

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

Form 10-K

[X]

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

For the Fiscal Year Ended December 31, 2004

Commission File Number 0-7087

ASTRONICS CORPORATION

(Exact Name of Registrant as Specified in its Charter)

New York (State or other jurisdiction of incorporation or organization)	16-0959303 (I.R.S. Employer Identification No.)
130 Commerce Way East Aurora, N.Y. 14052 (Address of principal executive office)	
(716) 805-1599 (Registrant's telephone number, including area code)	
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 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 twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirement 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 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 checkmark if the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

As of March 11, 2005, 7,825,506 shares were outstanding, consisting of 5,992,992 shares of Common Stock \$.01 Par Value and 1,832,514 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 \$34,370,000 (assuming conversion of all of the outstanding Class B Stock into Common Stock and assuming the affiliates of the Registrant to be its directors, executive officers and persons known to the Registrant to beneficially own more than 10% of the outstanding capital stock of the Corporation).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the 2005 Annual Meeting of Shareholders to be held April 28, 2005 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 words "believes," "expects," "intends," "anticipates" 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 customer 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.

PART I

ITEM 1. BUSINESS

Astronics is a leader in advanced lighting and electronic systems for the global aerospace industry. The Company designs and manufactures its products for aircraft original equipment manufacturers (OEM's), OEM suppliers and aircraft operators around the world. The Company designs and manufactures lighting products found in the cockpit, in the cabin and on the exterior of aircraft. The Company provides its products through its wholly owned subsidiaries Luminescent Systems, Inc., Luminescent Systems Canada, Inc., collectively referred to as (LSI) and most recently through its February 2005 acquisition of Astronics Advanced Electronics Systems Corp. (AES) from a subsidiary of General Dynamics.

Industry

Astronics current market niche is the design and manufacture of advanced aircraft lighting and systems. These include exterior lighting products such as position, landing and taxi lights and anti-collision lights sold to many original equipment manufacturers. In the cockpit our products include display panels, electronic assemblies and keyboards. Customers include aircraft OEM's as well as avionics system suppliers. In the cabin our products include emergency exit lighting systems and exit signs. Customers are OEM's and the operators of commercial transport fleets.

Many "OEM's" have increased their reliance on their subcontractors to carry a greater share of aircraft responsibility, including system requirements, hardware design and physical and electrical interfaces. We continue to invest in technology and capabilities that will allow us to take advantage of this trend.

Strategy

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

Products and Customers

Astronics' products are sold worldwide to manufacturers of business jets, military, commercial transports as well as airlines and second-tier suppliers to the OEM's. During 2004 the Company's sales were divided 46% to the military market, 31% to the business jet market, 19% to the commercial transport market and 4% 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. Sales by Geographic Region, Major Customer and Canadian Operations are provided in note 10 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.

Backlog

At December 31, 2004, the Company's backlog was \$27.2 million. At December 31, 2003, the Company's backlog was \$18.7 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 does not consider that the successful conduct of any material part of its business is dependent upon the protection afforded by these patents. The Company's patents and patent applications relate to electroluminescence, instrument panels, keyboard technology and various components used in their manufacture. The Company regards its expertise and techniques as proprietary and relies upon trade secret laws and contractual arrangements to protect its rights.

Research Activities

The Company is engaged in a variety of research and development activities directed to the substantial improvement or new application of the Company's technologies. The extent of the Company's engagement in basic research, however, is not material.

Employees

The Company's continuing operations employed approximately 424 employees as of December 31, 2004. The Company considers its relations with its employees to be good.

Available information

The Company files its financial information and other materials required by the SEC electronically 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 2. PROPERTIES

The Company owns manufacturing and office facilities of approximately 70,000 square feet in the Buffalo, New York area and 80,000 square feet in Lebanon, New Hampshire. Montreal, Quebec, Canada operations are in leased facilities of approximately 15,000 square feet. The lease expires in 2006.

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. This business leases 55,000 square feet of space, located in Redmond, Washington. The lease expires in 2008.

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 THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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 February 22, 2005, was 795 for Common Stock and 819 for Class B Stock.

(in dollars) 2004	H I G H	L O W
First	6.25	4.80
Second	5.64	4.64
Third	5.38	4.49
Fourth	5.44	4.56

2003	H I G H	L O W
First	4.82	2.95
Second	4.29	3.01
Third	4.95	3.14
Fourth	6.05	3.75

The Company has not paid any cash dividends in the three-year period ended December 31, 2004. It has no plans to pay 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.

ITEM 6. SELECTED FINANCIAL DATA

Five-Year Performance Highlights

(dollars in thousand, except for per share data)

	2004	2003	2002	2001	2000
PERFORMANCE (continuing operations)					
Sales - Core Business	\$ 34,696	\$ 32,452	\$ 32,866	\$ 32,491	\$ 24,269
Sales - Original F-16 NVIS Program	-	730	10,074	20,100	18,300
Sales	34,696	33,182	42,940	52,591	42,569
(Loss) Earnings Before Interest and Tax from Continuing Operations	\$ (868)	\$ 1,249	\$ 6,638	\$ 9,261	\$ 5,982
Operating Margin	(2.5)%	3.8%	15.5%	17.6%	14.1%
(Loss) Income from Continuing Operations	\$ (734)	\$ 782	\$ 4,047	\$ 5,821	\$ 3,500
Net Margin	(2.1)%	2.4%	9.4%	11.1%	8.2%
Diluted (Loss) Earnings per Share, Continuing Operations	\$ (0.09)	\$ 0.10	\$ 0.49	\$ 0.70	\$ 0.43
Weighted Average Shares Outstanding - Diluted	7,766	7,815	8,208	8,346	8,221
Return on Average Assets	(1.6)%	1.7%	8.8%	13.7%	9.7%
Return on Average Equity	(3.2)%	3.4%	21.5%	45.5%	40.6%
YEAR-END FINANCIAL POSITION (continuing operations)					
Working Capital	\$ 18,104	\$ 18,767	\$ 13,834	\$ 11,863	\$ 7,355
Total Assets	45,236	45,474	46,607	45,579	39,147
Long Term Debt	11,154	12,482	13,110	15,529	17,746
Shareholders' Equity	22,660	22,940	22,550	15,177	10,429
Book Value Per Share	\$ 2.91	\$ 2.96	\$ 2.87	\$ 1.88	\$ 1.32
OTHER YEAR-END DATA (continuing operations)					
Depreciation and Amortization	\$ 1,273	\$ 1,212	\$ 1,269	\$ 1,441	\$ 1,310
Capital Expenditures	\$ 1,136	\$ 420	\$ 397	\$ 838	\$ 2,665
Shares Outstanding	7,800	7,742	7,870	8,085	7,884
Number of Registered Shareholders	829	812	834	876	950
Number of Employees	424	369	412	437	441

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

OVERVIEW

Astronics Corporation, through its subsidiaries Luminescent Systems Inc. and Luminescent Systems Canada Inc. and most recently with the February 2005 acquisition of Astronics Advanced Electronic Systems Corp., designs and manufactures lighting components, subsystems and electrical power generation, control, and distribution systems for aircraft. We serve the three primary markets for aircraft which are the military, commercial transport and the business jet markets. Astronics strives to offer comprehensive lighting and electrical systems for aircraft making the Company unique in our ability to serve our customers. In 2004, sales to the military accounted for 46% of total sales. Sales to the commercial transport market and the business jet market were 19% and 31%, respectively.

Astronics' growth is dependent, amongst other things, upon our ability to be designed into new aircraft and the rate at which aircraft are produced. Once designed into a new aircraft, the spare parts business is typically 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. We also depend on aircraft operators for certain of our sales, including commercial airlines.

In 2004, Astronics committed significant resources for the design of products for next generation aircraft which in many cases will not enter production until 2006 or beyond. We were selected to develop exterior lighting products for the Cessna Mustang, Eclipse 500, Raytheon Hawker Horizon and continued to invest heavily in developing the exterior lighting for the F-35 Joint Strike Fighter. We were selected to design and develop Cockpit display systems for several new or upgraded aircraft. These efforts resulted in a substantial increase to our engineering expenses which are presented in our statement of operations in the cost of products sold line and discussed in the following Results of Operations, Expenses section.

We continue to look for opportunities to capitalize on our core competencies and expand our existing business in addition to growing through strategic acquisitions. On February 3, 2005, we acquired substantially all of the assets and liabilities of a business formerly known as General Dynamics Airborne Electronics Systems located in Redmond, Washington. The products and capabilities of Astronics Advanced Electronic Systems (AES) are logical extensions of our own, effectively broadening our product offerings and increasing our growth opportunities. We acquired the business for \$13.0 million in cash at closing with an additional purchase consideration of up to \$4.0 million based on 2005 revenue. We used a combination of available cash and line of credit to fund the acquisition.

For 2005, we expect revenues will grow and earnings will improve as the year develops. We are experiencing increased order rates as the business jet and commercial airline markets strengthen and firm respectively. In addition, we expect AES to be accretive to our earnings, particularly in the second half of the year as several programs currently in our backlog enter production, increasing our sales volume.

We ended the year with a backlog of \$27.2 million of which \$22.1 million is expected to be delivered during 2005. Additionally, as of the acquisition date, February 3, 2005, AES had a backlog of \$46 million of which \$18 million is expected to be delivered in 2005. Included in the AES backlog of \$46 million are two significant orders - an order to provide power conditioning units for the Tactical Tomahawk missile program and an order to provide power distribution modules to a leading provider of in-flight entertainment systems. These orders total \$32 million and are expected to be delivered over a 3 to 7-year period beginning in the second half of 2005. See additional discussion in the following section, 2005 Acquisition. Provided that the economy maintains its strength we anticipate that new aircraft build rates will increase over the next several years providing increased opportunities to grow revenue and profits. We expect discretionary spending by the airlines will continue at the rates we have seen over the past year. 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 increased profitability. Increasing profitability is dependent on many things such as increased build rates for existing aircraft, successful certification 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 increasing costs for health care and corporate governance, 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.

2005 ACQUISITION

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 at closing with an additional purchase consideration of up to \$4.0 million based on 2005 revenue. The Company borrowed \$7 million on its line of credit and used \$6 million of cash on hand to finance the purchase. For the year ended December 31, 2004 AES had an unaudited net loss of approximately \$5 million on sales of \$26 million. The loss was primarily a result of costs relating to a development program that included significant termination fees negotiated by the parent and charged to AES. AES produces a wide range of products related to electrical power generation, control, and distribution on military, commercial, and business aircraft. Audited financial statements for AES for 2004 and 2003 and pro-forma combined financial information for Astronics and AES will be available and included in a Form 8-K filing expected to be filed in April 2005.

CRITICAL ACCOUNTING POLICIES

Our financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States. 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 when the risks and rewards of ownership and title are transferred to the customer, principally as units are delivered or as service obligations are satisfied. The Company manufactures most of its products on a build to order basis and ships products upon completion or shortly thereafter. There are no contracts that allow for a right of return. A trade receivable is recorded at the value of the sale.

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 and specific customers and review and analysis of accounts receivable agings. At December 31, 2004, the Company's allowance for doubtful accounts for accounts receivable was \$0.3 million, or 4% of gross accounts receivable. At December 31, 2003, the Company's allowance for doubtful accounts was \$0.3 million, or 7% of gross accounts receivable. In addition, at December 31, 2004, the Company fully reserved the balance of a non-current note receivable in the amount of \$0.6 million. At December 31, 2003, the note was included in Other Assets for \$0.5 million, net of \$0.1 million reserve.

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 overall inventory levels in relation to forecasted demands. At December 31, 2004, the Company's reserve for inventory valuation was \$0.7 million, or 10% of gross inventory, an increase of \$0.2 million from \$0.5 million at December 31, 2003 which also represented 10% of gross inventories.

Deferred Tax Asset Valuation Allowances

As of December 31, 2004, the Company had a net deferred tax asset of \$1.1 million. 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 carryforward. Based upon current state tax regulations and allocation formulas, in order to fully utilize the state investment tax credits, the Company will have to generate average annual taxable income of approximately \$2.6 million during the carryforward period through 2019. Based on historical earnings and current projections of future taxable income a valuation allowance is not required.

Goodwill

The Company's goodwill is the result of the excess of purchase price over net assets acquired from acquisitions. As of December 31, 2004, the Company had \$2.6 million of goodwill. The Company tests goodwill for impairment at least annually, during the fourth quarter, and whenever events occur or circumstances change that indicate 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 2004 were 5% and 6%, respectively. The discount rate used for the projected benefit obligation as of December 31, 2004 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 2004 increased by \$1.5 million to \$34.7 million, up from \$33.2 million in 2003, an increase of 4.6%. The increase is the result of an increase in sales to the business jet market of \$2.5 million, an increase in sales to the commercial transport market of \$0.1 million and an increase in other sales of \$0.2 million offset partially by a \$1.3 million decrease in sales to the military market. The increase in sales to the business jet market is primarily a result of increased production rates for new aircraft. The decrease of sales to the military is the result of lower demand for spare parts by the U.S. government.

Sales for 2003 decreased by \$9.7 million to \$33.2 million, down from \$42.9 million in 2002, a decrease of 22.6%. The decrease is the result of the culmination in early 2003 of the Company's F-16 night vision retrofit program which accounted for sales of \$0.7 million in 2003 and \$10.1 million in 2002. In the first quarter of 2003, the Company concluded the program that began in 1999 to retrofit over 1,000 F-16 aircraft operated by the U.S. Air Force to be night vision goggle compatible. Excluding the F-16 program from both periods, sales in 2003 were \$32.5 million, relatively flat when compared with \$32.8 million in 2002.

Over 60% of the Company's revenue is dependent on aircraft production rates. As a result, the Company's revenues are influenced by increases and decreases in aircraft production. Revenues are also impacted by the Company's success in introducing new products, success in competing for new programs, ability to successfully qualify new products and continued governmental appropriations for aerospace programs.

Expenses

Cost of sales as a percentage of sales increased seven percentage points to 86.7% in 2004 from 79.7% in 2003. Spending for engineering, related primarily to new product development increased by \$2.2 million to \$5.8 million in 2004 as compared with \$3.6 million in 2003. This increase in spending was due to the Company's pursuit of exterior lighting, cabin lighting and higher value added cockpit lighting opportunities. It is our intention to continue investing in capabilities and technologies as needed that allow us to execute our strategy to increase the ship set content and value we provide on aircraft in all markets we serve. We expect spending on these activities to continue at, or slightly above, the 2004 rate through the first half of 2005 decreasing in the second half of the year. The rate of spending on these activities, however, will largely be driven by opportunities that the market presents.

Cost of sales as a percentage of sales increased eight percentage points to 79.7% in 2003 from 71.5% in 2002. Spending for engineering and development increased by \$0.9 million to \$3.6 million in 2003 as compared with \$2.7 million in 2002. This increase in spending was due to the Company's pursuit of exterior lighting, cabin lighting and higher value added cockpit lighting opportunities. Direct labor as a percentage of sales increased by two percentage points as a result of product mix changes. The remaining increase of cost of sales as a percentage of sales was caused by lower sales volume without a corresponding reduction in manufacturing overhead costs.

Selling, general and administrative expenses were \$5.5 million in both 2004 and 2003. During 2004, a \$0.5 million increase in the provision for doubtful accounts caused primarily by the write off of a note receivable the Company held relating to the sale in 2001 of a former production facility was offset by a reduction in professional services, labor, overall spending and a reduction in the loss from foreign currency exchange.

Selling, general and administrative expenses decreased \$0.1 million to \$5.5 million in 2003 from \$5.6 million in 2002 primarily as a result of a decrease in the bad debt provision of \$0.3 million as compared with 2002 which was offset by an increase in the loss from foreign currency exchange of \$0.3 million.

Income from Continuing Operations Before Taxes

Income from Continuing Operations Before Taxes in 2004 decreased by \$2.2 million to a loss of \$1.2 million from a profit of \$1.0 million in 2003. This decrease is a result of the increase in engineering costs referred to in preceding paragraphs.

Income from Continuing Operations Before Taxes in 2003 decreased to \$1.0 million from \$6.4 million in 2002, a decrease of \$5.4 million. This decrease is a result of the decline in sales and increase in engineering costs.

Income Taxes

The effective tax rate was 37.9% in 2004, 12.3 percentage points higher than the effective tax rate of 25.5% in 2003. The increase is primarily due to recognition in 2003 of research and development tax credits from prior years which reduced the effective tax rate for that year. We expect our effective tax rate for future years to be closer to the statutory rates in effect at those times.

The effective tax rate was 25.5% in 2003, 11.4 percentage points lower than the effective tax rate of 36.9% in 2002. The decrease is primarily due to recognition of research and development tax credits from prior years.

CONTRACTUAL OBLIGATIONS

(in thousands)

	Payments due by period				
	Total	2005	2006-2007	2008-2009	After 2009
Long-Term Debt	\$ 12,063	908	1,819	1,821	7,515
Operating Leases	825	740	85	-	-
Unconditional Purchase Obligations	4,500	3,375	1,125	-	-
Pension and Other Post Retirement Obligations	5,076	449	859	723	3,045
Total Contractual Obligations	\$ 22,464	5,472	3,888	2,544	10,560

Notes to Contractual Obligations Table

Long-Term Debt - See item 8, Financial Statements and Supplementary Data, Note 3, Long-Term Debt in this report. The above balance does not include \$7 million that was borrowed in 2005 to finance the AES acquisition.

Operating Leases - Operating lease obligations are primarily related to equipment leased by our discontinued Electroluminescent Lamp Business Group and facility leases for our Canadian operations.

Unconditional Purchase Obligations - are comprised of the Company's commitments for goods and services and capital equipment in the normal course of business.

Pension and Other Post Retirement Obligations - are comprised of the Company's Supplemental Retirement Plan and related Post Retirement Obligations, which are discussed in item 8, Financial Statements and Supplementary Data, Note 8 of this report.

The above table excludes contractual obligations related to our 2005 acquisition of AES. While AES does not have any long-term debt, they do have operating leases and a supplemental pension benefit plan for one individual.

LIQUIDITY

Cash flow from operating activities was \$0.1 million in 2004 compared with \$2.1 million in 2003. The decrease of \$2.0 million as compared with 2003 is mainly a result of a decrease in income from continuing operations of \$1.5 million to a loss of \$0.7 million in 2004 from income in 2003 of \$0.8 million and an increase in investment in working capital components.

Cash flow from operating activities was \$2.1 million in 2003 compared with \$5.6 million in 2002. The decrease of \$3.5 million is mainly a result of a decrease in income from continuing operations of \$3.2 million to \$.8 million in 2003 from \$4.0 million in 2002.

Cash used for investing activities was \$2.4 million in 2004 compared with \$0.7 million in 2003, a \$1.7 million increase. The increase was a result of increased capital expenditure activity of \$0.7 million from \$0.4 million in 2003 to \$1.1 million in 2004 and a \$1.0 million increase in short-term investments.

The increase in capital expenditures was primarily to increase manufacturing capacity. Cash used for investing activities in 2003 and 2002 was \$0.7 million.

Pursuant to the March 14, 2003 spin-off of its wholly owned subsidiary, MOD-PAC CORP., the Company received a one-time dividend that resulted in net cash proceeds totaling \$4.8 million in 2003.

The Company's cash flows from operations are primarily dependent on its sales, profit margins and the timing of collections of receivables 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. In 2004, the Company incurred significant costs relating to programs that are in the design phase requiring significant investment in engineering and testing costs without providing significant revenues. As compared with 2003 these costs increased by over \$2.0 million. These costs are expected to continue through the first half of 2005 before beginning to decrease as the design phase of these efforts conclude.

The Company's cash required for capital equipment purchases for the last three years ranged between \$0.4 million and \$1.1 million. Our expectation for 2005 is that capital equipment expenditures will increase to over \$2.5 million, including capital expenditures for our newly acquired AES operation. This expected increase is primarily a result of forecasted machinery and equipment purchases to increase our production capacity.

The Company's cash needs for debt service for 2005 are not expected to change significantly from 2004 levels. For its February 2005 acquisition of AES the Company borrowed \$7 million through the use of its line of credit. The Company may decide to convert all or a portion of the line of credit balance to a term note. The impact of this line of credit balance on cash needs in 2005 will depend on the repayment terms selected.

On March 18, 2005 the Company received an amended agreement from HSBC Bank USA to increase its available revolving credit facility to \$11 million. The amendment also extends the revolving credit facility through June 30, 2006. The amendment is subject to ratification by the Company's board of directors. At December 31, 2004, the Company was in breach of certain covenants pursuant to its credit facility with HSBC Bank USA. Specifically the Company was required to maintain a debt service coverage ratio of no less than 1.25 to 1 calculated as net income plus depreciation divided by current maturities of long term debt. The debt service coverage ratio increases to 2.5 to 1 for 2005. In addition the Company is required to maintain an interest coverage ratio of not less than 4 to 1 calculated as income before tax plus interest, depreciation and amortization divided by interest expense. These covenants are measured on an annual basis at December 31. The Company has received written waivers from HSBC Bank USA for these covenant violations at December 31, 2004. In connection with the amended credit facility an additional covenant requiring a minimum income before tax plus interest, depreciation and amortization was established for the year to date periods ending June 30, 2005 and September 30, 2005. The Company believes it will be compliant with its covenants at future measurement dates.

Future capital requirements depend on numerous factors, including expansion of existing product lines and introduction of new product lines. Management believes that cash, together with the Company's cash flow from operations and current borrowing arrangements will provide for these necessary capital expenditures.

