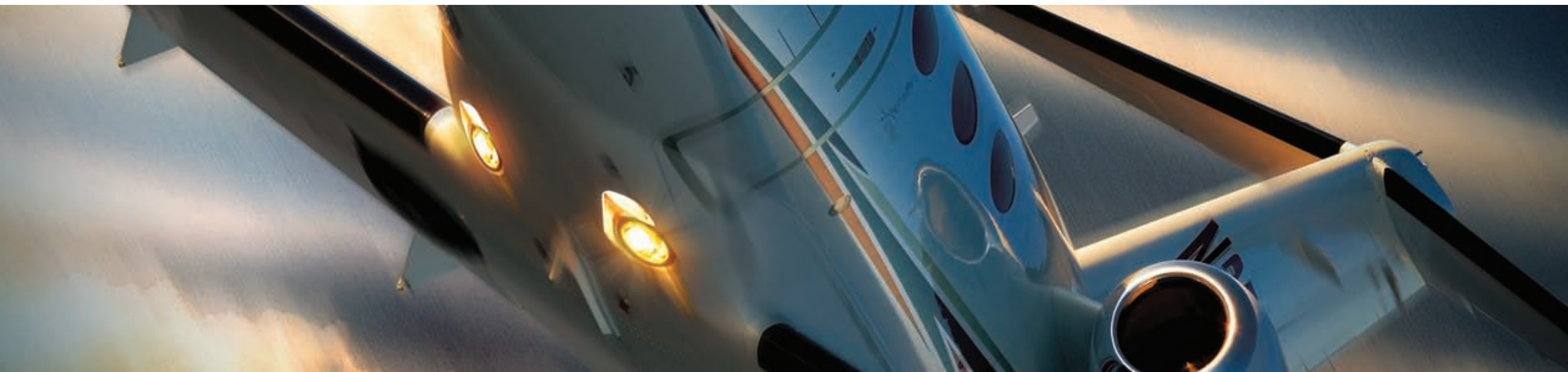
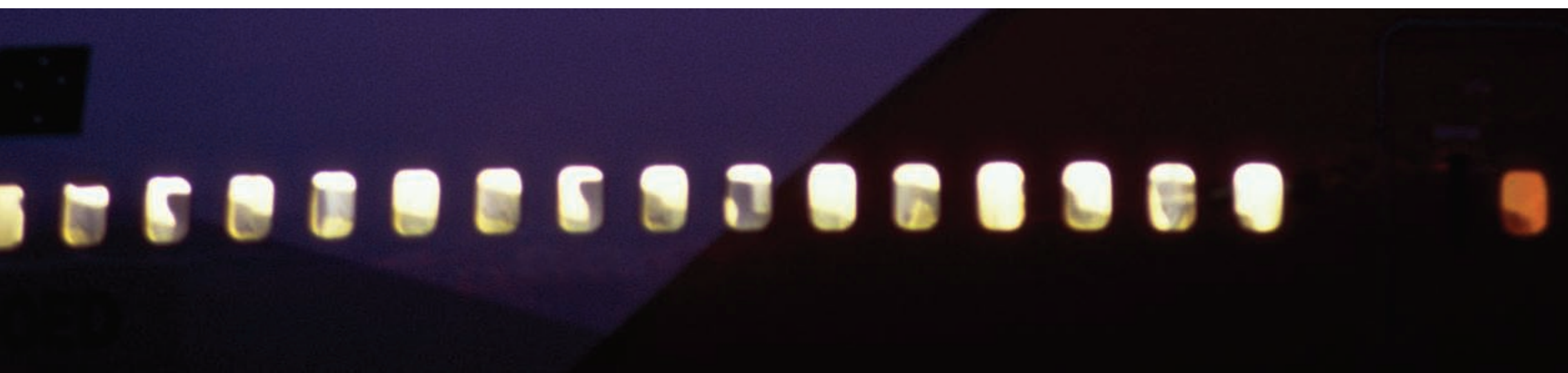
2006 ANNUAL REPORT





ASTRONICS CORPORATION

Astronics Corporation Company Profile and Strategy

Astronics Corporation is a leader in advanced, high performance lighting and electrical power distribution systems for the global aerospace industry. Over the last decade, we have expanded our capabilities and added breadth and depth to our product line repositioning us as a system supplier providing complete lighting systems for the cockpit, cabin and exterior of aircraft and electrical power distribution systems for both cabin and airframe power needs. We are unique in our ability to address the complete lighting and electrical power system needs of an aircraft for the three major aircraft markets: the military, commercial transport and business jet markets. Astronics customers include major aircraft manufacturers, airline operators, avionics companies, and armed forces around the world.

Astronics' strategy for growth is to continue to develop or acquire the necessary technology to logically expand our products and capabilities in order to increase our product value and content on the growing base of new and existing aircraft platforms. We will capitalize on our reputation for high-quality designs, exceptional responsiveness, strong brand recognition and best-in-class manufacturing practices to continue growing our market share.

NASDAQ NM: ATRO

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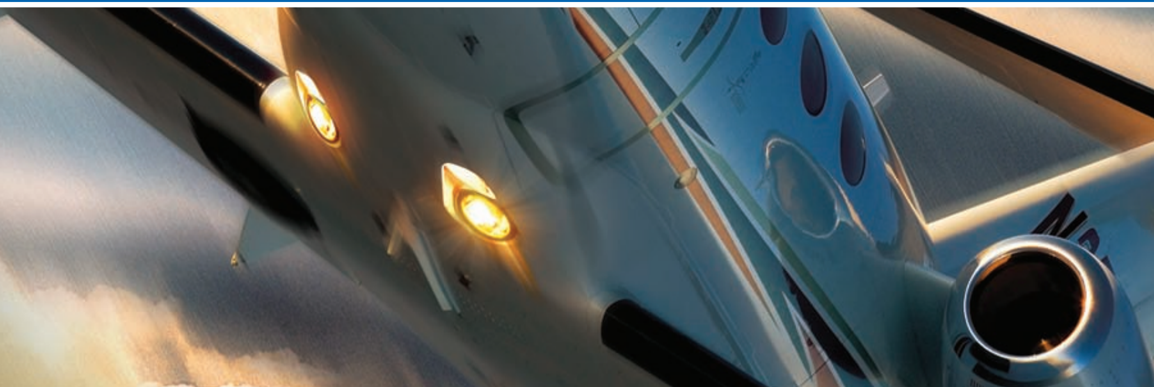
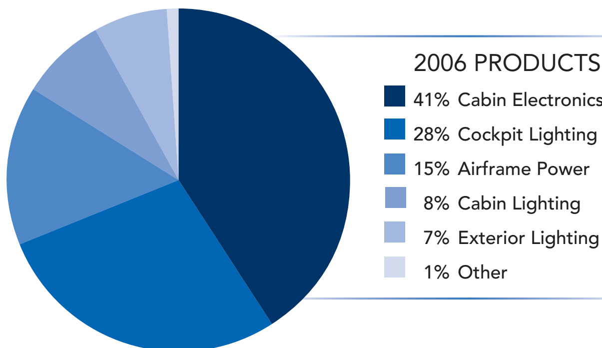
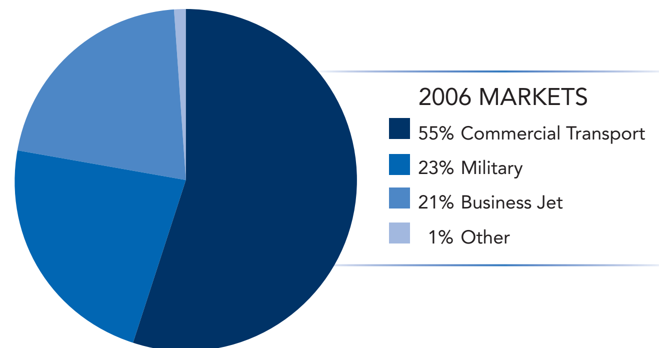


(in thousands, except per share data)	2006	2005* Restated	2004	2003	2002
Performance (continuing operations)					
Sales	$110,767	$ 74,354	$ 34,696	$ 33,182	$ 42,940
Income (Loss) from Continuing Operations	5,736	2,237	(734)	782	4,047
Diluted Earnings (Loss) Per Share	$ 0.69	$ 0.28	$ (0.09)	$ 0.10	$ 0.49
Weighted Average Shares Outstanding - Diluted	8,269	8,038	7,766	7,815	8,208
Year End Financial Position (continuing operations)					
Total Assets	$ 82,538	$ 66,439	$ 45,236	$ 45,474	$ 46,607
Long-Term Debt	9,426	10,304	11,154	12,482	13,110
Shareholders' Equity	31,348	25,418	22,660	22,940	22,550
Book Value Per Share	$ 3.91	$ 3.22	$ 2.91	$ 2.96	$ 2.87
Other Year End Data (continuing operations)					
Depreciation and Amortization	$ 2,929	$ 2,373	$ 1,273	$ 1,212	$ 1,269
Capital Expenditures	$ 5,400	$ 2,498	$ 1,136	$ 420	$ 397
Shares Outstanding	8,026	7,901	7,800	7,742	7,870
Number of Employees	787	702	424	369	412

** Restated. See note # 13 in the notes to the consolidated financial statements. Includes the February 2005 acquisition of Astronics AES*





2006 Sales: $110.8 million

Peter J. Gundermann
President and CEO

Dear Fellow Shareholders,

The year 2006 was a very good one for Astronics Corporation. Revenue grew 49% to $110.8 million, and diluted earnings per share increased to $0.69 from $0.28 the prior year. We enjoyed strong market conditions in each of our markets and made excellent progress with our large number of development programs. The increasing value and technical sophistication of our products, along with the broad strength of the global aerospace industry, drove our results in 2006.

We continue to be pleased with the strong market conditions we see and great programs we are involved in. Here is a summary:

Commercial Transport

Our sales to the world's airlines, the airframe manufacturers that build their aircraft, and their first- and second-tier suppliers grew from $30.2 million in 2005 to $61.3 million in 2006, providing most of our growth during the year. The main product sold to this segment is our array of In-Seat Power Systems, which provide power for passengers' personal electronic devices (PEDs), as well as the latest generation of in-flight entertainment (IFE) systems.

Globally, airlines have been heavily investing in their fleets, both retrofitting existing aircraft and adding new ones. Consequently, we have seen a large number of excellent opportunities for large fleet sales, like the Air Canada program that began in 2006 and will conclude in 2007.

Both Boeing and Airbus have very robust backlogs and continue to project strong aircraft delivery growth for 2007 and 2008. Looking beyond 2008, we expect both the new Airbus A380 and Boeing 787 to offer excellent sales opportunities for our In-Seat Power Systems as they enter service in the coming years.

Business Jets and General Aviation

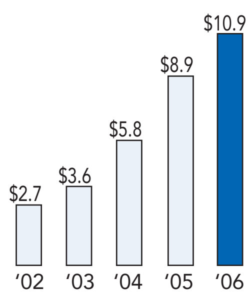
Our sales to the business jet market were also strong in 2006, increasing by $7.5 million, or 49%, to $22.9 million. Demand for corporate jets in the U.S., which has the largest business jet base in the world, has been excellent. Additionally, the leading business jet manufacturers, such as Cessna, are seeing growing demand in international markets. For example, international orders for Cessna's Citation grew to 48% of total orders in 2006, up from 19% just four years earlier.

Two new airplanes that we have a significant amount of product on, the Cessna Mustang and the Eclipse 500, were FAA certified in 2006, and are expected to begin ramping up production in 2007. Each delivered their first aircraft last year as well. These are entry-level jets that have the potential to dramatically change air travel over the next decade as economics, convenience and capabilities merge into a lower cost jet for both corporate and private use.

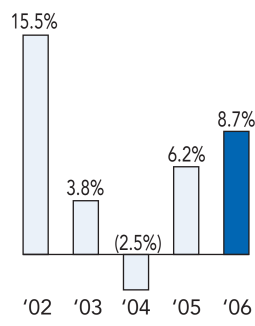
During the year, we were also awarded important contracts for two new aircraft: The Piaggio P180 Avanti II and the Embraer Phenom 100. We were selected to provide a complete suite of integrated cockpit panel assemblies and lighting controllers for the Avanti II, the world's fastest turboprop business aircraft. Piaggio is expecting to increase production from 20 aircraft last year to 40 in 2008. Embraer expects the Phenom 100 to capture a large portion of the emerging light jet market, with a targeted rate of 120 to 150 aircraft per year once in full production later this decade. The aircraft will feature our exterior lighting products.

These aircraft are in the $1.5 million to $4 million price range, substantially less expensive than the traditional entry

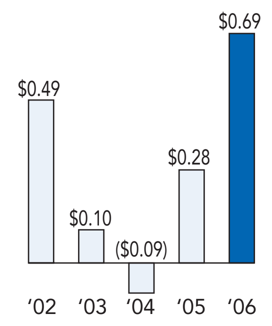
WE HAVE SEEN A LARGE NUMBER OF EXCELLENT OPPORTUNITIES FOR OUR PRODUCTS AS COMMERCIAL AIRLINES HEAVILY INVEST IN THEIR FLEETS BY ADDING NEW AIRCRAFT AND RETROFITTING EXISTING ONES.



ENGINEERING & DEVELOPMENT EXPENSE
(in millions)



OPERATING MARGIN



DILUTED EARNINGS (LOSS) PER SHARE
(from continuing operations)

price for small jets. Technology has enabled the design of lighter, more powerful aircraft that provide sufficient range and seating to address the needs for the personal, corporate travel and air taxi markets.

