

Operator: Greetings, and welcome to the Astronics Corporation Third Quarter 2017 Results. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

I would now like to turn the conference over to Deborah Pawlowski, Investor Relations for Astronics Corporation. Thank you. You may begin.

Deborah Pawlowski: Thanks, Latonia, and good morning, everyone. We certainly appreciate your time today and your interest in Astronics. On the call with me today are Peter Gundermann, our President and CEO; and Dave Burney, our Chief Financial Officer. Pete is going to go through his prepared remarks, and then we'll open it up to take your questions. You should have in hand the news release that crossed the wire this morning, which is available also on our website at astronics.com.

As you are aware, we may make some forward-looking statements during the formal presentation as well as during the Q&A portion of this teleconference. These statements apply to future events that are subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from where we are today. These factors are outlined in the earnings release as well as in the documents filed by the company with the Securities and Exchange Commission. You can find these documents both at our website and at sec.gov.

So with that, let me turn it over to Pete to begin the call. Peter?

Peter J. Gundermann: Thanks, Deb, and good morning, everybody. My comments will follow the usual format. We will talk about the third quarter in some level of detail, which was not a positive quarter for us on the surface, and about year-to-date results, which was the continuation of the trends we have been seeing all year. Then, we'll look at the tables, and talk about a more positive set of topics from my opinion, which is our expectations for the near future, not only in Q4, which we expect to be a very strong quarter for our company, but also our preliminary look at 2018 expectations.

A number of things are changing for our business and most of the headwinds we have been fighting recently, we believe, are about to turn into tailwinds for next year. It's going to be a fundamentally different year, so we will spend a little bit of time talking about our initial look at that set of expectations.

So for Q3, revenue was \$149.7 million; that's lower than we expected and below our comparator quarter of a year ago by 3.5%. Aero sales were \$129 million, up slightly from the comparator period and in the middle of the range of the recent four quarters. Test sales were \$21 million, down 30% over the third quarter of 2016, but pretty consistent with what we've seen overall in 2016 and 2017. Our third quarter, our comparator quarter for Test, was pretty strong with lots of semiconductor sales a year ago.

Given the lighter volume, our bottom line results were also light. Net income was \$6.1 million, or 4% of sales, down substantially from \$12.1 million a year ago, or 7.8% of sales in the third quarter of last year. Our diluted earnings per share in the most recent quarter was \$0.21. We were dealing with an effective tax rate of 29.9%, up slightly from 26.5% in the third quarter of last year.

Engineering and development expenses totaled \$23.7 million, that's 15.8% of sales and includes our most recent acquisition of CCC earlier in the year. 15.8% is higher than we anticipated it would be this year. It's mostly a function of lighter sales, not higher expenses, and we would expect in the coming quarters that, as revenue increases, our percentage will decrease somewhat down to the 12%, 13% range, even though the actual spending will remain pretty consistent. Our early indication is that next year will be somewhere in the \$100 million to \$105 million range.

The bright spot for the third quarter was our bookings. We had bookings of \$186 million, up about \$28 million from our second quarter and our highest in the last four quarters. In the last four quarters dating back to the fourth quarter of last year, our totals have been in succession \$137 million, \$147 million, \$159 million and now \$186 million. In the most recent quarter, our book-to-bill was 1.25 and, still, bookings are 25% higher than shipments, leaving us with a backlog at the end of the third quarter of \$302 million.

Let's try to make sense of some of these numbers. Sales were down, mostly because we have a number of, I guess I'd call them, "chunky pieces of business" that we thought would partially be realized in Q3, but all of which slid into the future, into Q4 and perhaps a little bit later. To give you a flavor of some of these... One of

them was a military program for a foreign military, which is about a \$5 million piece of business, none of which can be booked until some flight trials are completed and those flight trials were delayed. In the third quarter, we have another award that will be a percentage of completion award that we are waiting to get through the government also. This also has a foreign nature to it. We were expecting that award initially in the second quarter, then the third quarter, and now we're promised in the fourth quarter.

We have some other customer acceptances for another piece of business, which is fairly substantial, that also slid from the third quarter to the fourth quarter. Each of these is about a \$5 million piece of business, so collectively \$20 million. For a company our size, that would have a pretty big impact on any particular quarter and helps explain why our third quarter was light and our fourth quarter we expect will be quite strong.

Margin profile is also down a little bit, maybe a little more than you might expect with the revenue drop relative to the comparator period. Part of that solution is we had a relatively light semiconductor sales in the most recent quarter compared with the year ago quarters. Semiconductor is a "lumpy" part of our business, most of you know that, but when it's good it's pretty good from a margin perspective. So, we have \$30 million in third quarter of 2016 in semi sales and the most recent quarter was down to \$20 million; that's a fairly substantial drop in a profitable part of business, and it shows up in our margins.

Beyond that, just lower volume hurts. We are running a business that is structured and designed for higher business volume and we think we're going to see that pretty quickly here and I'll try to relay that when we start talking about our forecast. But until we get there, we're definitely seeing some margin compression, just because the revenue that we've been seeing for the first three quarters of this year is not representative of where we expect to be in relatively short order.