The Company's ability to maintain sufficient liquidity is highly dependent upon achieving expected operating results. The Company has successfully negotiated new credit facilities 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 2005 and the foreseeable future, are expected to be met by cash flows from operations, its current cash balance and if necessary utilization of its amended available credit arrangements.

DISCONTINUED OPERATIONS

On September 26, 2002, the Company announced the spin-off of its wholly owned subsidiary MOD-PAC CORP., which operated the Printing and Packaging business segment. That transaction was effective March 14, 2003 and was accomplished by a tax free distribution of the stock of MOD-PAC CORP. to the shareholders of Astronics Corporation. As such, the net assets and equity of MOD-PAC CORP. were removed from the balance sheet of Astronics resulting in a reduction of the Company's retained earnings and related net assets of \$21.0 million.

In December of 2002, the Company announced the discontinuance of its Electroluminescent Lamp Business Group, whose business had involved sales of micro-encapsulated electroluminescent lamps to customers in the consumer electronics industry. The operations of MOD-PAC CORP., through the spin-off date, and the operations of the Electroluminescent Lamp Business Group have been reported as discontinued operations in the financial statements of the Company. During 2004, there was no income or loss from discontinued operations. During 2003, income from discontinued operations attributable to MOD-PAC CORP. was \$.4 million, and the Electroluminescent Lamp Business Group had a loss of \$.04 million. The business activity for the Electroluminescent Lamp Business Group was concluded during 2003. Remaining obligations include minimum lease payments totaling \$0.5 million for production equipment operating leases (see contractual obligations table above). The minimum lease payments were recorded in 2002 and were included in the recorded loss of \$0.7 million from the discontinued operation. The net effect on future earnings as a result of discontinued operations is not expected to be significant. See the discussion in item 8, Financial Statements and Supplementary Data, Note 2, Discontinued Operations in this report for additional discussion.

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, 2004, the Company's backlog was \$27.2 million compared with \$18.7 million at December 31, 2003.

RELATED-PARTY TRANSACTIONS

See the discussion in item 8, Financial Statements and Supplementary Data, Note 2, Discontinued Operations and Note 4 Related-Party Transactions in this report.

RECENT ACCOUNTING PRONOUNCEMENTS

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), *Share-Based Payment*, which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation*. Statement 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

Statement 123(R) must be adopted as of the third quarter of 2005, which is when the Company expects to adopt it.

As permitted by Statement 123, the company currently accounts for share-based payments to employees using Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of Statement 123(R)'s fair value method will impact the results of operations, although it will have no impact on overall financial position. The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in item 8, Financial Statements and Supplementary Data, Note 1, Summary of Significant Accounting Principles and Practices, Stock Based Compensation in this report, disclosure of pro forma net (loss) income and (loss) earnings per share.

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs, an amendment of ARB No. 43, Chapter 4." The amendments made by this statement clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The provisions of this statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 2004. The Company believes the adoption of this standard will not have a material impact on its results of operations or financial position.

In October 2004, President Bush signed the American Job Creation Act of 2004, which contains provisions related to the distribution of the earnings of foreign subsidiaries and provides a tax deduction on qualified production activities, as defined in the Act. Although preliminary guidance has been issued by the IRS, the Company is still evaluating the effect that this new tax legislation will have on its results of operations and financial condition. Therefore, while the impact of the provisions could be significant, the Company is not able at this time to determine the impact, if any, of future repatriations and the amount of available future tax deductions.

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 \$1.0 million at December 31, 2004. Annual expenses of approximately \$5.0 million are denominated in Canadian dollars. A 10% change in the value of the U.S. dollar versus the Canadian dollar would impact net income by approximately \$0.3 million. Risk due to fluctuation in interest rates is a function of the Company's floating rate debt obligations, which total approximately \$12.0 million at December 31, 2004. To offset this exposure, the Company entered into an interest rate swap on its New York Industrial Revenue Bond which effectively fixes the rate at 4.09% on this \$4.7 million obligation through December 2005. As a result, a change of 1% in interest rates would impact annual net income by less than \$.05 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Astronics Corporation

We have audited the accompanying consolidated balance sheets of Astronics Corporation as of December 31, 2004 and 2003, and the related consolidated statement of operations, statement of shareholders' equity, and statement of cash flows for each of the three years in the period ended December 31, 2004. 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial position of Astronics Corporation at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, 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, present fairly in all material respects the information set forth therein.

Ernst & Young LLP

Buffalo, New York
January 28, 2005, except for Note 12
as to which the date is February 3, 2005
and Note 3 as to which the date is March 18, 2005

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**ASTRONICS CORPORATION****CONSOLIDATED STATEMENT OF OPERATIONS**

<i>(in thousands, except per share data)</i>	Year ended December 31,		
	2004	2003	2002
Sales	\$ 34,696	\$ 33,182	\$ 42,940
Cost and Expenses			
Cost of products sold	30,087	26,439	30,691
Selling, general and administrative expenses	5,477	5,494	5,611
Interest expense, net of interest income of \$127, \$190 and \$245	282	200	223
Loss on sale of assets	32	-	-
Total Costs and Expenses	35,878	32,133	36,525
(Loss) Income from Continuing Operations Before Income Taxes	(1,182)	1,049	6,415
(Benefit) Provision for Income Taxes	(448)	267	2,368
(Loss) Income from Continuing Operations	(734)	782	4,047
Income from Discontinued Operations	-	331	506
Net (Loss) Income	\$ (734)	\$ 1,113	\$ 4,553
Basic (Loss) Earnings per Share			
Continuing Operations	\$ (.09)	\$.10	\$.51
Discontinued Operations	-	.04	.06
Net (Loss) Income	\$ (.09)	\$.14	\$.57
Diluted (Loss) Earnings per Share			
Continuing Operations	\$ (.09)	\$.10	\$.49
Discontinued Operations	-	.04	.06
Net (Loss) Income	\$ (.09)	\$.14	\$.55

See notes to financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

ASTRONICS CORPORATION CONSOLIDATED BALANCE SHEET

<i>(in thousands, except per share data)</i>	December 31,	
	2004	2003
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 8,476	\$ 11,808
Short-term Investments	1,000	-
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$259 in 2004 and \$333 in 2003	5,880	4,383
Inventories	7,110	5,707
Prepaid Expenses	560	702
Prepaid Income Taxes	796	676
Deferred Taxes	660	-
Total Current Assets	<u>24,482</u>	<u>23,276</u>
Property, Plant and Equipment, at Cost:		
Land	1,143	1,143
Buildings and Improvements	12,007	12,007
Machinery and Equipment	12,102	11,185
	<u>25,252</u>	<u>24,335</u>
Less Accumulated Depreciation and Amortization	10,031	9,216
Net Property, Plant and Equipment	<u>15,221</u>	<u>15,119</u>
Deferred Income Taxes	488	1,165
Goodwill	2,615	2,444
Other Assets	2,430	3,470
Total Assets	<u>\$ 45,236</u>	<u>\$ 45,474</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current Maturities of Long-term Debt	\$ 908	\$ 896
Current Liabilities of Discontinued Operations	533	155
Accounts Payable	2,551	1,617
Accrued Payroll and Employee Benefits	1,309	1,278
Other Accrued Expenses	1,077	563
Total Current Liabilities	<u>6,378</u>	<u>4,509</u>
Long-term Debt	11,154	12,482
Supplemental Retirement Plan and Other Benefits	4,543	4,718
Other Liabilities	501	428
Long-term Liabilities of Discontinued Operations	-	397
Shareholders' Equity		
Common Stock, \$.01 par value - Authorized 20,000,000 Shares, issued 6,633,805 in 2004; 6,483,128 in 2003	66	65
Class B Stock, \$.01 par value - Authorized 5,000,000 Shares, issued 1,950,517 in 2004; 2,042,926 in 2003	19	20
Additional Paid-in Capital	3,432	3,269
Accumulated Other Comprehensive Income	656	365
Retained Earnings	<u>22,206</u>	<u>22,940</u>
	<u>26,379</u>	<u>26,659</u>
Less Treasury Stock: 784,250 Shares in 2004 and 2003	3,719	3,719
Total Shareholders' Equity	<u>22,660</u>	<u>22,940</u>
Total Liabilities and Shareholders' Equity	<u>\$ 45,236</u>	<u>\$ 45,474</u>

See notes to financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

**ASTRONICS CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>(in thousands)</i>	Year ended December 31,		
	2004	2003	2002
Cash Flows from Operating Activities			
Net (Loss) Income from Continuing Operations	\$ (734)	\$ 782	\$ 4,047
Adjustments to Reconcile (Loss) Income from Continuing Operations to Net Cash provided by Operating Activities:			
Depreciation and Amortization	1,273	1,212	1,269
Provision for Doubtful Accounts	397	(78)	246
Deferred Taxes (Benefit) Provision	(40)	175	(221)
Loss on Disposal of Assets	32	-	-
Cash Flows from Changes in Operating Assets and Liabilities:			
Accounts Receivable	(1,287)	696	1,808
Inventories	(1,138)	671	(30)
Prepaid Expenses	149	(427)	(72)
Accounts Payable	885	(400)	(1,346)
Accrued Expenses	328	(383)	(216)
Income Taxes	(65)	(429)	(42)
Supplemental Retirement Plan and Other Liabilities	343	307	159
Cash provided by Operating Activities	<u>143</u>	<u>2,126</u>	<u>5,602</u>
Cash Flows from Investing Activities			
Purchases of short-term investments	(4,000)	-	-
Proceeds from sale of short-term investments	3,000	-	-
Capital Expenditures:			
Other	(322)	(284)	(316)
Proceeds from the sale of assets	34	-	-
Cash used for Investing Activities	<u>(2,424)</u>	<u>(704)</u>	<u>(713)</u>
Cash Flows from Financing Activities			
Proceeds from Spin-off of MOD-PAC CORP.	-	4,751	-
Principal Payments on Long-term Debt	(1,452)	(879)	(2,535)
Unexpended Industrial Revenue Bond Proceeds	555	-	82
Proceeds from Issuance of Stock	133	35	80
Purchase and Retirement of Stock	-	(606)	-
Purchase of Stock for Treasury	-	(497)	(2,089)
Cash (used for) provided by Financing Activities	<u>(764)</u>	<u>2,804</u>	<u>(4,462)</u>
Effect of Exchange Rates on Cash	(133)	64	(9)
Cash (used for) provided by Continuing Operations	(3,178)	4,290	418
Cash (used for) Discontinued Operations	(154)	(204)	(1,872)
Cash and Cash Equivalents at Beginning of Year	<u>11,808</u>	<u>7,722</u>	<u>9,176</u>
Cash and Cash Equivalents at End of Year	\$ 8,476	\$ 11,808	\$ 7,722
Disclosure of Cash Payments (Refunds) for:			
Interest - Continuing Operations	\$ 396	\$ 404	\$ 470
Income taxes - Continuing Operations	(421)	840	1,775
Interest - Discontinued Operations	-	9	12
Income taxes - Discontinued Operations	-	185	1,052

See notes to financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

ASTRONICS CORPORATION										
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY										
<i>(dollars and shares in thousands)</i>										
	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
Balance at December 31, 2001	5,975	\$ 60	2,524	\$ 25	415	\$ 1,160	\$ 3,433	\$ 35	\$ 38,278	
Net Income for 2002									4,553	\$ 4,553
Minimum Pension Liability Adjustment (net of income taxes of \$127)								(207)		(207)
Currency Translation Adjustments								(44)		(44)
Mark to Market Adjustments for Derivatives (net of income taxes of \$201)								(329)		(329)
Total Comprehensive Income										<u>\$ 3,973</u>
Treasury Stock Sold					(6)	(27)	17			
Treasury Stock Purchased					294	2,089				
Exercise of Stock Options	54		20				340			
Class B Stock converted to Common Stock	412	4	(412)	(4)						
Balance at December 31, 2002	6,441	\$ 64	2,132	\$ 21	703	\$ 3,222	\$ 3,790	\$ (545)	\$ 42,831	
Net Income for 2003									1,113	\$ 1,113
Minimum Pension Liability Adjustment (net of income taxes of \$127)								207		207
Currency Translation Adjustments								573		573
Mark to Market Adjustments for Derivatives (net of income taxes of \$44)								66		66
Total Comprehensive Income										<u>\$ 1,959</u>
Common Stock Purchased and Retired	(98)	(1)					(606)			
Treasury Stock Purchased					81	497				
Exercise of Stock Options including income tax benefit of \$50	38	1	13				85			
Class B Stock converted to Common Stock	102	1	(102)	(1)						
Spin-off of MOD-PAC CORP								64	(21,004)	
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 Income										<u>\$ (443)</u>
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	

See notes to financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

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. and Luminescent Systems-Canada Inc., designs and manufactures lighting components, subsystems and systems for aircraft. We serve 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, except for MOD-PAC CORP., which is presented with discontinued operations through its spin-off date of March 14, 2003. All intercompany transactions and balances have been eliminated.

Revenue and Expense Recognition

Revenue is recognized on the accrual basis, i.e., at the time of shipment of goods. There are no significant 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. Amounts not collected from customers within 90 days of the due date of the invoice are credited to the allowance for doubtful accounts. After collection efforts have been exhausted, uncollected balances are charged off to the allowance.

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. Selling, general and administrative expenses includes costs primarily related to our sales and marketing departments and administrative departments. Shipping and handling costs are expensed as incurred and are included in costs of products sold.

Stock-Based Compensation

The Company accounts 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.

The following table provides pro forma earnings information as if the Company recorded compensation expense based on the fair value of stock options:

(in thousands, except per share data)	2004	2003	2002
(Loss)Income from Continuing Operations, as reported	\$ (734)	\$ 782	\$ 4,047
Stock-based compensation included in net (loss) income as reported	-	-	-
Adjustment to record compensation expense for Stock Option awards under the Fair Value Method of Accounting	<u>(273)</u>	<u>(446)</u>	<u>(273)</u>
Pro Forma (Loss) Income from Continuing Operations	\$ (1,007)	\$ 336	\$ 3,774
Net (Loss) Income, as reported	\$ (734)	\$ 1,113	\$ 4,553
Stock-based compensation included in net (loss) income as reported	-	-	-
Adjustment to record compensation expense for Stock Option Awards under the Fair Value Method of Accounting	<u>(273)</u>	<u>(225)</u>	<u>(363)</u>
Pro Forma Net (Loss) Income	\$ (1,007)	\$ 888	\$ 4,190
Pro Forma Basic (Loss) Earnings Per Share			
Continuing Operations	\$ (.13)	\$.04	\$.47
Net (Loss) Income	\$ (.13)	\$.11	\$.52
Pro Forma Diluted (Loss) Earnings Per Share Continuing Operations	\$ (.13)	\$.04	\$.46
Net (Loss) Income	\$ (.13)	\$.11	\$.51

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.

Short-Term Investments

The Company's short-term investments consist of marketable securities that are categorized as available for sale securities as defined by SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. The investment portfolio at December 31, 2004 consisted of Government Agency securities totaling \$1.0 million. There was no unrealized gain or loss at December 31, 2004. There was no realized gain or loss for the year ended December 31, 2004.

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:

(in thousands)	2004	2003
Finished Goods	\$ 644	\$ 501
Work in Progress	1,068	1,166
Raw Material	<u>5,398</u>	<u>4,040</u>
	\$ 7,110	\$ 5,707

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. Renewals and betterments are capitalized.

Depreciation expense was \$1,015,000, \$1,055,000 and \$1,039,000 in 2004, 2003 and 2002, respectively.

Goodwill

The Company tests goodwill at the reporting unit level on an annual basis or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company has 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.

The changes in the carrying amount of goodwill are as follows:

(in thousands)	2004	2003
Balance at January 1,	\$ 2,444	\$ 2,135
Foreign currency translations	171	309
Balance at December 31,	<u>\$ 2,615</u>	<u>\$ 2,444</u>

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:

(in thousands, except per share data)	2004	2003	2002
(Loss) Income from continuing operations	\$ (734)	\$ 782	\$ 4,047
Income from discontinued operations	-	331	506
<u>Net (Loss) Income</u>	<u>\$ (734)</u>	<u>\$ 1,113</u>	<u>\$ 4,553</u>
Basic earnings per share			
weighted average shares	7,766	7,761	8,033
Net effect of dilutive stock options	-	54	175
Diluted earnings per share			
weighted average shares	7,766	7,815	8,208
Basic (loss) earnings per share			
Continuing operations	\$ (.09)	\$.10	\$.51
Discontinued operations	-	.04	.06
<u>Net (loss) Income</u>	<u>\$ (.09)</u>	<u>\$.14</u>	<u>\$.57</u>
Diluted earnings per share			
Continuing operations	\$ (.09)	\$.10	\$.49
Discontinued operations	-	.04	.06
<u>Net (loss) Income</u>	<u>\$ (.09)</u>	<u>\$.14</u>	<u>\$.55</u>

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 when sold or transferred, and cannot receive dividends unless an equal or greater amount is declared on Common Stock. At December 31, 2004, approximately 3,300,000 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 accounting principles generally accepted in the United States requires Management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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, short-term investments, 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. The accounting for changes in the fair value of derivatives depends on the intended use and resulting designation. At December 31, 2004 and 2003, the Company's use of derivative instruments is 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 ineffective portions of all derivatives are recognized immediately into earnings. Ineffectiveness was not material in 2004, 2003, and 2002. 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 \$0.2 million from accumulated other comprehensive income to interest expense during each of the years 2004, 2003 and 2002. During 2005 \$0.1 million is expected to be reclassified as settlements occur.

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 minimum pension liability adjustments. Income taxes related to derivatives and minimum pension liability adjustments within other comprehensive income are generally recorded based on an effective tax rate of approximately 38%. No income taxes are recorded for currency translation adjustments.

The accumulated balances of the components of other comprehensive income net of tax, at December 31, 2004 and 2003 are as follows: accumulated foreign currency translation \$0.7 million and \$0.5 million, respectively; and accumulated mark to market adjustment for derivatives \$(0.1) million and \$(0.2) million, respectively.

Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), *Share-Based Payment*, which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation*. Statement 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. Statement 123(R) must be adopted as of the third quarter of 2005, which is when the Company expects to adopt it.

As permitted by Statement 123, the company currently accounts for share-based payments to employees using Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of Statement 123(R)'s fair value method will impact on the results of operations, although it will have no impact on overall financial position. The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net (loss) income and (loss) earnings per share previously in Note 1 under Stock-Based Compensation.

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs, an amendment of ARB No. 43, Chapter 4." The

amendments made by this statement clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The provisions of this statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 2004. The Company believes the adoption of this standard will not have a material impact on its results of operations or financial position.

In October 2004, President Bush signed the American Job Creation Act of 2004, which contains provisions related to the distribution of the earnings of foreign subsidiaries and provides a tax deduction on qualified production activities, as defined in the Act. Although preliminary guidance has been issued by the IRS, the Company is still evaluating the effect that this new tax legislation will have on its results of operations and financial condition. Therefore, while the impact of the provisions could be significant, the Company is not able at this time to determine the impact, if any, of future repatriations and the amount of available future tax deductions.

NOTE 2 DISCONTINUED OPERATIONS

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, primarily retained earnings and related net assets of approximately \$21 million. The spin-off was accomplished through Astronics payment of a dividend to its shareholders in the form of the outstanding shares of MOD-PAC CORP. stock (the Distribution). The net assets and equity of MOD-PAC CORP. were reduced by a \$7.0 million dividend to the Company. No gain or loss was recorded in connection with the spin-off of MOD-PAC CORP.

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. As a result of the discontinuance of the Electroluminescent Lamp Business Group, Astronics recorded estimated losses on disposition and other exit-related costs as losses on discontinued operations in the quarter ending December 31, 2002, of \$0.7 million after applicable income tax benefit. This charge consisted mostly of severance, inventory and equipment-related expenses. Current liabilities and long-term liabilities of discontinued operations consist of minimum lease payments under operating leases for both 2004 and 2003.

The consolidated financial statements and related notes for all periods presented have been restated to reflect the Printing and Packaging segment and the Electroluminescent Lamp Business Group as discontinued operations.

Operating results of discontinued operations are summarized:

(in thousands)	2004	2003	2002
Sales	\$ -	\$ 8,222	\$ 32,763
Income Before Taxes	-	522	725
Income Tax Expense	-	191	219
Income from Discontinued Operations	\$ -	\$ 331	\$ 506

The Company and MOD-PAC CORP. entered into a Tax Sharing Agreement, which governs the Company's and MOD-PAC'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.

The Company and MOD-PAC CORP. entered into an Interim Services Agreement, whereby Astronics will provide MOD-PAC, on an interim transitional basis, payroll processing, general ledger preparation, financial reporting, training, shareholder relations, risk management and benefits administration services. The agreed upon charges for such services are generally intended to allow Astronics to fully recover the allocated direct costs of providing the services, plus all out-of-pocket costs and expenses, without profit and will be allocated between MOD-PAC and Astronics, on a fifty-fifty basis. Amounts received from MOD-PAC for such services for the period after the Distribution date through December 31, 2004 and 2003 were \$294,000 and \$506,000, respectively, and were accounted for as a reduction in selling, general and administrative expenses.