Military

Military sales were down $2.2 million to $25.3 million primarily due to the conclusion of a night vision lighting retrofit program for the Republic of Korea Air Force. Our military sales are subject to the ebb and flow of large programs such as these.

Some of our most important programs are in the military area. The V-22 Osprey, for example, demonstrates our efforts to capture more value on each aircraft for which we win awards. Each V-22 will have products representing our cockpit lighting, cabin lighting, exterior lighting and airframe power product lines making it one of our more important programs in terms of ship set content per aircraft. The V-22 is currently in low rate production, while a multi-year procurement contract is expected to be awarded mid-2007 and production growing to an average rate of 37 per year. Between the U.S. Marine Corp, U.S. Navy and U.S. Air Force, total production of over 450 aircraft is expected.

Another strong prospect in this market is the F-35 Lightning II, also known as the Joint Strike Fighter. The supersonic, multi-role fighter completed its successful inaugural flight on December 15, 2006. Currently, there are ten aircraft in production, and it's expected that 18 will be in production by the end of this year. The F-35 production rate will gradually ramp up over the next few years and is slated to produce a total of almost 2,600 aircraft for the United States' and United Kingdom's armed forces. Orders from other allied nations could push the total even higher.

Operating Performance

We had some margin improvement in 2006 as our pre-tax profit increased to 7.9% of sales from 5.6% in 2005, perhaps not as much as would have been expected given a 49% increase to the top line. Leverage from the higher revenue was somewhat offset by increased costs, either by choice, due to increased regulatory costs or to accounting rules changes. First, as we saw continued opportunities to position ourselves as leaders in the markets we serve, we increased our spending on developmental programs by $2 million over the 2005 spending level. For the past several years and going into 2007, we have had more opportunities than ever in our history to position Astronics' products on next generation aircraft with next generation technology. We will continue to pursue those programs that we believe offer the best potential for continued profitable growth and ultimately increase the long-term value of our Company. Next, the costs related to our Sarbanes-Oxley Section 404 effort increased by roughly $700 thousand as we suddenly became an accelerated filer and were required to become compliant with the 404 requirements in 2006. Lastly, the new rules requiring us to expense stock options became effective in 2006, increasing costs by $600 thousand.

All told, these costs accounted for approximately $3.3 million of expense increases as compared with the prior year. Given the prospects from our current perspective, we expect to continue spending for engineering and development at a similar rate as we have been for the past year, although these costs should be more in line with our top line, as that continues growing. In our opinion, this investment is money well spent to position our products and technology as leaders in the aerospace markets.

Looking Forward

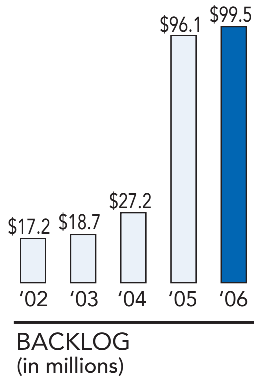
We expect 2007 to be even better than this last year and anticipate revenue will be in the range of $135 million to $140 million. The length and strength of the current business cycle have been strongly positive, and there are no indicators that the industry will slow down in the near future.

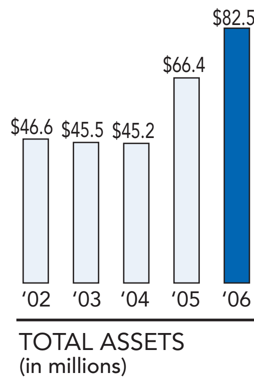
In this environment, we will seek programs that we believe will be long-term winners. There is considerable interest in our latest products, and we are pleased that the industry continues to offer excellent development opportunities. We will persist in our efforts to innovate and invest in areas we believe offer solid long-term potential.

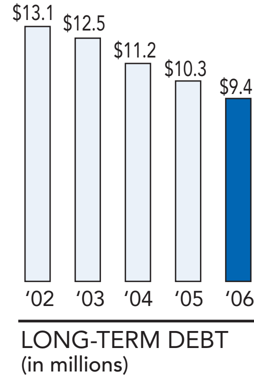
We are pleased with the progress we have made recently and are confident in our prospects for continued prosperity. We hope you share in our excitement.

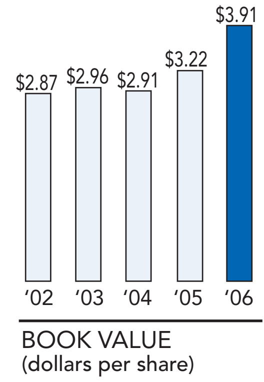
With kind regards,

Peter J. Gundermann
President and CEO
March 26, 2007









DEMAND FOR BUSINESS JETS IS GROWING IN BOTH DOMESTIC AND INTERNATIONAL MARKETS. OUR PRODUCTS ARE ON THE LEADING AIRCRAFT PLATFORMS OF THE FUTURE.

LIGHTING SYSTEMS

COCKPIT LIGHTING

- Illuminated display panels
- Flood lights, map lights
- Caution/indicator panels
- Ambient light sensors
- Power supplies
- Dimmer units
- Avionics keyboards

EXTERIOR LIGHTING

- Formation light
- Position
- Anti-collision
- Landing/taxi
- Logo
- Wing de-ice
- Aerial refueling
- Approach

CABIN LIGHTING

- Emergency egress lighting
- Passenger signage
- General area lighting

COMPETITIVE ADVANTAGES

- Systems supplier of a wide range of lighting products capable of outfitting the entire aircraft from Night Vision Imaging System (NVIS) cockpits to High Intensity Discharge (HID) exterior lights
- Breakthrough HID and Light Emitting Diode (LED) technology for aerospace
- Engineering team dedicated to meeting the customized design needs for each aircraft platform
- Operational flexibility and capital resources to respond effectively to customer needs

High Reliability
LED Navigation Light
for Business Aircraft

Products &

CABIN ELECTRONICS

POWER SYSTEMS

- Power source for in-flight entertainment information systems and the in-seat power for passenger personal electronic devices

COMPETITIVE ADVANTAGES

- Compact unit with lower weight and volumes
- Highest power output available today
- High efficiency and reliability
- International plug compatibility
- Back-lit receptacle for use in darkened cabins

Seat Power Module for Commercial Transport Aircraft

Electronic Power Distribution Center
for Small Business Aircraft

POWER GENERATION AND DISTRIBUTION

- Primary power generation, intelligent power distribution and secondary power supplies

COMPETITIVE ADVANTAGES

- Multiple power products capable of outfitting an entire aircraft or transport vehicle
- Advanced design and engineering techniques
- Significant experience across a broad array of aircraft

Markets

THE INCREASING VALUE AND TECHNICAL SOPHISTICATION OF OUR PRODUCTS IS DRIVING OUR SUCCESS, AND WE WILL CONTINUE TO INNOVATE AND INVEST IN PROGRAMS THAT WE BELIEVE OFFER SOLID LONG-TERM POTENTIAL.

ASTRONICS CORPORATION

OFFICERS

Astronics Corporation

Peter J. Gundermann
President and Chief Executive Officer

David C. Burney
Vice President, Treasurer, Secretary and Chief Financial Officer

Luminescent Systems, Inc.

Frank G. Johns, III
Vice President

James S. Kramer
Vice President

Richard C. Miller
Vice President

Astronics Advanced Electronic Systems Corp.

Mark A. Peabody
Executive Vice President

Diana J. Suzuki
Vice President

BOARD OF DIRECTORS

Raymond W. Boushie [1]
President and CEO, retired
Crane Aerospace and Electronics

Robert T. Brady [1,2]
Chairman of the Board, President and Chief Executive Officer
Moog, Inc.

John B. Drenning [4,5]
Partner
Hodgson Russ LLP

Peter J. Gundermann
President and Chief Executive Officer
Astronics Corporation

Kevin T. Keane
Chairman of the Board
Astronics Corporation

Robert J. McKenna [1,3]
President and Chief Executive Officer, retired
Wenger Corporation

[1] Member of Nominating/Governance, Compensation and Audit Committees
[2] Chairman, Audit Committee
[3] Chairman, Nominating/Governance Committee
[4] Chairman, Compensation Committee
[5] Member of Compensation and Nominating/Governance Committee

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, 2006

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 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ☐ No ☑

As of March 6, 2007, 8,062,325 shares were outstanding, consisting of 6,686,077 shares of Common Stock $.01 Par Value and 1,376,248 shares 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 $90,758,774 (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 2007 Annual Meeting of Shareholders to be held May 9, 2007 are incorporated by reference into Part III of this Report.

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 advanced, high-performance lighting, electronics and power distribution systems for the global aerospace industry. We sell our products to original equipment manufacturers (OEM's) in the commercial transport, business jet, military markets, OEM suppliers, and aircraft operators around the world. The U.S. Government is also a major customer of ours. The Company provides its products through its wholly owned subsidiaries Luminescent Systems, Inc., Luminescent Systems Canada, Inc., collectively referred to as (LSI) and Astronics Advanced Electronic Systems Corp. (AES).

Strategy

Astronics' strategy for growth is to continue to develop or acquire the necessary technology to evolve into a leading aircraft lighting, electronics and power generation and distribution systems integrator, increasing the value and content we provide on a growing base of aircraft and missile platforms.

Products and Customers

Astronics' products are sold worldwide to manufacturers of business jets, military aircraft, missiles, and commercial transports, as well as airlines and suppliers to the OEM's. During 2006 the Company's sales were divided 55% to the commercial transport market, 23% to the military market, 21% to the business jet market, and the balance to other markets. Most of the Company'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. Sales by Geographic Region, Major Customer and Canadian Operations are provided in Note 8 of Item 8, Financial Statements and Supplementary Data in this report.

Practices as to Maintaining Working Capital

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

Competitive Conditions

Astronics experiences considerable competition in the Aerospace 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 Aerospace markets we serve depends upon product innovation, customer support, responsiveness, and cost management. Astronics continues to invest in developing the technologies and engineering support critical to competing in our Aerospace 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.

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, 2006, the Company's backlog was $99.5 million. At December 31, 2005, the Company's backlog was $96.1 million.

Patents

The Company has a number of patents and has filed applications for others. While the aggregate protection of these patents is of value, the Company's only material business that is dependent upon the protection afforded by these patents is its cabin power distribution product. The Company's patents and patent applications relate to electroluminescence, instrument panels, keyboard technology and a broad patent covering the cabin power distribution technology. The Company regards its expertise and techniques as proprietary and relies upon trade secret laws and contractual arrangements to protect its rights. We have trademark protection in major markets.

Research, Development and Engineering Activities

The Company is engaged in a variety of engineering and design activities as well as basic research and development activities directed to the substantial improvement or new application of the Company's existing technologies. These costs are expensed when incurred and included in cost of sales. Research and development and engineering costs amounted to approximately $10.9 million in 2006, $8.9 million in 2005 and $5.8 million in 2004.

Employees

The Company's continuing operations employed approximately 787 employees as of December 31, 2006. The Company considers its relations with its employees to be good.

Available information

The Company files its 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 the Company's website at www.astronics.com.

ITEM 1A. ***RISK FACTORS***

Risks Related to our Industry

The markets we serve are cyclical and sensitive to domestic and foreign economic conditions and events, which may cause our operating results to fluctuate. For example, demand by the business jet markets for our products is dependent upon several factors, including capital investment, product innovations, economic growth, and technology upgrades. In addition, the commercial airline industry is highly cyclical and sensitive to fuel price increases, labor disputes and economic conditions. A change in any of these factors could result in a reduction in the amount of air travel. A reduction in air travel would reduce orders for new aircraft and reductions in cabin upgrades by airlines for which we supply products and for the sales of spare parts, thus reducing our sales. A reduction in air travel may also result in our commercial airline customers being unable to pay our invoices on a timely basis or at all.

We depend on government contracts and subcontracts with defense prime contractors and sub contractors that may not be fully funded or may be terminated, and the 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 may result in a reduction in the volume of contracts awarded to us.

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. The nature of our business activities involves fixed-price contracts. Our contractual arrangements include customers' requirements for delivery of hardware and funded nonrecurring development work that we anticipate will lead to follow-on production orders. For the year ended December 31, 2006, fixed-price contracts represented 100% of our 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.

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 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.

Risks Related to our Business

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.

A write-off of all or part of our goodwill or other intangible assets could adversely affect our operating results and net worth and cause us to violate covenants in our bank credit facility. Goodwill and other intangible assets are a substantial portion of our other assets. At December 31, 2006, goodwill was $2.7 million and other intangible assets were $2.3 million, 6.1% of our total assets of $82.5 million. We may have to write off all or part of our goodwill or other 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. A write-off of goodwill or other intangible assets could also cause us to violate covenants in our bank credit facility that requires a minimum level of net worth. 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.

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 industries 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.

Our facilities could be damaged by catastrophes which could reduce our production capacity and result in a loss of customers. We conduct our operations in facilities located in the United States and Canada. Any of these facilities could be damaged by fire, floods, earthquakes, power loss, telecommunication and information systems failure or similar events. Although we carry property insurance, including business interruption insurance, our inability to meet customers' schedules as a result of catastrophe may result in a loss of customers or significant additional costs.

Government regulations could limit our ability to sell our products outside the United States. In 2006, 1% of our sales were subject to compliance with the United States Export Administration regulations. Our failure to obtain the requisite licenses, meet registration standards or comply with other government export regulations would hinder our ability to generate revenues from the sale of our products outside the United States. Compliance with the government regulations may also subject us to additional fees and costs. The absence of comparable restrictions on competitors in other countries may adversely affect our competitive position. In order to sell our products in European Union countries, we must satisfy certain technical requirements. If we

are unable to comply with those requirements with respect to a significant quantity of our products, our sales in Europe would be restricted.