Year-to-date revenue, through three quarters, was \$453 million, down 5% from where it was in 2016. Net income was \$25.3 million, down substantially, 34%; from \$38.5 million last year. Our net margin percentage this year through three quarters was 5.6% of sales, \$0.85 per diluted share. And again, the margin decline is being driven by a drop in volume and to some extent a drop or a change in mix from more profitable lines of work to less profitable lines of work, both on the Test and the Aerospace side of our business.

Good news, again, is bookings through three quarters of \$492 million and book-to-bill of 1.09. And again, to try to put the year in perspective, the headwinds we've been dealing with are in some of our core markets. We've already talked about our semi test market, where we were down pretty substantially in 2017 compared with 2016 and 2016 compared with 2015. Also in 2017, our in-seat power product line, which is a major part of our business, struggled as the wide-body market cooled off. We've made progress in narrow-body and have released a press release recently that we'll talk about a little bit in a minute, but the narrow-body growth and narrow-body progress thus far to date has not been strong enough to offset wide-body weakness. We think that's going to change and start to flip around next year.

To give a sense of some of the headwinds, not only that we've faced, but also our customers, our five largest customers are cumulatively about 50% of our sales, and four of the five are down substantially this year. Collectively, the five are down 13% in terms of revenue. We've also had some product launch delays. One of the most significant ones is our antenna business. We've talked about our tail mount system a number of times on these calls. We think that's starting to turn around too. We've had some successful demonstrations and we have the system officially for sale. We anticipate initial sales of substance during the fourth quarter of 2017, ramping up and being a good contributor next year, 2018.

Looking at our segments, Aerospace revenues for the quarter were \$129 million, up slightly from \$125 million last year. Operating profit was \$13 million, or 10% of sales, compared with \$17.6 million last year. Bookings in the third quarter were \$146 million, our strongest again of the last four quarters. The last four quarters have gone from \$114 million to \$123 million to \$135 million to now \$146 million. Our third quarter book-to-bill at \$146 million was 1.14, so 14% ahead of shipments, leaving us with a backlog at the end of the quarter of \$233 million.

Revenue year-to-date for Aerospace was \$395 million, 87% of our total, down slightly compared with 2016. Operating profit year-to-date of \$47 million, 11.8% of sales, was down from \$61 million, or 15% of sales, in 2016 and bookings year-to-date are \$404 million, slightly ahead of shipments. If you look at our markets, commercial transports are \$307 million, 68% of our total business, down 7.3%. That's something we're not used to, and again, is representative of the cooling off of the wide-body market. We've talked about military

sales year-to-date of \$46 million, 10% of our total, up 16%, and business jet and VVIP at \$29 million in sales, 6% of total, up 41%.

If you look at our product lines, Electrical Power & Motion with \$199 million sales, again down 9%, and that's 44% of our total. Lighting and Safety is about 27% of our total and up 1% at \$122 million, and Avionics, one of our smaller product lines, 7% of total, is up 38% at \$31 million in volume. Looking at trend aerospace, the wide-body weakness we've talked about, narrow-body growth has not been enough to compensate, but today we think that's about to change. We think wide-bodies has bottomed out. We think narrow-bodies is going to grow strongly in the near future.

We've seen some the schedules slide in terms of our tail mount business jet antennas. We think that delay has come to an end and we think it's going to start contributing in the current quarter, and we think price reductions that we've built into our models in exchange for longer-term agreements with major customers have had an impact on our margins. We think that's, hopefully, about to bottom out and can be largely compensated by efficiency increases in our business, including new agreements with some of our supplier base.

So we issued some press releases in the last quarter that are relevant for our Aerospace to look at and to consider. We issued a press release saying that we've won a series of narrow-body awards with the number of North American Airlines totaling somewhere between 700 and 1400 airplanes. Those are substantial wins. In most cases, the orders that will relate to the agreements we've signed have not been placed yet, and they're not in backlog. Most of them will be awarded in terms of purchase orders and reflected in backlog as time goes on, as those programs mature and go into the production phase over the next two to four years. We think those awards are representative of what we see happening around the world. North America is very active, as is Asia and Europe and South America, so we expect that to be a very positive part of our business going forward.

We also announced the intended acquisition of a company called Telefonix. Telefonix is a company that we are quite familiar with in the sense that we've been working with them and around them and near them for some period of time. The reason for that is there's a highly complementary product set between some of the things they do and some of the things we do in the area of cabin entertainment and in-flight entertainment.

We do power, we have antennas, and we have certain communication protocol capability. They make things like file servers, wireless access points, data loaders, and modem controllers. Together, we believe we will have an unmatched broad product offering for this industry and enable customers to have a one-stop shop, if they choose to do that, of significance. We think that will be a competitive advantage over time. I think our press release said that, this year, Telefonix is running in the \$60 million to \$70 million range. We expect next year an incremental improvement on that and our purchase price per the press release is \$104 million. Closing will be dependent on an HSR review, which is currently underway, certainly expected before year-end and could happen in the next couple of weeks.

Moving to our Test System segment, revenue in the third quarter was \$21 million, about even with recent history and 14% of consolidated sales. Operating profit was \$1.1 million, or 5.2% of sales, which is on the lighter side of what we've come to know. Revenue year-to-date of 58.1 million was down 20% from last year when it was \$73 million. Looking at some of the detailed tables in the back of our press release, you will see that our Aerospace and Defense Test business is pretty much flat compared with last year in terms of volume, but our Semi Test is down substantially, 46%, from where it was last year.