NOTE 3 LONG-TERM DEBT

Long-term debt consists of the following:

(in thousands)	2004	2003
Note Payable at Canadian Prime payable \$12 monthly through 2016 with interest (Canadian prime was 4.25% at December 31, 2004)	\$ 1,618	\$ 1,614
Industrial Revenue Bonds issued through the Erie County, New York Industrial Development Agency payable \$350 annually through 2019 with interest reset weekly (2.2% at December 31, 2004)	4,695	5,600
Industrial Revenue Bonds issued through the Business Finance Authority of the State of New Hampshire payable \$400 annually through 2018 with interest reset weekly (2.2% at December 31, 2004)	5,650	6,050
Other	99	114
	<u>12,062</u>	<u>13,378</u>
Less current maturities	908	896
	<u>\$ 11,154</u>	<u>\$ 12,482</u>

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. At December 31, 2004 the Company had an unsecured revolving line of credit that provides for borrowing up to \$8 million; interest is at bank prime or LIBOR plus 175 basis points. On March 18, 2005 the credit facility was amended extending its availability through June 30, 2006 and increasing the line to \$11 million. It may be converted into a four-year term loan at any time.

Principal maturities of long-term debt over the next five years are as follows: \$908,000, \$909,000, \$910,000, \$910,000 and \$911,000.

No interest costs were capitalized in 2004, 2003, and 2002.

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 fixes the interest rate at 4.09%. The fair value, based on spot prices of similar contracts, of this derivative instrument which is designated as a cash flow hedge, was a liability of \$93,000 and \$244,000 at December 31, 2004 and 2003.

At December 31, 2004, the Company had an unused \$8 million line of credit. In February, 2005 the Company borrowed \$7.0 million against the line for its acquisition of AES.

On March 18, 2005 the Company received an amended agreement from HSBC Bank USA to increase its available revolving credit facility to \$11 million. The amendment also extends the revolving credit facility through June 30, 2006. The amendment is subject to ratification by the Company's board of directors. At December 31, 2004, the Company was in breach of certain covenants pursuant to its credit facility with HSBC Bank USA. Specifically the Company was required to maintain a debt service coverage ratio of no less than 1.25 to 1 calculated as net income plus depreciation divided by current maturities of long term debt. The debt service coverage ratio increases to 2.5 to 1 for 2005. In addition the Company is required to maintain an interest coverage ratio of not less than 4 to 1 calculated as income before tax plus interest, depreciation and amortization divided by interest expense. These covenants are measured on an annual basis at December 31. The Company has received written waivers from HSBC Bank USA for these covenant violations at December 31, 2004. In connection with the amended credit facility an additional covenant requiring a minimum income before tax plus interest, depreciation and amortization was established for the year to date periods ending June 30, 2005 and September 30, 2005. The Company believes it will be compliant with its covenants at future measurement dates.

NOTE 4 RELATED-PARTY TRANSACTIONS

Through March 14, 2003, the spin-off date, and during the years ended December 31, 2002, MOD-PAC CORP., an Astronics subsidiary, performed printing and order fulfillment services for VistaPrint Corporation, resulting in sales of \$2,206,000, and \$6,198,000, respectively. Robert S. Keane, the son of Kevin T. Keane, is a shareholder in and the chief executive officer of VistaPrint Corporation. In addition, Kevin T. Keane is a shareholder in VistaPrint Corporation holding less than 5% of its capital stock.

NOTE 5 STOCK OPTION AND PURCHASE PLANS

A summary of the Company's stock option activity, excluding MOD-PAC employees, and related information for the years ended December 31 follows:

	2004		2003		2002	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at the Beginning of the Year	538,931	\$ 5.88	392,703	6.79	404,217	\$ 5.47
Options Granted	254,100	\$ 5.30	98,700	6.60	45,200	\$ 12.12
Adjustments to Maintain Intrinsic Value as a result of MOD-PAC's Spin-off	-	\$ -	105,177	(1.43)	-	\$ -
Options Exercised	(23,490)	\$ 1.07	(50,899)	1.30	(56,714)	\$ 1.64
Options Forfeited	(45,461)	\$ 5.88	(6,750)	8.79	-	\$ -
Outstanding at the End of the Year	<u>724,080</u>	<u>\$ 5.83</u>	<u>538,931</u>	<u>5.88</u>	<u>392,703</u>	<u>\$ 6.79</u>
Exercisable at December 31	<u>483,135</u>	<u>\$ 5.90</u>	<u>292,982</u>	<u>4.85</u>	<u>283,702</u>	<u>\$ 4.92</u>

In 2003, 433,754 options at a weighted average exercise price of \$7.36 per share were adjusted to maintain their intrinsic value as a result of the MOD-PAC CORP. spin-off. The adjustment had the effect of increasing the number of options outstanding to 538,931 at a weighted average exercise price of \$5.93 per share. The adjustment was determined by reference to the fair value of the Company's common stock at the time of the Distribution; so as to equalize the intrinsic value of the stock options before and after the Distribution. Under SEC regulations, fair value for this purpose is defined as the last trade before and the first trade immediately following the Distribution.

The following is a summary of weighted average exercise prices and contractual lives for outstanding and exercisable stock options as of December 31, 2004:

Exercise Price Range	Outstanding			Exercisable	
	Shares	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$1.12-\$3.39	89,734	1.4	\$2.37	89,734	\$2.37
\$4.59-\$7.65	544,489	7.4	\$5.47	318,614	\$5.57
\$10.10-\$13.49	89,857	4.7	\$11.41	77,787	\$11.50
	<u>724,080</u>	<u>6.3</u>	<u>\$5.83</u>	<u>483,135</u>	<u>\$5.90</u>

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 530,539 shares under the plans. At December 31, 2004, 585,512 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. The Company had options outstanding for 193,541 shares under the plans at December 31, 2004. At December 31, 2004, 21,602 options were available for future grant under the plan established in 1997.

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:

	2004	2003	2002
Risk-free interest rate	4.25%	5.5%	6.0%
Dividend yield	0.0%	0.0%	0.0%
Volatility factor	0.30	0.35	0.35
Expected life	7.0 years	7.0 years	6.7 years

The weighted average fair value of options granted during 2004, 2003, and 2002 was \$2.30, \$3.16 and \$5.78, respectively.

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.

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, 2004, employees had subscribed to purchase 38,379 shares at \$4.17 per share on September 30, 2005.

NOTE 6 INCOME TAXES

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

(in thousands)	2004	2003	2002
Currently Payable (Refundable)			
US Federal	\$ (56)	\$ 81	\$ 2,075
Foreign	(399)	(28)	370
State	47	39	144
Deferred	(40)	175	(221)
	\$ (448)	\$ 267	\$ 2,368

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

	2004	2003	2002
Statutory Federal Income			
Tax Rate	(34.0%)	34.0%	34.0%
Nondeductible Items, Net	.6%	1.4%	.5%
Foreign Taxes (benefits)	(7.1%)	3.4%	1.4%
State Income Tax, Net of			
Federal Income Tax Benefit	0.1%	2.5%	.9%
Research and Development Credits	-	(13.0%)	-
Other	2.5%	(2.8%)	.1%
	(37.9%)	25.5%	36.9%

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, 2004 and 2003 are as follows:

	2004	2003
Deferred tax assets:		
Deferred compensation	\$ 1,654	\$ 1,449
State investment tax credit carryforwards	325	299
Reserves and obligations related to discontinued operation	298	379
Asset reserves and other	505	324
Deferred tax assets	2,782	2,451
Deferred tax liabilities:		
Depreciation	1,634	1,286
Net deferred tax asset	<u>\$ 1,148</u>	<u>\$ 1,165</u>

The net deferred tax assets are presented in the consolidated balance sheet as follows at December 31, 2004 and 2003:

	2004	2003
Deferred tax asset - current	\$ 660	\$ -
Deferred tax asset - long-term	488	1,165
	<u>\$ 1,148</u>	<u>\$ 1,165</u>

At December 31, 2004, the Company had state investment tax credit carry forwards of \$491,000 expiring through 2019. Undistributed earnings of the Company's Canadian subsidiary amounted to approximately \$193,000 at December 31, 2004. Those earnings are considered to be indefinitely reinvested and accordingly no provisions for U.S. federal or state income taxes have been provided thereon. Upon distribution of these earnings, the Company would be subject to both U.S. income tax (potentially offset by foreign tax credits) and withholding taxes payable to the foreign country. It is not practicable to estimate the amount of additional tax that might be payable on the foreign earnings.

NOTE 7 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 \$465,000, \$455,000 and \$582,000 in 2004, 2003 and 2002, respectively.

NOTE 8 SUPPLEMENTAL RETIREMENT PLAN AND RELATED POST RETIREMENT BENEFITS

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 following table sets forth the benefit obligation and amounts recognized in the balance sheet as of December 31, 2004 and 2003 along with the net periodic cost for the years ended 2004, 2003 and 2002. The measurement date for determining the Plan obligation and cost is December 31.

(in thousands)	2004	2003
Change in Benefit Obligation		
Benefit Obligation at Beginning of Year	\$ 5,396	\$ 6,939
Service Cost	23	28
Interest Cost	313	351
Actuarial Gains	(113)	(1,813)
Benefits Paid	(111)	(109)
Benefit Obligation at Year-End	<u>\$ 5,508</u>	<u>\$ 5,396</u>
Benefit Obligation at Year-End		
Unfunded Benefit Obligation	\$ 5,508	\$ 5,396
Unrecognized Prior Service Costs	(1,225)	(1,334)
Unrecognized Actuarial Loss	(383)	(497)
Net Amount Recognized	<u>\$ 3,900</u>	<u>\$ 3,565</u>
Amounts Recognized in Balance Sheet		
Accrued Expenses - Current	\$ 361	\$ 110
Supplemental Retirement Plan	4,490	4,652
Intangible Asset	(951)	(1,197)
Net Amount Recognized	<u>\$ 3,900</u>	<u>\$ 3,565</u>

The assumptions used to calculate the benefit obligation as of December 31, 2004 and 2003 are as follows:

	2004	2003
Discount Rate	5.75%	6.0%
Future Average Compensation Increases	5.0%	5.0%

The following table summarizes the components of the net periodic cost for the years ended December 31, 2004, 2003 and 2002:

(in thousands)	2004	2003	2002
Net Periodic Cost			
Service Cost - Benefits Earned During Period	\$ 23	\$ 28	\$ 151
Interest Cost	313	351	399
Amortization of Prior Service Cost	109	109	109
Amortization of Net Actuarial Losses	-	32	61
Net Periodic Cost	<u>\$ 445</u>	<u>\$ 520</u>	<u>\$ 720</u>

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

	2004	2003	2002
Discount Rate	6.0%	6.5%	7.0%
Future Average Compensation Increases	5.0%	5.0%	5.0%

The benefit obligation represents the actuarial present value of benefits attributed to employee service rendered, assuming future compensation levels are used to measure the obligation. FASB Statement No. 87, "Employers' Accounting for Pensions," requires the Company to recognize a minimum pension liability equal to the actuarial present value of the accumulated benefit obligations. An intangible asset is required and has been recorded to the extent that the excess of the accumulated benefit obligation over the pension cost recognized relates to prior service costs. The accumulated benefit obligation was \$4,851,000 and \$4,763,000 at December 31, 2004 and 2003, respectively. 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 \$1.5 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 following table sets forth the benefit obligation and amounts recognized in the balance sheet as of December 31, 2004 and 2003:

(in thousands)	2004		2003	
Change in Accumulated Post Retirement Benefit				
Obligation (APBO):				
APBO Beginning of Year	\$	306	\$	387
Service Cost		3		3
Interest Cost		18		21
Actuarial (Gain) Loss		410		(91)
Benefits Paid		(14)		(14)
APBO at End of Year		723		306
Amount Recognized in Balance Sheet:				
APBO		723		306
Unrecognized Prior Service Costs		(209)		(226)
Unrecognized Actuarial Loss		(424)		(14)
Accrued Post Retirement Liability	\$	90	\$	66

The following table summarizes the components of the net periodic cost for the years ended December 31, 2004, 2003 and 2002:

(in thousands)	2004		2003		2002	
Net Periodic Cost:						
Service Cost	\$	3	\$	3	\$	9
Interest		18		21		22
Prior Service Cost		18		19		17
Net periodic cost	\$	39	\$	43	\$	48

The assumed discount rate used to calculate the post retirement benefit obligations was 5.75% at December 31, 2004 and 6.0% at December 31, 2003. The assumed discount rate used to calculate the net periodic cost was 6.0% for 2004, 6.5% for 2003, and 7.0% for 2002. For measurement purposes, a 12% annual increase in the cost of health care benefits was assumed for 2004 and 2003 respectively, gradually decreasing to 5.0% in 2011 and years thereafter. A one percentage point increase in this rate would increase the post retirement benefit obligation by approximately \$86,000, and a one percentage point decrease in this rate would decrease the post retirement benefit obligation by approximately \$71,000. The Company expects the benefits to be paid in each of the next five years to be \$0.03 million and in the aggregate for the next five years after that \$0.15 million. This also is the expected Company contribution to the plan, since the plan is unfunded.

NOTE 9 SELECTED QUARTERLY FINANCIAL INFORMATION

The quarter ended December 31, 2003, includes \$0.414 million of pre-tax adjustments for bonuses and executive compensation that had been accrued through the first three quarters of the year but was reversed in the fourth quarter.

SELECTED QUARTERLY FINANCIAL INFORMATION

(unaudited) (in thousands, except for per share data)	Quarter ended							
	Dec. 31, 2004	Oct. 2, 2004	July 3, 2004	April 3, 2004	Dec. 31, 2003	Sept. 27, 2003	June 28, 2003	March 29, 2003
Sales	\$ 8,338	\$ 8,449	\$ 8,940	\$ 8,969	\$ 8,327	\$ 7,607	\$ 8,562	\$ 8,686
Gross Profit (sales less cost of products sold)	492	980	1,449	1,688	1,825	1,102	1,828	1,988
Income (Loss) before Tax	(1,201)	(444)	99	364	651	(436)	394	440
Income (Loss)								
Continuing Operations	(658)	(359)	57	226	542	(280)	243	277
Discontinued Operations	-	-	-	-	19	(17)	48	281
Net Income (Loss)	\$ (658)	\$ (359)	\$ 57	\$ 226	\$ 561	\$ (297)	\$ 291	\$ 558
Basic Earnings (Loss) per Share								
Continuing Operations	\$ (.08)	\$ (.05)	\$.01	\$.03	\$.07	\$ (.04)	\$.03	\$.03
Discontinued Operations	(.00)	(.00)	.00	.00	.00	(.00)	.01	.04
Net Income (Loss)	\$ (.08)	\$ (.05)	\$.01	\$.03	\$.07	\$ (.04)	\$.04	\$.07
Diluted Earnings (Loss) per Share								
Continuing Operations	\$ (.08)	\$ (.05)	\$.01	\$.03	\$.07	\$ (.04)	\$.03	\$.03
Discontinued Operations	(.00)	(.00)	.00	.00	.00	(.00)	.01	.04
Net Income (Loss)	\$ (.08)	\$ (.05)	\$.01	\$.03	\$.07	\$ (.04)	\$.04	\$.07

NOTE 10 SALES BY GEOGRAPHIC REGION, MAJOR CUSTOMERS AND CANADIAN OPERATIONS

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

	2004	2003	2002
North America	\$ 28,351	\$ 26,955	\$ 36,741
Europe	4,558	4,187	3,715
South America	814	978	1,078
Other	973	1,062	1,406
	<u>\$ 34,696</u>	<u>\$ 33,182</u>	<u>\$ 42,940</u>

Sales recorded by the Company's Canadian operations were \$6.9 million in 2004, \$6.4 million in 2003 and \$6.6 million in 2002. Net income (loss) from these operations was \$(0.5) million in 2004, \$(0.2) million in 2003 and \$0.5 million in 2002. Net Assets held outside of the United States total \$1.0 million at December 31, 2004 and \$1.4 million at December 31, 2003. The exchange gain (loss) included in determining net income for the years ended December 31, 2004, 2003 and 2002 was \$(0.2) million, \$(0.3) million and \$0.0 million respectively. The Company does not have a significant concentration of business with any sole customer with the exception of the U.S. Government which accounted for 18.5% of sales in 2004, 26% of sales in 2003 and 37% of sales in 2002. Accounts receivable from the U.S. Government at December 31, 2004 and 2003 were \$ 0.8 million and \$ 0.9 million, respectively.

NOTE 11 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, 2004, 2003 and 2002 was \$203,000, \$192,000 and \$174,000, respectively. The following table represents future minimum lease payment commitments as of December 31, 2004:

(in thousands)	2005	2006	2007	2008	2009
Minimum Lease Payments	\$ 292	\$ 57	\$ 15	\$ 13	\$ -

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, 2004 were \$4.5 million. These commitments are not reflected as liabilities in the Company's Balance Sheet.

NOTE 12 SUBSEQUENT EVENT

On February 3, 2005, the Company acquired substantially all of the assets of the Airborne Electronic Systems (AES) business unit from a subsidiary of General Dynamics. Astronics acquired the business for \$13.0 million in cash at closing with an additional purchase consideration of up to \$4.0 million based on AES 2005 revenue, as defined in the asset purchase agreement, as follows: \$4 million if revenue exceeds \$35 million, \$3 million if revenue exceeds \$34 million, \$2 million if revenue exceeds \$33 million, \$1 million if revenue exceeds \$32 million, no amount of additional consideration will be paid if revenue is less than \$32 million. As defined in the agreement revenues include all revenue for the calendar year 2005 as well as certain adjustments for specific programs that will utilize percentage of completion revenue recognition which differs from Astronics revenue recognition policy. The Company expects these adjustments will result in increasing the revenue as determined for the earn out calculation by an estimated \$3 million as compared with its reported revenue for 2005. AES produces a wide range of products related to electrical power generation, control, and distribution on military, commercial, and business aircraft. The acquisition compliments the Company's existing business and broadens the Company's product offerings. For the year ended December 31, 2004 AES had an unaudited net loss of approximately \$5 million on sales of \$ 26 million. The loss was primarily a result of costs relating to a development program that included significant termination fees negotiated by the parent and charged to AES. Audited financial statements for AES for 2004 and 2003 and pro-forma combined financial information for Astronics and AES will be available and included in a Form 8-K filing expected to be filed in April 2005. Presently, the Company does not expect to record significant amounts of goodwill in connection with the acquisition but has not yet completed its purchase price allocation.

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.

(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.

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 25, 2005 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:

<u>Name and Age Of Executive Officer</u>	<u>Positions and Offices with Astronics</u>	<u>Year First Elected Officer</u>
Kevin T. Keane Age 72	Chairman of the Board and Director of the Company	1970
Peter J. Gundermann Age 42	President, Chief Executive Officer and Director of the Company	2001
David C. Burney Age 42	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

The information contained under the caption "Security Ownership of Certain Beneficial Owners and Management" 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.

Equity Compensation Plan Information

Employee Stock Option Plan

The shareholders of Astronics Corporation approved the 2001 Stock Option Plan. This employee stock option plan provides a stock-based incentive program primarily for our officers and managers. Under the plan, the compensation committee of our board of directors may grant options to officers and managers who are expected to contribute to our success. The aggregate number of shares of our Common Stock that may be issued under this plan cannot exceed 1,000,000 shares (subject to adjustment to reflect share distributions). In determining the size of stock option grants, our compensation committee focuses primarily on our performance and the role of our executives and managers in accomplishing performance objectives. Stock options granted under the plan generally become exercisable in equal installments over a five-year period and are granted with an exercise price equal to the fair market value of our Common Stock as of the date of the grant.

Directors Stock Option Plan

The shareholders of Astronics approved the 1997 Director Stock Option Plan for non-salaried outside directors. The plan provides for grants of options to our outside directors to purchase up to an aggregate of 151,250 shares of our Common Stock (subject to adjustment to reflect share distributions). Outside directors will be eligible to receive options under this plan at the discretion of a committee appointed by our board of directors who are not eligible to participate in the plan. Under our plan, the option price will be not less than the fair market value of the shares optioned on the date of the grant. There will not be a limit on the number of options that a participant may be granted under our plan. Options will be exercisable beginning six months after the grant and for so long as the holder remains our director, but not longer than ten years from the date of the grant.

Additional information concerning our stock option plans and other equity compensation plans set forth under the captions "Stock Option Grant Table," "Stock Option Exercises and Fiscal Year-End Table Values" and "Equity Compensation Plan Information" in the Company's definitive Proxy Statement to be filed within 120 days of the end of our fiscal year is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained under the caption "Certain Relationships and Related Transactions" 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, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

1. The following financial statements are included:
 - (i) Consolidated Statements of Operations for the years ended December 31, 2004, December 31, 2003 and December 31, 2002
 - (ii) Consolidated Balance Sheets as of December 31, 2004 and December 31, 2003
 - (iii) Consolidated Statements of Cash Flows for the years ended December 31, 2004, December 31, 2003 and December 31, 2002
 - (iv) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2004, December 31, 2003 and December 31, 2002
 - (v) Notes to Consolidated Financial Statements
 - (vi) Report of Independent Registered Public Accounting Firm.
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

<u>Exhibit</u>	<u>Description</u>
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<u>No.</u>	
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- | | |
|-------|---|
| 2.1 | Separation and Distribution Agreement Dated December 7, 2002 by and between MOD-PAC CORP. and the Registrant; incorporated by reference to exhibit 2.1 of MOD-PAC CORP.'s Form 10/A registration statement dated January 28, 2003 |
| 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 | 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. |
| 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. |
| 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.
- 10.9 Interim Services Agreement Dated December 7, 2002 by and between MOD-PAC CORP. and the Registrant; incorporated by reference to exhibit 10.2 of MOD-PAC CORP.'s Form 10/A registration statement dated January 28, 2003
- 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
- 10.11 Employee Benefits Agreement Dated December 7, 2002 by and between MOD-PAC CORP. and the Registrant; incorporated by reference to exhibit 10.3 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. filed herewith
- 10.15* 2005 Director Stock Option Plan filed herewith.
- 21 Subsidiaries of the Registrant; filed herewith.
- 23 Consent of Independent Registered Public Accounting Firm; filed herewith.
- 31.1 Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002; filed herewith
- 31.2 Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002; filed herewith
- 32 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002; 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

(in thousands)

Year	Description	Balance at the Beginning of Period	Charged to Costs and Expense	(Write-offs)/ Recoveries	Balance at End of Period
2004	Allowance for Doubtful Accounts	\$333	\$397	\$14	\$716
	Reserve for Inventory Valuation	\$534	\$229	\$(79)	\$684
2003	Allowance for Doubtful Accounts	\$397	\$(78)	\$14	\$333
	Reserve for Inventory Valuation	\$382	\$256	\$(104)	\$534
2002	Allowance for Doubtful Accounts	\$177	\$246	\$(26)	\$397
	Reserve for Inventory Valuation	\$296	\$213	\$(127)	\$382

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 25, 2005.