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.

The loss of a major customer or a significant reduction in sales to a major customer would reduce our sales and earnings. In 2006 we had a concentration of sales to a major customer representing 21% of our sales. The loss of this customer or a significant reduction in sales to this customer would significantly reduce our sales and earnings.

We are a supplier on various new aircraft programs just entering or expected to begin production in the near future. 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.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

Not applicable

ITEM 2. *PROPERTIES*

The Company owns manufacturing and office facilities of approximately 70,000 square feet in the Buffalo, New York area and is currently constructing an additional 57,000 square feet of manufacturing capacity that is expected to be completed and operational in the second quarter of 2007. The Company owns manufacturing and office facilities of approximately 80,000 square feet in Lebanon, New Hampshire. Astronics AES leases approximately 98,000 square feet of space, located in Redmond, Washington. The lease expires in 2008 with one option to renew to 2013. The Montreal, Quebec, Canada operations are in leased facilities of approximately 15,000 square feet. The lease expires in 2009. Upon expiration of its current leases, the Company believes that it will be able to secure renewal terms or enter into a lease for alternative locations.

ITEM 3. *LEGAL PROCEEDINGS*

There are no material pending legal proceedings, other than routine litigation incidental to the business, to which the Registrant or any of its subsidiaries is a party or of which any of their property is the subject.

ITEM 4. *SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS*

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 March 2, 2007, was 825 for Common Stock and 714 for Class B Stock.

2006	High	Low
(In dollars)		
First	13.67	10.15
Second	15.04	11.61
Third	16.55	12.66
Fourth	17.50	14.42

2005	High	Low
First	7.29	4.70
Second	9.30	6.01
Third	10.56	8.47
Fourth	10.99	9.06

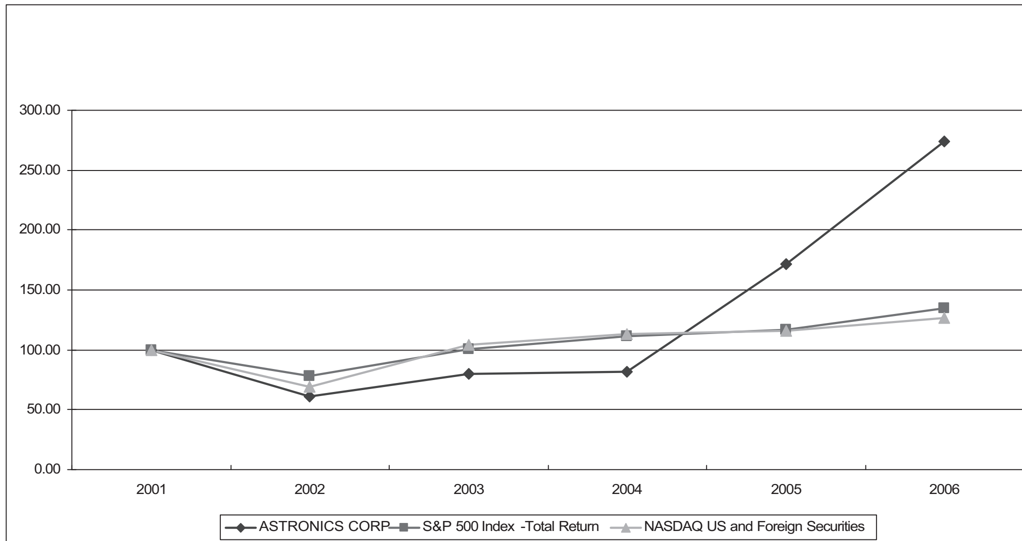
The Company has not paid any cash dividends in the three-year period ended December 31, 2006. It has no plans to pay cash dividends as it plans to retain all cash from operations as a source of capital to finance growth in the business. There are no restrictions, however on the Company's ability to pay dividends.

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 2007 Annual Meeting of Shareholders is incorporated herein by reference.

We did not repurchase any shares of our common stock in 2006.

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 2006



ITEM 6. *SELECTED FINANCIAL DATA*

Five-Year Performance Highlights

	2006(1)	2005(1)	2004	2003	2002
(Dollars in thousand, except for per share data)					
PERFORMANCE (continuing operations)					
Sales — Core Business	$110,767	$74,354	$34,696	$32,452	$32,866
Sales — Original F-16 NVIS Program	—	—	—	730	10,074
Sales	110,767	74,354	34,696	33,182	42,940
Income (Loss) from Continuing Operations	$ 5,736	$ 2,237	$ (734)	$ 782	$ 4,047
Net Margin	5.2%	3.0%	(2.1)%	2.4%	9.4%
Diluted Earnings (Loss) per Share, Continuing Operations	$ 0.69	$ 0.28	$ (0.09)	$ 0.10	$ 0.49
Weighted Average Shares Outstanding — Diluted	8,269	8,038	7,766	7,815	8,208
Return on Average Assets	7.7%	4.0%	(1.6)%	1.7%	8.8%
Return on Average Equity	20.2%	9.3%	(3.2)%	3.4%	21.5%
YEAR-END FINANCIAL POSITION (continuing operations)					
Working Capital	$ 17,437	$13,349	$18,104	$18,767	$13,834
Total Assets	82,538	66,439	45,236	45,474	46,607
Long Term Debt	9,426	10,304	11,154	12,482	13,110
Shareholders' Equity	31,348	25,418	22,660	22,940	22,550
Book Value Per Share	$ 3.91	$ 3.22	$ 2.91	$ 2.96	$ 2.87
OTHER YEAR-END DATA (continuing operations)					
Depreciation and Amortization	$ 2,929	$ 2,373	$ 1,273	$ 1,212	$ 1,269
Capital Expenditures	$ 5,400	$ 2,498	$ 1,136	$ 420	$ 397
Shares Outstanding	8,026	7,901	7,800	7,742	7,870
Number of Employees	787	702	424	369	412

(1) — Includes the effects of the acquisition of Astronics Advanced Electronic Systems Corp on February 3, 2005.

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. and Luminescent Systems Canada Inc. designs and manufactures electrical power generation, control and distribution systems and lighting systems and components, for the aerospace industry. We operate four principal facilities located in New York State, New Hampshire, Washington State and Quebec, Canada. We serve the three primary aircraft markets which are the military, commercial transport and the business jet markets. In 2006, the break down of sales to the commercial transport market, the military market and the business jet market were 55%, 23% and 21%, respectively, miscellaneous sales to non aerospace markets accounted for 1% of sales. Astronics strives to offer comprehensive lighting and electrical systems for aircraft which we believe make the Company unique in our ability to serve our customers.

On February 3, 2005, the Company acquired substantially all of the assets of the General Dynamics — Airborne Electronic Systems (AES) business unit from a subsidiary of General Dynamics. Astronics acquired

the business for $13.0 million in cash. The Company financed the acquisition and related costs by borrowing $7.0 million on its revolving line of credit and used $6.4 million of cash on hand.

During the fourth quarter of 2006 we broke ground on a 57,000 square foot expansion to our East Aurora, New York facility. The budget for the building is approximately $4.6 million exclusive of manufacturing equipment which will be acquired as needed. We expect to permanently finance the project with a tax exempt bond offering expected to close during the first half of 2007. We anticipate the construction to be completed during the second quarter of 2007. The expansion will provide additional production capacity allowing for continued growth.

Key factors affecting Astronics' growth are our ability to have our products designed into the plans for new aircraft, the rate at which new aircraft are produced, government funding of military programs, and the rates at which aircraft owners, including commercial airlines, refurbish or install upgrades to their aircraft. Once designed into a new aircraft, the spare parts business is frequently retained by the Company. Astronics' strategy is to increase the amount of content on aircraft platforms, evolving the Company from our historic role of a components supplier to a turn key provider of complete systems.

One of the principal markets we serve is the commercial transport market. The 2005 acquisition of Astronics AES has increased our exposure to the commercial transport market. As the financial condition of the world's airlines improves and stabilizes, the airlines are beginning to increase investments in new aircraft purchases and cabin improvements. Many airlines are expanding the number of seats equipped with in-flight entertainment systems and in-seat power. This in turn has resulted in a significant increase of sales for our cabin electronics product line. We believe we are in a strong position to continue to benefit from this trend. Our increased exposure to this market also means we have greater down side risk should the commercial transport market enter a period of retraction as it did for several years beginning in 2001. If that were to occur, it is likely that commercial airlines would reduce spending on these types of programs and have a significant negative impact on our business. The cabin electronics product line, which is principally sold to the commercial transport market, accounted for 41.3% of our sales in 2006 and 21.0% of our sales 2005.

The business jet market remained strong during 2006. We provide a wide range of products to the business jet market including cockpit lighting, exterior lighting and air frame power. Our products are found in aircraft manufactured by most of the leading business jet OEM's such as Cessna, Raytheon and, Bombardier. An exciting development in the business jet market is the entry of the Very Light Jet (VLJ) into the market place. We believe the introduction of VLJ's will provide an opportunity for Astronics to expand our core businesses. During 2006 two VLJ's that feature Astronics products, the Eclipse 500 and the Cessna Mustang received FAA certification and are expected to enter production during 2007. There is a wide range of projected demand for this new class of aircraft. Our view is that the VLJ market will develop and our goal is to be positioned to take advantage of opportunities with each manufacturer. There is risk involved with any new aircraft should projected production be delayed or not achieved it would impact Astronics growth opportunities and expected profits. We believe that the business jet markets will continue to provide opportunities for growth provided the economy remains healthy.

Our Military market sales are typically comprised of several significant "programs" such as the power converter for the Tactical Tomahawk and Taurus missiles, complemented by many spare part orders covering many aircraft platforms. A large development effort over the past several years has been the exterior lighting suite for the F-35 Joint Strike Fighter. This aircraft is expected to enter low rate production in 2008 and we are in the process of negotiating a contract to support the low rate production phase of the program. 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 and that specific programs may be eliminated. 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.

We continue to look for opportunities to capitalize on our core competencies of power generation and distribution and lighting to expand our existing business and to grow through strategic acquisitions.

In 2006, Astronics continued to commit significant resources for the engineering and design of next generation products which in many cases did not enter production until late 2006 or have yet to enter production. Some of the more significant efforts during 2006 were products for the various OEM's developing very light business jets such as Cessna Aircraft, Eclipse Aviation and Embraer. For the military markets our larger design and development efforts have been for the exterior lighting suite for the F-35 (Joint Strike Fighter) and several smaller programs. For the foreseeable future we expect that we will continue to have opportunities requiring levels of engineering resources comparable to 2006.

We are entering 2007 with strong momentum. Each of the markets that we serve is presenting opportunities that we expect will provide continued growth for the company. We are projecting 2007 revenues to be $140 million driven by a strong global and aerospace economy.

We ended the year with a backlog of $99.5 million of which approximately $85 million is expected to be delivered during 2007. Provided that the economy maintains its strength we anticipate that new aircraft build rates and aircraft operator spending will continue to increase over the next several years providing increased opportunities to grow revenue and profits. We expect discretionary spending by the airlines will continue as the global commercial transport market continues its recovery. We expect that the military market will continue to offer opportunities for us to increase the value of the content that we provide on a growing base of aircraft platforms.

Challenges facing us include improving shareholder value through profitability. Increasing profitability is dependent on many things such as increased build rates for existing aircraft, market acceptance and economic success of new aircraft such as the Cessna Mustang and Eclipse 500 business jets, continued government funding of defense programs such as the F-35 Joint Strike Fighter and V-22 Osprey and the Company's ability to obtain production contracts for parts we currently supply or have been selected to design and develop for these programs. In addition we are faced with continued increasing health care and corporate governance costs, particularly those required by Sarbanes-Oxley legislation. Finally, many of our newer development programs are based on new and unproven technology. We are challenged to develop the technology on a schedule that is consistent with specific aircraft development 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.

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 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

Revenue is recognized on the accrual basis generally at the time of shipment of goods. There are no significant contracts allowing for right of return. The Company does evaluate and record an allowance for any potential returns based on experience and any known circumstances. For the years ended December 31, 2006 and 2005, no allowances were recorded for contracts allowing for right of return. A trade receivable is recorded at the value of the sale. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. The Company records a valuation allowance to account for potentially uncollectible accounts receivable.

Accounts Receivable and Allowance for Doubtful Accounts

The Company records 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 agings and a specific identification of accounts where collection is at risk. At December 31, 2006,

the Company's allowance for doubtful accounts for accounts receivable was $0.3 million, or 2% of gross accounts receivable. At December 31, 2005, the Company's allowance for doubtful accounts for accounts receivable was $0.4 million, or 3% of gross accounts receivable. In addition, at December 31, 2006 and 2005, the Company fully reserved the balance of a non-current note receivable in the amount of $0.6 million.

Inventory Valuation

The Company records valuation reserves to provide for 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 the Company believes is no longer salable. At December 31, 2006, the Company's reserve for inventory valuation was $4.1 million, or 11.6% of gross inventory. At December 31, 2005, the Company's reserve for inventory valuation was $4.8 million, or 19.8% 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. 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 when we determine that these factors have changed.

As of December 31, 2006, the Company had a net deferred tax asset of $2.3 million, net of a $0.3 million valuation allowance, net of federal tax benefit. These assets relate principally to liabilities or asset valuation reserves that result in timing difference between generally acceptable accounting principles recognition and treatment for income tax purposes, as well as a state investment tax credit carry-forward.

