Operator: Good afternoon and welcome to the Astronics Corporation First Quarter Fiscal Year 2023 Conference Call. All participants will be in a listen-only mode. [Instructions] After speakers' presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I would now like to turn the conference over to Deborah Pawlowski, Investor Relations for Astronics. Please go ahead.

Deborah Pawlowski: Thank you, Priscilla, and good afternoon, everyone. We certainly appreciate your time today and your interest in Astronics. On the call here with me are Peter Gundermann, our Chairman, President and Chief Executive Officer, and Dave Burney, our Chief Financial Officer. You should have a copy of our first quarter 2023 financial results which we just released after the market closed today. If you do not have the release, you can find it on our website at astronics.com.

As you are aware, we may make some forward looking statements during the formal discussion and the Q&A session of this conference call. These statements apply to future events that are subject to risks and uncertainties, as well as other factors that could cause actual results to differ materially from what is stated here today.

These risks and uncertainties and other factors are provided in the earnings release, as well as with other documents filed with the Securities and Exchange Commission. You can find those documents on our website or at sec.gov.

During today's call we will also discuss some non-GAAP financial measures. We believe these will be useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliations of non-GAAP measures with comparable measures in the tables that accompany today's release.

With that, let me turn it over to Pete to begin. Peter?

Pete Gundermann: Thank you, Dave and good afternoon, everybody. Thank you for tuning in for our call.

In general, we feel the first quarter was a reasonably good start to the year and we're making lots of good progress, though there are challenges. We will divide this conversation generally into a discussion of the positive points to begin with and then focus a little bit on the challenges towards the end.

Sales were up 35% year-over-year to $156 million that exceeded the range that we predicted, when we last talked. Aerospace was up 34%, to $135 million. Our test business was up 42% to $20.9 million, but that includes a $5.8 million non-operating addition, which we will discuss in some detail a little bit later.

Jumping to the bottom line, we had a net loss of $4.4 million and adjusted EBITDA of $6.1 million, which was 3.9% of sales. That's a nice improvement from where we were one year ago when we had adjusted EBITDA of $1 million. It is even an improvement over the fourth quarter when adjusted EBITDA was $4 million on higher sales.

Evaluating the quarter and comparing it to last year's first quarter is somewhat complicated due to several factors, including:

- this non-operating revenue of $5.8 million in our test segment;
- an equity investment payable write-off of $1.8 million;
- earn-out income on our semiconductor test sale from a few years ago of $3.4 million in the current quarter versus $11.3 million in the comparator quarter a year ago;
- and AMJP, Aerospace Aircraft Manufacturing Jobs Protection Act, grant receipts of $6 million in the comparator quarter a year ago.

Dave will dive into some of those specific items when he gets a turn at the mic in a few minutes.

Demand remains pretty strong with bookings at $158 million and once again setting a new record backlog at the end of the quarter. Aerospace orders in particular were strong at $150 million, resulting in a book to bill of 1.11. Test was light by comparison at $7.8 million in bookings for the quarter. Test orders tend to be lumpy and vary quite a bit from quarter to quarter, so we don't get too worked up about one quarter being light in that business.

In terms of new business, two significant developments occurred shortly after quarter end that are worth mentioning. On April 6, the General Accounting Office, the GAO, dismissed the Lockheed protest on the Army's FLRAA program, clearing the way for Textron Bell to proceed. We're not allowed to say too much about the program at this point, but we expect to be turned on with development work in the coming few weeks. As we have discussed on these calls in the past, this program promises, or has the potential to be, one of the most significant programs in our Company's history, before it's done.

Also, in April we were awarded the handheld radio test sets program by the Marine Corps, which is otherwise known as HHRTS. This is an award that we expected to come out almost a year ago, but we're happy to get it later than never. This radio test program for the Marine's is an IDIQ, which stands for indefinite delivery, indefinite quantity, we expect will be worth approximately $40 million in revenue over a five-year period and we expect it to be mostly front loaded in the first three years. We expect a first major test order potentially of about $10 million in shipments in the coming weeks. This is a complement to the TS-4549/T program we talked about before, which is a radio test program for the US Army that we won last fall that is currently in contract negotiation.