Astronics Corporation

By /s/ Peter J. Gundermann

Peter J. Gundermann, President and Chief
Executive Officer (Principal Executive Officer)

By /s/ David C. Burney

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Raymond S. Boushie</u> Raymond S. Boushie	Director	March 25, 2005
<u>/s/ Robert T. Brady</u> Robert T. Brady	Director	March 25, 2005
<u>/s/ John B. Drenning</u> John B. Drenning	Director	March 25, 2005
<u>/s/ Peter J. Gundermann</u> Peter J. Gundermann	Director	March 25, 2005
<u>/s/ Kevin T. Keane</u> Kevin T. Keane	Director	March 25, 2005
<u>/s/ Robert J. McKenna</u> Robert J. McKenna	Director	March 25, 2005

ASSET PURCHASE AGREEMENT
DATED AS OF
FEBRUARY 3, 2005
BY AND BETWEEN
GENERAL DYNAMICS OTS (AEROSPACE), INC.
AND
ASTRONICS ACQUISITION CORP.

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Schedule 4.22	Export Control Regulations
Schedule 7.1	Employees

ASSET PURCHASE AGREEMENT

This ASSET PURCHASE AGREEMENT (this "Agreement") dated as of February 3, 2005 is made by and between General Dynamics OTS (Aerospace), Inc., a Washington corporation (the "Seller"), and Astronics Acquisition Corp., a Washington corporation (the "Buyer").

WHEREAS, the Seller's business located at its facility in Redmond, Washington, is engaged directly in the design, manufacture, sale, distribution and service of products for (i) power generation, distribution and control for airborne applications (known as the Seller's "Airborne Power and Control" or "APC" business) and (ii) aircraft cabin power and in-flight applications (known as the Seller's "Cabin Electronics" or "CE" business) (the "Business").

WHEREAS, this Agreement contemplates a transaction in which the Buyer will acquire substantially all of the assets of the Business and assume substantially all of the liabilities of the Business on the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements contained herein, and for other good and valuable consideration, the value, receipt and sufficiency of which are acknowledged, the Parties hereby agree as follows:

ARTICLE I DEFINITIONS

Section 1.1 Definitions. For purposes of this Agreement, the following terms have the meanings set forth below:

"Affiliates" has the meaning set forth in Rule 12b-2 of the regulations promulgated under the Securities Exchange Act of 1934, as amended.

"Agreement" has the meaning set forth in the Preamble.

"Allocation Statement" has the meaning set forth in Section 3.3(a).

"Ancillary Documents" means the Bill of Sale and Assignment and Assumption Agreement, the Assignment of Patents, the Assignment of Trademarks, the Assignment and Assumption of Leases, the Transition Services Agreement, the Confidentiality Agreement, the Letter Agreement and each certificate and other document to be delivered pursuant to Article VIII.

"Apportioned Obligations" means any Tax relating to any Purchased Asset (including any additional Tax determined subsequent to the Closing Date), and all rents, utilities, and other periodic charges with respect to the Leased Real Property, that are due or become due without acceleration for any Straddle Period.

"Arbiter" has the meaning set forth in Section 3.4(c).

"Assignment of Patents" has the meaning set forth in Section 8.1(b).

"Assignment and Assumption of Leases" has the meaning set forth in Section 8.1(d).

"Assignment of Trademarks" has the meaning set forth in Section 8.1(c).

"Associate Contractor Agreement" has the meaning set forth in Section 8.1(g).

"Assumed Liabilities" has the meaning set forth in Section 2.3(a).

"Balance Sheet" has the meaning set forth in Section 4.4(a).

"Basket Amount" has the meaning set forth in Section 9.2(b).

"Bill of Sale and Assignment and Assumption Agreement" has the meaning set forth in Section 8.1(a).

"Books and Records" means all books, records, ledgers, files, documents, correspondence, lists, plats, specifications, surveys, drawings, advertising and promotional materials, studies, reports and other materials (in whatever form or medium) which exclusively relate to the Business.

"Business" has the meaning set forth in the Preamble.

"Buyer" has the meaning set forth in the Preamble.

"Buyer Claims" has the meaning set forth in Section 9.2(a).

"Buyer Employee Benefit Plans" has the meaning set forth in Section 7.2(a).

"Buyer Indemnified Party" has the meaning set forth in Section 9.2(a).

"Buyer Guarantee" has the meaning set forth in Section 5.2.

"Buyer Guarantor" means Astronics Corporation, a New York corporation.

"Buyer Material Adverse Effect" has the meaning set forth in Section 5.1.

"Ceiling Amount" has the meaning set forth in Section 9.2(b).

"Claims" has the meaning set forth in Section 9.3(a).

"Closing Date" has the meaning set forth in Section 3.1.

"Closing" has the meaning set forth in Section 3.1.

"Change of Control" means any transaction or event which results in (a) the sale of at least 51% of the capital stock or other ownership interests of the Buyer to a non-Affiliate of the Buyer or (b) the sale of all or substantially all of the assets of the Business to a non-Affiliate of the Buyer.

"COBRA" has the meaning set forth in Section 7.2(b).

"Code" means the Internal Revenue Code of 1986, as amended (together with all rules and regulations promulgated thereunder).

"Competing Business" has the meaning set forth in Section 6.9(a).

"Confidentiality Agreement" means that certain Confidentiality Agreement dated July 7, 2004, between the Buyer and Banc of America Securities LLC on behalf of the Seller.

"Contracts" has the meaning set forth in Section 2.2(a)(iii).

"Disclosure Schedules" means all of the disclosure schedules accompanying this Agreement.

"Earnout" has the meaning set forth in Section 3.4(a).

"Earnout Period" has the meaning set forth in Section 3.4(a).

"Earnout Revenues" means, for the period commencing January 1, 2005 and ending December 31, 2005, the sales, net of returns, of the Business excluding (i) the sales, net of returns, attributable to the "Your Entertainment System" or "YES!" product line of the Business and (ii) the sales, net of returns, attributable to sales from the Business to the Seller and its Affiliates in excess of historic annual amounts.

"Earnout Statement" has the meaning set forth in Section 3.4(b).

"Employee Benefit Plan" has the meaning set forth in Section 4.15(b).

"Employee Pension Benefit Plan" has the meaning set forth in Section 4.15(b).

"Employee Welfare Benefit Plan" has the meaning set forth in Section 4.15(b).

"Employees" has the meaning set forth in Section 7.1.

"Environment" means any water or water vapor, land (including land surface or subsurface), air, fish, wildlife, biota, and all other natural resources.

"Environmental Laws" means any Law with respect to any Hazardous Materials, drinking water, groundwater, wetlands, landfills, open dumps, storage tanks, underground storage tanks, solid waste, waste water, storm water run-off, waste emissions or wells. Without limiting the generality of the foregoing, the term will encompass each of the following statutes and the regulations promulgated thereunder, as amended: (a) the Comprehensive Environmental Response, Compensation and Liability Act of 1980, (b) the Resource Conservation and Recovery Act of 1976, (c) the Hazardous Materials Transportation Act, (d) the Toxic Substances Control Act, (e) the Clean Water Act, (f) the Clean Air Act, (g) the Safe Drinking Water Act, (h) the National Environmental Policy Act of 1969, (i) the Emergency Planning and Community Right-to-Know Act and (j) the Occupational Safety and Health Act of 1970.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended (together with all rules and regulations promulgated thereunder).

"Excluded Assets" has the meaning set forth in Section 2.2(b).

"Excluded Liabilities" has the meaning set forth in Section 2.3(b).

"Excluded Names" has the meaning set forth in Section 2.2(b)(vii).

"Financial Statements" has the meaning set forth in Section 4.4(a).

"Government Contract" means any Contract between the Seller and any (a) Governmental Entity or (b) third party relating to a contract between such third party and any Governmental Entity.

"Governmental Entity" means the United States, any state or other political subdivision thereof and any other foreign or domestic entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including any government authority, agency, department, board, commission, court, tribunal or instrumentality of the United States or any foreign entity, any state of the United States, or any political subdivision of any of the foregoing.

"Hazardous Materials" means any wastes, substances, or materials (whether solids, liquids or gases) that are defined or listed by a Governmental Entity as hazardous, toxic, pollutants or contaminants, including substances defined as "hazardous wastes," "hazardous substances," or "toxic substances" under any Environmental Laws. "Hazardous Materials" includes, but not limited to, polychlorinated biphenyls (PCBs), asbestos, lead-based paints, and petroleum and petroleum products (including crude oil or any fraction thereof).

"Indemnified Party" has the meaning set forth in Section 9.4(a).

"Indemnifying Party" has the meaning set forth in Section 9.4(a).

"Initial Purchase Price" has the meaning set forth in Section 3.2.

"Intellectual Property" has the meaning set forth in Section 2.2(a)(v).

"Interim Financial Statements" has the meaning set forth in Section 4.4(a).

"Inventory" has the meaning set forth in Section 2.2(a)(ii).

"IRS" means the Internal Revenue Service.

"Law" means any applicable federal, state, local or foreign law, statute, rule, regulation, ordinance, permit, order, writ, injunction, judgment or decree of any Governmental Entity.

"Leased Real Property" has the meaning set forth in Section 2.2(a)(viii).

"Letter Agreement" has the meaning set forth in Section 8.1(i).

"Lien" means any lien, pledge, security interest, charge, claim, restriction or other encumbrance.

"Losses" means any losses, damages, penalties, fines, costs and expenses (including reasonable and documented attorneys' and accountants' and consultants' fees and disbursements).

"Material Adverse Effect" means a material adverse effect on the business, results of operations or condition (financial or otherwise) of the Business or the Purchased Assets taken as a whole; provided, however, that "Material Adverse Effect" will not include any of the following: (a) changes or effects that generally affect the industry in which the Business operates, (b) changes or effects arising out of, or attributable to, the announcement of the execution of this Agreement, the consummation of the transactions contemplated hereby or the identity of the Buyer or (c) effects due to changes in any Laws affecting the Business.

"Material Contracts" has the meaning set forth in Section 4.8(a).

"Novation Agreement" has the meaning set forth in Section 6.3.

"Parties" means the Seller and the Buyer together, and "Party" means the Seller or the Buyer individually, as the case may be.

"Permits" has the meaning set forth in Section 2.2(a)(vi).

"Permitted Encumbrances" means any (a) mechanics', materialmen's and similar Liens with respect to amounts not yet due and payable, (b) Liens for Taxes not yet due and payable or the validity of which is being contested in good faith by appropriate proceedings, (c) Liens securing rental payments under capital lease arrangements, (d) Liens encumbering any of the Leased Real Property, which do not materially interfere with the use of the Leased Real Property by the Business or the ordinary course of the Business thereon and (e) such other encumbrances or imperfections in or failure of title which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

"Person" means an individual, partnership, corporation, limited liability company, association, joint stock company, trust, joint venture, unincorporated organization or Governmental Entity.

"Proceeding" means any action, arbitration, hearing, governmental investigation, litigation, lawsuit (whether civil, criminal, administrative, judicial or investigative) commenced, brought, conducted or heard by or before any Governmental Entity or arbitrator.

"Purchase Price" has the meaning set forth in Section 3.2.

"Purchased Assets" has the meaning set forth in Section 2.2(a).

"Receivables" has the meaning set forth in Section 4.5.

"Release" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, migration, dumping, or disposing into the Environment.

"Review Period" has the meaning set forth in Section 3.4(c).

"Schedule" means a schedule to this Agreement that is contained in the Disclosure Schedules and incorporated herein pursuant to Section 10.12.

"Seller" has the meaning set forth in the Preamble.

"Seller Claims" has the meaning set forth in Section 9.3(a).

"Seller Employee Benefit Plan" has the meaning set forth in Section 4.15(b).

"Seller Guarantee" has the meaning set forth in Section 4.2.

"Seller Guarantor" means General Dynamics Ordnance and Tactical Systems, Inc., a Virginia corporation.

"Seller Indemnified Parties" has the meaning set forth in Section 9.3(a).

"Seller's Knowledge" means the actual knowledge of the individuals listed on Schedule 1.1.

"Specified Consent" has the meaning set forth in Section 6.2(b).

"Straddle Period" means any Tax year or taxable period beginning on or before the Closing Date and ending after the Closing Date.

"Tax" or "Taxes" means a tax or taxes of any kind or nature, or however denominated, including liability for federal, state, local or foreign sales, use, transfer, registration, business and occupation, value added, excise, severance, stamp, premium, windfall profit, customs, duties, real property, personal property, capital stock, social security, unemployment, disability, payroll, license, employee or other withholding, or other tax, of any kind whatsoever, including any interest, penalties or additions to tax or additional amounts in respect to the foregoing, including any transferee or secondary liability for a tax and any liability assumed by agreement or arising as a result of being or ceasing to be a member of any affiliated group, or being included or required to be included in any tax return relating thereto; provided, however, that "Tax" or "Taxes" will not include any income, gross receipts, franchise, estimated, alternative minimum or add-on minimum taxes.

"Tax Returns" means, with respect to any Tax, any information return for such Tax, and any return, report, statement, declaration, claim for refund or document filed or required to be filed under the Law for such Tax.

"Third Party Claim" has the meaning set forth in Section 9.4(a).

"Transition Services Agreement" has the meaning set forth in Section 8.1(e).

"U.S. Government" means the federal government of the United States and any agencies, instrumentalities and departments thereof.

"York Center Premises" means the real property and the improvements thereon formerly owned by the Seller and formerly known as 11441 Willows Road N.E., Redmond, Washington.

Section 1.2 Construction.

(a) For purposes of this Agreement, whenever the context requires, the singular number will include the plural, and vice versa, the masculine gender will include the feminine and neuter genders, the feminine gender will include the masculine and neuter genders, and the neuter gender will include masculine and feminine genders.

(b) As used in this Agreement, the words "include" and "including," and variations thereof, will not be deemed to be terms of limitation, but rather will be deemed to be followed by the words "without limitation."

(c) Except as otherwise indicated, all references in this Agreement to "Section," "Article" and "Exhibit" are intended to refer to the Sections, Articles of, and Exhibits to, this Agreement.

(d) As used in this Agreement, the terms "hereof," "hereunder," "herein" and words of similar import will refer to this Agreement as a whole and not to any particular provision of this Agreement.

(e) Each Party hereto has participated in the drafting of this Agreement, which each Party acknowledges is the result of extensive negotiations between the parties. Consequently, this Agreement will be interpreted without reference to any rule or precept of law that states that any ambiguity in a document be construed against the drafter.

**ARTICLE II
PURCHASE AND SALE OF ASSETS AND ASSUMPTION
OF LIABILITIES**

Section 2.1 Purchase of Assets and Assumption of Liabilities. On the terms and subject to the conditions set forth in this Agreement, the Buyer hereby purchases from the Seller, and the Seller hereby sells, transfers, assigns, conveys and delivers to the Buyer, the Purchased Assets, and the Buyer hereby assumes and agrees to pay, discharge and perform when due all of the Assumed Liabilities.

Section 2.2 Purchased and Excluded Assets.

(a) The "Purchased Assets" are all of the right, title and interest that the Seller possesses and has the right to transfer in and to the Books and Records (provided that the Seller will be entitled to retain copies of any materials it deems reasonably necessary for its human resources, legal or other business purposes) and all of the assets that, with respect to assets that constitute or are related to Intellectual Property, are used or held for use exclusively by the Business, and with respect to all other assets, are used or held for use primarily by the Business, as it is currently operated (other than the Excluded Assets), including:

(i) all accounts and notes receivable and other such claims for money due to the Seller arising from the rendering of services or the sale of goods or materials primarily by the Business;

(ii) all raw materials, work in process, spare parts and finished goods inventories that relate primarily to the Business wherever located (collectively, the "Inventory");

(iii) all rights and interests in all contracts, agreements, purchase orders, licenses, real property leases, personal property leases, obligations, commitments, undertakings and pending bids or proposals (whether written or oral, express or implied) to which the Seller is a party related primarily to the Business (the "Contracts");

(iv) all machinery, equipment, tools, dies, test equipment, computer hardware, furniture, fixtures, leasehold improvements, supplies, vehicles, and other tangible personal property wherever located, together with any transferable manufacturer or vendor warranties related thereto, that are used or held for use primarily by the Business;

(v) to the extent used or held for use by the Seller exclusively for the Business, and in each case to the extent legally assignable, all (A) patents, patent applications, trademark registrations and applications, copyright registrations and applications and domain names solely to the extent set forth on Schedule 2.2(a)(v), (B) unregistered trademarks, unregistered trade names, computer software, unregistered copyrights, trade secrets, confidential business information (including formulas, compositions, inventions, manufacturing and production processes and techniques, technical drawings and designs, technical data, customer and supplier data, pricing and cost information) and (C) all rights in, relating to, or for use or exploitation of, "Airborne Electronic Systems" and "AES", and in each case, all associated goodwill, including all rights thereunder, remedies against infringement and rights to protection of interests therein under the Laws of all jurisdictions (collectively, the "Intellectual Property");

(vi) to the extent legally assignable, all licenses, permits, franchises, consents, authorizations, approvals, certificates of authority or orders, or any waiver of the foregoing, issued by any Governmental Entity primarily with respect to the conduct of the Business by the Seller (the "Permits");

(vii) all rights under or pursuant to warranties, representations and guarantees made by suppliers, manufacturers or contractors in connection with products or services provided primarily to the Business;

(viii) all of the Seller's right, title and interest to the leasehold interest of the Seller, as lessee, in the real property identified on Schedule 4.11 (the "Leased Real Property"); and

(ix) all prepaid expenses of the Seller relating to the Business, including deposits under any Contracts as set forth on Schedule 2.2(a)(ix).

(b) The Purchased Assets will not include any assets other than those specifically described in Section 2.2(a) above. Without limiting the generality of the foregoing sentence and notwithstanding anything to the contrary contained in Section 2.2(a), the Seller or one of its

Affiliates will retain all of its right, title and interest in and to, and will not sell, transfer, assign, convey or deliver to the Buyer, and the Purchased Assets will not include, the following (collectively, the "Excluded Assets"):

- (i) any cash or cash equivalents, including any marketable securities or certificates of deposit, or any collected funds or items in the process of collection at the Seller's financial institutions through and including the Closing Date;
- (ii) any rights of the Seller or any of its Affiliates with respect to any Tax refund relating to periods ending on or prior to the Closing Date, including any ratable portion of a Tax period that includes the Closing Date (as pro-rated in the manner provided by Sections 6.5 and 6.6(d)), any Tax Returns and records, and any rights under any Tax allocation or sharing agreement;
- (iii) the corporate charter, qualification to conduct business as a foreign corporation, arrangements with registered agents relating to foreign qualifications, taxpayer and other identification numbers, corporate seal, minute books, stock transfer books, blank stock certificates, books and records relating to federal, state, local or foreign income, gross receipts, franchise, estimated alternative minimum or add-on taxes, and any other documents relating to the organization, maintenance and existence of the Seller as a corporation;
- (iv) any property, casualty, workers' compensation or other insurance policy or related insurance services contract held by the Seller or any of its Affiliates, and any rights of the Seller or any of its Affiliates under any such insurance policy or contract;
- (v) any Seller Employee Benefit Plans and corresponding assets or any rights of the Seller or any of its Affiliates in the Seller Employee Benefit Plans provided by the Seller to Employees;
- (vi) any rights of the Seller or the Seller Indemnified Parties under this Agreement, any Ancillary Document or any other agreement between the Seller and the Buyer;
- (vii) any rights in, relating to, or for use or exploitation of, any trademark, service mark, brand name, certification mark, trade name, corporate name, domain name or other indication of source or origin, that includes, is based on, relates to or is likely to be confused with the terms "General Dynamics," "General Dynamics OTS (Aerospace), Inc.," "Ordnance and Tactical Systems," "Advanced Information Systems," "OTS," "AIS" or "GD," or any other similar term or derivative thereof (the "Excluded Names"); and
- (viii) any other assets, rights and properties owned, used or held for use by the Seller or any of its Affiliates other than those used or held for use primarily by the Business, or as otherwise identified on Schedule 2.2(b).

Section 2.3 Assumed and Excluded Liabilities.