Bookings year-to-date are the highlight at \$88.4 million, a book-to-bill ratio of 1.52. Bookings are beating shipments now by about 50% and give us quite a bit of optimism for the future. In the third quarter, we detailed bookings of \$40 million, which is a book-to-bill of 1.91 and includes a substantial order for a new semi program that we have underway, \$29 million for that. In the press release, we detailed some early bookings in the fourth quarter of \$15 million for more semi test in our legacy program, which is not included in the summary numbers because the summary numbers are specific to the third quarter. Therefore, that \$15 million will be included in the fourth quarter, but we wanted to get that news out there sooner rather than later.

I think the thing that I'd like to emphasize with respect to our Test business at the moment is that we are optimistic for the coming year, not only based on the bookings we've had to date, but also on the programs

we're continuing to pursue. I think I said last quarter that we're operating in what we would call a "target rich environment" and we still are. We anticipate substantially more program wins in the coming months, which will play out significantly in 2018. Those are not included in the forecast that we're putting forward today, so we will revise as we see how we fare, but my point is, I don't think we're done. I think the orders that we've received are substantial and important and provide a good basis going forward, but aren't the whole story. Our third quarter backlog for the Test business ended up \$69 million, which is a high number compared with where we've been operating.

Looking at our balance sheet, we continue to be in pretty good shape. We feel cash at the end of Q3 of \$15.4 million, total debt of \$177.4 million, net debt of \$162 million, is less than two times EBITDA and comfortably within our covenants. We feel this provides plenty of room for our anticipated Telefonix acquisition, which will be coming up before the end of Q4. Our CapEx in the fourth quarter was \$4 million, year-to-date \$9.7 million. During the quarter, we purchased 702,000 shares at an aggregate cost of \$18.9 million, basically completing our \$50 million authorization, which we announced last year. Since inception that \$50 million bought 1.675 million shares. So looking forward, we are expecting pretty strong Q4 sales of \$168 million to \$183 million. Aerospace will be \$139 million to \$150 million and Test will be \$30 million to \$33 million, the low end of that range. \$169 million would be our best quarter in years, frankly, and the highest would be our second best ever.

It's a wide range and we know that. It's a function of the big pieces of business that I talked about earlier, the \$4 million, \$5 million, chunks, all of which could fall into this quarter. We're expecting at least one of them to hit that low end of the range. But in any event, even though it's frustrating to watch on the slides from one quarter to another, it's not a function of us losing them, and it's not a function of them disappearing. It's just a function of timing. There is no accommodation or no inclusion of any revenue from our planned acquisition of Telefonix in the Q4 numbers. Those Q4 numbers are base business organic, so to speak, and again somewhere in \$169 million to \$183 million range.

This makes our revised guidance for 2017 total \$622 million to \$636 million. The midpoint would be down slightly from our 2016 actuals. Aerospace would be \$534 million to \$545 million, up 5% over 2016. Test would be \$88 million to \$91 million, the midpoint being down about 10% from 2016.

The important thing as we think of the near future here is not only our Q4, but what we're anticipating in 2018. We're issuing what we're calling "preliminary guidance" for the revenue side. As all of you know, we don't issue bottom line guidance and we are initially stating we're expecting revenue for 2018 to be \$675 million to \$750 million. That midpoint of \$712 million suggests an increase of about 13%. We're expecting Aerospace to be \$570 million to \$630 million. The midpoint of that growth would be 11%; that's being driven by a stabilization of wide-bodies, growth in narrow-body in-seat power and a number of other improvements across the business, including a successful launch of our tail mount antenna system. We're expecting our Test business initially to be in \$105 million to \$120 million range; the midpoint of that level would see growth of about 25%. The big improvement in that piece of business at this point is these semi orders that we have received in-house. We're calling this a preliminary, and an organic, forecast for sales next year.

Importantly, the forecast does not include, again, anything for our Telefonix business. When that closes, we will revise our guidance. A sneak preview would suggest that the revenue level should be somewhere in the \$70 million to \$80 million range next year. It also does not include some of the major test opportunities that that we have in play. There are major opportunities both on the A&D side, the test, and the semi side, and it's difficult to quantify those. I'll help you out a little bit. We would suggest that the low end of the range of opportunities will probably be, on a weighted average, somewhere around \$25 million or \$30 million, but it could easily be double or triple that. So, there are a number of major opportunities, which we're in pursuit of and optimistic for, but I don't want to count them until we can count them.

That gives you some color on what we're looking at here going forward, and I think concludes my prepared remarks. So, Latonia, I think we can open up for questions at this point.

Operator: Thank you. At this time, we will conduct a question-and-answer session. Our first question comes from Ken Herbert with Canaccord. Please proceed with your question.

Ken Herbert: Hi, good morning Pete, Dave and Deb.

Peter Gundermann: Good morning.

Ken Herbert: Pete, I just wanted to start off. You made a comment around pricing and, obviously, great news on the backlog and the bookings. As I look at margins within the Aerospace segment, can you help us quantify what pricing relative to volume has been for you as a headwind this year? And just to follow up on your comment that you see it sort of stabilizing as you get into 2018, any more color around that? Obviously, some of the upside you've won through that, maybe better guarantees on volume or longer-term horizons or predictability. A little more color on that as we think about margins as volumes start to turn in Aerospace or increase would be helpful.