As an aside, HHRTS is the final major new program pursuit that we had in our sights when the pandemic began in early 2020. We made a conscious decision to maintain certain resources and pursuits, even though we knew that our business was going to struggle, as the pandemic took its hold on the aerospace industry. At this point, I can say we've been stunningly successful at actually winning pretty much every item on that list, except for a couple that are on indefinite hold. This includes in addition to FLRAA and HHRTS:

- TS-4549/T that I just discussed,
- The new generation in-seat power architecture, which was instrumental in winning Southwest Airlines as a customer, and has subsequently been successful with narrowbody operators all around the world;
- an antenna program for Safran and Airbus,
- establishing ourselves in the emerging electric and eVTOL aircraft market
- and a few other programs that we are not yet allowed to discuss.

These programs as a group are barely represented in our backlog and have not yet meaningfully affected our results, but they will begin to do so as 2023 rolls along.

Looking forward, we are holding our 2023 revenue forecast at $640 million to $680 million and establishing second quarter guidance at $165 million to $175 million. At the midpoint, this implies second quarter growth of 32% year-over-year and 9% sequentially.

For most of the pandemic, we have oscillated between $100 million and $125 million in quarterly revenue. The last two quarters have been in the $155 million to $160 million. And now we feel we are stepping up to $170 million and $175 million or slightly more for the rest of 2023. At that level, we would expect for the rest of the year to be strongly cash positive and profitable.

Some discussion on margins: we are reasonably comfortable with how our aerospace segment is progressing. As volume increases, the margin profile will continue to improve, especially since the growth is largely in commercial aerospace, a market that has traditionally been quite lucrative for us.

We are making margin progress in our test business also, but first quarter results make it less obvious. We restructured the business in mid-April and took out about $4 million to $5 million of annual cost, and expect those savings becoming evident in the third quarter this year after severance costs are finished. This action was necessary due to delays with some of the new programs we have won, particularly in the area of the radio test, HHRTS and TS-4549/T programs discussed recently; but also with some transit test work that is progressing slowly due to customer delays. We expect these new programs eventually to contribute $20 million to $40 million of annual revenue which will be a significant add to the current business level of about $80 million per year. But they've been slow to take off and they're not here yet, and to bridge the gap, we felt it necessary to cut some costs. This action will allow the business to establish profitability at current revenue levels of $85 million per year while waiting for the new programs to launch. So, the test business has been a challenge.

Another of our challenges is working capital. The sales ramp we are experiencing is a good thing, but it has led to higher receivable balances and ongoing supply chain snags have resulted in increased levels of stranded inventory. This was especially apparent in the first quarter. Receivables will remain high in the near term as revenue continues to ramp. But we believe we are at the high point on inventory and expect to see a gradual decline from here.

At this point, I'll turn it over to Dave to go into some details of some of the topics I brought out, Dave.

Dave Burney:

Thanks, Pete. As Pete mentioned, there are several unusual income and expense items to point out in the quarter and one in the comparable 2022 first quarter. For reference, you can see these items called out on Page 8 of the release in the table that reconciles adjusted EBITDA to GAAP net loss.

The first and most significant item was a $5.8 million increase to sales. This was the result of reversing an opening balance sheet contract liability. It was created with one of our acquisitions a few years back. The short explanation is that we bought a test company and assumed a $5.8 million deferred revenue liability related to a customer contract, which is no longer expected to occur.

The second item I'd like to point out is the reversal of another liability of $1.8 million, it was recorded in other income this quarter and it was related to an equity investment in another company that we no longer are required to make. It was a start-up company that failed to meet certain milestones.

For the third item, we recorded a final earn-out payment of $3.4 million from the sale of our semiconductor test product line a few years ago. In last year's first quarter, we recognized a $11.3 million for the earn-out and as compared to $3.4 million this year. And it was the final earn-out from the sale of that business several years ago.