(a) The "Assumed Liabilities" are all liabilities and obligations (other than to the extent such liabilities or obligations are Excluded Liabilities) relating to or arising out of the Business or the Purchased Assets (whether known or unknown, asserted or unasserted, absolute or contingent, accrued or unaccrued, liquidated or unliquidated, and whether due or to become due), including:

(i) all liabilities and obligations of the Seller to the extent relating to or arising out of the Business as of the Closing Date including, but not limited to, all liabilities and obligations reflected or reserved for on the Balance Sheet and any liabilities and obligations incurred in the ordinary course of business since the date of the Balance Sheet, except to the extent paid or discharged since the date thereof;

(ii) all liabilities and obligations arising under or relating to the Contracts;

(iii) all liabilities and obligations to the extent arising out of or relating to services provided or products designed, manufactured, sold, serviced or repaired in connection with the Business, including all warranty and product liabilities relating thereto;

(iv) all liabilities and obligations arising out of or relating to the Employees (including the employment, compensation and termination of employment thereof) and any related employee benefits or employee benefits plans or programs as provided in Article VII hereof;

(v) all liabilities and obligations to the extent relating to the ownership or operation of the Business or any Purchased Assets, arising out of or relating to any event, transaction, condition, practice, Release or occurrence, including any liabilities resulting from violations of Environmental Laws, in connection with the generation, use, handling, presence, treatment, storage, transportation, disposal or Release of any Hazardous Materials; and

(vi) all liabilities and obligations arising after the Closing in connection with the conduct or operation of the Business or the use or ownership of the Purchased Assets.

(b) The Buyer will not assume or become responsible for, and will not be deemed to have assumed or to have become responsible for any liabilities, debts or obligations of the Seller, whether or not related to the Business, other than as set forth in Section 2.3(a) (collectively, the "Excluded Liabilities"), and the Buyer will not be responsible for any liabilities, debts or obligations of the Seller, whether or not related to Business, relating to or arising out of any of the following (each of which will also constitute an Excluded Liability):

(i) any liability, debt or obligation to the extent arising out of or relating to any Excluded Asset;

(ii) any liability, debt or obligation of the Seller with respect to Taxes arising in connection with the Business or the Purchased Assets, or any of the Ancillary Documents, for any taxable period or ratable portion thereof ending on or prior to the Closing Date;

(iii) any liability or obligation of the Seller or its Affiliates or predecessors arising out of the ownership or operation of the Business at the York Center Premises relating to any event, transaction, condition, practice, Release or occurrence at the York Center Premises, including any liabilities resulting from violations of Environmental Laws, in connection with the generation, use, handling, presence, treatment, storage, transportation, disposal or Release of any Hazardous Materials;

(iv) any liability, debt or obligation of the Seller arising pursuant to the Letter Agreement;
and

(v) any liability, debt or obligation of the Seller arising under this Agreement.

ARTICLE III PURCHASE PRICE AND CLOSING

Section 3.1 Closing. The closing of the transactions contemplated by this Agreement (the "Closing") will take place simultaneously with the execution of this Agreement at 10:00 a.m. (Eastern Time), on the date hereof (the "Closing Date"), at the offices of Jenner & Block LLP, One IBM Plaza, Chicago, IL 60611, or at such other place as the Parties may agree.

Section 3.2 Purchase Price. Concurrent with the execution of this Agreement, the Buyer will pay and deliver to the Seller Thirteen Million Dollars (\$13,000,000) (the "Initial Purchase Price"), in cash by wire transfer of immediately available funds to an account or accounts designated by the Seller. The Initial Purchase Price as adjusted for any Earnout pursuant to Section 3.4 will be referred to as the "Purchase Price."

Section 3.3 Allocation of Purchase Price.

(a) Within 180 days after the Closing Date, the Buyer will provide to the Seller copies of IRS Form 8594 and any required exhibits thereto, prepared in accordance with Section 1060 of the Code (the "Allocation Statement"), with the Buyer's proposed allocation of the Purchase Price (and all other capitalizable costs) among the Purchased Assets.

(b) The Seller will review the Allocation Statement and, to the extent the Seller in good faith disagrees with the content of the Allocation Statement, the Seller will, within 20 days after receipt of the Allocation Statement, provide written notice to the Buyer (in a manner prescribed in Section 10.1) of such disagreement or will be deemed to have indicated its concurrence therewith. The Seller and the Buyer will attempt in good faith to resolve any such disagreement. If the Seller and the Buyer are unable to reach a good faith agreement as to the content of the Allocation Statement within 240 days after the Closing Date, the Seller and the Buyer will each use their own allocation statement consistent with their own allocation of the Purchase Price.

(c) If the Buyer and the Seller agree on the Allocation Statement or any modification thereof, the Buyer and the Seller will report the allocation of the total consideration among the Purchased Assets in a manner consistent with such Allocation Statement or modification and will act in accordance with such Allocation Statement in the preparation and timely filing of all income tax returns (including filing Form 8594 with their respective federal income tax returns for the taxable year that includes the Closing Date and any other forms or statements required by the Code, the IRS or any applicable state or local taxing authority). Each of the Buyer and the

Seller agree to promptly provide the other Party with any additional information and reasonable assistance required to complete Form 8594 or compute Taxes arising in connection with (or otherwise affected by) the transactions contemplated hereunder.

(d) The Buyer and the Seller will promptly inform one another in writing of any challenge by any taxing authority to any allocation made pursuant to this Section 3.3 and agree to consult with and keep one another informed with respect to the status of, and any discussion, proposal or submission with respect to, any such challenge.

Section 3.4 Earnout.

(a) Subject to the Business achieving mutually agreed upon financial results during the period from January 1, 2005 through and including December 31, 2005 (the "Earnout Period"), an additional amount of consideration in the maximum aggregate amount of \$4,000,000 (the "Earnout") will become payable to the Seller and will be treated by the Parties as an adjustment to the Initial Purchase Price. The formula for calculating the Earnout, subject to the terms and conditions contained herein, is as follows:

(i) if the Earnout Revenues of the Business are \$35,000,000 or greater, an Earnout in an amount equal to \$4,000,000 will become due and payable to the Seller;

(ii) if the Earnout Revenues are equal to or greater than \$34,000,000 but less than \$35,000,000, an Earnout in an amount equal to \$3,000,000 will become due and payable to the Seller;

(iii) if the Earnout Revenues are equal to or greater than \$33,000,000 but less than \$34,000,000, an Earnout in an amount equal to \$2,000,000 will become due and payable to the Seller;

(iv) if the Earnout Revenues are equal to or greater than \$32,000,000 but less than \$33,000,000, an Earnout in an amount equal to \$1,000,000 will become due and payable to the Seller; or

(v) if the Earnout Revenues are less than \$32,000,000, no Earnout will be due and payable.

(b) On or prior to February 15, 2006, the Buyer will prepare and deliver to the Seller a statement setting forth the sales, net of returns, of the Business for the Earnout Period, together with the adjustments thereto used in calculating the Earnout Revenues (the "Earnout Statement"). The Earnout Statement will be derived from the financial statements of the Business as of and for the year ending December 31, 2004, using accounting principles consistent with the preparation of the Financial Statements, and prepared in good faith.

(c) For a period of 30 days following delivery of the Earnout Statement (the "Review Period"), the Buyer will permit the Seller and its representatives to have access at all reasonable times to all appropriate and relevant books, records, facilities, personnel and accountants of the Buyer reasonably necessary for the purpose of reviewing and verifying the Buyer's determination of the Earnout Statement and the Earnout. If within such 30 days, the Seller delivers written notice to the Buyer of its objection to the Buyer's determination of the Earnout

Statement or the Earnout, which notice will specify in reasonable detail the grounds for objection, the Buyer and the Seller will attempt in good faith to reach an agreement as to any matters in dispute. If the Buyer and the Seller fail to agree upon the Earnout Statement or the Earnout within 10 days after the Seller advises the Buyer of its objections, then, at the election of either Party, the matters identified in such written notice that remain in dispute will be finally and conclusively determined by an independent auditing firm of recognized national standing (the "Arbiter") selected by the Buyer and the Seller, which firm will not be the regular auditing firm of the Buyer or the Seller or any of their respective Affiliates. The Buyer and the Seller will each deliver to the other Party within two business days after submission to the Arbiter a copy of its written presentation submitted to the Arbiter setting forth such Party's determination of the Earnout Statement and the Earnout. The Buyer and the Seller will have two business days following their respective receipt of the other Party's presentation to provide a written response to the Arbiter with regard to the other Party's presentation. Promptly, but not later than 30 days after its acceptance of its appointment, the Arbiter will determine (based solely on written presentations by the Seller and the Buyer and not by independent review) only those matters in dispute and will render a written report as to the disputed matters and the resulting calculation of the final Earnout Statement and the Earnout, which report will thereupon be conclusive and binding upon the Parties. The fees and expenses of the Arbiter will be shared equally by the Buyer and the Seller. If the Seller fails to notify the Buyer of any disputes in accordance with the aforementioned procedures, the Earnout Statement and the Earnout reflected thereon will be conclusive and binding on all Parties upon the expiration of the Review Period.

(d) Any payment pursuant to this Section 3.4 will be made within fifteen business days following the final determination of the Earnout Statement in accordance with this Section 3.4 by wire transfer of immediately available funds to the account designated in writing by the Seller.

(e) During the Earnout Period the Buyer will dedicate sufficient resources and funds to support the level of growth anticipated to be necessary to achieve the targeted gross revenues. Without limiting the generality of the foregoing, during the Earnout Period, Buyer will comply with the following covenants with respect to the conduct of the Business:

(i) The Buyer will use commercially reasonable efforts to manage and operate the Business, including reasonable product pricing practices, lead times and production planning;

(ii) The Buyer will account for the Business as a stand-alone operation for purposes of preparing the Earnout Statement and calculating any Earnout that may become due and payable;

(iii) The Buyer will not take or fail to take any action for the purpose of unfairly or prejudicially affecting the Seller's ability to prepare the Earnout Statements consistent with Section 3.4(b) or to achieve and receive the Earnout; and

(iv) The Buyer will not take any action or cause the Business to take any action outside of the ordinary course of business that has the effect of shifting revenues into or out of any periods in which such revenues would otherwise be recognized.

(f) If a Change of Control occurs at any time during the Earnout Period, the maximum Earnout of \$4,000,000 will become immediately due and payable to the Seller in cash at the time of the Change of Control.

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF SELLER

The Seller represents and warrants as of the date hereof to the Buyer as follows:

Section 4.1 Organization. The Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Washington. The Seller is duly qualified or licensed to do business as a foreign corporation and is in good standing in each jurisdiction in which the ownership or lease of the Purchased Assets or the conduct of the Business requires such qualification or license, except where the failure to be so qualified or be so licensed would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Seller has all requisite corporate power and authority to carry on the Business as currently conducted and to own, lease or use, as the case may be, the Purchased Assets.

The Seller Guarantor is a corporation duly organized, validly existing and in good standing under the laws of the State of Virginia.

Section 4.2 Authorization of Transaction. The Seller has all requisite corporate power and authority to execute, deliver and perform this Agreement and each of the Ancillary Documents to which it is a party. This Agreement constitutes, and such Ancillary Documents when executed and delivered by the Seller will constitute, a valid and legally binding obligation of the Seller (assuming that this Agreement and such Ancillary Documents constitute valid and legally binding obligations of the other parties thereto), enforceable in accordance with its terms and conditions, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar Laws of general applicability relating to or affecting creditors' rights, or by general equity principles, including principles of commercial reasonableness, good faith and fair dealing.

The Seller Guarantor has all requisite corporate power and authority to execute, deliver and perform the Seller Guarantee (the "Seller Guarantee") attached to, and made a part of, this Agreement. The Seller Guarantee constitutes a valid and legally binding obligation of the Seller Guarantor, enforceable in accordance with its terms and conditions, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar Laws of general applicability relating to or affecting creditors' rights, or by general equity principles, including principles of commercial reasonableness, good faith and fair dealing.

Section 4.3 Noncontravention; Consents.

(a) Except as set forth on Schedule 4.3, the execution, delivery and performance by the Seller of this Agreement and the Ancillary Documents to which it is a party, the consummation by the Seller of the transactions contemplated hereby and thereby, and the execution by the Seller Guarantor of the Seller Guarantee do not: (i) violate any Law to which the Business or the Purchased Assets or the Seller Guarantor or its assets are subject; (ii) conflict with or result in a breach of any provision of the articles of incorporation or bylaws of the Seller or of the Seller Guarantor; (iii) create a breach, default, termination, cancellation or acceleration of any

obligation of the Seller or the Business pursuant to any Material Contracts; or (iv) result in the creation or imposition of any Lien, other than a Permitted Encumbrance, upon the Purchased Assets, except for any of the foregoing in the case of clauses (i), (iii) and (iv), that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(b) Except as set forth on Schedule 4.3 and except for the novation of Government Contracts, no notices, Permits, consents, approvals, authorizations, qualifications or orders of Governmental Entities or third parties are required for the consummation by the Seller of the transactions contemplated hereby or by the Ancillary Documents to which it is a party, other than such of the foregoing that, if not obtained or made, would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect or have a material adverse effect upon the Seller's ability to consummate the transactions contemplated by, and discharge its obligations under, this Agreement and the Ancillary Agreements.

Section 4.4 Financial Statements.

(a) Set forth on Schedule 4.4(a) is (i) a copy of the balance sheet of the Business as of December 31, 2004 (the "Balance Sheet") and the related statement of income for the twelve-month period then ended (collectively, the "Interim Financial Statements") and (ii) a copy of the balance sheet of the Business as of December 31, 2003 and the related statement of income for the twelve-month period then ended (together with the Interim Financial Statements, the "Financial Statements"). The Financial Statements were derived from the books and records of the Seller and present fairly in all material respects the financial position and the results of operations of the Business as of the date and for the period indicated therein.

(b) Except as disclosed, reflected or reserved against on the Balance Sheet or as set forth on Schedule 4.4(b), the Business does not have any liabilities or obligations of any nature, whether absolute, accrued, contingent or otherwise, that would be Assumed Liabilities, other than liabilities and obligations (i) incurred in the ordinary course of business consistent with past practice, (ii) disclosed in or contemplated by this Agreement, the Disclosure Schedules or any Ancillary Document (including the Assumed Liabilities), (iii) arising from Contracts or (iv) that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 4.5 Accounts Receivable. Except as described on Schedule 4.5, each of the accounts, notes and other receivables and amounts owing to the Seller and included in the Purchased Assets (the "Receivables") (a) represents bona fide arm's length sales in the ordinary course of business consistent with past practice and (b) is reflected on the books and records of the Seller and (c) constitutes a valid claim of the Seller, free and clear of all Liens, other than Permitted Encumbrances. There is no material right of offset against any of the Receivables except pursuant to the terms of any Contract.

Section 4.6 Absence of Certain Changes or Events Subsequent to Balance Sheet. Except as set forth on Schedule 4.6, between the date of the Balance Sheet and the date hereof, (a) there has not been any change in the financial position, operations or results of operations of the Business, other than any such changes in the ordinary course of business or that would not, individually or in the aggregate,

reasonably be expected to have a Material Adverse Effect, (b) the Seller has conducted the operations of the Business in the ordinary course of business, consistent with past practice, except for matters that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, (c) there has not been any sale or transfer by the Seller of any material tangible or intangible asset of the Business that would constitute a Purchased Asset except in the ordinary course of business and (d) the Seller has not made any increase in the annual compensation of or granted any bonuses payable or to become payable to any Employee of the Business whose annual compensation exceeds \$100,000 for the fiscal year ending December 31, 2003, other than increases or bonuses consistent with past practice.

Section 4.7 Tax Matters.

(a) Except as set forth on Schedule 4.7, the Seller (or an Affiliate of the Seller) has filed all Tax Returns that it was required to file with respect to the Business within the three year period prior to the date of this Agreement, and has paid all material Taxes shown thereon as owing.

(b) There are no Liens upon the Purchased Assets that arose in connection with any failure (or alleged failure) to pay any Taxes (other than for current Taxes not yet due and payable) upon the Purchased Assets, except for Permitted Encumbrances.

(c) The Seller has not waived any statute of limitations with respect to Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency with respect to the Business.

(d) The transactions contemplated by this Agreement are not subject to Tax withholding pursuant to the provisions of Section 3406 or Subchapter A of Chapter 3 of the Code or any other provision of Law.

(e) The Seller is not a Person other than a United States Person within the meaning of the Code.

(f) Except as set forth on Schedule 4.7, there is no Proceeding pending, or, to the Seller's Knowledge, threatened in respect of any Taxes relating to the Business for which the Seller is or may become liable, nor, to the Seller's Knowledge, has any deficiency or claim for any Taxes been proposed, asserted or threatened.

Section 4.8 Material Contracts.

(a) Schedule 4.8 lists all Contracts as of the date of this Agreement, (i) the performance of which is expected to involve payment or receipt by the Business of consideration in excess of \$100,000 in the 12-month period immediately following the Closing Date, (ii) pursuant to which the Business is committed to make a capital expenditure or to purchase a capital asset in excess of \$50,000 which is not contemplated by the Seller's capital expenditure budget for the Business, (iii) which are material to the Business and to which an Affiliate of the Seller is a party, (iv) which contain a non-compete provision or similar covenant restricting the Business from competing with another Person (provided that license agreements containing field of use restrictions or other similar provisions will not be considered agreements restricting competition), (v) for the employment of any individual on a full-time, consulting, or other basis providing annual compensation in excess of \$100,000, or (vi) that are joint venture, partnership or similar contracts involving a sharing of profits by the Business (collectively, the

"Material Contracts"). Except as prohibited by Law, by the terms of such Material Contract or under any confidentiality agreement, the Seller has made available to the Buyer a correct and complete copy or summary of each Material Contract.

(b) (i) Each Material Contract is a valid, binding and enforceable obligation of the Seller and, to the Seller's Knowledge, of the other party or parties thereto, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar Laws of general applicability relating to or affecting creditors' rights, or by general equity principles, including principles of commercial reasonableness, good faith and fair dealing, and (ii) to the Seller's Knowledge, each Material Contract is in full force and effect. Except as prohibited by Law, by the terms of such Material Contract or under any confidentiality agreement, the Seller has delivered or made available to Buyer a correct and complete copy of each Material Contract.

(c) Except as set forth on Schedule 4.8, (i) neither the Seller nor, to the Seller's Knowledge, any other party thereto, is in breach of or default under any term of any Material Contract or has repudiated any term of any Material Contract and (ii) to the Seller's Knowledge, no event has occurred which with notice or lapse of time or both would constitute a breach or default, under such Material Contract, in each case under subsections (i) and (ii) herein, except for such breaches, defaults or repudiations that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(d) Except as set forth on Schedule 4.8, the Seller has not received any written notice of termination, cancellation or non-renewal that is currently in effect with respect to any Material Contract, and to the Seller's Knowledge, no other party to a Material Contract plans to terminate, cancel or not renew any such Material Contract.

Section 4.9 Government Contracts.

(a) Except as set forth on Schedule 4.9, with respect to each Government Contract of the Business:

(i) the Seller has complied in all material respects with the terms and conditions of such Government Contract (including Laws or agreements pertaining thereto);

(ii) neither the U.S. Government nor any prime contractor, subcontractor or other Person has notified the Seller, either in writing or, to the Seller's Knowledge, orally that the Seller has breached or violated in any material respect any Law, certification, representation, clause, provision or requirement pertaining to such Government Contract;

(iii) no termination for convenience, termination for default, cure notice or show cause notice is currently in effect pertaining to such Government Contract;

(iv) no outstanding unresolved material cost of the Seller has been disallowed; and

(v) to the Seller's Knowledge, neither the Seller nor any Employee of the Business is under civil, administrative or criminal investigation or indictment or has information with respect to any alleged fraudulent or criminal activity involving a Government Contract.

(b) Except as set forth on Schedule 4.9, with respect to the Business there are (i) no outstanding claims against the Seller, either by any Governmental Entity or by any prime contractor, subcontractor, vendor or other Person, arising under or relating to any Government Contract and (ii) no disputes between the Seller and the U.S. Government under the Contract Disputes Act of 1978, as amended, or any other federal statute or between the Seller and any prime contractor, subcontractor or vendor arising under or relating to any Government Contract, except for claims or disputes which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(c) Since January 1, 2002, the Seller, acting through the Business, has not been debarred or suspended from participation in the award of contracts with the U.S. Government or any other Governmental Entity (excluding for this purpose ineligibility to bid on certain contracts due to generally applicable bidding requirements).

(d) Except as set forth on Schedule 4.9, with respect to the Business (i) to the Seller's Knowledge, there is not pending any audit or investigation by a Governmental Entity of the Seller or the Employees with respect to any alleged irregularity, misstatement or omission arising under or relating to any Government Contract, nor since January 1, 2002, to the Seller's Knowledge, has there been any such audit or investigation by a Governmental Entity of the Seller or the Employees that would reasonably be expected to result in a material adverse finding with respect thereto; and (ii) since January 1, 2002, the Seller has not made any voluntary disclosure to the U.S. Government or any non-U.S. government with respect to any alleged irregularity, misstatement or omission arising under or relating to a Government Contract.

Section 4.10 Title to and Sufficiency of Purchased Assets. Except as set forth on Schedule 4.10, the Seller has good title to, or has other legal rights to possess and use all of the material tangible personal property included in the Purchased Assets, free and clear of all Liens, except for Permitted Encumbrances. Except for the Excluded Assets or as set forth on Schedule 4.10, the Purchased Assets include all material tangible assets necessary to operate the Business in substantially the manner as presently operated by the Seller.

