Operator: Greetings, and welcome to the Astronics Corporation's Third Quarter 2016 Financial Results Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Deborah Pawlowski, Investor Relations for Astronics Corporation. Ms. Pawlowski, you may begin.

Deborah Pawlowski: Thanks, Bob, and good morning, everyone. We appreciate your time today and your interest in Astronics. We have here, Peter Gundermann, our President and CEO; and Dave Burney, our Chief Financial Officer. Pete will go through his prepared remarks, and then will open it up for questions-and-answers. You should have in hand, a news release that crossed the wire this morning and that is available on our website at www.astronics.com.

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

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

Pete Gundermann: Thank you, Deb, and good morning, everybody. Thanks for tuning into our call today. I'm first going to talk about our consolidated Q3 and year-to-date results, then I will go into the segment details, and we'll close the discussion with our revised expectations for the rest of this year.

Jumping right into the headlines, there is no doubt that the third quarter was a weak quarter compared with where we thought it would be, especially at the heels of our second quarter, which was a pretty strong quarter. Revenue, margins and bookings were all pretty light. I'm going to tell you this a couple of times as we go through the text of the discussion. In order to understand the results, you have to take a look at both of our segments.

The Test segment pretty much gave us what we expected. The press release doesn't play well for our Test segment, because our comparative quarter, the third quarter 2015, was the high-water mark for our Test business, which tends to be lumpy, and all year long, we knew that we were going to have somewhat reduced volumes compared with what we had in 2015. No surprise there.

The Aerospace quarter was a little bit more of a surprise. We're not going to compare the third quarter results with last year's third quarter, instead what we're going to do is compare it with the second quarter, because it was our best ever Aerospace quarter, with record revenues, profits and bookings. So the question logically asked would be, what changed? How did we go from a record second quarter to a pretty weak third quarter? We had some discussion around that, and the bottom-line is that it's a combination of little things, but nothing major. We think that our competitive and market situations haven't changed; nothing has really changed from the second quarter to the third quarter. We'll take a look at our revised expectations for 2016. Based on our progress after three quarters and our lower than expected bookings in the third quarter, along with some scheduled slides, we are reducing our top line expectations for year-end 2016.

Revenue for the third quarter on a consolidated basis was a little bit weaker than we expected, $155 million. Our comparator quarter, the third quarter of 2015, was $200 million, so it would appear that revenue was down 22% from third quarter 2015 to third quarter 2016. When you look back at the third quarter of 2015, you would find that we had strong Aerospace results in that quarter of $139 million revenue, and as I mentioned before, we had a record quarter with respect to the Test segment, $61 million. This was the high-water mark of anything we've ever achieved in our Test business.

The third quarter was also below our sequential quarter, the second quarter 2016, where we had revenue of $164 million. Therefore, revenue was down 5.7%; Test was actually up, but Aerospace was significantly down from the second quarter to third quarter 2016.

For the quarter on a consolidated basis, bottom line results were matching the revenue, net income was $12.1 million, 7.8% of sales, and diluted earnings per share was $0.41, down from $0.82 in the third quarter 2015.

Engineering & Development expenses were $22.2 million, or 14.3% of sales. The percent was a little bit higher than we've been typically running, mainly due to the lower sales level, but the actual dollar spent was pretty consistent with what we've seen in recent quarters.

Bookings were light at $136 million, well below the levels of the first and second quarter. Aerospace bookings were $123 million and Test was $13.7 million, leaving us with of a backlog at the end of the quarter of $275 million.

Year-to-date consolidated revenue through three quarters was $479 million, down 10% from 2015. Net income was $38.5 million, or 8% of sales, $1.28 per diluted share versus $1.76 last year. 2016 year-to-date bookings through three quarters were $480 million, about equal to shipments, and again, backlog at the end of third quarter was $275 million.