The fourth item: our legal costs defending our positions in IP related suits was high in the quarter, at $4.4 million, about $3.2 million higher than last year's first quarter.

Then last, I'd like to point out that in last year's first quarter we recognized $6 million from the AMJP grant program that Pete mentioned. It's a reduction in the cost of sales for that period, and there have been no comparable grants available since then.

But, considering all these puts and takes, our adjusted EBITDA improved from $949,000 in 2022's first quarter to $6.1 million this quarter on a $34 million increase of sales, excluding the adjustments for the $5.8 million of non-operating sales that I previously referred to. I'd like to add that adjusted EBITDA also improved when compared to the preceding fourth quarter of 2022.

Looking at segments, our aerospace business continues to see a strong recovery and is ramping to satisfy customer demand. Aerospace sales were $135.6 million, up $34.2 million or 33.7% from last year, and bookings were strong at $150 million. We expect aerospace sales to ramp to $150 million to $160 million in each of the final three quarters of the year, which will see their segment return to solid profitability. So, we're still expecting to incur some spot buy expense in the second quarter, which will impact margins in that period. Aerospace operating margin was $4.1 million or 3%, an improvement of $7 million compared to the 2022 first quarter when you exclude the impact of the $6 million AMJP grant from last year.

Our test business, on the other hand, had a mixed quarter. The top-line of $20.9 million looks all right, but it includes $5.8 million of non-operating adjustment discussed earlier and also mentioned by Pete. If one backs out that adjustment the test results were not so good. We expect sales to pick back up to $20 million in the second quarter and stay there for the rest of the year. Shortly after the quarter close, we had a restructuring. Pete went through that a little bit, where we expect to benefit $4 million to $5 million annually from that restructuring. They'll start to show up in the third quarter and the restructuring again was necessary due to the slow take off of some of the higher dollar programs for the test segment.

Turning to debt and the balance sheet. Cash flow continues to be a challenge due to inventory growth. Cash flow from operations was negative $19 million due primarily to inventory growth, which increased by
$13.9 million and receivable growth which increased by $4.2 million during the quarter. While the supply chain is improving, parts shortages and last-minute reschedules from suppliers are hampering our efforts to reduce inventory levels and improve inventory turnover.

Receivable growth was mostly due to the timing of shipments weighted toward the last month of the quarter, where roughly 50% of our shipments occurred in the month of March.

We're compliant with our debt covenants and are forecasting continued compliance and positive cash flow for the balance of the year. And as Pete mentioned maintaining revenue guidance of $640 million to $680 million for the year. And that's all I have Pete.

Pete Gundermann: Okay. I think that concludes our prepared remarks. With everything being said, we feel that the first quarter was a reasonable start to the year. There are challenges, there always are. But we think the rest of 2023 is setting up to be a pretty exciting time for our company and we will open it up at this point for questions, Priscilla.

Question & Answer

Operator: Thank you. We will now begin the question-and-answer session. [Instructions] At this time, we will pause momentarily to assemble. Our first question comes from Jon Tanwanteng with CJS Securities.

Jon Tanwanteng: Hi, Pete. Thanks for taking my questions. My first one is: just wondering how much you left on the table in terms of sales because of the inventory that was stranded, whether there is component shortages or timing of all the stuff that was going on.

Dave Burney: Probably about $25 million. We got about $25 million of orders that are scheduled or overdue, past due at this point. And most of that is due to part shortages.

Jon Tanwanteng: Okay. Yes. Are you seeing relief?

Pete Gundermann: So, we're seeing continued, I'd say continued progress on our supply chain in general. We've been saying that now for probably about five or six months, and it continues to get better, but it's still not perfect. And so, you end up with these situations and you never know what it's going to be from period to period or week to week or month to month. But in general, $25 million is the number that we think is past due. Now, I should distinguish a little bit because we have this backlog and customers would happily take stuff faster and sooner if we could accelerate and do it. As our supply chain improves, sometimes it improves in fits and starts. To give you some color on that we were putting guidance out there for the second quarter of $165 million to $175 million. We've got scheduled orders well in excess of the high end of the range there.