Peter Gundermann: Sure, I'll take a stab at that first, Dave, and then, I'll turn over to you in a minute for your comments. We have a number of various significant customer relationships that mentioned something. I don't think we've talked about that before. Our top five customers this year are about 50% of our business, and they've grown pretty substantially over the years. We have solid long-term arrangements with all of those customers. In some cases, we have exchanged lower margins or lower prices, which results in lower margins in the short-term, for longer terms. The challenge for us is to become more efficient and to execute better. I think we were fairly optimistic that we can cover a lot of those giveaways, but at this point, this year, I'd say it's been a couple points at least. So, that's how I would phrase it. Dave, how would you cover it?

Dave Burney: I think that summarizes it pretty well. If you look at us historically, we tend to be able to squeeze out some decent operating margin with sales growth. Looking into 2018, if we can hit the top line numbers that we're expecting for 2018, I would expect to see margin improvement on the Aerospace side there for sure.

Ken Herbert: That's helpful. Dave, as I look at Aerospace in 2018 as you get the volume growth, can you just quantify what you see as an appropriate incremental margin? Or how much can you get back next year to your legacy aerospace markets?

Dave Burney: I won't give specific guidance, but qualitatively, I think we can start heading back up toward the margins that we were starting to see back in 2016. Our margin profile was extremely high if you go back to 2015 or 2014. We were up in the 15% to 17% range. The profile of the company has changed a little bit since then. We've had a number of acquisitions. We're growing the top-line. I don't know that we'll expect to grow the operating income and add businesses that are going to produce 20% operating margins. I think for sure, as our top-line grows, we can start to go towards that mid-teen level that we had before. At least that's what our goal would be.

Ken Herbert: Okay, that's helpful. And just finally, on the recent contract announcement for the narrow-bodies for In-Seat Power. Obviously, Pete, that's not in the backlog yet. Can you provide any more detail on timing and some of the variations? You have a pretty wide range here in terms of the number of aircrafts. Over what time do you expect to start to see some of this work? What are some of the issues around the 700 and the much higher number in terms of timing of those contracts or some of the put and take as we think about that particular opportunity into 2018 and 2019? It looks like that could be a pretty significant source of the upside into 2018, once you're able to put that in the backlog.

Peter Gundermann: No doubt. As we're starting to see that, there are orders coming through against these agreements, but that press release was largely based on agreements we've made for pricing and delivery and services with some major airlines in North America. In general, you don't make agreements. Airlines don't bother making agreements of this nature unless they have intentions of following through on this business. Some of these programs are a ways out there and some of them are a little bit more preliminary than others and that's what resulted in the range being so wide. We think that there are 1400 airplanes out there that we're going to do that are covered by these agreements, but in some cases, our customers don't have the formal approval yet to proceed. Some of those fleets may not have for maybe even another year.

It's a little bit preliminary in that sense, but we think it's very likely that the lower end of that range, those 700 airplanes will happen certainly in the next three years and probably consolidating more to two there. The trends that we've seen for a desire for In-Seat Power, despite our revenue performance this year, continues to be very strong. I mean, nobody is taking power off their airplanes. Most are deciding that they need to have it and, if not now, then when. There are some holdouts, of course; airlines that haven't tried it and are not at this point committed to trying it, but those airlines are increasingly in the minority. The trend is more

and more, not only putting power on, but putting it on nose to tail and that's what we're seeing certainly in the North American narrow body market.

Ken Herbert: Okay, that's very helpful. I just wanted to ask one final question. You've, obviously, seen significant timing risk this year as some programs and projects have slipped to the right. You've gone out on a bit of the limb here with a very bullish sort of Q4 and of course initial 2018 outlook. As you look at your 2018 outlook, relative to prior years, do you feel like you captured a bit more of the timing risk heading into 2018 relative to prior years? Or how would you just characterize the timing risk around some of these initial comments into 2018?

And I'll stop there and pass it back. Thank you.

Peter Gundermann: Sure. Let me take a stab at that. We think we've de-risked our 2018 forecast, unlike the trap we've fallen into in some previous years, by keeping our initial forecast based on booked business. I'm not sure that I think 2018 will be weighted towards the second half, because there are certain parts of our business that work on that way. At this point, we're going to take the approach that, instead of telling you all at once what we really think we're going to do, we're going to take it as some of the more tentative parts firm up. So, we've de-risked that in that sense.

As far as some of the major chunks of business moving around and delays, that's a frustrating part of our business and a little bit of a judgment call. For a company our size, \$4 million or \$5 million pieces of business moving around in any particular quarter can have pretty drastic repercussions. We feel like there's a good chance that half of them, or all of them, will hit in the fourth quarter. We've given you a range to try to de-risk it on the low end, such that if we've got one of them, we should be pretty comfortably in the low end of that range.

That's why we're within a month and a half or two months at the end of the year, and we're still giving you a pretty wide range, because we need to have these things happen. However, even if they don't happen, even if we're at the low end of that range, that's a very good quarter for us. Like I said, the best quarter we've had and it will be the best quarter we've had in two years. We think that, combined with the bookings strength and the positive things we continue to see in the market, along with the acquisition of Telefonix, which I'm personally pretty excited about, it promises to make 2018 a pretty good year for our company.

Ken Herbert: Thank you very much.