I'm now going to look at the segments and try to make sense of it. Let's first turn to the Aerospace segment. I'm going to break convention here a little bit and not talk so much about the third quarter 2015, the comparator quarter in the press release, but rather look at the sequential quarters, comparing the third quarter to the second quarter 2016, our most recent two quarters basically. It's a striking comparison when we look at these two quarters, the drop-off appears to be pretty dramatic – indeed, it was dramatic. Second quarter 2016 revenue was $142 million, while third quarter 2016 was $125 million, so that's a 12% reduction.

Operating profit in the second quarter 2016 was $24.8 million and that dropped to $17.5 million in the third quarter 2016. Bookings were $163 million in the second quarter, dropping to $123 million in the third quarter. So, we went from record revenue, record operating profit and record bookings to substantially lower revenues, operating profit and bookings.

We have looked through our business, we've talked to our managers, we have considered a number of scenarios, and we are really not aware of anything substantial that can explain this sequential change from such a great second quarter to the third quarter. We do not believe that we are experiencing any kind of competitive change in our markets, product line changes or cost changes. It's simply, mostly, a matter of coincidental timing of various customer requests in the orders and deliveries.

We've seen some evidence of customers pulling things into the second quarter out of the third quarter, but that doesn't explain the whole thing. Therefore, our perspective on the market isn't really a whole lot different now than it was at the end of the second quarter. We're obviously not really happy with the quarter's results, but when we take a step back and look at how our business stands, we feel that today it largely stands the same way it stood at the end of the second quarter, which again was a record quarter. Our perspective is that, at this point, the best way to look at the second quarter, third quarter and maybe first quarter, is to blend them together, rather than look at the sequential changes from one quarter to the next.

Looking at our Aerospace segment year-to-date, comparing 2016 through three quarters with 2015 through three quarters, revenue this year was $406 million, down 1.8% from $413 million in 2015, and operating profit of $61 million was down from $66.7 million last year. When you look at the year-to-date changes in our major product lines chart, which is on page 8 of our 9 page press release, the second table on this page, it helps explain some of the story. Our Electrical Power & Motion product line through three quarters of 2016 was $219 million, 45.8% of our total revenue, and up 5.1% over the first three quarters of last year. Our next largest Aerospace product line, our Lighting & Safety product line, recorded a revenue of $121.5 million, 25.4% of our total revenue, up 1.3% from last year. Probably the biggest product line change that's evident on this chart is in our Avionics product line, where you can see that this year through three quarters we had revenue of $22.7 million, that's down 47%, about half, from where it was last year.

Now, our Avionics product line is made up of a few products, but the major one that we've talked about, which continues to haunt us a little bit, is our antenna product line. We have been working on new products and new opportunities where we think we can fill this gap. Our expectation has been that we would begin to do so through the end of this year.

Just to bring you up to speed and tell you some good news and bad news, we are pushing really hard and we're very encouraged with the prospects that are ahead of us, and I'll come back to that. The bad news is that we don't have it done yet. We're just starting to get through the first certification process and we expect to complete it by the end of this month, which will pave the way for sales to certain sectors of the market, but we're not as far along as we wanted to be. So, that's kind of the bad news. A hole that we thought we were going to fill towards the end of this year is going to stretch a little bit into next year.

The good news is that we think we have a pretty strong winner. This is a product that's geared primarily towards the large business jet market. Last week, I was at the NBAA show. For those of you in the industry, the National Business Aircraft Association show is kind of the big business jet show. I was there all week and was very impressed with the enthusiasm that exists in the market for this product. We believe that it's going to be a real winner when the time comes, and we believe that time is going to be next year when we get through a number of these certification processes that are ahead of us. We're pretty excited about it, but it certainly didn't help us in our third quarter and year-to-date results, and it's not going to help us much in our fourth quarter; therefore, we're going to continue to struggle with this drop-off until we get into 2017.