We're taking into account our current performance level of our supply chain and we're not assuming significant improvements in the short term, but I might point out that for each of the last two quarters, we've actually exceeded the high end or hit the high end of our range. So, it's starting to come back, and it's starting to come back, we think a little bit faster, which is a good thing in general for the world and for our industry. But it also caught us a little bit by surprise with inventory growth in the first quarter. So, there's a flip side to it that's not so positive.

Jon Tanwanteng: Got it. That's helpful. Just thinking about the run rate that you were forecasting for the rest of the year. $150 million to $160 million on the aerospace side and $20 million on the test side. That gets you to the high end of your range already. So, I'm wondering if that's kind of what you're pointing at in your guidance with those expectations. Second, what's the profitability you're expecting at that run rate, the $160 million to $170 million?

Pete Gundermann: Well, we don't typically… did you say profitability or possibility – profitability?

Jon Tanwanteng: I said what's the profit at that range, the profitability?

Pete Gundermann: Okay. That's what I thought. We don't do bottom-line guidance as you know, but we would expect as we get to that range and you're right, the kind of the numbers we're forecasting put us at the high end of our stated range. We would expect to be in positive cash flow and reasonably profitable in the second half of this year in particular. And as far as the range goes, we're sticking with $640 million to $680 million as I said. The supply chain and all the unpredictability of the world certainly means that there is some risk of downside potential there; but there's also opportunity for upside potential, in my opinion, as the supply chain continues to improve. We certainly have the business, and we have the orders. So – and the customers will generally take the product if we can deliver it earlier than what we're currently agreeing to. So, I think the second half is going to be an exciting time for the company. And it'll begin to feel and look a lot more like it did kind of pre-pandemic than it has since.

Jon Tanwanteng: Okay.

Dave Burney: Yeah, I think John, one of the things that as a general rule of thumb is to think about is, our contribution margin and incremental sales is going to be close to 40%, 35%, 40%. We have some spot buys that are continuing to happen, but they're much smaller than I think last year. Some quarters we had $3 million of costs related to spot buys. First quarter this year, it was somewhere around… rounded to $1 million or so that those will drop off as we move into the second half of the year. But the contribution margins should improve too, we were down in the 30% to 35% last year. I think we're progressing, moving toward that 40% contribution margin on the incremental sales.

Jon Tanwanteng: Okay, great. The last one for me: within that $20 million run rate for the test business for the rest of the year, does that assume any pickup from these the Army or Marine contracts that that you landed, or are you expecting more ramp in 2024?

Peter Gundermann: They're going to significantly ramp in 2024. We do have some kind of lower-level assumptions in 2023, but they're for test units and low-rate initial production units, things like that. We don't have this HHRTS test yet. We expect that shortly, but it'll probably become more of an early 2024 issue than a 2023. 4549/T on the other hand, we are at this point expecting formal contract awards sometime in the August, September timeframe and there will be some positive impact at that point in terms of low-rate initial production units and some engineering expense that will get relieved once the contract is signed. But that also will significantly begin to ramp more in 2024, then in 2023.

Jon Tanwanteng: Understood. Thank you. I'll jump back in the queue.

Operator: Our next question comes from Pete Osterland with Truist Securities.

Pete Osterland: Hey. Good evening. I'm on for Michael Ciarmoli this evening. Thanks for taking our questions. But first just wanted to ask on the aerospace segment. So, looking back historically at the revenue run rate you delivered this quarter, you've been able to generate segment operating margins that were more in the low teens. Was just kind of wondering how to kind of think about the difference, like how much of an impact on margins would you estimate that the spot price had in the first quarter? And, you know, kind of where are the other biggest margin headwinds that you're seeing versus what your cost structure look like pre-pandemic? Just trying to get at if there's any other potential drivers for margin expansion throughout the rest of the year aside from the volume impact you pulled out?