Goodwill

The Company's goodwill is the result of the excess of purchase price over net assets acquired from acquisitions. As of December 31, 2006, the Company had $2.7 million of goodwill. The Company tests goodwill for impairment at least annually, during the fourth quarter, and whenever events occur or circumstances change that indicates there may be impairment. The process of evaluating the Company's goodwill for impairment is subjective and requires significant estimates. These estimates include judgments about future cash flows that are dependent on internal forecasts, long-term growth rates and estimates of the weighted average cost of capital used to discount projected cash flows. Based on the discounted projected cash flows, management has concluded that there is no impairment of the Company's goodwill.

Supplemental Retirement Plan

The Company maintains a supplemental retirement plan for certain executives. The accounting for this plan is based in part on certain assumptions that may be highly uncertain and may have a material impact on the financial statements if different reasonable assumptions had been used. The assumptions for increases in compensation and the discount rate for determining the cost recognized in 2006 were 5.00% and 5.50% respectively. The discount rate used for the projected benefit obligation as of December 31, 2006 was 5.75%. 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. For determining the discount rate the Company considers long-term interest rates for high-grade corporate bonds.

RESULTS OF OPERATIONS

Sales

Sales for 2006 increased by $36.4 million to $110.8 million, up from $74.4 million in 2005, an increase of 48.9%. By market, the increase was primarily the result of an increase in sales to the commercial transport market of $31.0 million, an increase in sales to the business jet market of $7.5 million, partially offset by a $2.2 million decrease in sales to the military market.

The increase in sales to the Commercial transport market was primarily a result of $30.2 million increase from Cabin Electronics and a $1.3 million increase from the Cabin Lighting product line. The Cabin Electronics increase resulted from increased volume driven by increasing installations of in-seat power and in-flight entertainment systems. The increased sales from Cabin lighting was a result of increased volume. The increase of sales to the business jet market was primarily a result of $4.3 million increase from cockpit lighting, a $2.6 million increase in Airframe power sales and a $0.6 million increase of Exterior Lighting sales all driven by increasing production volumes of aircraft containing our products and increasing ship set content on those aircraft. The decrease of sales to the military was primarily related to a $4.8 million decrease in night vision retro fit kits program for the Korean Air Force was concluded in 2005 offset by increased sales to the Tactical Tomahawk and Taurus Missile programs of $2.5 million.

Sales for 2005 increased by $39.7 million to $74.4 million, up from $34.7 million in 2004, an increase of 114%. The increase was the result of the 2005 acquisition of AES, contributing $27.6 million and an increase in organic sales of $12.1 million. Organic sales increased in the business jet market by $4.0 million, the commercial transport market by $1.2 million and the military market by $7.0 million. These were offset partially by a $0.1 million decrease in sales to other markets. The increase in organic sales to the business jet market was primarily a result of increased production rates for new aircraft. The increase in organic sales to the military market was primarily the result of the Korean F-16 night vision retro-fit program which accounted for $4.8 million and an increase in overall volume on a wide variety of programs. Astronics AES 2005 sales were $0.7 million to the business jet market, $22.4 million to the commercial transport market and $4.5 million to the military market.

Expenses and Margins

Cost of products sold as a percentage of sales remained flat at 79.0% in 2006 from 80.0% in 2005. Leverage provided by the increased sales volume was offset somewhat by an increase in engineering and design costs. Engineering and design spending related primarily to product development increased by $2.0 million to $10.9 million in 2006 as compared with $8.9 million in 2005. 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 largely be driven by opportunities that the market presents.

Cost of products sold as a percentage of sales decreased by 6.7 percentage points to 80.0% in 2005 from 86.7% in 2004. This decrease was due to improved margins for the organic business and the addition of Astronics AES that had 2005 cost of sales totaling 72.0% of sales. Cost of sales, for the organic business as a percentage of sales decreased two percentage points to 84.7% in 2005 from 86.7% in 2004. This was a result of leverage provided by the increased revenues somewhat offset by an increase for organic engineering and design costs of $1.4 million to $7.2 million in 2005 as compared with $5.8 million in 2004.

Selling, general and administrative expenses (“SG&A”) were $13.6 million in 2006, compared to $10.2 million in 2005. During 2006, the increase was primarily due to increased wages and benefits as well as increased costs for audit and other professional services related to Sarbanes-Oxley 404 implementation. As a percentage of SG&A expense was 12.3% compared to 13.8% for the same period of 2005 as sales grew at a faster pace than SG&A spending. Also, a portion of the 2006 year to date SG&A increase is due to the timing of the Astronics Advanced Electronic Systems acquisition. The acquisition date was February 3, 2005, as such 2005 contained only forty seven weeks of expenses for Astronics Advanced Electronic Systems as compared with fifty two weeks in 2006.

Selling, general and administrative expenses increased $4.7 million to $10.2 million in 2005 from $5.5 million in 2004 primarily as a result the incremental selling, general and administrative costs of $4.7 million from Astronics AES. Organic selling, general and administrative costs remained flat when compared to 2004. A $0.3 million decrease in bad debt expense offset a similar increase in professional services, principally related to increased accounting and audit costs.

Net interest expense was $0.9 million and $0.7 million in 2006 and 2005 respectively. Increased interest rates on our variable rate debt was the reason for the increase when compared to 2005. Net interest expense for 2005 was $0.7 million, an increase of $0.4 million from $0.3 million in 2004. The increase was due to increased debt levels and an increase in interest rates on our variable rate debt.

Income Taxes

The effective tax rate was 34.5% in 2006, 11.8 percentage points lower than the effective tax rate of 46.3% in 2005. The majority of the decrease was due to a reserve that we recorded to reduce our deferred tax assets relating to New York State investment tax credit carry forwards in the second quarter of 2005, a non-cash charge to income tax expense of $0.3 million, net of federal taxes combined with the impact of lower state income taxes. As we had anticipated for 2006 and expect for future years, the effective tax rate will continue to be closer to the statutory rates in effect.

The effective tax rate was 46.3% in 2005, 8.4 percentage points higher than the effective tax rate of 37.9% in 2004. The majority of the increase was due to a reserve that we recorded to reduce our deferred tax assets relating to New York State investment tax credit carry forwards. In 2005, new tax legislation was passed that we expect will reduce the allocation of future taxable income to New York State. As a result, we expect our future tax liability to be significantly reduced and do not expect to utilize all of these credits before they expire. In the second quarter of 2005, the Company recorded a valuation allowance reducing the Company's $0.3 million deferred tax asset relating to these state tax credits to $0.03 million. As a result of this valuation allowance, the Company recorded a non-cash charge to income tax expense of $0.3 million, net of federal taxes.

Off Balance Sheet Arrangements

We do not have any 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

	Payments Due by Period				
	Total	**2007**	**2008-2009**	**2010-2011**	**After 2011**
(In thousands)					
Note Payable	$ 8,100	$ 8,100	$ —	$ —	$ —
Long-Term Debt	10,349	923	1,877	1,816	5,733
Interest on Long-Term Debt	966	159	277	221	309
Operating Leases	2,453	1,778	667	8	—
Purchase Obligations	32,492	31,766	726	—	—
Construction Obligations	745	745	—	—	—
Other Long Term Liabilities*	1,092	211	398	252	231
Total Contractual Obligations	$56,197	$43,682	$3,945	$2,297	$6,273

* Excludes Supplemental Retirement Plan and related Post Retirement Obligations for which we anticipate making $0.4 million in payments in 2007 through 2011.

Notes to Contractual Obligations Table

Note Payable and Long-Term Debt — See item 8, Financial Statements and Supplementary Data, Note 2, Long-Term Debt and Note Payable in this report.

Interest on Long-Term Debt — Interest on Long-Term Debt consists of payments on Industrial Revenue Bonds issued through the Erie County, New York Industrial Development Agency taking into account the interest rate swap entered into on February 6, 2006 which effectively fixes the interest rate on this obligation at 3.99% through January 2016. We have excluded the variable rate interest on our note payable and other long-term debt.

Operating Leases — Operating lease obligations are primarily related to facility and equipment leases for our Astronics AES operations and facility leases for our Canadian operations.

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

Construction Obligations — These are comprised of the Company's commitments for construction of 57,000 square feet of manufacturing capacity in East Aurora, New York.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow used by operating activities was $0.05 million in 2006 compared with $5.0 million provided by operating activities in 2005. The decrease of $5.05 million as compared with 2005 was mainly a result of an increase in income from continuing operations of $3.5 million to $5.7 million in 2006 from net income in 2005 of $2.2 million, adjustments for non-cash charges such as depreciation and amortization of $2.9 million, being offset by a net decrease in investment in working capital components, primarily receivables, inventory and payables. The increase in investment in working capital components during 2006 was driven by the Company's sales growth. Cash flow provided by operating activities was $5.0 million in 2005 compared with $0.1 million in 2004. The increase in 2005 relates to higher income from continuing operations adjusted for non-cash charges such as depreciation and amortization of $2.4 million, offset somewhat by slight increase in working capital components.

The Company's cash flows from operations are primarily dependent on its sales, profit margins and the timing of collections of receivables, volume of inventory and payments to suppliers. Sales are influenced significantly by the build rates of new aircraft, which amongst other things are subject to general economic conditions, government appropriations and airline passenger travel. Over time, sales will also be impacted by the Company's success in executing its 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 the Company's 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 the Company's profits and cash flow as well.

Cash used for investing activities was $5.5 million in 2006 compared with $15.0 million in 2005, a $9.5 million decrease. This decrease was primarily due to a combination of the prior year including the Astronics AES acquisition of $13.4 million with no comparable acquisition in 2006 offset by increased in capital expenditures of approximately $2.9 million in 2006. Cash used for investing activities in 2004 was $2.4 million, primarily due to capital purchases of $1.1 million and net increases in short-term investment of $1.0 million.

The Company's cash required for capital equipment purchases for the last three years ranged between $1.1 million and $5.4 million. Our expectation for 2007 is that capital equipment expenditures will approximate $13 million. This expected increase is primarily a result of completion of the East Aurora building expansion and machinery and equipment purchases to increase our production capacity. The building expansion as well as the new facility's machinery and equipment will likely be financed with additional long-term debt. Future capital requirements depend on numerous factors, including expansion of existing product

lines and introduction of new product lines. Management believes that the Company's cash flow from operations and current borrowing arrangements will provide for these necessary capital expenditures.

In January, 2007 the Company entered into a new agreement with HSBC Bank USA which increases its available revolving credit facility to $20 million. The agreement is a two year facility. We believe that should our facility with HSBC not be renewed we will be able to obtain alternative senior debt financing arrangements. At December 31, 2006, the Company was in compliance with all of the covenants pursuant to the credit facility in existence with HSBC Bank USA at that time.

The Company's cash needs for debt service for 2007 are expected to increase from 2006 levels. The Company is planning on financing its building expansion with Industrial Revenue Bonds. The impact of the credit facility balance and the Industrial Revenue Bonds on cash needs in 2007 will depend on the repayment terms in those agreements.

The Company's ability to maintain sufficient liquidity is highly dependent upon achieving expected operating results. The Company has successfully negotiated new credit terms with its lender in order to provide more operating flexibility than it previously had. However, failure to achieve expected operating results could have a material adverse effect on our liquidity and our operations in the future.

The Company's cash needs for working capital, capital equipment and debt service during 2007 and the foreseeable future, are expected to be met by cash flows from operations and if necessary, utilization of its 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, 2006, the Company's backlog was $99.5 million compared with $96.1 million at December 31, 2005.

RELATED-PARTY TRANSACTIONS

See the discussion in Item 8, Financial Statements and Supplementary Data, Note 11, Discontinued Operations in this report.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB issued Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes — an Interpretation for SFAS No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." The pronouncement prescribes a recognition threshold and measurement attributable to financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is in the process of determining the effect, if any; the adoption of FIN 48 will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This statement establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurement. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is in the process of determining the effect, if any; the adoption of SFAS No. 157 will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106, and 132R)." The Statement requires employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements with changes in funded status being recognized in comprehensive income in the year in which the changes occur. This requirement is effective for fiscal years ending after December 15, 2006. Statement 158 also requires companies to measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions) instead of permitting companies to use a lag of up to three-months permitted by SFAS No. 87, "Employers' Accounting for Pensions", and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". This requirement is effective for fiscal years ending after December 15, 2008. The Company has adopted the provisions of SFAS No. 158 as of December 31, 2006, the effect of which was to increase retirement liabilities by $2.3 million, deferred taxes by $0.9 million and other comprehensive income by $1.4 million. There was no impact to net income for the year ended December 31, 2006.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which allows measurement of specified financial instruments, warranty and insurance contracts at fair value on a contract by contract basis, with changes in fair value recognized in earnings in each period. SFAS 159 is effective at the beginning of the fiscal year that begins after November 15, 2007, and will be effective for the Company in fiscal 2008. The Company has not yet determined the effect that the implementation of this standard will have on its consolidated financial position or results of operations.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 on Quantifying Financial Statement Misstatements (SAB 108). SAB 108 sets forth the SEC staff's views that registrants should quantify errors using both a balance sheet and an income statement approach, and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective the first fiscal year ending after November 15, 2006. The Company's adoption of SAB 108 did not have a material impact on its results of operations, financial position, or cash flows.

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, expenses and cash flows are transacted in U.S. dollars. Net assets held in or measured in Canadian dollars amounted to $0.03 million at December 31, 2006. Annual disbursements of approximately $6.1 million are transacted in Canadian dollars. A 10% change in the value of the U.S. dollar versus the Canadian dollar would impact net income by approximately $0.4 million.

Risk due to fluctuation in interest rates is a function of the Company's floating rate debt obligations, which total approximately $18.4 million at December 31, 2006. To offset this exposure, the Company entered into an interest rate swap in February 2006, on its New York Industrial Revenue Bond which effectively fixes the rate at 3.99% on this $4.0 million obligation through January 2016. As a result, a change of 1% in interest rates would impact annual net income by less than $0.1 million.