In terms of significant customers, Panasonic, as usual, is our biggest customer, 21% of our total year-to-date revenue at $102 million, and Boeing is a close second at 15%, $74 million in revenue through three quarters.

Changing over to the Test business, in the second quarter, revenue was $30 million. Again, if you look at the press release, it looks like our Test business has gone off a cliff. I guess it kind of has if you're going to limit the comparison to the third quarter of last year, when we had a revenue of $61 million. But, we knew heading into this year that this was going to be a lean year for our Test business; therefore, that comparison does not surprise us and shouldn't surprise anybody following the business at this point.

I think the good news is, that business continues to perform pretty well on a financial basis given the volume reductions that it's had. Most businesses that see 51% volume reductions don't manage to still make operating income of 10%, or 11%, like our Test business has in this last quarter. We're reasonably pleased with that.

Year-to-date revenue of $73 million, again, was down 40% from last year. Year-to-date bookings were $53 million, so we're booking at a lighter rate than we are shipping this year. We still maintain the belief that this is a trough year for our Test business, and we are expecting bigger and better things next year.

Our Aerospace and Defense business is up approximately 10% from where it was last year, and we expect that rate of growth to continue on into the New Year. We feel that the Semiconductor business is premature to bracket at this point, but we do believe that this is going to be a trough year on the bottom, and we're expecting good news from that part of our business in 2017.

Our balance sheet remains healthy, as usual, with cash of $13.3 million at the end of the third quarter, total debt of $164 million, and net debt of $151 million. We're expecting our capital expenditures by the end of the year to be in the range of $15 million to $17 million. We bought back some shares in the third quarter. As you'll remember, we had a $50 million authorization that we initiated in February. We bought 157,000 shares for $5.3 million in the third quarter that brings our purchases year-to-date to $17.5 million, 517,000 shares.

Looking forward, we are dropping our revenue guidance for 2016 to $635 million to $645 million. The drop is almost exclusively on the Aerospace side and is a function of our lower than expected revenue in the third quarter and certain program delays, like the antenna system I just talked about, which we originally thought might help in the fourth quarter. Our Test business pretty much stays unchanged from previous forecasts.

We're not going into any detail on 2017 yet. We hope to do that by the end of the year. We believe, again, that our business across the board is pretty well positioned. We believe pretty strongly that the third quarter is certainly a setback, I don't want to make light of it, but it's not as though it's causing us to reevaluate where we stand in the market or what we need to do to be successful. More than anything, it's just a result of timing of various customer demands and various development programs that we have underway.

So, with that being said, Bob, I think we're ready to take some questions

Operator: Thank you. Ladies and gentlemen, at this time, we will be conducting a question-and-answer session. Our first question comes from the line of Dick Ryan with Dougherty & Company. Please proceed with your question.

Dick Ryan: Thank you. Pete, I'm just trying to dissect a little more into the in-seat power theme. It sounds like you hit on a couple puts and takes there, but can you talk a little bit about what you see as far as opportunity to be fielded for aircraft, and how the new build and retrofit market mix looks right now?

Pete Gundermann: Sure, Dick. We don't really feel that it's changed a whole lot. In fact, we don't really feel like it's changed at all. We continue to think that approximately half of our revenues go to retrofit and half to new build, and that can fluctuate 60/40 over any particular time period. We don't feel that there's been a substantial change there. Your next question might be about the competitive status, and we'd say nothing much has changed there either.

We think our market share continues to be well north of 90%. Certainly, there are people who are nibbling around the edges, and there may be certain parts of the market that are more susceptible to competitive pressure, but we feel the core of the market continues to be our strong suit. We continue to make a lot of progress with customers, and our bidding activity is healthy.

So, we're really not feeling deflated or put out at all. We just hit this apparent soft spot in terms of orders and deliveries at the moment, but we don't see any reason why that should be expected to continue.

Dick Ryan: AirAsia went a different direction, and I can't recall the company they ordered in-seat power from. Is that just a lower-end solution or was that a competitive win?