Peter Gundermann: Sure.

Operator: Our next question comes from George Godfrey with CL King & Associates. Please proceed with your question.

George Godfrey: Thank you. Good morning Pete, Dave and Deb.

Peter Gundermann: Good morning.

George Godfrey: I want to ask about the Test bookings, \$29 million this quarter and then the \$15 million that's already come in from fourth quarter. I think I heard you say it was new platforms. Are those new customers as well or new products and new platforms with existing customers?

Peter Gundermann: Well, I'm going to duck that question, George, simply because customers in this line of work are extremely sensitive as it turns out. All of our agreements say we can talk about things that we legally have to talk about, but beyond that, we have to be a little bit unclear. The way I'd prefer to talk about it is more programs within customers, because I think that's actually the more relevant thing to focus on anyway. Our semi business is largely based on one legacy program today. But, yes, you heard it right. The bigger booking in Q3 was for a new program. It's one of these which is an important step forward and potentially can become quite a bit more valuable than that initial order, if the performance is as our customer expects. More on that as it happens, and as I legally can talk about it.

The other important detail not to miss here is that the legacy program that our business has been based on that was largely dormant in 2016 is showing signs of life again as we approach the end of 2017, in anticipation for 2018. We expect that when I talk about the target rich environment, there's certainly an element there also for semiconductor with a legacy program.

George Godfrey: Got it. And then my second question is, you talk about the tail-mount antenna systems and that's starting to ramp up here and the avionics segment that really had nice growth this quarter. Can you talk about the issues just so I'm clear in my head? How is that momentum back? Now that we're seeing that momentum, is that something that can really ramp up as part of the nice guidance for 2018? I will leave it there. Thank you.

Peter Gundermann: Sure. The antenna by itself doesn't do anybody any good. You have to have a network and a service provider along with that. We're teamed with a couple of prominent companies. Panasonic, one of our near and dear customers, is providing the network for this. Panasonic and Astronics are working with a third company called Satcom Direct, which is a very prominent marketer and consultant of these kinds of services to the industry.

Long story short, nothing can be sold and nothing can be done until all three companies are ready to go. It took us longer than we anticipated to get our wagons hitched up and coordinated the way they need to be coordinated for the launch of this thing, but we're finally there. There are some improvements that need to come down the pipe here shortly, but we think we have line of sight to that too. The delays have largely been driven by that set of mechanics just making sure we have these three companies all doing their job at the right time and getting everything coordinated. We think we're there now.

And we do have a pretty sizable piece of business planned for that effort next year, but those assumptions and those goals are being reality tested right now. As we move into next year and as we see what our experience base is, we'll refine our budget accordingly. We'll probably talk about it in more detail than I'd prefer to, but we prefer not to go into too much more detail about it right now.

George Godfrey: Understood, thank you for taking my questions.

Peter Gundermann: Sure, thank you.

Operator: Thank you. Our next question comes from Michael Ciarmoli with SunTrust. Please proceed with your question.

Les Sulewski: Good morning. It's actually Les in for Michael.

Peter Gundermann: Good morning.

Les Sulewski: A question on the wide-body. You mentioned that wide-body was bottoming out. Is this more of a slowdown than bottom and you'll see some improvement from here on? Or do you see this more as a steady forward?

Peter Gundermann: I think we view it as a steadying. We do have some things to absorb yet, like a little bit of a step down in 777 new builds towards the tail end of this year. We're thinking that things will remain at the current level for wide-bodies, and particularly in the area of In-Seat Power. We're thinking that most of the upside potential in the short-term will be more narrow-body focused.

Les Sulewski: Got it. And also perhaps maybe a little bit more comment on the business jet?

Peter Gundermann: Well, we have a pretty major lighting franchise in business jets. Most of the industry is not anticipating a pickup in production volumes, but we are making steady progress in putting more content on airplanes, and we're doing that in two main areas. One is our Airborne Power side, where commercial transports were known primarily for in-seat power, which is at the end of the day a passenger amenity. It is not flight critical. On the smaller aircraft side, we're building a pretty good franchise for flight critical electrical power generation and distribution. It's a longer thesis than I think we can afford here, but as a fan of the industry and as a pilot myself, it's one of my favorite product lines. It's a system that's really based on high reliability generation and electronic circuit breakers, which offers substantial flexibility and performance and weight advantages over traditional thermal type systems. We're making a lot of headway winning a lot of programs.

It's not a major driver of our income statement at this point, but it is picking up speed. We've won a number of platforms, and I would advise people to go to our investor deck where they're spelled out. We're casting a

pretty wide net, and we're really leading that industry with some pretty good stuff. The other thing we're doing is on the entertainment side with the addition of CCC. In particular, we're picking up some cabin management, cabin entertainment volume in the VVIP market. We think we're making some inroads into expanding not only at CCC, but PGA, one of our other companies active in this market that is expanding into the business jet world. Traditionally, PGA and CCC have done cabin systems for bigger aircraft. We're moving into the smaller aircraft arena. Those two initiatives, we expect, will increase our volume in the business jet arena.

Les Sulewski: Thank you for that additional color and it's great.

Peter Gundermann: Sure.

Les Sulewski: One last one for me and I'll jump back in the queue. Any further discussion by the board on the expansion of the share repurchase program?