Section 4.11 Real Property. Schedule 4.11 lists and describes in reasonable detail all of the Leased Real Property and lists all real property owned or leased by the Business since February 1, 2001. With respect to the Leased Real Property listed on Schedule 4.11, except as set forth on Schedule 4.11: (a) such lease constitutes the entire agreement to which Seller is a party with respect to the Leased Real Property leased thereunder; (b) Seller has not assigned, sublet, transferred or conveyed any interest in the leasehold; and (c) Seller is not in receipt of any notice of default with respect to such lease. Each such lease is in full force and effect, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar Laws of general applicability relating to or affecting creditors' rights or by general equity principles, including principles of commercial reasonableness, good faith and fair dealing, and no event has occurred which with notice would constitute a material breach or material default under such lease. The Seller enjoys peaceful and undisturbed possession of the Leased Real Property. To the Seller's Knowledge, there are no condemnation or eminent domain proceedings pending, contemplated or threatened against the Seller's interest in the Leased Real Property or any part thereof.

Section 4.12 Permits. Schedule 4.12 identifies all material Permits issued to Seller in connection with the Business and currently in effect. The Seller is in compliance with all

material Permits that are required by any Governmental Entity to conduct the Business as presently conducted.

Section 4.13 Intellectual Property.

(a) Schedule 4.13(a) identifies each patent, patent application, trademark registration and application, copyright registration and application and domain name that is owned by the Seller and is used or held for use by the Seller exclusively for the Business, and each material license, sublicense, agreement or other permission that the Seller has granted to any third party with respect to any material Intellectual Property owned by the Seller. Except as set forth on Schedule 4.13(a), the Seller owns or has the right to use pursuant to license, sublicense, agreement or permission all of the Intellectual Property listed on Schedule 4.13(a).

(b) With respect to each item of Intellectual Property listed on Schedule 4.13(a): (i) the Seller possesses all right, title and interest in and to the item, free and clear of any Lien (other than Permitted Encumbrances) and (ii) the item is not subject to any outstanding injunction, judgment or court order issued as a result of a court proceeding to which the Seller is a party or of which the Seller has received written notice within the past 12 months.

(c) Except as set forth on Schedule 4.13(a), to the Seller's Knowledge, the Business does not interfere with, infringe upon, misappropriate or otherwise come into conflict with any intellectual property rights of third parties, and the Seller has not received, within the past 12 months, any written charge, complaint, claim, demand or notice alleging any such interference, infringement, misappropriation or conflict (including any such claim that the Seller must license or refrain from using any intellectual property rights of any third party) which has not been resolved. Except as set forth on Schedule 4.13(a), to the Seller's Knowledge, no third party is currently interfering with, infringing upon, misappropriating or otherwise coming into conflict with any Intellectual Property.

(d) Except with respect to goods manufactured for, or services provided to, customers pursuant to rights granted by the respective customer, and except for commercially available off-the-shelf software, Schedule 4.13(c) identifies each material license, sublicense, agreement or other permission pursuant to which the Business uses any material item of intellectual property owned by a third party.

Section 4.14 Litigation. Except as set forth on Schedule 4.14, there are no material Proceedings pending or, to the Seller's Knowledge, threatened, (a) against the Seller relating to the Business or the Purchased Assets or (b) that question the validity of this Agreement or any of the Ancillary Documents, or any action taken or to be taken by the Seller in connection with this Agreement or any of the Ancillary Documents.

Section 4.15 Employees and Employee Benefits.

(a) With respect to the Business: (i) there are no strikes, work stoppages, lockouts or material disputes pending, or to the Seller's Knowledge, threatened, that involve any Employees, nor has the Seller experienced a strike, work stoppage or lockout that involves any Employees at any time during the three (3) years immediately preceding the date of this Agreement; (ii) the Employees are not currently represented by any labor union; (iii) to the Seller's Knowledge, no union organization campaign is in progress with respect to the Employees, and no question

concerning representation exists respecting such Employees; and (iv) the Seller is not a party to any collective bargaining agreements.

(b) With respect to the Employees, since January 1, 2002, the Seller has not received written notice of any violation, fine or penalty issued by the United States Department of Labor or the Attorney General of the United States (Immigration and Naturalization Service).

(c) For purposes of this Agreement, the term "Employee Benefit Plan" means employee pension benefit plan within the meaning of Section 3(2) of ERISA (an "Employee Pension Benefit Plan") or an employee welfare benefit plan within the meaning of Section 3(1) of ERISA (an "Employee Welfare Benefit Plan"), where no distinction is required by the context in which the term is used. Schedule 4.15 lists each Employee Benefit Plan, fringe benefit plan and other incentive compensation or bonus programs that the Seller or any of its Affiliates maintains with respect to the current or former employees of the Business or to which the Seller or any of its Affiliates contributes with respect to the current or former employees of the Business (each a "Seller Employee Benefit Plan").

(d) Except as set forth on Schedule 4.15, the Seller does not maintain or contribute nor, to the Seller's Knowledge, has it ever maintained or contributed or been required to contribute, to any Employee Welfare Benefit Plan providing medical, health, life insurance or other welfare benefits for retired or terminated employees (current or future) of the Business, their spouses or their dependents (other than in accordance with Section 4980B of the Code).

(e) None of the Seller Employee Benefit Plans are multiemployer plans within the meaning of Section 3(37)(A) or ERISA.

(f) Except as set forth on Schedule 4.15, the Seller has not terminated the employment of any employee of the Business during the ninety (90) days prior to the date of this Agreement, excluding voluntary resignation and termination based on good faith belief that there is cause for dismissal.

(g) The Seller or an Affiliate of the Seller has complied with, and satisfied, the requirements of Part 6 of Subtitle B of Title I of ERISA and Section 4980B of the Code, and all applicable regulations thereunder ("COBRA") with respect to each Seller Employee Benefit Plan that is subject to the requirements of COBRA. Each Seller Employee Benefit Plan that is a group health plan, within the meaning of Section 9832(a) of the Code, has complied with and satisfied the applicable requirements of Sections 9801 and 9802 of the Code.

Section 4.16 Environmental Matters.

(a) Except as set forth on Schedule 4.16, the Business is in compliance with all Environmental Laws in connection with the operation of the Business, except for such failures to be in compliance with such Environmental Laws that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(b) Except as set forth on Schedule 4.16, no written notices of any material violation under any Environmental Law relating to the operations of the Business have been received by the Seller since January 1, 2002.

(c) There are no Liens (other than Permitted Encumbrances) on the Purchased Assets based upon any Environmental Law or for costs incurred in response to any Releases of any Hazardous Materials from Seller's operation of the Business.

Section 4.17 Legal Compliance. Except as set forth on Schedule 4.17, since January 1, 2002, (a) the Seller, in connection with the conduct of the Business and the use of the Purchased Assets, has complied in all material respects with all Laws, (b) the Purchased Assets are in compliance and have complied in all material respects with all Laws and (c) no material action, proceeding, investigation, complaint, demand or notice has been filed or commenced or, to the Seller's Knowledge, threatened, against the Seller alleging any failure to so comply.

Section 4.18 Affiliate Transactions. Except as set forth on Schedule 4.18, no Affiliate of the Seller is presently a party to any Material Contract or material transaction relating to the Business, including any Contract for any loans, advances, the employment of, furnishing of services by, rental of its assets from or to, or otherwise requiring payments to or from, any such Person. Except as set forth in Schedule 4.18 and other than in the ordinary course of business, there is no outstanding amount owing (including pursuant to any advance, note or other indebtedness instrument) from the Seller to any Affiliate or from any Affiliate to the Seller, in each case in connection with the Seller's conduct of the Business.

Section 4.19 Brokers' Fees. Except as set forth on Schedule 4.19, the Seller has no liability or obligation to pay any fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement.

Section 4.20 Suppliers; Customers. Schedule 4.20 sets forth a list of each of (a) the five (5) largest suppliers and (b) the five (5) largest customers of the Business taken as a whole based on purchases and revenues, respectively, for the 10 months ended October 31, 2004.

Section 4.21 Product Warranty. Except as provided pursuant to the terms and conditions of any Contract (including purchase orders issued in connection with any Contracts), the annual spare parts catalog issued by the Business or applicable federal acquisition laws, rules and regulations, the Seller does not provide any warranties in connection with products sold by the Business. Except as set forth on Schedule 4.21, to the Seller's Knowledge, since January 1, 2002, there have been no material defects in design, materials, manufacture or otherwise in any products manufactured, distributed or sold by Seller in connection with the Business.

Section 4.22 Export Control Regulations. Except as set forth on Schedule 4.22, since January 1, 2002, the Seller has not made any voluntary written disclosures in connection with the Business that are currently open for submission to the United States Government with respect to import and export matters.

Section 4.23 LIMITATION ON WARRANTIES. EXCEPT AS EXPRESSLY SET FORTH IN THIS ARTICLE IV, THE SELLER MAKES NO REPRESENTATION OR WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, AT LAW OR IN EQUITY, IN RESPECT OF ANY OF THE PURCHASED ASSETS, THE ASSUMED LIABILITIES, THE BUSINESS OR OTHERWISE, OR WITH RESPECT TO ANY INFORMATION PROVIDED TO THE BUYER, INCLUDING WITH RESPECT TO MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR USE OR PURPOSE. ALL OTHER REPRESENTATIONS OR WARRANTIES ARE HEREBY DISCLAIMED. EXCEPT TO THE EXTENT SPECIFICALLY

SET FORTH IN THIS ARTICLE IV, THE SELLER IS SELLING, ASSIGNING AND TRANSFERRING THE PURCHASED ASSETS TO THE BUYER ON AN "AS-IS, WHERE-IS" BASIS.

ARTICLE V REPRESENTATIONS AND WARRANTIES OF BUYER

The Buyer represents and warrants as of the date hereof to the Seller as follows:

Section 5.1 Organization. The Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Washington. The Buyer is duly qualified or licensed to do business as a foreign corporation and is in good standing in each jurisdiction where such qualification or license is required, except where the failure to so qualify or be so licensed would not, individually or in the aggregate, reasonably be expected to materially and adversely affect the Buyer's ability to consummate the transactions contemplated by, and discharge its obligations under, this Agreement and the Ancillary Documents to which it is a party (a "Buyer Material Adverse Effect"). The Buyer has all requisite power and authority to carry on its business as currently conducted.

The Buyer Guarantor is a corporation duly organized, validly existing and in good standing under the laws of the State of New York.

Section 5.2 Authorization of Transaction. The Buyer has all requisite corporate power and authority to execute and deliver this Agreement and each of the Ancillary Documents to which it is a party, and to perform its obligations hereunder and thereunder. This Agreement constitutes, and each of the Ancillary Documents when executed and delivered by the Buyer constitutes, a valid and legally binding obligation of the Buyer (assuming that this Agreement and such Ancillary Documents will constitute valid and legally binding obligations of the other parties thereto), enforceable in accordance with its terms and conditions, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar Laws of general applicability relating to or affecting creditors' rights or by general equity principles, including principles of commercial reasonableness, good faith and fair dealing.

The Buyer Guarantor has all requisite corporate power and authority to execute, deliver and perform the Guarantee (the "Buyer Guarantee") attached to, and made a part of, this Agreement. The Buyer Guarantee constitutes a valid and legally binding obligation of the Buyer Guarantor, enforceable in accordance with its terms and conditions, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar Laws of general applicability relating to or affecting creditors' rights, or by general equity principles, including principles of commercial reasonableness, good faith and fair dealing.

Section 5.3 Noncontravention; Consents.

(a) The execution, delivery and performance by the Buyer of this Agreement and the Ancillary Documents to which it is a party, the consummation by the Buyer of the transactions contemplated hereby and thereby, and the execution by the Buyer Guarantor of the Buyer Guarantee do not: (i) violate any Law to which the Buyer or the Buyer Guarantor or their assets are subject, (ii) conflict with or result in a breach of any provision of the articles of incorporation

or bylaws of the Buyer or of the Buyer Guarantor, or (iii) create a breach, default, termination, cancellation or acceleration of any obligation under any contract, agreement or binding commitment to which the Buyer or the Buyer Guarantor is a party or by which the Buyer or the Buyer Guarantor or any of their assets or properties are bound or subject, except for any of the foregoing in the case of clauses (i) and (iii), that would not, individually or in the aggregate, reasonably be expected to have a Buyer Material Adverse Effect.

(b) Except for the novation of Government Contracts, no notices, Permits, consents, approvals, authorizations, qualifications or orders of Governmental Entities or third parties are required for the consummation by the Buyer of the transactions contemplated hereby or by the Ancillary Documents, other than such of the foregoing that, if not obtained or made, would not, individually or in the aggregate, reasonably be expected to have a Buyer Material Adverse Effect.

Section 5.4 Litigation. There are no legal, administrative, arbitration or other formal proceedings or governmental investigations pending or, to the Buyer's knowledge, threatened, that question the validity of this Agreement or any of the Ancillary Documents, or any action taken or to be taken by the Buyer in connection with this Agreement or any of the Ancillary Documents, other than such of the foregoing that would not, individually or in the aggregate, reasonably be expected to have a Buyer Material Adverse Effect.

Section 5.5 Brokers' Fees. Except for the fees and disbursements due and owing by the Buyer to Roger Williams and Company, which will be paid in full by the Buyer and will not become a liability or obligation of the Seller, the Buyer has no liability or obligation to pay any fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement.

Section 5.6 LIMITATION ON THE SELLER'S WARRANTIES. THE BUYER HEREBY ACKNOWLEDGES AND AGREES THAT, EXCEPT TO THE EXTENT SPECIFICALLY SET FORTH IN ARTICLE IV, THE SELLER MAKES NO REPRESENTATION OR WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, AT LAW OR IN EQUITY, IN RESPECT OF ANY OF THE PURCHASED ASSETS, THE ASSUMED LIABILITIES, THE BUSINESS OR OTHERWISE, OR WITH RESPECT TO ANY INFORMATION PROVIDED TO THE BUYER, INCLUDING WITH RESPECT TO MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR USE, AND THE BUYER IS PURCHASING THE PURCHASED ASSETS ON AN "AS-IS, WHERE-IS" BASIS.

ARTICLE VI COVENANTS

The Buyer and the Seller agree to the following with respect to the period following the Closing:

Section 6.1 General. In case at any time after the Closing Date any further action is reasonably necessary to carry out the purposes of this Agreement, each of the Parties will take such further actions (including the execution and delivery of such further instruments and documents) as the other Party reasonably may request, at the sole cost and expense of the requesting Party (unless otherwise specified herein).

Section 6.2 Post-Closing Consents; Nonassignable Contracts. Subject to Section 6.3 below:

(a) From and after the date hereof, each of the Parties will use commercially reasonable efforts to obtain any consents, approvals or authorizations of any third parties that are not obtained prior to the Closing Date that are required in connection with the authorization, execution and delivery of this Agreement and the consummation or the transactions contemplated by this Agreement, provided that neither the Seller nor the Buyer will be required to make any expenditures or incur any liability in connection with such activities. The Seller's obligation pursuant to this Section 6.3(a) will extend for a reasonable period of time not to exceed 60 days.

(b) Notwithstanding anything to the contrary, to the extent that any Contract is not capable of being transferred by the Seller to the Buyer pursuant to this Agreement without the consent of a third party, and such consent is not obtained prior to Closing, or if such transfer or attempted transfer would constitute a breach or a violation of the Contract or any Law (each a "Specified Consent"), nothing in this Agreement will constitute a transfer or an attempted transfer thereof.

(c) In the event that any such Specified Consent is not obtained on or prior to the Closing Date, the Seller will use commercially reasonable efforts to (i) provide to the Buyer the benefits of the applicable Contract, at the Buyer's expense, (ii) cooperate in any reasonable and lawful arrangement designed to provide such benefits to the Buyer, and (iii) enforce at the request and expense of the Buyer and for the account of the Buyer, any rights of the Seller arising from any such Contract; provided that the Seller will not be required to make any expenditures or incur any liability in connection with any such activities described in clauses (i) through (iii) above.

(d) To the extent that the Buyer is provided the benefits of any Contract referred to in Section 6.2(c), the Buyer will perform the obligations arising under such Contract for the benefit of the Seller and the other party or parties thereto, except for any obligation under such Contract that constitutes an Excluded Liability.

(e) Once a Specified Consent is obtained, (i) the applicable Contract will be deemed to have been automatically transferred to the Buyer on the terms set forth in this Agreement, (ii) the obligations pursuant to the applicable Contract will be deemed to be Assumed Liabilities, and (iii) the rights pursuant to the applicable Contract will be deemed to be a Purchased Asset.

(f) The Buyer agrees that the Seller will not have any liability whatsoever to the Buyer arising out of or relating to the failure to obtain any consents that may have been or may be required in connection with the transactions contemplated by this Agreement or because of the default, acceleration or termination of any Contract as a result thereof. Notwithstanding anything to the contrary contained herein, the Buyer further agrees that no representation, warranty, covenant or agreement of the Seller contained herein will be breached or deemed breached, and no condition of the Buyer will be deemed not to be satisfied, as a result, directly or indirectly, of the failure to obtain any consent.

Section 6.3 Novation of Government Contracts. Notwithstanding Section 6.2 above:

(a) Following the Closing, the Buyer will, in accordance with, and to the extent required by, the Federal Acquisition Regulation Part 42, Subpart 42.12, promptly submit in writing to each responsible contracting officer a request of the U.S. Government or Governmental Entity, as the case may be, to (i) recognize the Buyer as the successor in interest to all of the Government Contracts and (ii) if required enter into a novation agreement (the "Novation Agreement") in substantially the form contemplated by such regulations. The Buyer and the Seller will each use commercially reasonable efforts to promptly obtain all consents, approvals and waivers required for the purpose of processing, entering into and completing the Novation Agreement with regard to the Government Contracts, including responding to requests for information by the U.S. Government with regard to such Novation Agreement. The Seller and the Buyer will each use commercially reasonable efforts to provide all reasonable information and take all other actions reasonably necessary to execute and consummate such Novation Agreement.

(b) In the event that the U.S. Government declines to enter into a Novation Agreement in accordance with, and to the extent required by, Federal Acquisition Regulation, Part 42, Subpart 42.12 recognizing the transfer of the Government Contracts to the Buyer, or until such time as the U.S. Government recognizes such transfer by entering into a Novation Agreement, nothing in this Agreement will constitute a transfer, assignment, attempted transfer or an attempted assignment thereof.

(c) Until such time as the U.S. Government recognizes the transfer of the rights and obligations under a Government Contract to the Buyer, in accordance with, and to the extent required by, the Federal Acquisition Regulation Part 42, Subpart 42.12, the Seller hereby subcontracts with the Buyer to perform for and in the place of the Seller any and all operations and provide any and all goods equipment, services and other performance obligations under the Government Contracts as of the Closing Date, pursuant to each of their respective terms and conditions, including any and all amendments, options, modifications, purchase orders issued thereunder and such other terms and conditions as may have been duly incorporated in the Government Contracts; provided that the Seller does not subcontract to the Buyer any Government Contract for which novation is not required. The Buyer agrees to perform and discharge each Government Contract in a timely manner and in accordance with Law and with all of the terms of such Government Contract. In the event that the U.S. Government declines to provide any required consent to such subcontract, or that such subcontract would otherwise constitute a violation or breach of the Government Contract or any Law, the Seller will use its commercially reasonable efforts to (i) provide to the Buyer, at the Buyer's expense, the benefits of the applicable Government Contract, (ii) cooperate in any reasonable and lawful arrangement designed to provide such benefits to the Buyer, and (iii) enforce at the request and expense of the Buyer for its account, any rights of the Seller arising from any such Government Contract (including the right to elect to terminate such Government Contract in accordance with the terms thereof upon the request of the Buyer).

Section 6.4 Litigation Support. In the event and for so long as either Party is actively contesting or defending against any third party charge, complaint, action, suit, proceeding, hearing, investigation, claim or demand in connection with any fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act or transaction involving the Business, the other Party will reasonably cooperate with the contesting or defending Party and its counsel in the contest or defense, make available its personnel and provide such testimony and access to its books and records as may be reasonably requested in

connection with the contest or defense, at the sole cost and expense of the contesting or defending Party (unless such contesting or defending Party is entitled to indemnification therefor under Article IX in which case, the costs and expense will be borne by the Parties as set forth in Article IX).

Section 6.5 Pro-rations. The Parties agree that any Apportioned Obligations, and any refund, rebate or similar payment received by the Seller or the Buyer for any Taxes that are Apportioned Obligations, will be apportioned between the Seller and the Buyer based upon the number of days in the applicable Straddle Period falling on or before the Closing Date and the number of days in the applicable Straddle Period falling after the Closing Date. The Seller will be responsible for the amount apportioned to days on or before the Closing Date and the Buyer will be responsible for the amount apportioned to days after the Closing Date. The Seller will pay Apportioned Obligations that are due and payable on or prior to the Closing Date, and bill the Buyer for any part of that amount apportioned to the Buyer. The Buyer will pay Apportioned Obligations that are due and payable after the Closing Date and bill the Seller for any part of that amount apportioned to the Seller. Notwithstanding any other provision contained in this Agreement (including the limitations set forth in Sections 9.2 or 9.3), any obligation arising out of this Section 6.5 will not be considered a Loss, subject to any limits of minimum or maximum amounts, measurement of aggregate amount of Losses or any limit of time.