Pete Gundermann: We didn't bid that. We didn't pursue that program. It's a USB only. A couple of things to think about here. Power started out being 110 volts, and the voltage kind of went up over time. Actually, it started out DC, then it went AC one time, and then USB became a feature. We certainly are active in the USB market, but USB is not USB is not USB. There are low level, lighter, cheaper, lower power USB systems. Most airlines that we work with eventually come to prefer the full fledge 110-volt USB combination.

And the reason they do that is because these systems and the installations aren't exactly cheap, so they want to put something in that is likely to last for a long period of time. If an airline actually chooses to go with simple USB, really light, entry level USB, I wouldn't call it a commodity, but there are definitely more companies out there that can do that. That was the case apparently with the program that you have referenced. Our perspective is that most airlines that are serious about putting power in their airplanes will investigate, as part of their diligence effort, the lower capability USB system, but eventually, they'll usually decide to spend a little bit more and get a higher quality and future proof their installation by going with a 110-volt system. That's where we tend to shine.

Dick Ryan: Okay. Some of the major carriers that get working through the bulk of their aircraft fleet are already installing in-seat power. Is that a concern or is there something from a timing issue that we need to pay attention to?

Pete Gundermann: Well, some airlines are certainly ahead of others. Although, we would say that there are enough major programs at major airlines where we're not particularly concerned about running out of market at this point. We've talked on record plenty of times. We tend to divide the market into wide-body airplanes and narrow-body airplanes. We think the wide-body seat market – not airplanes, but seats – across the globe is somewhere around 60% plus or minus penetrated at this point, or saturated. That leaves 40% to go. And, of course, they're building new wide-body airplanes all the time. With Airbus A350 coming online and Boeing 777 in a couple of years, we expect that to continue to be a pretty healthy market on the new build side, as well as on the retrofit side. On the narrow-body side, we think somewhere in the neighborhood of 10% to 20% of the worldwide seat market is spoken for at this point. That's a relatively small percentage. Some people on our team definitely go to the lower end of that estimate, or even to the bottom of it, which suggests to us that there is a lot of room to run on the narrow-body side too. So, no, we don't feel like we're running out of market, we feel the same way today that we felt six months ago, and we're not particularly deterred by the third quarter.

Dick Ryan: Do you look at ISP to get back into this low double-digit growth profile or is this a new norm, the mid-single-digit growth for in-seat power?

Pete Gundermann: That's a good question. We've been strong double-digits forever really, but we're also at a much higher level of revenue than we've ever been before. It could be that the growth profile at this level is going to moderate a little bit. I don't know if we're ready to declare that today, but we are actively running a bunch of different scenarios for where we expect next year to run out, and we will address that more directly when we get to that point. I think from our perspective, this product line has been obviously very good to us, and it's been one that's been driving our growth. We expect it to continue to drive growth across the company, and maybe it'll be 20% again, maybe not, but we think it could be double-digits and very likely could be. We will talk about that more specifically when we're able to get into our 2017 forecast.

Dick Ryan: Okay. Great. I have a couple more questions, but I will get back in queue and circle back. Thanks, Pete.

Pete Gundermann: Sure.

Operator: Thank you. Our next question comes from the line of Jon Tanwanteng with CJS Securities. Please proceed with your question.

Jon Tanwanteng: Hi. Thank you for taking my questions. Can you provide any specific color on the state of in-seat power market compared with where you thought it would have been two months ago and what you delivered in the quarter?

Pete Gundermann: Well, not really, Jon. We wish that this was another record quarter like the second quarter was, but it wasn't. Again, we don't feel like anything has really changed. There are a number of major programs. We feel our quoting activity is really good. We feel like our customer receptivity is really good. I don't really have anything more to add to that story.

Jon Tanwanteng: Okay. In your prepared remarks, you said that you mostly had what you have expected for the Test quarter, but you still reduced the top-end of the range a little bit. Any color on what went into that?