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Astronics Corporation

We have audited the accompanying consolidated balance sheet of Astronics Corporation as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. 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, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, 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.

As discussed in Note 1 to the consolidated financial statements, on January 1, 2006 the Company changed its method of accounting for stock-based compensation and on December 31, 2006 the Company changed its method of accounting for defined benefit pension and other postretirement benefits.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Astronics Corporation's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2007 expressed an unqualified opinion on management's assessment and an adverse opinion on the effectiveness of internal control over financial reporting.

/s/ Ernst & Young LLP

Buffalo, New York
March 14, 2007

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The 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. 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 the degree of compliance with the policies or procedures may deteriorate. The Company's management has assessed the effectiveness of its internal control over financial reporting as of December 31, 2006. This evaluation was based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

A material weakness is a control deficiency, or combination of control deficiencies, that results in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management identified a material weakness in connection with its design and implementation of adequate controls over the selection and application of accounting policies for revenue recognition on bill and hold contracts. The Company determined that the transactions did not meet certain of the discrete criteria required by the Securities and Exchange Commission in Staff Accounting Bulletin (SAB) No. 104 to recognize revenue prior to shipment under bill-and-hold arrangements. As a result, the Company has restated its previously issued consolidated financial statements for the year ended December 31, 2005.

Solely, as a result of the material weakness identified, Senior Management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2006, based on the criteria described in the COSO Internal Control — Integrated Framework.

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, (1) on our management assessment of the effectiveness of our internal control over financial reporting and (2) on the effectiveness of our internal control over financial reporting.

By: /s/ Peter J. Gundermann

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

/s/ David C. Burney

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

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Shareholders and Board of Directors of Astronics Corporation

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Astronics Corporation did not maintain effective internal control over financial reporting as of December 31, 2006, because of the effect of the material weakness identified in management's assessment, 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, 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.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management identified a material weakness in connection with its design and implementation of adequate controls over the selection and application of accounting policies for revenue recognition on bill and hold contracts. The Company determined that the transactions did not meet certain of the discrete criteria required by the Securities and Exchange Commission in Staff Accounting Bulletin (SAB) No. 104 to recognize revenue prior to shipment under bill-and-hold arrangements. As a result, the Company has restated its previously-issued consolidated financial statements for the year ended December 31, 2005. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2006 financial statements, and this report does not affect our report dated March 14, 2007 on those financial statements.

In our opinion, management's assessment that Astronics Corporation did not maintain effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Astronics Corporation has not maintained effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

/s/ Ernst & Young LLP

Buffalo, New York
March 14, 2007

ASTRONICS CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended December 31,		
	2006	**2005**	**2004**
(In thousands, except per share data)			
Sales	$110,767	$74,354	$34,696
Cost and Expenses			
Cost of products sold	87,519	59,484	30,087
Selling, general and administrative expenses	13,582	10,246	5,477
Interest expense, net of interest income of $15, $29 and $127	896	735	282
Other expense (income)	11	(278)	32
Total Costs and Expenses	102,008	70,187	35,878
Income (Loss) Before Income Taxes	8,759	4,167	(1,182)
Provision (Benefit) for Income Taxes	3,023	1,930	(448)
Net Income (Loss)	$ 5,736	$ 2,237	$ (734)
Basic Earnings (Loss) per Share	$ 0.72	$ 0.28	$ (0.09)
Diluted Earnings (Loss) per Share	0.69	0.28	(0.09)

See notes to consolidated financial statements.

ASTRONICS CORPORATION

CONSOLIDATED BALANCE SHEET

(In thousands, except per share data)	December 31, 2006	December 31, 2005
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 222	$ 4,473
Accounts Receivable, Net of Allowance for Doubtful Accounts of $314 in 2006 and $365 in 2005	17,165	12,635
Inventories	31,570	19,381
Prepaid Expenses	853	626
Prepaid Income Taxes	214	—
Deferred Income Taxes	1,632	989
Total Current Assets	51,656	38,104
Property, Plant and Equipment, at Cost:		
Land	1,143	1,143
Buildings and Improvements	12,007	12,007
Machinery and Equipment	20,670	17,361
Construction in progress	2,701	1,154
	36,521	31,665
Less Accumulated Depreciation and Amortization	13,085	11,204
Net Property, Plant and Equipment	23,436	20,461
Deferred Income Taxes	622	—
Intangibles net of accumulated amortization of $637 in 2006 and $329 in 2005	2,335	3,400
Other Assets	1,821	1,788
Goodwill	2,668	2,686
Total Assets	$82,538	$66,439
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current Maturities of Long-term Debt	$ 923	$ 914
Note Payable	8,100	7,000
Accounts Payable	12,472	5,421
Accrued Payroll and Employee Benefits	4,403	3,861
Income Taxes Payable	—	171
Customer Advanced Payments and Deferred Revenue	6,864	5,402
Contract Loss Reserves	—	830
Other Accrued Expenses	1,457	1,156
Total Current Liabilities	34,219	24,755
Long-term Debt	9,426	10,304
Supplemental Retirement Plan and Other Liabilities for Pension Benefits	6,190	4,494
Other Liabilities	1,355	1,317
Deferred Income Taxes	—	151
Shareholders' Equity		
Common Stock, $.01 par value — Authorized 20,000,000 Shares, Issued 7,313,726 in 2006; 7,082,100 in 2005	73	71
Class B Stock, $.01 par value — Authorized 5,000,000 Shares, Issued 1,496,006 in 2006; 1,603,323 in 2005	15	16
Additional Paid-in Capital	5,504	3,808
Accumulated Other Comprehensive (Loss) Income	(704)	799
Retained Earnings	30,179	24,443
	35,067	29,137
Less Treasury Stock: 784,250 Shares in 2006 and 2005	3,719	3,719
Total Shareholders' Equity	31,348	25,418
Total Liabilities and Shareholders' Equity	$82,538	$66,439

See notes to consolidated financial statements.

ASTRONICS CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2006	2005	2004
(In thousands)			
Cash Flows from Operating Activities			
Net Income (Loss)	$ 5,736	$ 2,237	$ (734)
Adjustments to Reconcile Net Income (Loss) to Cash (Used For) Provided By Operating Activities:			
Depreciation and Amortization	2,929	2,373	1,273
Provision for Non-Cash Losses on Inventory and Receivables	138	124	397
Deferred Taxes (Benefit) Provision	(529)	93	(40)
Loss (Gain) on Disposal of Assets	26	(41)	32
Stock Compensation Expense	619	—	—
Cash Flows from Changes in Operating Assets and Liabilities, Excluding the Effects of Acquisitions:			
Accounts Receivable	(4,572)	(828)	(1,287)
Inventories	(12,298)	(4,874)	(1,138)
Prepaid Expenses	(379)	(67)	149
Accounts Payable	7,047	677	885
Accrued Expenses	869	2,079	328
Customer Advanced Payments and Deferred Revenue	1,462	4,722	—
Contract Loss Reserves	(830)	(2,909)	—
Income Taxes	(385)	1,147	(95)
Supplemental Retirement Plan and Other Liabilities	120	282	343
Cash (Used For) Provided By Operating Activities	(47)	5,015	113
Cash Flows from Investing Activities			
Capital Expenditures	(5,400)	(2,498)	(1,136)
Other	(133)	(233)	(322)
Proceeds from the Sale of Assets	68	56	34
Purchases of Short-term Investments	—	—	(4,000)
Proceeds from Sale of Short-term Investments	—	1,000	3,000
Business Acquisition	—	(13,366)	—
Cash Used For Investing Activities	(5,465)	(15,041)	(2,424)
Cash Flows from Financing Activities			
Principal Payments on Long-term Debt	(920)	(897)	(1,452)
Proceeds from Note Payable	10,300	7,000	—
Payments on Note Payable	(9,200)	—	—
Unexpended Industrial Revenue Bond Proceeds	—	—	555
Proceeds from Exercise of Stock Options	984	343	133
Income Tax Benefit from Exercise of Stock Options	94	35	30
Cash Provided By (Used For) Financing Activities	1,258	6,481	(734)
Effect of Exchange Rates on Cash	3	(11)	(133)
Cash used for Continuing Operations	(4,251)	(3,556)	(3,178)
Cash used for Discontinued Operations — Operating Activities	—	(447)	(154)
Cash and Cash Equivalents at Beginning of Year	4,473	8,476	11,808
Cash and Cash Equivalents at End of Year	$ 222	$ 4,473	$ 8,476
Disclosure of Cash Payments (Refunds) for:			
Interest	$ 903	$ 764	$ 396
Income Taxes	4,001	651	(421)

See notes to consolidated financial statements.

ASTRONICS CORPORATION

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Common Stock		Class B Stock		Treasury Stock			Accumulated Other		
	Shares Issued	Par Value	Shares Issued	Par Value	Shares	Cost	Paid-In Capital	Comprehensive Income (Loss)	Retained Earnings	Comprehensive Income
(Dollars and shares in thousands)										
Balance at December 31, 2003	6,483	$65	2,043	$20	784	$(3,719)	$3,269	$ 365	$22,940	
Net Loss for 2004									(734)	$ (734)
Currency Translation Adjustments								197		197
Mark to Market Adjustments for Derivatives, net of income taxes of $57								94		94
Total Comprehensive Loss										$ (443)
Exercise of Stock Options, including income tax benefit of $30	52	—	6	—			163			
Class B Stock converted to Common Stock	99	1	(99)	(1)						
Balance at December 31, 2004	6,634	$66	1,950	$19	784	$(3,719)	$3,432	$ 656	$22,206	
Net Income for 2005									2,237	$2,237
Currency Translation Adjustments								83		83
Mark to Market Adjustments for Derivatives, net of income taxes of $33								60		60
Total Comprehensive Income										$2,380
Exercise of Stock Options, including income tax benefit of $35	84	1	17	1			376			
Class B Stock converted to Common Stock	364	4	(364)	(4)						
Balance at December 31, 2005	7,082	$71	1,603	$16	784	$(3,719)	$3,808	$ 799	$24,443	
Net Income for 2006									**5,736**	**5,736**
Currency Translation Adjustments								**(24)**		**(24)**
Mark to Market Adjustments for Derivatives, net of income taxes of $25								**(48)**		**(48)**
Total Comprehensive Income										**$5,664**
Adjustment to initially apply FASB Statement No. 158, net of income taxes of $859								**(1,431)**		
Exercise of Stock Options, including income tax benefit of $94	**112**	**1**	**13**	**—**			**1,696**			
Class B Stock converted to Common Stock	**120**	**1**	**(120)**	**(1)**						
Balance at December 31, 2006	**7,314**	**$73**	**1,496**	**$15**	**784**	**$(3,719)**	**$5,504**	**$ (704)**	**$30,179**	

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 Corporation, through its subsidiaries Luminescent Systems, Inc., Luminescent Systems-Canada Inc. and Astronics Advanced Electronic Systems Corp. (AES) designs and manufactures lighting components and subsystems, electrical power generation, in-flight control and power distribution systems for aircraft. The Company serves the three primary markets for aircraft which are the military, commercial transport and the business jet markets.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated.

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

Revenue and Expense Recognition

Revenue is recognized on the accrual basis generally at the time of shipment of goods. There are no significant contracts allowing for right of return. The Company does evaluate and record an allowance for any potential returns based on experience and any known circumstances. For the years ended December 31, 2006 and 2005, no allowances were recorded for contracts allowing for right of return. A trade receivable is recorded at the value of the sale. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. The Company records 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 agings and a specific identification of accounts where collection is at risk. At December 31, 2006, the Company's allowance for doubtful accounts for accounts receivable was $0.3 million, or 1.8% of gross accounts receivable. At December 31, 2005, the Company's allowance for doubtful accounts for accounts receivable was $0.4 million, or 3.0% of gross accounts receivable. In addition, at December 31, 2006 and 2005, the Company fully reserved the balance of a non-current note receivable in the amount of $0.6 million.

Cost of products sold includes the costs to manufacture products such as direct materials and labor and manufacturing overhead as well as all engineering and developmental costs. Shipping and handling costs are expensed as incurred and are included in costs of products sold. Selling, general and administrative expenses include costs primarily related to our sales and marketing departments and administrative departments.

The Company is engaged in a variety of engineering and design activities as well as basic research and development activities directed to the substantial improvement or new application of the Company's existing technologies. These costs are expensed when incurred and included in cost of sales. Research and development and related engineering amounted to $10.9 million in 2006, $8.9 million in 2005 and $5.8 million in 2004.

Stock-Based Compensation

During the first quarter of 2006, the Company adopted SFAS 123(R), "Share-Based Payment," applying the modified prospective method. This Statement 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. Under the modified prospective method, the Company is required to record equity-based compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards outstanding as of the date of adoption. The Company's prior years will not reflect any restated amounts. 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. Prior

to the first quarter of 2006 the Company accounted for its stock-based awards using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25 and its related interpretations. The measurement prescribed by APB Opinion No. 25 does not recognize compensation expense if the exercise price of the stock option equals the market price of the underlying stock on the date of grant and the number of stock options granted is fixed. Accordingly, no compensation expense related to stock options has been recorded in the financial statements prior to the first quarter of 2006.