Dave Burney: Well, most of the spot buy was -- all of the spot buy was in the aerospace segment. So that was roughly $1 million. But the volume is what, you know, the top line growth is what's going to drive the operating margin for the segment as we move through the year.

Pete Gundermann: I would answer by saying… I don't know how far back you had to go to look at that similar kind of revenue run rate for aerospace business, but today we're a much deeper company and frankly offering solutions for projects we didn't really have a chance at back in those days. I mean the system that we're putting on FLRAA just as an example on those V-280 Valor is something that I think most of the industry didn't think, even today, we were capable of. Bell knew because we've been working with them on their previous two commercial helicopter projects. So, they knew what we could do. But a FLRAA type of program is not something we could have done say five or six years ago. So, we do have more of an overhead element to our business. I think it's a very capable element, and I think it's one that's going to drive results. But they take time to mature and FLRAA will not be an exception to that. It'll take time. But those kinds of programs can be incredibly valuable over a long horizon period.

Pete Osterland: And it's very helpful. Thank you. And then just as a follow up, I wanted to ask a question on the labor front. Are you fully staffed to the degree that you need to be in order to meet your full-year revenue guidance? And have you seen any recent changes over the last few months, either with attrition or just overall labor availability?

Pete Gundermann: We have certain hotspots in our company where we do have labor challenges. But in general, and even in those hotspots, I would say that labor is getting to be an easier issue. It's freeing up a little bit. We, like most companies, had a lot of churn over the last couple of years. We're starting to see some of those people come back now. It turns out the grass isn't always greener on the other side, but we're also having an easier time just attracting people in general across most parts of our business. So, if all the parts came in right now, would we have all the people we need, probably not. But the big challenge for us is not people, it's much more parts.

Pete Osterland: Very helpful. Thank you for taking the questions.

Pete Gundermann: Sure thing.

Operator: Our next question comes from Tony Bancroft with Gabelli Fund.

Tony Bancroft: Hey, gents. Thanks so much for taking my question and congratulations on the good quarter. Maybe you could remind us again what the FLRAA program entails, potential full rate ship set? And then is there a potential to get more content on that program?

Pete Gundermann: Well, as you know, Tony, these programs can have a long and somewhat unpredictable trail. And our piece of it at this point isn't even firmly defined yet. It's still a little bit in flux, but I think I used this line before and I'll use it again, even though we're not under contract yet and this isn't formalized: but as our company has grown over the years, our ship set content has grown also. I use the example of, there was a time when the business was based on maybe $10,000 per business jet and that we were largely a business jet company. Today, if you were to take a wide-body aircraft and put absolutely everything on it that we could possibly put on it: from a lighting perspective; from a safety perspective; from an in-seat power perspective; from antennas; and file servers; and wireless access points; all the things that we do, you'd probably come up with – and by the way, there's never been an airplane like this, we've never had one – but if we had one, it would be somewhere in the neighborhood of probably a $750,000 shipset, something like that. Our FLRAA shipset content as it exists right now is well north of that.

So, it's a major program. It's, as you know, largely designed to replace Black Hawk or to complement the Black Hawk, and nobody is saying they're going to be a one-for-one replacement, but there are 4,000 Black Hawks out there and many of them have been out there since the mid-1970s. So, it's due for a major upgrade. And I think the working number that I come across most is somewhere in the neighborhood of 2,000 ships before you start selling internationally. So, it's a significant program.

Tony Bancroft: Right. Yes, that's great. And then, again, could you remind me – I know that the second program is obviously the FARA program, and it doesn't have the same kind of volume as FLRAA – but is there any – just because of the relationship with Bell and just what you guys do – is there any potential to be on that program as well? Is that a possibility? If so, like maybe what would it be?

Pete Gundermann: Yeah, with Bell, certainly. We are on their FARA entry also.