Pete Gundermann: I believe it's just fine tuning the forecast, given that we're halfway through November, practically speaking, and it's getting easier and easier to predict where we're going to be at the end of the year. There is a little bit of room for noise there, but we're getting pretty locked in.

Jon Tanwanteng: Okay. You had a nice press release the other day talking about the new system-level Test platform. Any update on signing up new customers for that business? We've seen some high level device failures. Is that something your tester could have prevented, any more color on that?

Pete Gundermann: Yes, we did put a press release out. I don't have any specific program or customer updates to share at this point, but I can say that we continue to believe that this is pretty fertile ground for us. It's an evolving need that the industry is recognizing more and more, and we feel like we're ideally situated to pursue it and we are actively investing.

We have a number of programs underway and we would like to be in a position at this point to give better color for where we think 2017 will be. You might remember at the beginning of this year, we got a little sideways with our forecast, so we want to be a little bit cautious and not be in that situation again. I think the best thing I can say is that we continue to be pretty optimistic about the business, and we think we've been well received by the market. We also think that, in retrospect, 2016 will look like quite a trough year when we look back at it from the future.

Jon Tanwanteng: Great. Thanks for the color, Pete.

Pete Gundermann: Sure.

Operator: Thank you. Our next question comes from the line of Ken Herbert with Canaccord. Please proceed with your question.

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

Pete Gundermann: Good morning.

Ken Herbert: Pete, looking at the Aerospace guidance, you took the full year number down about $30 million. This implies about a $10 million step-up sequentially from the third quarter to the fourth quarter for the Aerospace business, sort of flat with last year. You had a fairly material drop here for two quarters. Can you talk about confidence and visibility in this business, and if anything has changed? It sounds like there is no specific item you'd really like to point to, but clearly, the business seems to be weakening faster than you might have anticipated, or at least not seeing things come through to drive the growth.

Can you talk about anything that has changed in your process or visibility, or how you're thinking about this business now as you look out for the rest of this year and into next year?

Pete Gundermann: Well, sure. We're definitely trying to look at things a little bit more closely and try to figure out where we're missing things. I talked about the Avionics product line, which includes a few other things, or the antenna system change through three quarters last year. That was just shy of $42 million and, this year, we're at $23 million. I can tell you that is a hole that we did not think would be so large and we thought we would be able to fill it a little more quickly.

Looking forward, to recap or repeat what I said about last week, I think we have a stronger and stronger team working in that business. We had a number of customer interactions and a number of demonstrations, and it was pretty impressive. So, I think that there is certainly light at the end of that tunnel, and not just filling the hole, but building the business to a much more critical and sustainable level.

But the other thing, I guess I'd point to, if you look at bookings, it's been a little bit of a wild ride, especially on the Aerospace side. If you take a look at the last page of our press release, from the fourth quarter 2015 we went up from $122 million to $140 million to $163 million, and then back down to $122 million. It was a little bit of a surprise for us to see that big drop from $163 million in one quarter to $123 million in the next. That hurts our near-term shipping prospects.

Again, the real question is, when we look back and we query our people, what are they seeing in the market, what's changing that could cause this? We're struck by a couple of things. One is that it was across the board; it wasn't really any specific product line. We saw drops in bookings from a number of places, but we also consistently heard that our guys were still comfortable. It's not as though we are losing business to competitive threats, and it's not as though customers are going away. It just kind of happened to be the way things lined up.

I would tend to look at the second and third quarter and average them together. Maybe the second quarter wasn't as good at the time as we thought it was, and maybe the third quarter isn't as bad as it feels, but it just so happened that customers lumped their activity in the second quarter and we're lighter in the third quarter. That's our read, and I guess that's the color I can offer.