Under SFAS 123(R), 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 following table provides pro forma earnings information as if the Company recorded compensation expense based on the fair value of stock options for the years ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
(In thousands, except per share data)			
Net Income (loss), as reported(1)	$ N/A	$2,237	$ (734)
Stock compensation expense included in net income (loss) as reported	(619)	(365)	(330)
Tax benefit	86	63	57
Stock compensation expense, net of tax(2)	(533)	(302)	(273)
Net Income (loss), including the effect of stock compensation expense(3)	$5,736	$1,935	$(1,007)
Net earnings per share:			
Basic, as reported in prior years)(1)	N/A	$ .28	$ (.09)
Basic, including the effect of stock compensation expense(3)	$ .72	.25	(.13)
Diluted, as reported in prior years(1)	N/A	.28	(.09)
Diluted, including the effect of stock compensation expense(3)	.69	.24	(.13)

(1) Net earnings and earnings per share prior to 2006 did not include stock compensation expense for stock options.

(2) Stock compensation expense prior to 2006 is calculated based on the pro forma application of SFAS No. 123(R).

(3) Net earnings and earnings per share prior to 2006 represents pro forma information based on SFAS No. 123(R).

Consistent with SFAS 123(R), we classified $0.1 million of excess tax benefits from share based payment arrangements 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.

Inventories

Inventories are stated at the lower of cost or market, cost being determined in accordance with the first-in, first-out method. Inventories at December 31 are as follows:

	2006	2005
(In thousands)		
Finished Goods	$ 5,575	$ 3,026
Work in Progress	9,651	7,805
Raw Material	16,344	8,550
	$31,570	$19,381

The Company records valuation reserves to provide for 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 the company believes is no longer salable. At December 31, 2006, the Company's reserve for inventory valuation was $4.1 million, or 11.6% of gross inventory. At December 31, 2005, the Company's reserve for inventory valuation was $4.8 million, or 19.8% of gross inventory. This is a decrease of $0.7 million, which represented 1.8% of the December 31, 2006 gross inventories.

Property, Plant and Equipment

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

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 $2.4 million, $1.9 million and $1.0 million in 2006, 2005 and 2004, respectively.

Goodwill and Intangible Assets

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 one reporting unit for purposes of the goodwill impairment test. The impairment test consists of comparing the fair value of the reporting unit, determined using discounted cash flows, with its carrying amount including goodwill, and, if the carrying amount of the reporting unit exceeds its fair value, comparing the implied fair value of goodwill with its carrying amount. An impairment loss would be recognized for the carrying amount of goodwill in excess of its implied fair value.

Intangibles are valued based upon future economic benefits such as discounted earnings and cash flows. Acquired identifiable intangible assets are recorded at cost and are amortized over their estimated useful lives. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. Trade name intangibles have an indefinite life and are tested for impairment on an annual basis or more frequently if an event occurs or circumstances change that would more likely than not reduce its fair value below its carrying amount.

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 and earnings from operations are not expected to be sufficient to recover long-lived assets. The carrying amounts are then reduced by the estimated shortfall of the discounted cash flows.

Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, notes payable, long-term debt and an interest rate swap. The carrying value of the Company's financial instruments approximate fair value. The Company does not hold or issue financial instruments for trading purposes.

Derivatives

The Company records all derivatives on the balance sheet at fair value and as long term. The accounting for changes in the fair value of derivatives depends on the intended use and resulting designation. During 2006 and 2005, the Company's use of derivative instruments was limited to a cash flow hedge of interest rate risk. For a derivative designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income ("OCI") and subsequently reclassified into earnings when the hedged exposure affects earnings. The Company entered into an interest rate swap in February 2006, on its New York Industrial Revenue Bond which effectively fixes the rate at 3.99% on this obligation through January 2016. This arrangement replaced a swap agreement that expired in December 2005 which effectively fixed the interest rate at 4.09%. The ineffective portions of all derivatives are recognized immediately into earnings as other income or expense. Ineffectiveness was not material in 2006, 2005, and 2004. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period of change. The Company classifies the cash flows from hedging transactions in the same category as the cash flows from the respective hedged items. The Company reclassified $0.02 million; $0.1 million and $0.2 million from accumulated other comprehensive income to interest expense during 2006, 2005 and 2004, respectively.

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.

Earnings per Share

Earnings per share computations are based upon the following table:

	2006	2005	2004
(In thousands, except per share data)			
Net Income (Loss)	$5,736	$2,237	$ (734)
Basic earnings weighted average shares	7,956	7,855	7,766
Net effect of dilutive stock options	313	183	—
Diluted earnings weighted average shares	8,269	8,038	7,766
Basic earnings (loss) per share	$ 0.72	$ 0.28	$ (0.09)
Diluted earnings (loss) per share	0.69	0.28	(0.09)

The effect of stock options has not been included for 2004 since this would be anti-dilutive as a result of the Company's net loss.

Class B Stock

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 is declared on Common Stock. At December 31, 2006, approximately 3.0 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.

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 and 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.

Comprehensive Income

Comprehensive income (loss) consists primarily of net earnings and the after-tax impact of currency translation adjustments, mark to market adjustment 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 36%. No income tax effect is recorded for currency translation adjustments.

The accumulated balances of the components of other comprehensive (loss) income net of tax, at December 31, 2006 and 2005 are as follows:

	2006	2005
(In millions)		
Accumulated foreign currency translation	$ 0.8	$0.8
Accumulated retirement liability adjustment	(1.5)	0.0
	$(0.7)	$0.8

Recent Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes — an Interpretation for SFAS No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with for Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." The pronouncement prescribes a recognition threshold and measurement attributable to financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is in the process of determining the effect, if any; the adoption of FIN 48 will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This statement establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurement. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is in the process of determining the effect, if any; the adoption of SFAS No. 157 will have on our consolidated financial statements.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 on Quantifying Financial Statement Misstatements (SAB 108). SAB 108 sets forth the SEC staff's views that registrants should quantify errors using both a balance sheet and an income statement approach, and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective the first fiscal year ending after November 15, 2006. The Company's adoption of SAB 108 did not have a material impact on its results of operations, financial position, or cash flows.

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No 87, 88, 106, and 132(R). SFAS No. 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, "postretirement benefit plans") to recognize the funded status of their postretirement benefit plans in the statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position, and provide additional disclosures. On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158. The effect of adopting SFAS No. 158 on the Company's financial condition at December 31, 2006 has been included in the accompanying consolidated financial statements. SFAS No. 158 did not have an effect on the Company's consolidated financial condition at December 31, 2005 or 2004. SFAS No. 158's provisions regarding the change in the measurement date of postretirement benefit plans are not applicable as the Company already uses a measurement date of December 31 for its benefit plans. The Company has adopted the provisions of SFAS No. 158 as of December 31, 2006. See Note 6 for further discussion of the effect of adopting SFAS No. 158 on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which allows measurement of specified financial instruments, warranty and insurance contracts at fair value on a contract by contract basis, with changes in fair value recognized in earnings in each period. SFAS 159 is effective at the beginning of the fiscal year that begins after November 15, 2007, and will be effective for the Company in fiscal 2008. The Company has not yet determined the effect that the implementation of this standard will have on its consolidated financial position or results of operations.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

NOTE 2 — LONG-TERM DEBT AND NOTE PAYABLE

Long-term debt consists of the following:

(In thousands)	2006	2005
Note Payable at Canadian Prime payable $12 monthly through 2016 with interest (Canadian prime was 6.0% at December 31, 2006)	$ 1,376	$ 1,538
Industrial Revenue Bonds issued through the Erie County, New York Industrial Development Agency payable $350 annually through 2019 with interest reset weekly (4.1% at December 31, 2006)	3,995	4,345
Industrial Revenue Bonds issued through the Business Finance Authority of the State of New Hampshire payable $400 annually through 2018 with interest reset weekly (4.1% at December 31, 2006)	4,850	5,250
Other	128	85
	10,349	11,218
Less current maturities	923	914
	$ 9,426	$10,304

Principal maturities of long-term debt for each of the next five years are $0.9 million.

Interest capitalized in the 4th quarter relating to the building expansion in New York was insignificant. No interest costs were capitalized in 2005 and 2004.

The Company is in compliance with all its debt and credit facility covenants at December 31, 2006 and believes it will continue to be compliant in the future.

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 carrying value of which approximates the principal balance on the note.

To offset risks due to fluctuation in interest rates, the Company entered into an interest rate swap on the New York Industrial Revenue Bond through December 2005 which effectively fixed the interest rate at 4.09%. In February 2006, the Company entered into a new interest rate swap, on its New York Industrial Revenue Bond which effectively fixes the rate at 3.99% on this $4.3 million obligation through January 2016.

At December 31, 2006 and 2005 the Company had outstanding $8.1 million and $7.0 million respectively, on its revolving $15 million credit facility; with interest at bank prime or LIBOR plus 125 basis points. At December 31, 2006 and 2005, the Company had available $6.9 million and $8.0 million, respectively, on the facility.

On January 5, 2007 the Company restructured its bowering agreement with HSBC Bank USA, increasing the revolving credit facility to $20 million with interest at bank prime minus between 0 and 25 basis points or LIBOR plus between 87.5 and 175 basis points. The Company is also required to pay a commitment fee of between 0.125% and 0.30% on the unused portion of the line limit borrowing availability for the previous quarter. The Company may allocate up to $0.5 million of its availability for the issuance of new letters of credit. This new credit facility is collateralized by accounts receivable and inventory. The Company believes it will be compliant in the future with all the new credit facility covenants.

NOTE 3 — 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.

During the first quarter of 2006, the Company adopted SFAS 123(R), "Share-Based Payment," applying the modified prospective method. This Statement 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. Under the modified prospective method, the Company is required to record equity-based compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards outstanding as of the date of adoption. 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 schedules.

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.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. The weighted average fair value of the options was $7.58, $3.97 and $2.30 for options granted during the year ended December 31, 2006, 2005 and 2004 respectively.

The 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:

	2006	2005	2004
Risk-free interest rate	4.50%	4.40%	4.25%
Dividend yield	0.0%	0.0%	0.0%
Volatility factor	0.33	0.33	0.30
Expected life	8.0 years	8.1 years	7.0 years

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.

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

	2006			2005			2004		
	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
(Aggregate intrinsic value in thousands)									
Outstanding at the Beginning of the Year	801,583	$ 6.49	$8,529	724,080	$5.83	$3,562	538,931	$5.88	$(420)
Options Granted	78,600	16.10	81	165,100	8.10	438	254,100	5.30	(51)
Options Exercised	(62,001)	7.80	(578)	(61,459)	2.96	(479)	(23,490)	1.07	(95)
Options Forfeited	—	—	—	(26,138)	6.76	(104)	(45,461)	5.88	35
Outstanding at the End of the Year	818,182	7.31	8,035	801,583	6.49	3,415	724,080	5.83	(529)
Exercisable at December 31	518,729	$ 6.52	$5,504	468,967	$6.28	$2,096	483,135	$5.90	$(387)

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 $17.13, $10.75 and $5.10 as of December 31, 2006, 2005 and 2004, respectively.

The fair value of options vested during 2006, 2005 and 2004 was $3.95, $3.24 and $3.59, respectively. At December 31, 2006, total compensation costs related to non-vested awards not yet recognized amounts to $1.1 million and will be recognized over a weighted average period of 2.5 years.

The following is a summary of weighted average exercise prices and contractual lives for outstanding and exercisable stock options as of December 31, 2006:

	Outstanding			Exercisable	
Exercise Price Range	Shares	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$3.39-$4.60	54,497	0.6	$ 4.01	54,497	$ 4.01
$5.09-$7.65	543,179	6.5	5.63	363,912	5.61
$9.83-$13.49	166,905	6.8	10.65	100,320	11.19
$17.36	53,600	10.0	17.36	—	—
	818,181	6.4	7.31	518,729	6.52

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 fair market value at the date of grant. The Company had options outstanding for 630,224 shares under the plan. At December 31, 2006, 461,161 options were available for future grant under the plan established in 2001.

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 fair market value at the date of grant and vests 6 months from the grant date. At

December 31, 2006, the Company had options outstanding for 187,957 shares under the plans. At December 31, 2006, there were 180,602 options available for future grants under the plan established in 2005.

Astronics established the Employee Stock Purchase Plan to encourage employees to invest in Astronics. The plan provides employees that have been with the Company for at least a year the opportunity to invest up to 20% of their cash compensation (up to an annual maximum of $20,000) 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, 2006, employees had subscribed to purchase 59,578 shares at $13.40 per share on September 30, 2007.

NOTE 4 — INCOME TAXES

Pretax losses from the Company's foreign subsidiary amounted to $(0.1) million, $(0.5) million and $(1.0) million for 2006, 2005 and 2004, respectively. The balances of pretax earnings for each of those years were domestic.

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

	2006	2005	2004
(In thousands)			
Current			
US Federal	$3,563	$1,817	$ (56)
Foreign	(123)	(109)	(399)
State	112	129	47
Deferred	(529)	93	(40)
	$3,023	$1,930	$(448)

The effective tax rates differ from the statutory federal income tax as follows:	2006	2005	2004
Statutory Federal Income Tax Rate	34.0%	34.0%	(34.0)%
Permanent Items, Net	0.5%	(0.9)%	0.6%
Foreign Taxes (benefits)	—	2.8%	(7.1)%
State Income Tax, Net of Federal Income Tax Benefit	1.0%	9.4%	0.1%
Other	(1.0)%	1.0%	2.5%
	34.5%	46.3%	(37.9)%

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, 2006 and 2005 are as follows:

	2006	2005
(In thousands)		
Deferred tax assets:		
Deferred compensation	$3,085	$2,009
State investment tax credit carryforwards, net of federal benefit	340	325
Reserves and obligations related to discontinued operation	65	106
Customer Advanced Payments and Deferred Revenue	639	214
Asset reserves	993	511
Other	165	—
Deferred tax assets	5,287	3,165
Valuation allowance for deferred tax assets related to state investment tax credit carryforwards, net of federal benefit	(313)	(297)
	4,974	2,868
Deferred tax liabilities:		
Depreciation	2,228	1,434
Intangibles	492	568
Other	—	28
Deferred tax liabilities	2,720	2,030
Net deferred tax asset	$2,254	$ 838

The net deferred tax assets and liabilities are presented in the consolidated balance sheet as follows at December 31, 2006 and 2005:

	2006	2005
(In thousands)		
Deferred tax asset — current	$1,632	$989
Deferred tax asset — long-term	622	—
	2,254	989
Deferred tax liability — long-term	—	151
Net deferred tax asset	$2,254	$838

In the second quarter of 2005, the Company recorded a valuation allowance reducing the Company's deferred tax asset relating to state investment tax credit carryforward to $0.5 million. As a result of this valuation allowance, the Company recorded a non-cash charge to income tax expense of $0.3 million net of the federal tax benefit.