Tony Bancroft: Great. Wonderful. And I guess with such a long and potentially transformational contract, maybe longer-term view, where do you see your company five years from now when this program matures? Does it make sense to do something transformational with Astronics or how do you see that? I mean with such a – this has just really changed your – I think it's probably going to change your business quite a bit – I just want to get your thoughts on that.

Pete Gundermann: Well, to tell you the truth, we've been thinking so much about quarter-to-quarter through this pandemic we haven't been…

Tony Bancroft: Fair enough.

Pete Gundermann: And then the program delays and then the challenges, legally and all that stuff. But yeah, I think it opens up a ton of opportunities for our company. We were challenged in this pandemic largely because when we went into it, we were 70% commercial transport.

That's the area that got kicked in the teeth the most by the pandemic. We were only 10% military aircraft. If you run those numbers that we were talking about just moments ago, that program single-handedly has the probability or potential to rebalance our business, I think, in very favorable ways from a market diversification standpoint.

So, we're certainly looking forward to that. That will be transformational in and of itself, from my perspective. Beyond that, we haven't put any stakes in the ground as to what we want to accomplish or even where we would plan to build those products because we're going to design them in our facilities where we have that expertise. But it's going to take a lot of floor space and a lot of capital to get that program going. So, luckily, we have a few years to get that effort underway.

Tony Bancroft: Yeah. That's a really good point. And maybe just one more… You sort of talked about how this is likely going to shift the business, giving the split more balance in defense. But then sort of another, second benefit, of course – back to the commercial side – you have all of these aircraft that are still being flown longer and extending out time - and you've heard all the other conference calls and discussions about this.

It seems like, on the sort of aftermarket piece, there's probably a huge wave of opportunity for these extensions and then just retrofit. Maybe you could update us on how you are seeing that, and how that's sort of transformed throughout the pandemic and up to this point?

Pete Gundermann: I think it's a good point and it is a growing part of our business. Our business has grown quite a bit over the years, but in many respects, we're still a pretty young company. I'm going to date myself here a little bit, but I remember a time when we were about $4.5 million in sales, and we hit $800 million right before the pandemic. And a lot of that growth came over the last 10 years or so, 10, 12, 13 years. And a lot of the products that drove that growth are maturing and needing to be replaced. So, we definitely are seeing an uptick in some of the spare's purchases and some of the repairs purchases.

That's never been a big part of our business. But as we get larger and as these products – everything on an airplane breaks, again, as you know. I think being a pilot is a much easier job if airplanes never break, right? But they do. So, there's certainly a market there. And I expect that will become a bigger part of our business.

In certain places, it's starting to now, but it's not a major thing yet for us. It's not something we break out separately in our financials, but I can see us getting to that point someday.

Tony Bancroft: Thanks. Great job, Peter and Dave. Well done.

Operator: Our next question comes from Scott Lewis with Lewis Capital Management.

Scott Lewis: Hey. Good afternoon, guys. One question on FLRAA: What kind of margins will the development work entail?

Pete Gundermann: Well, we anticipate it being fully funded, for sure, and we anticipate having a reasonable return on it, a risk-reduced return. So that contract is in negotiation and it's a little hard to talk about it at this point. But I expect that we're going to be turned on before our next conference call. So, I should be able to talk about it a little bit more by then.

I can also say that the scope of activities over the next, say, 15 months has bounced around quite a bit. So, we don't really know exactly what we're going to be asked to do yet, at least I don't. Some people in our company may know. So, it's a little hard to say. But we expect to be turned on and we expect to be shuffling some of our people around and adding to our staff to do it, but we're not going to make additions and we're not going to do too much of that shuffling until we finally get under contract.

Scott Lewis: Okay. Got it. And then the second question is, looks like in 2024, you'll be pushing a good volume through your main, kind of, business units. How about your smaller business units, some of those that gave the company some troubles right before the pandemic? Anything there that is concerning that could detract from the overall performance of the company?