Peter Gundermann: We have not had discussions to that effect, but we do meet regularly as the board. I expect it will be an agenda item. I don't know where it'll go for sure at this point, but yes, I expect we will talk about it.

Les Sulewski: Great, thank you.

Peter Gundermann: Sure.

Operator: Our next question comes from Jon Tanwanteng with CJS Securities. Please proceed with your question.

Jon Tanwanteng: Good morning and thank you for taking my questions. It's nice to see movement on the orders, finally.

Peter Gundermann: Thanks, Jon.

Jon Tanwanteng: My first question is just to clarify on the new semi test business. Is the new program a new or next generation application of product that you're doing here, or is that similar to the legacy program that you've been doing already?

Peter Gundermann: I'd say it's a different initiative. It's not a next gen related to the legacy program in that way.

Jon Tanwanteng: Okay, got it. And then, any preliminary thoughts on the transaction and one-time expenses related to Telefonix or semi that closes in the potential for accretion, and either cost or revenue side synergies from the combination, if any?

Peter Gundermann: Sure. Dave, I could throw this to you in a minute, but I would answer the question by saying this is not a synergy play in the sense of consolidating or lowering our cost base. Those are combining product lines or some such initiative. The company is headquartered in the Chicago area. We already have an operation in the Chicago area, so geographically, we don't view it as much of a difficult expansion. The real issue is one of strategic similarities. I think we have strong franchises in some of our core markets, which revolve around the IFE entertainment world for commercial transport airplane.

They're a similarly situated company, obviously smaller than we are, but the things that they're focused on and have been successful with, have a pretty uncanny fit with things that we don't do. There's not much overlap. In fact, hardly any overlap at all. So, as an aside, we would expect and anticipate the HSR process to go pretty smoothly and pretty quickly, although that's probably a really dangerous thing for me to say. There's just not much overlap. The beauty of it is the strategic combination, the ability to go to market and offer bundled packages of hardware, and to be able to do a one stop shop to customers, who are current customers of theirs and of ours.

There's a lot of overlap in that customer base. It is not a movement towards entering the retail end of the IFE market. We don't anticipate going to compete with our major customers as part of this initiative, but it does allow us to go in and say, "Here is a buffet of products and you know us for this, but we can also do this business for you," and thereby make it easier, and potentially make more competitive offers. Our separate set of competitors could or would do for those same pieces of business. Dave, do you want to add anything?

Dave Burney: Sure. Because of the timing of this being late in the year, I expect there'll be minimal income statement impact to 2017. As we get into the beginning of 2018, we expect we'll have the usual purchase accounting expense flush-throughs, such as the writing up of opening inventory to market and some other short-term intangible asset amortization. We have not completed the purchase price allocation or valuation. Until we get an idea of what the amortizing intangible asset run rate is going to be, it's difficult to predict. I would say that we absolutely expect it to be positive on the EBITDA side next year. The question is the allocation of the intangible assets portion of the purchase price, but I do think ultimately in 2018, it's accretive. The issue is that we won't have a really good picture on that until we complete the final valuation process here.

Jon Tanwanteng: Okay, fair enough. Pete, I think you went over Q4 pretty well, but how should we think about how you de-risk 2018, especially on the Aerospace side, in terms of the potential for other projects to push out of the year or further into the second half or later?

Peter Gundermann: Based on the agreements we have in place with major programs, we're pretty comfortable with 2018 on the Aerospace side. With the Telefonix acquisition, obviously you don't always know what you don't know until you know it, but I suppose there's some element of risk there. We think we've done a reasonably good job of diligence, and we think their book of business is pretty sound. I think our business always has a little bit of risk involved in that. Compared to most aerospace companies, we're a little bit more aftermarket-oriented and a little bit less OEM line fit-oriented. There's always the major market disruption or financial problem, which could affect us pretty quickly in that way.

I think the new product launch is one and the tail mount is one that we've been spending a lot of time on and a lot of effort. We think we have strong market support, but that's one area where, obviously, you don't know, so you start selling it and we're starting to sell it now. So, we'll watch that one pretty closely. As I said earlier, we'll refine our estimates there based on what our experience is as other things firm up and we release new revenue guidance. More on that as it happens, but beyond that, I'm not sure I'd point you to any major risk items in our portfolio. Dave, am I missing anything that you would want to highlight?

Dave Burney: No, I think that hit all the points.

Peter Gundermann: Okay.

Jon Tanwanteng: Okay, great. One last quick one, any thoughts as to when CCC becomes profitable?

Peter Gundermann: We would hope for CCC to become profitable sometime in 2018. Without going into too much detail, that company has launched into a pretty major product development geared to a pretty major program and, therefore, we've seen a little bit more of an expense load than we were anticipating. But it's a good deal and it's one that I think will be worthy of some headlines as it matures here a little bit. We view that as, not by any means, a negative experience thus far. The VVIP market is not turning around particularly quickly, but we think we have a good position there with PGA and CCC, and we think some of those development works that are going on at CCC will be very valuable.

Jon Tanwanteng: Great, thanks.

Peter Gundermann: Sure.

Operator: Our next question comes from Dick Ryan with Dougherty & Company. Please proceed with your question.

Dick Ryan: Thank you. Pete, just a couple of cleanup questions. You talked a little bit about EPDS. When do you see that's starting to contribute?