Ken Herbert: Okay. A follow-up question to that, as you're looking to revise guidance now, have you perhaps taken a greater haircut than you normally would have to some of the assumptions you're getting from the operating companies? How has your approach to that all changed, after some of the more recent volatility in what you've seen relative to expectations?

Pete Gundermann: We're close enough to the end of the year now, where if we don't have it in backlog, that takes a lot of the guess work out. In other words, usually, we have to guess what orders are going to come in and how well are we going to be able to execute.

As you get closer to the end of the year, the order element kind of dries up and the execution element becomes more of the source of variation with a couple of exceptions. You may remember that we have some customers, where we hold some significant inventory and we never know one week to the next what's going to happen. There is room, in terms of what they want us to do with that inventory. This is a bill and hold arrangement, so we end up not calling it revenue until we ship it, even though it's built and it's completely in place and ready to go in stock rooms that we maintain for certain customers. So there is some room for those levels to vary, and that's also a little bit of a source for the range. But I think we're pretty comfortable with the range we put out there.

Ken Herbert: Okay. Finally, it looks like Armstrong has certainly been weaker this year than last year. Is there anything in particular at that business, or anything you can point to there that you're seeing that maybe was unexpected or changed?

Pete Gundermann: It is a little light. You're probably looking at that table on page eight, right?

Ken Herbert: Yeah, exactly.

Pete Gundermann: System Certification, yes. The only thing I would caution a little bit is, that is all Armstrong, but it's not all of Armstrong. Armstrong also feeds into some of our other product groups, specifically in the Electrical Power & Motion side. Yes, it's a little concern, it's a smaller product line, so a small change in revenue tends to have a big percentage difference. But I'm not sure that's an area that we feel is a major concern in terms of driving where the business is going at the moment.

Ken Herbert: All right. Thank you very much.

Pete Gundermann: Sure.

Operator: Thank you. Our next question comes from the line of George Godfrey with C.L. King. Please proceed with your question.

George Godfrey: Thank you for taking my question. Peter, I just wanted to focus a little bit on the magnitude of the guidance change. If I look at the $30 million revenue reduction at the midpoint, considering that we're halfway through the year when that guidance was provided, that $30 million all concentrated in Aerospace implies about an 11% variation on the second half revenue of this year. So my question is, is that the new norm on how much revenue could vary, and a double-digit magnitude in just such a short space of time is something 2017 or 2018 could repeat?

Pete Gundermann: I sure hope not, George. We've typically experienced relatively steady Aerospace business, and we're seeing a little bit more noise, specifically this quarter, but also towards the end of last year. We've always thought our Test business was lumpy, and I expect that it will continue to be, but hopefully, with a general upwards trajectory. I think it's too early to talk about a new normal in Aerospace. I guess, we would prefer to think of this quarter as being a fluky quarter.

We'd expect to get our normal consistency together. Again, I'd like to point one thing out on the booking side in particular, which is what drives our business eventually. If you average out the second and third quarter, it's kind of in that range. So, we'll be watching it, and we'll be looking for trends and clues that we can share in terms of helping to understand our business. But, at this point, I don't really see a reason why we should think the business is going to be lumpier in the future than it has been in the past. We don't see that at this point.

George Godfrey: Okay. Reading from the press release, your statement is that early indications show that the Aerospace revenue will grow in the mid single-digit range. Sitting here today, don't you want to see the need for any extra heavy lifting on the bookings number doing something more unusual than years past, to hit that midpoint of projection in 2017 as it relates to bookings?

Pete Gundermann: Heavy lifting, yes. We have to have a continual introduction of successful new products. We have to fix some of the holes in our business, and we do have some. We look across the business and we're used to having a certain perspective that says we're going to be successful and we think that these programs are worth pursuing and they're going to pay off, and nothing's really changed there. It's always been a scenario where we have to execute. Technically, we have to execute in terms of margins and we have to execute in terms of performance.