Pete Gundermann: No, not really. You have a long memory, Scott.

But also remember that those three, I think we call them problem children at the end of 2019, we took some pretty major restructuring steps to fix them. And those steps have largely, I feel, been successful. We haven't talked about them a whole lot since. And they're, in general, doing pretty well. One of them, in fact, is probably one of the most profitable parts of our business right now, right?

Dave Burney: It's profitable.

Pete Gundermann: Which is a big change. So, yes, I don't – we're not going to go back to those days. I think we got those things fixed.

Scott Lewis: Okay, good. That is good to hear. And as far as long memory, I remember the last really big military contract, the F-16 night vision cockpits.

Pete Gundermann: Boy, Scott, really. Yes, that's correct.

Scott Lewis: Yeah, I remember that.

Pete Gundermann: Yes, so that was I think...

Dave Burney: Started in the late 1990s, 1998?

Pete Gundermann: It was earlier than that. It was the reason we built this building. My recollection at that time was that was just when we were just – we had two operations. It was just New Hampshire and New York. We were a $16 million program. And the program Scott's referring to, for those who don't know, it was an Air National Guard-led program to retrofit the guard fleet of F-16 fighters for night vision goggle compatibility. So, everything that lit up on the airplane, interior cockpit and exterior had to be replaced. We were about a $16 million company. I think that was a $50 million contract, before you start doing spares and all that. And then the Air Force jumped in on it, too. So, it turned out to be 1,156 airplanes just for what it's worth.

Dave Burney: That's right.

Pete Gundermann: Four of them crashed before we got done. So, it was really 1,152 airplanes.

Scott Lewis: Okay. Yes. FLRAA does as many and maybe more. All right. Thanks, guys.

Operator: Our next question comes from Jon Tanwanteng with CJS security.

Jon Tanwanteng: Hey guys. Just wanted to go back to the margin question. Do you still expect to be back at those low teens operating margins in the Aerospace business sometime in the next maybe five, six, seven quarters or so?

Dave Burney: I think we're going – it might take a little bit longer than the next four or five quarters to get back to the low teens in terms of operating margins. But, yes, I think our expectation is to get up to the mid-teens in terms of EBITDA margins as the top line grows when we get probably past this year, maybe into the beginning of next year. But I can see us getting into the teens in terms of operating income on the Aerospace segment, probably not within the next year, though, but definitely as the top line grows.

What we'll also see is new contract pricing start to kick in more than it is right now. We're really not seeing a whole lot of it. We quoted a lot with new pricing in it. And those are typically a year, two, three-year programs that will begin as we move through this year and into next year. And the new quoting – the new pricing is reflecting the inflation that we saw in the past 12 months here. So, we're going to see some margin expansion related to that versus what we're seeing right now, too.

Jon Tanwanteng: Got it. That's helpful. And then just a quick question on the legal costs. What are you expecting for the rest of the year and kind of when do you expect that to finish up?

Dave Burney: That's a hard one to predict. Probably it may not be consistent from quarter-to-quarter, but probably in the $2 million to $4 million a quarter range, I would say. It could – it might be $4 million one quarter, $1 million the next. It's dependent on what's going on in the process for each of the suits.

Jon Tanwanteng: Okay. And then just remind us how much room you have on your covenants at this point in case you have more problems with receivables and inventory or something else is going on?

David Burney: Where we are right now, in terms of the minimum EBITDA compliance, we have around $9 million of room on the minimum EBITDA compliance. That's our financial covenant right now.

Jon Tanwanteng: Got it. Thanks, Dave.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

Note: This transcript has been edited slightly to make it more readable. It is not intended to be a verbatim recreation of the Astronics Corporation (ATRO) financial results teleconference and webcast that occurred on the date noted. Please refer to the webcast version of the call, which is available on the Company's website (astronics.com), as well as to information available on the SEC's website (sec.gov) before making an investment decision. Please also refer to the opening remarks of this call for ATRO's announcement concerning forward-looking statements that were made during this call.