NOTE 5 — PROFIT SHARING/401(K) PLAN

The Company has a qualified Profit Sharing/401(k) Plan for the benefit of its eligible full-time employees. The Profit Sharing/401(k) 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. Total charges to income from continuing operations for the plan were $1.4 million, $1.0 million and $0.5 million in 2006, 2005 and 2004, respectively.

NOTE 6 — SUPPLEMENTAL RETIREMENT PLAN AND RELATED POST RETIREMENT BENEFITS

On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158. SFAS No. 158 required the Company to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plan in the December 31, 2006 statement of financial position, with a corresponding adjustment to accumulated other comprehensive income, net of tax. The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial losses, unrecognized prior service costs, and unrecognized transition obligation remaining from the initial adoption of SFAS No. 87, all of which were previously netted against the plan's funded status in the Company's statement of financial position pursuant to the provisions of SFAS No. 87. These amounts will be subsequently recognized as net periodic pension cost pursuant to the Company's historical accounting 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 a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of SFAS No. 158. SFAS No. 158's provisions regarding the change in the measurement date of postretirement benefit plans are not applicable as the Company already uses a measurement date of December 31 for its benefit plans.

The incremental effects of adopting the provisions of SFAS No. 158 on the Company's statement of financial position at December 31, 2006 are presented in the following table. The adoption of SFAS No. 158 had no effect on the Company's consolidated statement of income or earnings per share for the year ended December 31, 2006, or for any prior period presented, and it will not effect the Company's operating results in future periods. Had the Company not been required to adopt SFAS No. 158 at December 31, 2006, it would have recognized an additional minimum liability pursuant to the provisions of SFAS No. 87. The effect of recognizing the additional minimum liability is included in table below in the column labeled "Prior to Application of Statement 158."

	At December 31, 2006		
	Prior to Adopting Statement 158	Effect of Adopting Statement 158	As Reported at December 31, 2006
(In thousands)			
Intangible Asset	$ 757	$ (757)	$ —
Supplemental Retirement Plan Liabilities — Current	(391)	—	(391)
Supplemental Retirement Plan Liabilities — Long-Term	(4,657)	(1,533)	(6,190)
Deferred Income Tax Assets — Current	133	—	133
Deferred Income Tax Assets — Long-term	1,403	859	2,262
Accumulated Other Comprehensive Loss	—	1,431	1,431

Included in accumulated other comprehensive income at December 31, 2006 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service costs of $1.4 million ($0.9 million net of tax) and unrecognized actuarial losses $0.8 million ($0.5 million net of tax). The prior service cost, and actuarial loss included in accumulated other comprehensive income and expected to be recognized in net periodic pension cost during the fiscal year-ended December 31, 2007 is $0.1 million ($0.1 million net of tax), $0.01 million ($0.01 million net of tax), respectively.

The Company has a nonqualified supplemental retirement defined benefit plan (the "Plan") for certain current and retired executives. The Plan provides for benefits based upon average annual compensation and

years of service, less offsets for Social Security and Profit Sharing benefits. It is the Company's intent to fund the benefits as they become payable.

The reconciliation of the beginning and ending balances of the projected benefit obligation and the fair value of plans assets for the year ended December 31, 2006 and 2005 and the accumulated benefit obligation at December 31, 2006 and 2005 is as follows:

	December 31, 2006	December 31, 2005
(In thousands)		
Funded Status		
Projected Benefit Obligation		
Beginning of Year — January 1	$5,794	$ 5,508
Service Cost	35	25
Interest Cost	309	307
Actuarial Loss (Gain)	(30)	301
Benefits Paid	(347)	(347)
End of Year — December 31	$5,761	$ 5,794
Fair Value of Plan Assets		
End of Year — December 31	$ —	$ —
Costs not recognized		
Unrecognized Prior Service Costs	—	(1,116)
Unrecognized Actuarial Losses	—	(685)
	—	(1,801)
Accumulated Benefit Obligation Recognized — December 31	$5,761	$ 3,993

The assumptions used to calculate the benefit obligation as of December 31, 2006 and 2005 are as follows:

	2006	2005
Discount Rate	5.75%	5.50%
Future Average Compensation Increases	5.00%	5.00%

The unfunded status of the plan of $5.8 million at December 31, 2006 is recognized in the accompanying statement of financial position as a current accrued pension liability of $0.3 million and a long-term accrued pension liability of $5.5 million. This also is the expected Company 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, 2006, 2005 and 2004:

	2006	2005	2004
(In thousands)			
Net Periodic Cost			
Service Cost — Benefits Earned During Period	$ 35	$ 25	$ 23
Interest Cost	309	307	313
Amortization of Prior Service Cost	109	109	109
Amortization of Losses	5	—	—
Net Periodic Cost	$458	$441	$445

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

	2006	2005	2004
Discount Rate	5.50%	5.75%	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 in the aggregate for the next five years after that $1.7 million. This also is the expected Company contribution to the plan, since the plan is unfunded.

Participants in the nonqualified supplemental retirement plan 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 projected benefit obligation and the fair value of plans assets for the year ended December 31, 2006 and the accumulated benefit obligation at December 31, 2006 is as follows:

	December 31, 2006	December 31, 2005
(In thousands)		
Funded Status		
Projected Benefit Obligation		
Beginning of Year — January 1	$856	$ 723
Service Cost	6	5
Interest Cost	46	40
Actuarial Loss (Gain)	(46)	127
Benefits Paid	(42)	(39)
End of Year — December 31	$820	$ 856
Fair Value of Plan Assets		
End of Year — December 31	$ —	$ —
Costs not recognized		
Unrecognized Prior Service Costs	—	(469)
Unrecognized Actuarial Losses	—	(253)
	—	(722)
Accumulated Benefit Obligation Recognized — December 31	$820	$ 134

The assumptions used to calculate the post retirement benefit obligation as of December 31, 2006 and 2005 are as follows:

	2006	2005
Discount Rate	5.75%	5.50%

The following table summarizes the components of the net periodic cost for the years ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
(In thousands)			
Net Periodic Cost			
Service Cost — Benefits Earned During Period	$ 6	$ 5	$ 3
Interest Cost	46	40	18
Amortization of Prior Service Cost	34	37	18
Amortization of Losses	7	—	—
Net Periodic Cost	$93	$82	$39

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

	2006	2005	2004
Discount Rate	5.50%	5.75%	6.00%
Future Average Healthcare Benefit Increases	12.00%	12.00%	12.00%

The Company estimates that $0.03 million of prior Service Costs and $0.01 million of net losses in accumulated other comprehensive income for medical, dental and long-term care insurance benefits as of December 31, 2006 will be recognized as components of net periodic benefit cost during the year ended December 31, 2007 for the Plan. For measurement purposes, a 12% annual increase in the cost of health care benefits was assumed for 2006 and 2005 respectively, gradually decreasing to 5.0% in 2013 and years thereafter. A one percentage point increase in this rate would increase the post retirement benefit obligation by approximately $0.1 million, and a one percentage point decrease in this rate would decrease the post retirement benefit obligation by approximately $0.1 million. The Company expects the benefits to be paid in each of the next five years to be $0.04 million and in the aggregate for the next five years after that $0.3 million. This also is the expected Company contribution to the plan, since the plan is unfunded.

NOTE 7 — SELECTED QUARTERLY FINANCIAL INFORMATION

The following table summarizes selected quarterly financial information for 2006 and 2005:

	Quarter Ended							
	Dec. 31, 2006	Sept. 30, 2006	July 1, 2006	April 1, 2006	Dec. 31, 2005	Oct. 1, 2005	July 2, 2005	April 2, 2005
(Unaudited)								
(In thousands, except for per share data)								
Sales	$28,920	$27,752	$28,832	$25,263	$20,233	$19,626	$18,839	$15,656
Gross Profit (sales less cost of products sold)	4,951	6,119	6,766	5,412	4,117	3,965	3,495	3,293
Income (Loss) before Tax	1,004	2,423	3,126	2,206	1,612	873	722	960
Net Income (Loss)	807	1,648	1,963	1,318	977	454	197	609
Basic Earnings (Loss) per Share	0.10	0.21	0.25	0.17	0.13	0.06	0.02	0.08
Diluted Earnings (Loss) per Share	0.10	0.20	0.24	0.16	0.12	0.06	0.02	0.08

NOTE 8 — SALES BY GEOGRAPHIC REGION, MAJOR CUSTOMERS AND CANADIAN OPERATIONS

The following table summarizes the Company's sales by geographic region:

	2006	2005	2004
(In thousands)			
North America	$ 89,089	$50,579	$28,351
Asia	7,309	11,090	762
Europe	13,650	10,857	4,558
South America	469	863	814
Other	250	965	211
	$110,767	$74,354	$34,696

Sales recorded by the Company's Canadian operations were $8.6 million in 2006, $7.6 million in 2005 and $6.9 million in 2004. Net loss from this operation was $0.1 million in 2006, $0.4 million in 2005 and $0.5 million in 2004. Net Assets held outside of the United States total $0.5 million at December 31, 2006 and $0.6 million at December 31, 2005. The exchange gain (loss) included in determining net income for the years ended December 31, 2006, 2005 and 2004 was $0.0 million, $0.1 million and $(0.2) million respectively. Cumulative translation adjustments amounted to $0.8 million at December 31, 2006 and 2005, and $0.7 million at December 31, 2004.

The Company has a significant concentration of business with one major customer and the U.S. Government. Sales to the major customer accounted for 21.2% of sales in 2006, 2.1% of sales in 2005 and 0.0% of sales in 2004. Accounts receivable from this customer at December 31, 2006 and 2005 were $1.9 million and $0.3 million, respectively. Sales to the U.S. Government accounted for 6.5% of sales in 2006, 10.8% of sales in 2005 and 18.5% of sales in 2004. Accounts receivable from the U.S. Government at December 31, 2006 and 2005 were $0.6 million and $1.3 million, respectively.

NOTE 9 — COMMITMENTS AND CONTINGENCIES

The Company leases certain office and manufacturing facilities as well as equipment under various lease contracts with terms that meet the accounting definition of operating leases. These arrangements may include fair market renewal or purchase options. Rental expense for the years ended December 31, 2006, 2005 and 2004 was $1.7 million, $2.1 million and $0.2 million, respectively. The following table represents future minimum lease payment commitments as of December 31, 2006:

(In thousands)	2007	2008	2009	2010	2011
Minimum Lease Payments	$1,778	$542	$125	$8	$—

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, 2006 were $32.5 million. These commitments are not reflected as liabilities in the Company's Balance Sheet.

NOTE 10 — GOODWILL AND INTANGIBLE ASSETS

The following table summarizes the changes in the carrying amount of goodwill for 2006 and 2005:

(In thousands)	2006	2005
Balance at January 1,	$2,686	$2,615
Foreign currency translations	(18)	71
Balance at December 31,	$2,668	$2,686

The following table summarizes acquired intangible assets as follows:

	December 31, 2006			December 31, 2005	
	Weighted Average Life	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
(In thousands)					
Patents	12 Years	$1,271	$190	$1,271	$ 91
Trade Names	N/A	553	—	553	—
Completed and unpatented technology	10 Years	487	93	487	45
Government contracts	6 Years	347	111	347	53
Backlog	4 Years	314	243	314	140
Total Intangible assets		$2,972	$637	$2,972	$329

Amortization is computed on the straight-line method for financial reporting purposes. Amortization expense was $0.3 million, 0.3 million and 0.0 million for 2006, 2005 and 2004 respectively. Amortization expense for each of the next five years will amount to approximately $0.2 million for each of the years ended December 31, 2007, 2008, 2009, 2010 and 2011.

NOTE 11 — DISCONTINUED OPERATIONS

In December 2002, Astronics announced the discontinuance of the Electroluminescent Lamp Business Group, whose primary business has involved sales of microencapsulated EL lamps to customers in the consumer electronics industry. All liabilities relating to this discontinued operation have been settled by December 31, 2005. These liabilities consisted of minimum lease payments under operating leases.

On September 26, 2002, Astronics announced the spin-off of its wholly owned subsidiary MOD-PAC CORP., which operated the Printing and Packaging segment. The spin-off was completed on March 14, 2003, at such time the net assets and equity of MOD-PAC CORP. was removed from the balance sheet of the

Company resulting in a reduction of the Company's equity. The Company and MOD-PAC CORP. entered into a Tax Sharing Agreement, which governs the Company's and MOD-PAC CORP.'s respective rights, responsibilities and obligations after the Distribution with respect to taxes for the periods ending on or before Distribution. Generally, pre-Distribution taxes that are clearly attributable to the business of one party will be borne solely by that party, and other pre-Distribution taxes will be shared by the parties based upon a formula set forth in the Tax Sharing Agreement. In addition, under the Tax Sharing Agreement, liability for taxes that are incurred as a result of the restructuring activities undertaken to implement the Distribution will be borne 60% by Astronics and 40% by MOD-PAC CORP. If the Distribution fails to qualify as a tax-free distribution under Section 355 of the Internal Revenue Code because of an acquisition of our stock or assets, or some other action of ours, then the Company will be solely liable for any resulting corporate taxes.