Peter Gundermann: I think it's going to start contributing over the next year or two. We've spent a lot of time developing the science there, but some of the platforms that we've been working on are going to start hitting production volumes over the next year or two. I'm thinking specifically about the Pilatus PC-24 and some of the new Bell programs. We have our first Textron program, the new single engine turboprop that they're working on, that's a little bit further out, but we think there's pretty strong enthusiasm and support. Our experience has been that, once customers try it, they stick with it and they come back and build it into their platform.

So this is going to be one of those slower ramps, just because the airplane development efforts are kind of long and painful. The trails should be pretty long, and we think the customer stickiness that we're experiencing is very promising. At some point, I would say over the next three, four or five years, it's going to become a much more significant portion of our income statement.

Dick Ryan: Okay, great. And Dave, what was stock based comp in the quarter and how many 10% customers did you have?

Dave Burney: Oh, boy, I don't have the stock-based comp number for the quarter. For the year, it was about \$2.2 million.

Dick Ryan: Okay, that's good.

Dave Burney: You can go back to the last Q and do the math there.

Dick Ryan: And 10% customers?

Dave Burney: Give me a second on that one.

Peter Gundermann: I think the answer is two, but we will wait for Dave to firm it up.

Dick Ryan: Okay, Pete. One last one. As you were wrapping up your prepared text, you were talking about \$25 million to \$30 million with the opportunity of that being two to three times that. I didn't catch what you were referencing? Was that your total Test opportunity?

Peter Gundermann: Yes, I was referring to what I call a target rich environment, especially on the Test side. That piece of the business tends to come in bigger lumps, both on the semi side and A&D side. We go through these exercises where we try to quantify opportunities and we try to probability weight them. It's a pretty big number. For this initial guidance, given the questions and some of the history, we took it all out. It's just not in there. We're not including these targets, but realistically we expect we will win some of them. I think the ones we win will be meaningful. I was trying to bracket it for where the low end might be and where the higher end might be.

Dick Ryan: Okay, thank you.

Peter Gundermann: So, Dick, there were two 10% customers, one was 20% and one was 17%.

Dick Ryan: Okay, great. Thank you.

Peter Gundermann: Both in the aerospace.

Dick Ryan: Aerospace, great, thanks.

Operator: Our next question comes from David Cohen with Midwood Capital. Please proceed with your question.

David Cohen: I was just trying to get some sense of the amount of backlog you have relative to your fourth quarter forecast. What is a typical book and ship magnitude for a quarter is there? Any particular strength usually in the fourth quarter? Things that aren't in your backlog? Basically, you have to recognize into revenue in the fourth quarter to make sense.

Dave Burney: If you look back at our typical book and ship, I don't know that there is a typical. It's kind of all over the map. To get to the lower end of our guidance for the fourth quarter, I think we need to hit about \$20 million in book and ship, which is certainly within the range of book and ship that we win in almost every quarter. It's at the low-end actually.

David Cohen: Okay. Just to clarify some of the comment you may have made, Peter, in your prepared remarks; the business jet that's just shifted, those chunks of five million, those are not in backlog?

Peter Gundermann: Some of them are. One of them in particular is an order we're waiting for, which could have pretty quick repercussions just based on the nature of it, but most of them are in backlog. In most cases, it's a matter of getting customers to either sign off on some of the technical requirements that we need to have firmed up in order to do our part of the job, or in some cases, we need customers to sign off and

accept product. A lot of times, there's a certain portion of a program that is dependent on customers final sign off. We have a couple of those floating out there too. Those are all in backlog.

David Cohen: Okay, and last question. You've made reference to this, but maybe you could provide a little more understanding for folks. If you could describe, just from a methodology standpoint, how your approach to guidance today is different from prior quarterly and annual targets? Going back several quarters in a row, what is different about your methodology that alters your confidence level today versus past quarters?

Peter Gundermann: I think we're getting a little bit more conservative, primarily on the Test side, than we have been in the past. Forecasting is always a little bit of an art and it's easy to pick up the Wall Street Journal and see how many 737s are going to be built and multiplied by our known ship set quantity. It's much harder to figure out what an aftermarket program might look like, but we're reasonably good at doing that. On the Test side, it is often an all-or-nothing kind of situation, and we've seen that on both sides of our Test business. Programs that we may have thought we were perfectly aligned for, all of a sudden disappear or slide out for a year, so we're going to be a little more conservative there.

That's what I was trying to say earlier. I think the good news is that the initial guidance that we're putting out there for next year doesn't have any of that, and it's basically booked business or highly confident business with upside potential. I would say probability based on when these other important targets actually come our way.

David Cohen: Okay, thank you. Good luck.

Peter Gundermann: Thanks.

Operator: Our next question comes from Mike Wallace with White Pine Capital. Please proceed with your question.

Mike Wallace: Hi, Peter, David. How you're doing?

Peter Gundermann: Good. How are you?

Dave Burney: Good.

Mike Wallace: Good. I have kind of a high-level question. Revenue had peaked at about \$690 million in fiscal year 2015. I was wondering, with some of the changes in the business and the acquisitions, if we stacked on, what were the amount of revenues that we've acquired since that time.

Peter Gundermann: Since 2015?

Mike Wallace: Yes.