Is it heavier lifting than normal? No, I wouldn't say so. We think that there is a robust set of opportunities out there. I'm actually pretty excited about where we sit and what's in front of us, and some of the things that we're in the middle of. It's frustrating that short-term results deviate from where we thought that would be, but it's certainly not a situation where we're sitting here thinking we need to regroup strategically and figure out how we're going to save ourselves. I think we're going to continue to do what we've been doing, and I'm of the opinion that the market is going to cooperate and we'll be fine.

George Godfrey: Okay, understood. That's what I was trying to get at: the amount of work necessary from here to move into 2017 to hit that mid single-digit range.

Pete Gundermann: Yes.

George Godfrey: Related to the press release you put out yesterday on the Test equipment, that device that you showed in the picture, what is the list price ASP? Where is the starting point for a piece of equipment like that?

Pete Gundermann: That's not exactly an off-the-shelf piece of equipment. Let me ask you this, did it look expensive?

George Godfrey: It did look very expensive.

Pete Gundermann: Yes. We have an increasing length within our tool box, and I would tell you, a piece of equipment that looks like that can go anywhere from a low of $1 million to a high of $6 million. It's a wide range. It depends on what the customers want, it depends on how many of them they want to order, and it depends what kind of throughput and characteristics they want, performance parameters. It's widely varying at selling price.

George Godfrey: Understood. Great. Thank you for taking my questions.

Pete Gundermann: Sure thing.

Operator: Thank you. We have another question coming from the line of Ken Herbert with Canaccord. Please proceed with your question.

Ken Herbert: Hi, Pete. You have done a very good job of taking cost out of the Test business to maintain margins, as you've seen fairly significant contraction in volume over the last few years. Are you starting to do anything at all on the Aerospace side of the business in terms of your cost structure, to maybe look at protecting or driving a little margin expansion with a little slower top line growth?

Pete Gundermann: First of all, I would agree with your observation on the Test side. The crew there has done a really good job, not only managing cost, but building competency. There are two different thrusts that they've been able to do simultaneously, and I'm pretty impressed by that. On the Aerospace side, we haven't been as aggressive, but I think, in general, we do a pretty good job of watching and managing our costs. What we haven't done, for example, - and maybe this is what you're asking about – is gone to low cost manufacturing countries. We haven't exported a lot of our manufacturing.

Frankly, we don't have a short-term ambition to do so. Part of our secret sauce has been to lead by innovation and lead by performance. Our general bias is that there's real value in being able to control our processes vertically right now, by having closely integrated teams from the technical side working with manufacturing and sales, all kind of incohesive units. I don't think we really have ambitions to change that at this point. We're continually doing things that could be considered active cost management. We put a huge facility in Portland last year, and that's something we talk a whole lot about. I've been really pleased with the team out there and how the integration into that facility has worked.

A building can make a big difference in a company's performance. That's an example of where we are getting some efficiencies. Of course, it's a pretty expensive building, so it's a long-term commitment and a long-term investment. I think we're alert to those initiatives and we're actively doing them, but we're not going to restructure our business in the short-term from how we've been doing it.

Ken Herbert: Okay. That's helpful. Just as a follow-up, was any of the top line weakness across Aerospace due to any incremental pressure you're getting or changes in contracts from customers on pricing? I'm specifically thinking about sales to Boeing or into the forward fit channel relative to the retrofit fit channel.

Pete Gundermann: I wouldn't say so, Ken. We certainly have been subject to some active pricing negotiations, but we've also generally been able to bring forward cost savings that protect our margin, so that we'd survive and Boeing is happy too. I don't think we look at that as a game changing situation at all.

In fact, I'd even take it one step further and say that we've been able to benefit from that relationship with Boeing. I think they look at us as a supplier that they can grow and work with, and it's not always easy. It's not always necessarily the way we would write up the script, but when I look back at it, I think we've done a pretty good job with it, and I think Boeing is pretty happy with us.

Ken Herbert: And finally, would you say that you have a similar dynamic with Panasonic or is anything structurally different there?