NOTE 12 — BUSINESS COMBINATIONS

On February 3, 2005, the Company acquired substantially all of the assets of the General Dynamics — Airborne Electronic Systems (AES) business unit from a subsidiary of General Dynamics. Astronics acquired the business for $13.0 million in cash. The Company financed the acquisition and related costs by borrowing $7.0 million on its revolving line of credit and used $6.4 million of cash on hand. For the year ended December 31, 2005, AES had sales of $27.6 million and a pre tax profit of $2.4 million. In 2004, AES had a pre tax loss of approximately $8 million. The loss was primarily a result of costs relating to a development program that included significant termination fees.

NOTE 13 — RESTATEMENT

Fiscal Year Ended December 31, 2005 — The Company has restated its previously issued financial statements for the fiscal year ended December 31, 2005 to correct an error which reduces revenue previously reported on the income statement for the year ended December 31, 2005 by $1.0 million, reduces cost of products sold by $0.4 million, reduces income tax expense by $0.2 million, increases inventory by $0.4 million, increases deferred revenue by $1.0 million, increased deferred tax assets by $0.2 million, reduces net income and retained earnings by $0.4 million, reduces basic earnings per share by $.06 cents and reduces diluted earnings per share by $.05 cents. The amendment on Form 10-K/A, Amendment No. 1 ("Form 10-K/A") filed on March 14, 2007 with the Securities and Exchange Commission (the "Commission"), to the Company's Annual Report on Form 10-K for the period ended December 31, 2005, initially filed with the Commission on March 27, 2006 (the "Original Filing"), reflects 2005 restated financial statements and related footnote disclosures to correct this error. This report reflects the restatement made in Form 10-K/A.

Quarter Ended April 1, 2006 — The Company has restated its previously issued financial statements for the quarter ended April 1, 2006 to correct an error. For the three months ended April 1, 2006, the correction increases revenue by $0.3 million, increases cost of products sold by $0.2 million, increases income tax expense by $0.1 million, increases net income by $0.1 million, increases inventory by $0.2 million, increases deferred revenue by $0.7 million, increases deferred tax assets by $0.2 million, decreases retained earnings by $0.3 million, increases basic earnings per share by $.02 cents and increases diluted earnings per share by $.01 cents.

Quarter Ended July 1, 2006 — The Company has restated its previously issued financial statements for the quarter ended July 1, 2006 to correct an error. For the three months ended July 1, 2006, the correction reduces revenue previously reported on the income statement by $0.2 million, reduces cost of products sold by $0.1 million, had negligible impact on income tax expense, reduces net income by $0.1 million, increases inventory by $0.3 million, increases deferred revenue by $0.9 million, increases deferred tax assets by $0.2 million, decreases retained earnings by $0.4 million, had negligible impact on basic earnings per share and reduces diluted earnings per share by $.01 cent. For the six months ended July 1, 2006 the correction increases revenue previously reported on the income statement by $0.1 million, had negligible impact on cost of products sold, had negligible impact on income tax expense, increases net income by $0.1 million, increases inventory by $0.3 million, increases deferred revenue by $0.9 million, increases deferred tax assets by

$0.2 million, decreases retained earnings by $0.4 million, had negligible impact on basic earnings per share and increases diluted earnings per share by $.01 cent.

Quarter Ended September 30, 2006 — The Company has restated its previously issued financial statements for the quarter ended September 30, 2006 to correct an error. For the three months ended September 30, 2006, the correction reduces revenue previously reported on the income statement by $0.8 million, reduces cost of products sold by $0.4 million, reduces income tax expense by $0.1 million, reduces net income by $0.3 million, increases inventory by $0.7 million, increases deferred revenue by $1.7 million, increases deferred tax assets by $0.3 million, decreases retained earnings by $0.6 million, reduces basic earnings per share by $.03 cents and reduces diluted earnings per share by $.03 cents. For the nine months ended September 30, 2006 the correction reduces revenue previously reported on the income statement by $0.7 million, reduces cost of products sold by $0.3 million, reduces income tax expense by $0.1 million, reduces net income by $0.2 million, increases inventory by $0.7 million, increases deferred revenue by $1.7 million, increases deferred tax assets by $0.3 million, decreases retained earnings by $0.6 million, decreases basic earnings per share by $.03 cents and decreases diluted earnings per share by $.03 cents.

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

Not applicable.

ITEM 9A. *CONTROLS AND PROCEDURES*

(a) 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. However, as described below in "Application of Generally Accepted Accounting Principles" during the Company's 2006 year-end audit the Company became aware that its revenue recognition policy with regard to a bill and hold arrangement with one customer did not meet all of the criteria necessary to allow it to recognize revenue for the transaction while the product remained in the Company's facility. As such Management has concluded that a material weakness in the Company's internal control over financial reporting existed at December 31, 2005.

(b) 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 except as discussed below.

Application of Generally Accepted Accounting Principles

During the Company's 2006 year-end audit the Company became aware that its revenue recognition policy with regard to a bill and hold arrangement with one customer did not meet all of the criteria necessary to allow it to recognize revenue for the transaction while the product remained in the Company's facility. As such Management has concluded that a material weakness in the Company's internal control over financial reporting existed. at December 31, 2006. The Company believes it has taken action to remediate the weakness that includes training with regard to bill and hold arrangements and approval of any proposed bill and hold arrangement by the CEO and CFO of the Company.

ITEM 9B. *OTHER INFORMATION*

Not applicable.

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" in the Company's definitive Proxy Statement dated March 14, 2007 and 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 44	President, Chief Executive Officer and Director of the Company	2001
David C. Burney Age 44	Vice President-Finance, Treasurer, Secretary and Chief Financial Officer of the Company	2003

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 to the 2006 Proxy.

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 SCHEDULES*

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

1. *The following financial statements are included:*

   (i) Consolidated Statement of Operations for the years ended December 31, 2006, December 31, 2005 and December 31, 2004

   (ii) Consolidated Balance Sheet as of December 31, 2006 and December 31, 2005

   (iii) Consolidated Statement of Cash Flows for the years ended December 31, 2006, December 31, 2005 and December 31, 2004

   (iv) Consolidated Statement of Shareholders' Equity for the years ended December 31, 2006, December 31, 2005 and December 31, 2004

   (v) Notes to Consolidated Financial Statements

   (vi) Reports of Ernst & Young LLP, Independent Registered Public Accounting Firm

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

2. *Financial Statement Schedules*

   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; incorporated by reference to exhibit 3(a) of the Registrant's December 31, 1988 Annual Report on Form 10-K.
(b)	By-Laws, as amended; incorporated by reference to exhibit 3(b) of the Registrant's December 31, 1996 Annual Report on Form 10-K.
4.1(a)	Unsecured $8,000,000 Credit Agreement with HSBC Bank USA, dated February 20, 2003; incorporated by reference to Exhibit 4.1 to the Registrant's December 31, 2002 Annual Report on Form 10-K.
(b)	Amendment numbers 1 and 3 dated March 18, 2005 incorporated by reference to Exhibit 4.1 to the registrant's December 31, 2005 Annual Report on Form 10-K.
(c)	Amendment numbers 2 and 4 dated March 31, 2005 incorporated by reference to Exhibit 4.1 to the registrant's December 31, 2005 Annual Report on Form 10-K.
(d)	Line of credit note dated March 31, 2005 filed herewith incorporated by reference to Exhibit 4.1 to the registrant's December 31, 2005 Annual Report on Form 10-K.
(e)	Amendment number 5 dated December 22, 2005 incorporated by reference to Exhibit 4.1 to the registrant's December 31, 2005 Annual Report on Form 10-K.
(f)	Secured $20,000,000 Credit Agreement with HSBC Bank USA, dated January 5, 2007.
10.1*	Restated Thrift and Profit Sharing Retirement Plan; incorporated by reference to exhibit 10.1 of the Registrant's December 31, 1994 Annual Report on Form 10-KSB.
10.2*	Incentive Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 26, 1982.
10.3*	Director Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 16, 1984.
10.4*	1992 Incentive Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 30, 1992.
10.5*	1993 Director Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 19, 1993.

Exhibit No.	Description
10.6*	1997 Director Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 14, 1997.
10.7*	2001 Stock Option Plan; incorporated by reference to the Registrant's definitive proxy statement dated March 19, 2001.
10.8*	Non-Qualified Supplemental Retirement Plan; incorporated by reference from the Registrant's 1999 Annual Report on Form 10-K.
10.10	Tax Sharing Agreement Dated December 7, 2002 by and between MOD-PAC CORP. and the Registrant; Incorporated by reference to exhibit 10.1 of MOD-PAC CORP.'s Form 10/A registration statement dated January 28, 2003.
10.12*	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 from the Registrant's 2003 Annual Report on Form 10-K.
10.13*	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 from the Registrant's 2003 Annual Report on Form 10-K.
10.14	Asset Purchase Agreement Dated February 3, 2005 between General Dynamics OTS (Aerospace), Inc. and Astronics Acquisition Corp. incorporated by reference to Exhibit 10.14 to the Registrant's 2004 Annual Report on Form 10-K.
10.15*	2005 Director Stock Option Plan incorporated by reference to Exhibit 10.15 to the Registrant's 2004 Annual Report on Form 10-K.
21	Subsidiaries of the Registrant; filed herewith.
23	Consent of Ernst & Young LLP, 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; furnished herewith

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

Valuation and Qualifying Accounts

Year	Description	Balance at the Beginning of Period	Acquisitions	Charged to Cost and Expense	(Write-Offs) Recoveries	Balance at End of Period
(In thousands)						
2006	Allowance for Doubtful Accounts	$ 365	$ —	$ 17	$ (68)	$ 314
	Reserve for Inventory Valuation	4,771	—	121	(758)	4,134
	Allowance for Notes Receivable	590	—	—	—	590
	Deferred Tax Valuation Allowance	297	—	16	—	313
	Program Loss Reserves	830	—	—	(830)	—
	Warranty	338	—	492	(7)	823
2005	Allowance for Doubtful Accounts	259	100	124	(118)	365
	Reserve for Inventory Valuation	684	3,972	140	(25)	4,771
	Allowance for Notes Receivable	590	—	—	—	590
	Deferred Tax Valuation Allowance	—	—	297	—	297
	Program Loss Reserves	—	3,739	—	(2,909)	830
	Warranty	82	200	103	(47)	338
2004	Allowance for Doubtful Accounts	333	—	(60)	(14)	259
	Reserve for Inventory Valuation	534	—	229	(79)	684
	Allowance for Notes Receivable	133	—	457	—	590
	Deferred Tax Valuation Allowance	—	—	—	—	—
	Program Loss Reserves	—	—	—	—	—
	Warranty	75	—	7	—	82

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 March 16, 2007.

Astronics Corporation

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

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/ Raymond W. Boushie Raymond W. Boushie	Director	March 16, 2007
/s/ Robert T. Brady Robert T. Brady	Director	March 16, 2007
/s/ John B. Drenning John B. Drenning	Director	March 16, 2007
/s/ Peter J. Gundermann Peter J. Gundermann	Director	March 16, 2007
/s/ Kevin T. Keane Kevin T. Keane	Director	March 16, 2007
/s/ Robert J. McKenna Robert J. McKenna	Director	March 16, 2007

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 2002

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: March 16, 2007

/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 2002

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: March 16, 2007

/s/ David C. Burney

David C. Burney
Chief Financial Officer

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Exhibit 32

Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 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, 2006 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: March 16, 2007

/s/ Peter J. Gundermann

Peter J. Gundermann
Title: Chief Executive Officer

Dated: March 16, 2007

/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.

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SHAREHOLDER INFORMATION

Stock Exchange Listing
NASDAQ NM: **ATRO**

Annual Meeting
Astronics Corporation's Annual Meeting of Shareholders will be held at 10:00 a.m. on May 9, 2007, at:

Astronics Corporation
Corporate Headquarters
130 Commerce Way
East Aurora, NY 14052

Investor Relations
Investors, stockbrokers, security analysts and others seeking information about Astronics Corporation should contact:

David C. Burney,
Chief Financial Officer
716.805.1599
invest@astronics.com

Additional information is available on our website at: **www.astronics.com**

Corporate Headquarters
Astronics Corporation
130 Commerce Way
East Aurora, NY 14052
716.805.1599

Subsidiaries
Astronics Advanced Electronic Systems Corp.
Redmond, Washington

Luminescent Systems, Inc.
East Aurora, New York
Lebanon, New Hampshire

Luminescent Systems Canada, Inc.
Dorval, Quebec, Canada

Luminescent Systems Europe B.V.B.A.
Brussels, Belgium

Transfer Agent
For services such as change of address, replacement of lost certificates and changes in registered ownership, or for inquiries as to your account, contact:

American Stock Transfer & Trust Co.
59 Maiden Lane
New York, NY 10038
Tel: 800.937.5449
Fax: 718.236.2641
Website: www.amstock.com

Attorneys
Hodgson Russ LLP
Buffalo, New York

Independent Auditors
Ernst & Young LLP
Buffalo, New York

130 Commerce Way | East Aurora, New York 14052 | 716.805.1599 | www.astronics.com