Section 6.6 Agreements Regarding Tax Matters.

(a) The Seller will prepare and timely file all Tax Returns in respect of the Purchased Assets for all Tax periods ending on or prior to the Closing Date. The Buyer will prepare and timely file all other Tax Returns that are required to be filed in respect of the Purchased Assets.

(b) The Seller and the Buyer will provide each other with such assistance and information relating to the Business and the Purchased Assets as may reasonably be requested in connection with the preparation of any Tax Return or the performance of any audit, examination or any other Proceeding by any taxing authority, whether conducted in a judicial or administrative forum, and will each retain and provide to the other party all records and other information which may be relevant to any such Tax Return, audit, examination or any other proceeding. Without limiting the generality of the foregoing, each of the Buyer and the Seller will retain, for six years after the Closing, copies of all Tax Returns, supporting work schedules and other records relating to the Business and the Purchased Assets for taxable periods, or ratable portions of any taxable periods, ending prior to or including the Closing Date.

(c) The Seller will exercise exclusive control over the handling, disposition and settlement of any inquiry, examination, or Proceeding by a Governmental Entity that could result in a determination with respect to Taxes due or payable by the Buyer for which the Seller may be liable or against which the Seller may be required to indemnify the Buyer. The Buyer will notify the Seller or its Affiliates in writing promptly upon learning of any such inquiry, examination or Proceeding. The Buyer will cooperate with the Seller, as the Seller may reasonably request, in any such inquiry, examination or Proceeding. The Buyer will not extend the statute of limitations for any Tax for which the Seller may be required to indemnify the Buyer without the Seller's prior written consent.

(d) If the Buyer receives a refund with respect to Taxes for which the Seller is wholly or partially responsible under Section 2.3(b)(ii) hereof, the Buyer will pay, within 30 days

following the receipt of such Tax refund, the amount of such Tax refund attributable to the Seller. If the Seller receives a refund with respect to Taxes for which the Buyer is wholly or partially responsible under Section 2.3(a)(vi) hereof, the Seller will pay, within 30 days following the receipt of such Tax refund, the amount of such Tax refund attributable to the Buyer.

(e) Neither Party will agree to settle any Tax liability or compromise any claim with respect to Taxes relating to the business of the Business, which settlement or compromise may affect the liability for Taxes hereunder (or right to Tax benefit) of the other Party, without the other Party's consent, which consent will not be unreasonably withheld or delayed.

(f) The Buyer will pay all Taxes that are required to be paid in respect of any transfer, sales, use, recording, value-added or similar Taxes that may be imposed by reason of the sale, assignment, transfer and delivery of the Purchased Assets. The Buyer will timely file all Tax Returns required to be filed in connection with the payment of such Taxes.

(g) The Buyer and the Seller acknowledge and agree that the Buyer constitutes a "successor employer" within the meaning of Code Section 3121(a)(1) and Code Section 3306(b)(1) and the regulations thereunder. Accordingly, the Buyer agrees to treat all wages paid to the Employees as paid by a successor employer for all federal and state income tax and employment Tax purposes.

Section 6.7 Records and Documents. Without limiting the effect of Section 6.6(a), the Parties will preserve and keep all books and records relating to the Business or the Purchased Assets for a period of six years following the Closing Date. After such six-year period, a Party will provide at least 60 days prior written notice to the other Party of its intent to dispose of any such books and records, and such other Party will be given the opportunity, at its cost and expense, to remove and retain all or any part of such books and records as it may select. During such six-year period, duly authorized representatives of a Party will, upon reasonable notice, have reasonable access during normal business hours to examine, inspect and copy such books and records held by the other Party.

Section 6.8 Intellectual Property; Use of Excluded Names.

(a) From and after the Closing, in the event the Seller discovers that it or any of its Affiliates used at any time prior to Closing any item of Intellectual Property which was transferred with the Purchased Assets to Buyer in connection with the transactions contemplated by this Agreement and the Ancillary Documents, and the use of such item of Intellectual Property was inadvertently or mistakenly not licensed back to the Seller or such Affiliate(s) in connection therewith, the Buyer will cooperate with the Seller or such Affiliate(s) to execute and deliver an unrestricted, perpetual, royalty-free sublicensable license sufficient to provide the Seller or such Affiliate(s) with the unrestricted right to use each such item of Intellectual Property subject to the restrictions contained in Section 6.9.

(b) Except as otherwise expressly provided in this Section 6.8, no interest in or right to use the Excluded Names is being assigned, transferred or otherwise conveyed to the Buyer pursuant to this Agreement. As promptly as practicable following the Closing, but in no event later than 60 days after the Closing Date, the Buyer will stop using the Excluded Names in any form including by removing, permanently obliterating or covering all Excluded Names that

appear on any Purchased Asset or Assumed Liability, including all signs, promotional or advertising literature, labels, stationery, business cards, office forms and packaging materials. Without limiting the foregoing, in no event will the Buyer use or display any Excluded Name in any way (i) other than in the same manner used by the Business immediately prior to the Closing Date, (ii) in connection with products or services not conforming to the same standard of quality that existed prior to the Closing Date, or (iii) that could detract from or impair the goodwill associated with such Excluded Names. Neither the Buyer nor any of its Affiliates will use any Excluded Name, trademark, service mark, brand name, certification mark, trade name, corporate name, domain name or other indication of source or origin that is likely to cause confusion with any of the Excluded Names or be associated with the Seller or any of its Affiliates after the Closing Date, except as expressly permitted pursuant to this Section 6.8.

Section 6.9 Non-Competition; Non-Solicitation.

(a) The Seller agrees that, for a period commencing on the Closing Date and terminating two (2) years after the Closing Date, it will not directly, or indirectly through any of its Affiliates, engage in any Competing Business anywhere in the United States. For purposes of this Agreement, "Competing Business" means the business of the Business as conducted by the Seller immediately prior to the Closing Date.

(b) Notwithstanding the provisions of Section 6.9(a), (i) no Affiliate of the Seller will be prohibited from engaging in any business currently conducted or proposed to be conducted by such Affiliate or any natural extensions thereof, (ii) the acquisition (by asset purchase, stock purchase, merger, consolidation or otherwise) by the Seller or any of its Affiliates of the stock, business or assets of any Person that at the time of such acquisition is engaged in the Competing Business, and the continuation of such Competing Business following such acquisition, will not be prohibited hereunder if the portion of the revenues of such Person and its subsidiaries on a consolidated basis for the fiscal year ending prior to the date of such acquisition that are attributable to the Competing Business by such Person and its subsidiaries account for less than thirty-five percent (35%) of the revenues of such Person and its subsidiaries on a consolidated basis for such fiscal year and (iii) the acquisition of the stock, business or assets of the Seller and/or any of its Affiliates (by asset purchase, stock purchase, merger, consolidation or otherwise) by any Person who is not a current Affiliate of the Seller will not be prohibited hereunder.

(c) Nothing in this Section 6.9 will restrict or prevent the Seller or any of its Affiliates from maintaining or undertaking passive investments in any Person primarily engaged in the Competing Business so long as the aggregate interest represented by such investments does not exceed five percent (5%) of any class of the outstanding debt or equity securities of any such Person.

(d) For a period commencing on the Closing Date and terminating two years after the Closing Date, neither Party nor any of their Affiliates will, directly or indirectly, solicit, hire (or assist or encourage any other Person to solicit or hire) or otherwise interfere with the employment relationship of any Person who is employed by the other Party as of the date of this Agreement or engaged by such Party during the operation of this provision. For the avoidance of doubt, an employee will not be deemed to have been solicited for employment solely as a result of a general public advertisement or other such general solicitation of employment.

Section 6.10 Remittance of Receivables. After the Closing Date, any payment received by the Seller in respect of the Receivables shall be remitted to the Buyer as soon as reasonably practicable after the Seller's receipt of such payment.

ARTICLE VII EMPLOYEE MATTERS

Section 7.1 Employment. The Buyer will offer to employ each of the employees of the Business listed on Schedule 7.1 immediately prior to the Closing Date (the "Employees"), in the same or substantially comparable position with the Buyer as provided by the Seller as of the Closing Date. For a period ending no earlier December 31, 2005, such Employees accepting the offer of employment with the Buyer will receive substantially comparable aggregate compensation while they remain employees of the Buyer. Notwithstanding the foregoing, nothing in this Agreement will, after the Closing Date, impose on the Buyer any obligation to retain any Employee in its employment.

Section 7.2 Employee Benefit Matters.

(a) As of the Closing Date, the Employees will cease participation in all Seller Employee Benefit Plans and fringe benefit programs. Effective as of the Closing Date and continuing for a period ending no earlier than December 31, 2005, the Buyer will provide to the Employees through Employee Benefit Plans provided by the Buyer to its employees (collectively, "Buyer Employee Benefit Plans") and fringe benefit programs (including, as applicable, sick pay, incentive compensation or bonus programs, vacation pay and tuition reimbursement programs), employee benefits which are, in the aggregate, substantially comparable to the employee benefits provided to the Employees under Seller Employee Benefit Plans and fringe benefit programs as of the Closing Date.

(b) In accordance with Treasury Regulation Section 54.4980B-9 Q&A-7, as of the Closing Date, the Buyer will assume all liability for providing and administering all required notices and benefits under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA") to all Employees of the Business. The Seller will have no COBRA liability or obligations to such Employees after the Closing Date. In addition to the foregoing, the Buyer will assume all accrued vacation liabilities for paid time off, short-term disability and other vacation and sick leave of the Employees as of the Closing Date.

(c) Effective as of the Closing Date and continuing for a period ending no earlier than December 31, 2005, the Buyer will provide each Employee with severance benefits that are substantially comparable to the severance benefits provided to each such Employee as of the Closing Date.

(d) Solely for purposes of eligibility and vesting under the Buyer Employee Benefit Plans and any severance plan or policy of the Buyer, the Buyer will cause each Employee to be credited with his or her years of service with the Seller (and any of its Affiliates or any predecessor entities thereof) before the Closing Date, to the same extent as such Employee was entitled, as of the Closing Date, to credit for such service under any similar Seller Employee Benefit Plan or severance plan or policy of the Seller.

(e) The Buyer will provide post-retirement medical and life insurance benefits with respect to all Employees of the Business and their eligible dependents and will be responsible for all liabilities with respect to such benefits whether accrued before, on or after the Closing Date. As of the Closing Date and continuing for a period ending no earlier than December 31, 2005, the Buyer will continue such post-retirement and life insurance benefits at the benefit levels in effect on the Closing Date.

(f) Following the Closing Date, the Buyer will (i) waive any pre-existing condition limitation under any Employee Welfare Benefit Plan maintained by the Buyer in which Employees and their eligible dependents participate and (ii) provide each Employee with credit for any co-payments and deductibles incurred by any of them prior to the Closing Date in order to satisfy any applicable deductible or out-of-pocket requirements under any Employee Welfare Benefit Plans in which any of the Employees participate after the Closing Date.

(g) As of the Closing Date and subject to Revenue Ruling 2002-32, the Seller will cause the portion of its flexible reimbursement plan applicable to the Employees to be segregated into a separate component and all account balances and salary reduction elections of such Employees in the Seller's flexible reimbursement plan will be transferred to a flexible reimbursement plan that the Buyer will cause to be maintained for the duration of the calendar year in which the Closing Date occurs.

Section 7.3 Defined Contribution Plans. As of the Closing Date, with respect to any Employee Pension Benefit Plan that is a defined contribution plan intended to be qualified under Section 401(a) of the Code and is maintained by or for the benefit of any of the Employees, the Employees will cease to participate in such defined contribution plan. Within 60 days of the Closing Date, each Employee will be permitted to elect a distribution of his or her account balance in the Seller's defined contribution plan and will be permitted to roll over his or her account balances in the Seller's defined contribution plan (or any portion thereof) to the Buyer's defined contribution plan, including the ability to rollover any existing loans under such Seller plan for 90 days after the Closing Date.

Section 7.4 Compliance with WARN. With respect to the Employees, the Buyer will have full responsibility under the Worker Adjustment and Retraining Notification Act of 1988, as amended, and any other similar statutes or regulations of any jurisdiction relating to any plant closing or mass layoff. For these purposes, a plant closing or a mass layoff will be deemed to have been caused by the Buyer if such plant closing or mass layoff would not have occurred but for the Buyer's failure to employ the Employees in accordance with the terms of this Agreement and/or the Buyer's failure to employ Employees thereafter.

ARTICLE VIII CLOSING DELIVERIES

Section 8.1 Closing Deliveries of the Seller. At the Closing the Seller will deliver to the Buyer:

(a) a duly executed counterpart of the bill of sale and assignment and assumption agreement in substantially the form attached as Exhibit A (the "Bill of Sale and Assignment and Assumption Agreement");

(b) a duly executed counterpart of the assignment of patents in substantially the form attached as Exhibit B (the "Assignment of Patents");

(c) a duly executed counterpart of the assignment of trademarks in substantially the form attached as Exhibit C (the "Assignment of Trademarks");

(d) a duly executed counterpart of the assignment of lease for each of the real property leases identified in Schedule 4.11 in substantially the form attached as Exhibit D (the "Assignment and Assumption of Leases");

(e) a duly executed counterpart of the transition services agreement in substantially the form attached as Exhibit E (the "Transition Services Agreement");

(f) a duly executed counterpart of the associate contractor agreement in substantially the form attached as Exhibit F (the "Associate Contractor Agreement").

(g) a certificate of good standing of the Seller from the Secretary of State of the State of Washington dated no earlier than ten (10) days prior to the Closing Date;

(h) a certificate executed as of the Closing Date by an executive officer of the Seller certifying that attached thereto are true and correct copies of action by written consent or resolutions duly adopted by the Seller's Board of Directors and sole shareholder authorizing and approving the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby;

(i) a duly executed counterpart of the side letter agreement relating to indemnification for certain liabilities (the "Letter Agreement");

(j) such other instruments of sale, transfer, conveyance and assignment as the Buyer and its counsel may reasonably request to vest in the Buyer all of the Seller's right, title and interest in and to the Purchased Assets; and

(k) all certificates, instruments and other documents required to effect the transactions contemplated hereby will be reasonably satisfactory in form and substance to the Buyer.

Section 8.2 Closing Deliveries of the Buyer. At the Closing the Buyer will deliver to the Seller:

(a) the Purchase Price in cash by wire transfer of immediately available funds to the account or accounts designated by the Seller;

(b) a duly executed counterpart of the Bill of Sale and Assignment and Assumption Agreement and such other instruments of assumption as the Seller and its counsel may reasonably request;

(c) a duly executed counterpart of the Assignment of Patents;

(d) a duly executed counterpart of the Assignment of Trademarks;

(e) duly executed counterparts of each Assignment and Assumption of Leases;

(f) a duly executed counterpart of the Transition Services Agreement;

(g) a duly executed counterpart of the Associate Contractor Agreement.

(h) a certificate of good standing of the Buyer from the Secretary of State of the State of Washington dated as of a date not earlier than ten (10) days prior to Closing;

(i) a certificate, dated as of the Closing Date, signed by the Secretary of the Buyer certifying that attached thereto are true and correct copies of action by written consent or resolutions duly adopted by the Board of Directors and shareholders of the Buyer that authorize and approve the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby;

(j) a duly executed counterpart of the Letter Agreement; and

(k) all certificates, instruments and other documents required to effect the transactions contemplated hereby will be reasonably satisfactory in form and substance to the Seller.

ARTICLE IX REMEDIES

Section 9.1 Survival. The representations and warranties of the Parties contained in this Agreement and in the Ancillary Documents will survive until the first anniversary of the Closing Date except that the representations and warranties (a) set forth in Section 4.16 and in the first sentence of Section 4.10 will survive until the third anniversary of the Closing Date, (b) set forth in Section 4.7 will survive until the expiration of the applicable statute of limitations, and (c) set forth in Section 4.2 and Section 5.2 will survive the Closing Date indefinitely. The covenants or agreements of the Parties contained in this Agreement and the Ancillary Documents will survive the Closing indefinitely, except that those covenants and agreements which by their terms are to be performed or observed for shorter periods will survive until the expiration of such shorter period. Notwithstanding anything to the contrary, no claim may be made with respect to any representations or warranties under this Agreement or any Ancillary Document after the expiration of the applicable survival period set forth in this Section 9.1.

Section 9.2 Indemnification by the Seller.

(a) Subject to the terms and conditions of this Article IX, the Seller agrees to reimburse, indemnify and hold harmless the Buyer, its directors, officers, employees, agents, representatives and its present and future Affiliates (each, a "Buyer Indemnified Party") from, against and in respect of any and all Losses incurred by a Buyer Indemnified Party resulting from, or that exist or arise due to, any of the following (collectively, "Buyer Claims"):

(i) prior to their expiration in accordance with Section 9.1, any inaccuracy of any representation or the breach of any warranty made by the Seller in this Agreement or contained in any Ancillary Document;

(ii) the non-fulfillment of any covenant or agreement of the Seller pursuant to this Agreement or any Ancillary Document (other than with respect to the Excluded Liabilities); and

(iii) any of the Excluded Liabilities.

(b) Notwithstanding Section 9.2(a), the obligations of the Seller pursuant to Section 9.2(a)(i) will: (i) not apply to any Buyer Claims until, and then only to the extent that, the aggregate amount of all Losses incurred by all Buyer Indemnified Parties exceeds \$130,000 (the "Basket Amount"); and (ii) be limited to, and will not exceed, the aggregate amount of \$2,500,000 (the "Ceiling Amount").

Section 9.3 Indemnification by the Buyer.

(a) Subject to the terms and conditions of this Article IX, the Buyer agrees to reimburse, indemnify and hold harmless the Seller, its directors, officers, employees, agents, representatives and its present and future Affiliates (collectively, the "Seller Indemnified Parties") from, against and in respect of any and all Losses incurred by a Seller Indemnified Party resulting from, or that exist or arise due to, any of the following (collectively "Seller Claims," and together with Buyer Claims, the "Claims"):

(i) prior to their expiration in accordance with Section 9.1, any inaccuracy of any representation or the breach of any warranty made by the Buyer in this Agreement or in any Ancillary Document;

(ii) the non-fulfillment of any covenant or agreement of the Buyer pursuant to this Agreement or any Ancillary Document (other than with respect to the Assumed Liabilities); and

(iii) any of the Assumed Liabilities.

(b) Notwithstanding Section 9.3(a), the obligations of the Buyer pursuant to Section 9.3(a)(i) will: (i) not apply to any Seller Claims until, and then only to the extent that, the aggregate amount of all Losses incurred by all Seller Indemnified Parties exceeds the Basket Amount; and (ii) be limited to, and will not exceed, the Ceiling Amount.

Section 9.4 Procedures for Indemnification.

(a) No party hereto will be liable for any Claim for indemnification under this Article IX unless written notice of a Claim for indemnification is delivered by the party seeking indemnification (the "Indemnified Party") to the Party from whom indemnification is sought (the "Indemnifying Party") prior to the expiration of the applicable survival period, if any, set forth in Section 9.1. If any third party notifies the Indemnified Party with respect to any matter which may give rise to a Claim for indemnification (a "Third Party Claim") against the Indemnifying Party under this Article IX, then the Indemnified Party will notify the Indemnifying Party promptly thereof in writing and in any event within 15 days after receiving notice from a third party; provided that no delay on the part of the Indemnified Party in notifying the Indemnifying Party will relieve the Indemnifying Party from any obligation hereunder unless the Indemnifying Party is prejudiced thereby. All notices given pursuant to this Section 9.4 will describe with

reasonable specificity the Third Party Claim and the basis of the Indemnified Party's Claim for indemnification. Once the Indemnified Party has given notice of the Third Party Claim to the Indemnifying Party, the Indemnifying Party will be entitled to participate therein and, to the extent desired, to assume the defense thereof with counsel of its choice, provided, however, the Indemnified Party may participate (but not control) such defense and after notice of its election to assume the defense thereof, the Indemnifying Party will not be liable to the Indemnified Party for any legal or other expenses subsequently incurred by the Indemnified Party in connection with the defense of the Third Party Claim, other than reasonable costs of investigation, unless the Indemnifying Party does not actually assume the defense thereof following notice of such election. If the Indemnifying Party does not assume the defense of such Third Party Claim, the Indemnified Party will have the right to undertake the defense of such Third Party Claim, by counsel or other representatives of its own choosing, on behalf of and for the account and risk of the Indemnifying Party (subject to the limitations on the Indemnifying Party's obligations to indemnify otherwise set forth in this Article IX and to the right of the Indemnifying Party to assume the defense of or opposition to such Third Party Claim at any time prior to settlement, compromise or final determination thereof).

(b) Neither the Indemnified Party nor the Indemnifying Party will consent to the entry or any judgment or enter into any settlement of any Third Party Claim that might give rise to liability of the other Party under this Article IX without such Party's consent, which will not be unreasonably withheld or delayed. If the Indemnifying Party elects to settle any such Third Party Claim, and the Indemnified Party refuses to consent to such compromise or settlement, then the liability of the Indemnifying Party to the Indemnified Party will be limited to the amount offered by the Indemnifying Party in compromise or settlement.

Section 9.5 Certain Limitations.

(a) An Indemnifying Party will not be liable under this Article IX in respect of a Claim for incidental, special, punitive or consequential damages of any kind, including consequential damages resulting from business interruption or lost profits.

(b) The obligations of the Indemnifying Party to provide indemnification under this Article IX will be terminated, modified or abated as appropriate to the extent that the underlying Claim is based, in whole or in part, on the negligence, bad faith or willful misconduct of the Indemnified Party occurring after the Closing Date.

