements (Form S-8 No. 333-176044) pertaining to the Astronics Corporation 2011 Employee Stock Option Plan,

(f) the Registration Statement (Form S-3 No. 333-176160) and related prospectus of Astronics Corporation for the registration of common stock, preferred stock, warrants, rights, stock purchase contracts, units and debt securities;

of our reports dated February 22, 2013 , with respect to the consolidated financial statements and schedule of Astronics Corporation and the effectiveness of internal control over financial reporting of Astronics Corporation included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP

Buffalo, New York
February 22, 2013

Exhibit 31.1

Certification of Chief Executive Officer pursuant to Exchange Act rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2001

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

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

Date: February 22, 2013

/s/ Peter J. Gundermann

Peter J. Gundermann
Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer pursuant to Exchange Act rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2001

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

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

Date: February 22, 2013

/s/ David C. Burney
David C. Burney
Chief Financial Officer

Exhibit 32

Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2001

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2001, the undersigned officers of Astronics Corporation (the "Company") hereby certify that:

The Company's Annual Report on Form 10-K for the year ended December 31, 2012 fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934 and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 22, 2013	/s/ Peter J. Gundermann
	Peter J. Gundermann Title: Chief Executive Officer
Dated: February 22, 2013	/s/ David C. Burney
	David C. Burney Title: Chief Financial Officer

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