Pete Gundermann: Nothing is structurally different. Panasonic has been a long-term customer and a partner of ours, and we do everything we can to promote that relationship, as we do with any of our major customers. You hear us talking about our Antenna business. We have an initiative going with Panasonic right now. We had a common booth at NBAA last week, and it was a very positive buy-up going on in that part of our business, so there is a lot that we do with Panasonic. We touch Panasonic or they touch us, depending on your perspective, in a number of different places, not only in our AES business, but in our PECO business, our Armstrong business and our AeroSat business. They're a major part of what we do, and I think we do a good job for them.

Ken Herbert: Okay. Thank you for the color.

Operator: Thank you. Our next question comes from the line of Scott Lewis with Lewis Capital Management. Please proceed with your question.

Scott Lewis: Hey, good morning, Pete.

Pete Gundermann: Hey, Scott.

Scott Lewis: I have a question on that small form factor antenna that you're working on with Panasonic for the business jet world. Would that be an opportunity in the regional jet space?

Pete Gundermann: It could be. That product is specifically designed for a tail mount application. Very simplistically, we make bigger antenna systems that can fit on fuselages of bigger aircraft down to a narrow-body kind of application. This one is designed to go up in the top of a T-tail under a radome. I'm just thinking out loud, because you're catching me flat footed, but if a regional jet has that kind of tail structure, that might work. I mean our fuselage mount system is bigger than what a typical regional jet would want to carry.

But the other realistic situation is that most regional jets do shorter distances and don't fly over water, so they have air to ground opportunities. The way we think about it today is the tail mount is primarily a business jet, private aircraft application, and the fuselage would be more for the commercial transports, and the regional jets are kind of in between. It's not a market that we're aggressively going after at this point.

Scott Lewis: Okay. Thanks for that. I just want to ask one question on electric power distribution systems, as you're having a few programs come in the next year or two years. When you have a low cost, high volume type of program like, say, the Bell 505, I'm just curious, is that a better program for you or is the shift set that much higher on a more expensive type of aircraft that you're better off on? For instance, the Bell 525 or something like that?

Pete Gundermann: We like them both. That's an interesting part of our business. If you look at the programs we've announced, and we're talking about fixed wing for the moment, we're on lighter turboprop aircraft. We've announced and won a few light medium jets. I think our capability can go from the light turboprop, single engine even, all the way up to the medium-sized business jets.

I think when you get into the larger business jets, we have a lot of technical competition in the large established players. But in the smaller aircraft, we're putting together a package and a capability that's pretty unique. You asked me which one we prefer, I'm not sure, we don't really differentiate. We're definitely pursuing the full range of aircraft, and it's been a pretty active area. It's taken a little bit of a slower takeoff for us than what we envisioned a few years ago, but we're making progress. I can pretty safely tell you that it really doesn't matter who it is anymore in the industry or where they are, they know about us and they know about our system, and we're getting a really good look and doing a lot of development work. I think our original vision, where someday this becomes kind of the de facto standard for electrical distribution in small aircraft, is very much an alive dream. It has taking longer to get there, but we're definitely making progress. And we're continuing to innovate, too. That's the other thing I'd throw in. We have proven architectures, but we're seeing opportunities to improve and innovate, which we think are going to be important not only in continuing to establish ourselves, but also in making the aftermarket opportunities a little bit more enticing. So, that's a kind of a teaser, I realize, but there's a lot of IP development that we're continuing to pursue in those areas.

Scott Lewis: Great. Thanks a lot, Pete.

Pete Gundermann: Sure.

Operator: Thank you. That's all the time we have today for questions and answers. I'd like to turn the floor back to management for closing comments.

Pete Gundermann: Thanks for your interest in the company, everybody. We look forward to talking to you at the end of the fourth quarter, if not before, and we look forward to a better future than we had in the third quarter. Have a good day.

Operator: Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.