Section 9.6 Certain Benefits. The amount of any indemnification payable under this Article IX will be net of (a) any Tax benefits that the Indemnified Party receives or is entitled to by reason of the Claim giving rise to the indemnification payment and (b) the receipt of any insurance proceeds paid or payable to the Indemnified Party under any policies of insurance covering the Loss giving rise to the Claim. The Indemnified Party will use commercially reasonable efforts to collect any such insurance and will account to the Indemnifying Party therefor. If, at any time subsequent to the Indemnified Party receiving an indemnity payment for a Claim under this Article IX, the Indemnified Party receives payment in respect of the Loss underlying such Claim through recovery, settlement or otherwise under or pursuant to any insurance coverage, or pursuant to any claim, recovery, settlement or payment by or against another Person, the amount of such payment, less any costs, expenses or premiums incurred directly in connection therewith, will promptly be repaid by the Indemnified Party to the Indemnifying Party.

Section 10.2 Expenses; No Offset. Except as expressly provided in this Agreement, each of the Buyer and the Seller, and their respective Affiliates, will bear its own costs and expenses (including legal, accounting and investment banking fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby, whether or not such transactions are consummated. Neither Party may make any offset against amounts due to the other Party pursuant to this Agreement, the Ancillary Documents or otherwise.

Section 10.3 Disclosure Schedules. The representations and warranties of the Seller set forth in this Agreement are made and given subject to the disclosures contained in the Disclosure Schedules. The Seller will not be, nor will it be deemed to be, in breach of any such representations and warranties (and no claim will lie in respect thereof) in respect of any such matter so disclosed in the Disclosure Schedules. Where only brief particulars of a matter are set out or referred to in the Disclosure Schedules, or a reference is made only to a particular part of a disclosed document, full particulars of the matter and the full contents of the document are deemed to be disclosed. Inclusion of information in the Disclosure Schedules will not be construed as an admission that such information is material to the business, operations or condition (financial or otherwise) of the Business or the Purchased Assets, taken as a whole. The specific disclosures set forth in the Disclosure Schedules have been organized to correspond to section references in this Agreement to which the disclosure may be most likely to relate, together with appropriate cross references when disclosure is applicable to other sections of this Agreement; provided, however, that any disclosure in the Disclosure Schedules will apply to and will be deemed to be disclosed for the purposes of this Agreement generally. In the event that there is any inconsistency between this Agreement and matters disclosed in the Disclosure Schedules, information contained in the Disclosure Schedules will prevail and will be deemed to be the relevant disclosure.

Section 10.4 Bulk Sales or Transfer Laws. The Buyer waives compliance by the Seller with the provisions of any bulk sales laws that may be applicable to the transactions contemplated by this Agreement.

Section 10.5 Assignment; Successors and Assigns. Neither this Agreement nor any of the rights, interests or obligations provided by this Agreement may be assigned by either Party (whether by operation of Law or otherwise) without the prior written consent of the other Party; provided, that either Party may assign their rights, interests and obligations hereunder to any direct or indirect wholly owned subsidiary; provided, further, that if either Party makes any assignment referred to above, such Party will remain liable under this Agreement. Subject to the preceding sentence and except as otherwise expressly provided herein, this Agreement will be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns.

Section 10.6 Amendment; Waiver. This Agreement may be amended by a written instrument executed and delivered by the Seller and the Buyer. No agreement extending or waiving any provision of this Agreement will be valid or binding unless it is in writing and is executed and delivered by or on behalf of the Party against which it is sought to be enforced.

Section 10.7 Severability; Specific Performance. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable Law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable Law, such provision will be ineffective only to the extent of such prohibition or

invalidity, without invalidating the remainder of this Agreement. Each Party acknowledges and agrees that the other Party may be irreparably damaged if any provision of this Agreement is not performed in accordance with its terms or otherwise is breached. Accordingly, each Party agrees that the other Party may be entitled, subject to a determination by a court of competent jurisdiction, to injunctive relief to prevent any such failure of performance or breach and to enforce specifically this Agreement and any of the terms and provisions hereof.

Section 10.8 Counterparts. This Agreement may be executed in two or more counterparts, each of which will be deemed an original, but all such counterparts taken together will constitute one and the same Agreement.

Section 10.9 Descriptive Headings. The descriptive headings of this Agreement are inserted for convenience only and will not constitute a part of this Agreement.

Section 10.10 No Third-Party Beneficiaries. This Agreement will not confer any rights or remedies upon any Person or entity other than the Parties hereto, their respective successors and permitted assigns and the Buyer Indemnified Parties and the Seller Indemnified Parties under Article IX.

Section 10.11 Entire Agreement. This Agreement and the Ancillary Documents collectively constitute the entire agreement among the Parties and supersede any prior and contemporaneous understandings, agreements or representations by or among the parties, written or oral, that may have related in any way to the subject matter hereof.

Section 10.12 Exhibits and Schedules. The Exhibits and Disclosure Schedules attached to this Agreement are made a part of this Agreement as if set forth fully herein.

Section 10.13 Governing Law. THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ANY LAW OR RULE THAT WOULD CAUSE THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF NEW YORK TO BE APPLIED.

Section 10.14 Independence of Warranties and Representations. All representations and warranties hereunder shall be given independent effect so that if a particular representation or warranty proves to be incorrect or is breached, the fact that another representation or warranty concerning the same or similar subject matter is correct or is not breached will not affect the incorrectness or a breach of such initial representation or warranty.

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IN WITNESS WHEREOF, the Parties hereto have duly executed and delivered this Agreement on the date first written above.

GENERAL DYNAMICS OTS
(AEROSPACE), INC.

By: /s/ David A. Savner

David A. Savner
Vice President

ASTRONICS ACQUISITION CORP.

By: /s/ Peter J. Gundermann

Name: Peter J. Gundermann
Title: President and CEO

GUARANTEE

The undersigned, ("Seller Guarantor"), as an inducement to the Buyer to enter into and perform this Agreement, hereby unconditionally and irrevocably guarantees the timely performance and/or timely payment, as the case may be (as, when and to the extent due), of all covenants and obligations of the Seller under or by virtue of this Agreement. The obligations of Seller Guarantor under this Guarantee are independent of the covenants and obligations of the Seller under this Agreement and a separate action or actions may be brought and prosecuted against Seller Guarantor to enforce this Guarantee. The undersigned hereby confirms the representations by the Seller in Sections 4.1, 4.2 and 4.3 of this Agreement only as they relate to the Seller Guarantor.

Dated: February 3, 2005

GENERAL DYNAMICS ORDNANCE AND
TACTICAL SYSTEMS, Inc., a Virginia corporation

By: /s/ David A. Savner

David A. Savner
Vice President

GUARANTEE

The undersigned, ("Buyer Guarantor"), as an inducement to the Seller to enter into and perform this Agreement, hereby unconditionally and irrevocably guarantees the timely performance and/or timely payment, as the case may be (as, when and to the extent due), of all covenants and obligations of the Buyer under or by virtue of this Agreement. The obligations of Buyer Guarantor under this Guarantee are independent of the covenants and obligations of the Buyer under this Agreement and a separate action or actions may be brought and prosecuted against Buyer Guarantor to enforce this Guarantee. The undersigned hereby confirms the representations by the Buyer in Sections 5.1, 5.2 and 5.3 of this Agreement only as they relate to the Buyer Guarantor.

Dated: 3 Feb _____, 2005

ASTRONICS CORPORATION, a New York
corporation

By /s/ Peter J. Gundermann _____

Name: Peter J. Gundermann

Title: President and CEO

**ASTRONICS CORPORATION
2005 DIRECTOR STOCK OPTION PLAN**

ARTICLE I

PURPOSE

The purpose of this 2005 Director Stock Option Plan (the "Plan") is to advance the interest of ASTRONICS CORPORATION, a New York corporation (the "Company"), by encouraging the efforts of directors of the Company who are not employees, by heightening the desire of such persons to continue in their service and by assisting the Company to compete effectively with other enterprises for new directors.

ARTICLE II

GRANTING OF OPTIONS

Subject to the terms and conditions of this Plan, the Company may issue options ("Options") to purchase up to two hundred thousand (200,000) shares of its \$.01 par value Common Stock ("Shares") to persons eligible to participate under Section 4.1 below. Two hundred thousand (200,000) of the Company's authorized but unissued shares of Common Stock are hereby reserved for issuance under this Plan; provided, however, that treasury shares shall also be available for issuance under this Plan at the Company's discretion. Any Share subject to an Option that terminates for any reason other than exercise may be made subject to a subsequent Option.

ARTICLE III

TERM

3.1 Effective Date.

This plan shall become effective upon its adoption by the Board of Directors. The Plan shall be submitted to the shareholders of the Company for their approval within twelve months of such adoption. No Option shall be exercisable unless and until the shareholders of the Company have approved the Plan.

3.2 Termination.

This Plan shall terminate when all of the Shares have been acquired through exercise of Options unless sooner terminated by the Board of Directors. Any Option outstanding under this Plan at the time of its termination shall remain in effect in accordance with its terms and conditions and those of this Plan.

ARTICLE IV

PARTICIPANTS

4.1 Eligible Directors.

Options may be granted to directors of the Company unless at the time of grant they are also an executive officer or employee of the Company or any of its subsidiary corporations. As used in this Plan, "Participant" means a director of the Company and includes a director's legal representative if he or she is incompetent or deceased, or any other person who acquires the legal right to exercise a Participant's Options.

ARTICLE V

GENERAL TERMS

5.1 Written Agreement.

Options shall be evidenced by a written Option Agreement that shall contain such terms and conditions as this Plan requires and such additional provisions as the Committee, as defined in Section 6.1, may deem necessary or appropriate in its sole discretion and that do not conflict with the provisions of this Plan. Each Option Agreement shall be signed by the Participant and an officer of the Company designated by the Committee. Options granted pursuant to this Plan need not be identical, but each Option shall be subject to the terms and conditions set forth in this Plan.

5.2 Time of Grant.

Options shall be granted only during the thirty (30) day period commencing one week after a press release announcing quarterly or annual results of operations of the Company.

5.3 Price.

The purchase price of the Shares under each Option shall be as determined by the Committee, but in no event less than the fair market value of the Shares optioned on the date of granting. "Fair market value" shall be deemed to be:

1. The closing price on the date of grant as reflected in reports of the automated quotation service or national securities exchange on which the price of the Shares is reported.

In all cases where the Shares are selling ex-dividend on the date of grant, the amount of the dividend shall be added to the ex-dividend quotation to determine the fair market value of the Shares as of the date of grant; or

2. If the fair market value cannot be established under the provisions of (1) above, then the "fair market value" shall be that value determined in good faith by the Board of Directors based on a consideration of the following relevant factors: the Company's net worth, prospective earning power, its dividend paying capacity, the value of its underlying assets, and any other factors such as the goodwill of the business, the economic outlook in the industry, the Company's position in the industry and its management, and the value of securities of corporation engaged in the same or similar businesses which are listed on a national securities exchange. The weight to be accorded by comparison or any other evidentiary factors considered by the Board of Directors in the determination of value will depend on the particular circumstances applying at the time. In every case, the determination of the Board of Directors shall be final.

5.4 Payment of Exercise Price; Taxes.

5.4.1 The exercise price of each Option shall be paid in full at the time of exercise by cash or certified check or the exchange of Shares, or a combination of both such that the sum of (a) the aggregate fair market value (as of the exercise date) of the Shares exchanged by the Participant (as determined by the Committee), and (b) the cash paid, equals the total exercise price of the Option.

5.4.2 If the exercise of an Option gives rise to an obligation of the Company to withhold state or federal income or other taxes, or gives rise to any other tax liability of the Company of any kind, the Participant shall tender the amount of such tax to the Company along with the exercise price, unless the incidence of such tax cannot lawfully be placed on the Participant.

5.5 Exercise of Options.

Options shall be exercisable as provided in the Option Agreement. Except as provided in Section 5.6, in no event shall Options be exercised during the six (6) month period immediately following such grant.

5.6 Duration of Option.

Each Option shall be exercisable for so long as the Participant is a director of the Company and, to the extent that the Option is exercisable on the date of termination of the Participant's directorship, for thirty (30) days thereafter, but not longer than ten (10) years from the date the Option is granted. Unless otherwise expressly provided for by the Committee, on the date of termination of a Participant's directorship, Options granted but not yet exercisable shall thereupon become exercisable. Nothing in this Plan requires Options to be exercisable upon grant.

5.7 Death or Disability.

If a Participant dies or is "permanently and totally disabled" (within the meaning of section 22(e)(3) of the Internal Revenue Code of 1986, as amended ("Code")) while serving as a director of the Company, the thirty (30) day period specified in Section 5.6 above shall be one (1) year.

5.8 Misconduct.

If a Participant is determined by the Committee to have committed an act of embezzlement, fraud, dishonesty, deliberate or repeated disregard for the rules of the Company, unauthorized disclosure of any of the trade secrets or confidential information of the Company, unfair competition with the Company, inducement of any customer of the Company to breach a contract with the Company, inducement of any principal for whom the Company acts as agent to terminate that agency relationship or any culpable degree of negligence, then neither the Participant nor the Participant's estate shall be entitled to exercise any Option after termination of the Participant's directorship, whether or not, after termination of such directorship, such Participant may receive payment from the Company for services rendered prior to termination, services for the day on which termination occurs, or other benefits.

5.9 Transferability of Option.

Options shall be transferable only by will or the laws of descent and distribution.

5.10 No Employment Agreement.

No Option Agreement, nor anything contained in this Plan, shall confer upon any Participant any right to continue as a director of the Company nor limit in any way the right of the Company, or the shareholders thereof, to terminate a Participant's directorship at any time.

5.11 Adjustments to Options.

Subject to the general limitations of this Plan, the Committee may modify or extend existing Options. However, without the consent of the Optionee, no modification may impair the Optionee's rights or increase the Optionee's obligations under the Plan. No reductions in the purchase price of shares under Options previously granted may be made except as occasioned by Section 7.1.

5.12 Form of Agreement.

The Committee shall adopt a form of Option Agreement to be used pursuant to this Plan and may modify, add to, or delete from the form as it shall deem appropriate, subject to the provisions set forth herein.

ARTICLE VI

ADMINISTRATION AND AMENDMENT OF THE PLAN

6.1 The Committee.

This Plan shall be administered by a committee ("Committee") of at least two persons not eligible to participate in the Plan and who are appointed by the Board of Directors and may or may not be members of the Board. The Board of Directors shall fill vacancies on the Committee and may from time to time remove members from, or add members to, the Committee, provided that at all times the Committee shall have at least two members. The Committee shall act pursuant to the written consent of a majority of its members or the majority vote of its members at any meeting thereof.

6.2 Committee Rights and Powers.

Subject to this Plan and to the supervision of the Board of Directors, the Committee shall have the authority and discretion:

- (a) to determine which of the Company's directors shall receive Options;
- (b) to determine when Options shall be granted (subject to Section 5.2 above);
- (c) to determine the terms and conditions of Options (which terms and conditions may differ between Options);
- (d) to interpret the Plan; and
- (e) to take such action as is necessary or appropriate to the administration of the Plan.

All decisions, determinations, and interpretations of the Committee shall be final and binding on all Participants (subject to review by the Board of Directors in its sole and absolute discretion).

6.3 Administration.

The Committee from time to time may adopt rules and regulations for implementing this Plan, and it may from time to time suspend or terminate this Plan or make such changes and additions hereto as it may deem desirable, without further action on the part of the Board of Directors or the shareholders of the Company; provided, however, that unless the Company's shareholders shall have first given their approval, then (a) the total number of Shares that may be purchased under the Plan shall not be increased except as otherwise provided in this Plan; (b) the description of the persons eligible to receive Options shall not be changed; and (c) the minimum exercise price shall not be changed. The suspension, termination or amendment of this Plan shall not, without the consent of the Participant, alter or impair any rights or obligations under any Options theretofore granted under this Plan.

ARTICLE VII

ADJUSTMENT OF AND CHANGES IN STOCK

7.1 Changes in Stock; Stock Dividends.

If the Shares presently constituted are changed into or exchanged for a different number or kind of shares of stock or other securities of the Company or of another corporation (whether by reason of merger, consolidation, recapitalization, reclassification, split-up, combination of shares, or otherwise), or if the number of Shares shall be increased through the payment of a stock dividend or other distribution, then notwithstanding any other provision of this Plan, there shall be substituted for or added to each Share subject to this Plan the number and kind of shares of stock or other securities into which each outstanding Share shall be entitled, as the case may be. Outstanding

Options shall also be amended as to price and other terms if necessary to reflect the foregoing events. If there shall be any other change in the number or kind of the outstanding Shares, or of any stock or other securities into which it shall have been exchanged, then if the Committee shall, in its sole discretion, determine that such change equitably requires an adjustment in any Option theretofore granted or that may be granted under this Plan, such adjustment shall be made in accordance with such determination.

7.2 Termination of Business.

Upon any merger of the Company with another corporation where the Company is not the surviving corporation, dissolution or liquidation of the Company, sale of substantially all the property of the Company, or the acquisition of more than 80% of the voting power of the stock of the Company by another corporation, then the Company shall have the right, at its option, to do any of the following:

- (a) provide for the continuance of this Plan and all outstanding Options granted hereunder;
- (b) permit the immediate exercise of all outstanding Options not otherwise immediately exercisable;
- (c) terminate all outstanding Options, whether exercisable or not, by paying each holder an amount equal to the aggregate current market price of Shares underlying the Options held by the holder less the aggregate exercise price of such Shares; or
- (d) terminate this Plan and all Options granted hereunder after giving written notice to all holders of exercisable Options informing them of the Company's intention to terminate the Options and giving the holders a reasonable opportunity to exercise their exercisable Options.

7.3 Fractional Shares.

No right to purchase fractional Shares shall result from any adjustment in Options pursuant to this Article VII. In the case of any such adjustment, the Shares subject to Options of each Participant shall be rounded down to the nearest whole Share. Notice of any adjustment shall be given by the Company to each holder of Options that shall have been so adjusted and such adjustment (whether or not such notice is given) shall be effective and binding for all purposes of the Plan.

ARTICLE VIII

BINDING ON HEIRS, SUCCESSORS AND ASSIGNS

Except as provided in Section 7.2 above, this Plan shall inure to the benefit of, and be binding upon, each successor to the Company. All obligations imposed upon the Participants and all rights granted to the Company under this Plan shall be binding upon each Participant's heirs, legal representatives, and successors. This Plan and the Option Agreements executed between the Company and each Participant shall be the sole and exclusive source of any and all rights that each Participant and his or her heirs, legal representatives, or successors may have in respect to this Plan or any Options or Shares granted hereunder, whether to the Participant or to any other person.

ARTICLE IX

TAX STATUS

Options granted hereunder are not intended to be eligible for favorable tax treatment under Section 422 of the Code. The Company does not hereby, nor by way of any Plan, document, or otherwise, attempt to make any representation to any person, including the Participants, with respect to the tax effect on such person of the grant or exercise of an Option or the subsequent disposition of Shares obtained by the exercise of an Option pursuant to this Plan or any other aspect of this Plan.

ARTICLE X

PLAN GOVERNS

If there is any discrepancy between this Plan and any documents related to this Plan, including any Option Agreement, this Plan shall govern. Nothing contained in this Plan shall be construed to constitute, or be evidence of, any right in favor of any person to receive Options hereunder or any obligation on the part of the Company to issue Options.

EXHIBIT 21

ASTRONICS CORPORATION

SUBSIDIARIES OF THE REGISTRANT

<u>Subsidiary</u>	<u>Ownership Percentage</u>	<u>State (Province), Country of Incorporation</u>
Luminescent Systems, Inc.	100%	New York, USA
Astronics Advanced Electronics Systems Corp.	100%	Washington, USA
Luminescent Systems Canada, Inc.	100%	Quebec, Canada
Astronics Air, LLC	100%	New York, USA
LSI - Europe B.V.B.A.	100%	Brussels, Belgium

EXHIBIT 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-87463) pertaining to the Employee Stock Purchase Plan of Astronics Corporation and the Registration Statement on (Form S-8 No. 33-65141) for the registration of 732,132 shares of Astronics Corporation common stock of our report dated January 28, 2005, (except for Note 12 as to which the date is February 3, 2005 and Note 3 as to which the date is March 18, 2005) with respect to the consolidated financial statements and schedule of Astronics Corporation included in the Annual Report (Form 10-K) for the year ended December 31, 2004.

/s/ Ernst & Young LLP

Buffalo, New York
March 25, 2005

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 Astronics Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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) 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 annual report is being prepared;
 - b. 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
 - c. 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 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, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal controls 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 25, 2005

/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 Astronics Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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) 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 annual report is being prepared;
 - b. 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
 - c. 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 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, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal controls 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 25, 2005

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

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

We, Peter J. Gundermann and David C. Burney, Chief Executive and Chief Financial Officers of Astronics Corporation (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Annual Report on Form 10-K of the Company for the annual period ended December 31, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company

Dated: March 25, 2005

/s/ Peter J. Gundermann

Peter J. Gundermann
Title: Chief Executive Officer

Dated: March 25, 2005

/s/ David C. Burney

David C. Burney
Title: Chief Financial Officer

This certification shall not be deemed "filed" for any purpose, nor shall it be deemed incorporated by reference into any filing, under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, unless such incorporation is expressly referenced therein.