Peter Gundermann: Well, this year the only acquisition we've done to date was CCC, which is a smaller business and not a major driver of those kinds of things. The other one that would have happened in that timeframe although I think it was Armstrong.

Deborah Pawlowski: Armstrong was January of 2015.

Peter Gundermann: Right, that's what I was going to say, early 2015, so that wouldn't really play into there since then.

Mike Wallace: Okay. How much should CCC bring?

Peter Gundermann: Oh, we're still trying to figure that out, but this year it's been under \$20 million.

Mike Wallace: \$20 million, okay. And then, in terms of revenue?

Dave Burney: For the second and third quarter, it was about \$7 million combined.

Peter Gundermann: Okay, maybe \$20 million for this year or maybe more.

Mike Wallace: And... what's the most recent one we're going to close by year end?

Peter Gundermann: Telefonix.

Mike Wallace: What's the revenue run rate there?

Peter Gundermann: We're thinking that, next year, it'll be somewhere in the \$70 million to \$80 million range.

Mike Wallace: Okay. So we might stack about \$100 million on top of that \$692 million just acquired revenue rate this cycle. That seems fair.

Peter Gundermann: Well, the \$692 million is a number from a couple years ago.

Mike Wallace: Right, but you're in a cyclical business and you're going through a cycle here that looks like things are starting to really turn. I am trying to think about what revenues could look like two years out for you with these businesses now attached to the company. Do you think this cycle that you're going through is stronger than the last cycle? What's your feeling on that?

Peter Gundermann: Well, if you're talking about the Aerospace cycle, it's a tricky thing to try to navigate. Our feeling has been, and continues to be, that it's a really strong base of business cycle and it hasn't been a two or three year cycle. I think the one thing that's been really hitting us is compensating for the fluctuations in our Test business over the last couple of years. That would appear to be a cycle. I think it's more just the ebb and flow of orders on our relatively small size. I think the market is pretty strong, has been strong, and we're going to get a bigger piece of it going forward over the next....well, certainly in 2018, and we'd like to think beyond that.

If you want to know where we're going to be, the best thing to do would be to pick the range we just published for 2018, throw an allocation on there for Telefonix, and throw an allocation on toward the target rich opportunities we see, and see where that total gets. That's where we're going to be in 2018. We don't typically get too involved with two or three year guidance on that.

Mike Wallace: Yes, it really could be in terms of peak earnings and it looks like this cycle will be higher than last. This \$29 million shares held; is that the fully diluted share count in the quarter?

Peter Gundermann: Yes, that's right.

Mike Wallace: Okay, good. I think that gives me some color to work with. I appreciate that. Thank you.

Peter Gundermann: Sure, thanks.

Operator: Thank you. Our next question comes from Scott Louis with Louis Capital. Please proceed with your question.

Scott Louis: Thanks. Good morning Pete, Dave and Deb.

Peter Gundermann: Good morning.

Scott Louis: Well, I have a Telefonix question. Can you talk a little bit about their current market share in the Wi-Fi equipment market, and maybe a little bit about the current penetration rate of Wi-Fi and where you think that may go?

Peter Gundermann: That's a big question. When you say Wi-Fi, Scott, are you talking about the access or about streaming content, or both?

Scott Louis: Well, just depending on what Telefonix is selling. Can you talk about In-Seat Power, where your market share is, what penetrations are, and what would be the equivalent for Telefonix?

Peter Gundermann: Okay, it's a really tricky question, because they have some products that they have a very, very high market share, probably 90% or higher. They have others that are relatively new and they're taking share away from more established companies. I'll go out on a limb and tell you that, overall, I would guess that in the markets they compete in, maybe a 25% market share. I'll reality check that with them afterwards and offer corrections and apologies later. The one thing that I think is really important to understand when it comes to IFE and power, but especially to the kind of products that Telefonix builds, is that, once an airplane is equipped with something, that's not the end. The technology is changing and continues to change very dramatically.

In the power world, USB is increasingly common today. It wasn't there five years ago, and frankly, USB as we know it today will become obsolete by a new USB. It's happening right now with the latest generation of

products. So there's evolution even when it comes to something as tried and true as electrical power. When you start talking about communication protocols or antenna systems or file servers or access points, the technology moves even more quickly. It's kind of like we would look at the market out there of not only untapped airplanes, but the likelihood that technology gets changed and replaced over the course of an airplane's life.

A lot of times, I get this question put to me in terms of where are we in the ballgame and I guess I would say we're somewhere in the second or third inning. There are a lot of airplanes that have nothing on them yet in terms of power, Wi-Fi or internet access. Even those that do are likely to get upgraded and substantially rebuilt, I think, every five to seven years, so this is a relatively short life-cycle business. One of our challenges and opportunities is to stay on top of that, obviously, but it's different than maybe some core aircraft systems, like brakes, where you put something on and it largely will work as it was originally designed for thirty years.

Scott Louis: Okay. Thanks, Pete.

Peter Gundermann: Sure, thanks.

Operator: At this time, I'd like to turn the call back over to management for closing comments.

Peter Gundermann: No closing comments. Thank you for your interest. Obviously, we have our hands full in Q4 here. We look forward to updating our expectations for 2018 when the time is right. Have a good day. Good to be with you. Bye.

Operator: Ladies and gentlemen, thank you for your participation. This concludes today's conference. You may disconnect your lines at this time, and have a wonderful day.
