Operator: Greetings, and welcome to the Astronics Corporation First Quarter 2019 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Deb Pawlowski, Investor Relations. Thank you. You may begin.

Deborah Pawlowski: Thanks, Christine, and good morning, everyone. We certainly appreciate your time today and your interest in Astronics. Joining me on the call are Peter Gundermann, our President and CEO; and Dave Burney, our Chief Financial Officer. You should have a copy of the first quarter 2019 financial results which were released earlier this morning. And if not, you can find them on our website at www.astronics.com.

Let me mention first, and you're likely aware, that we may make some forward-looking statements during the formal discussion, as well as during the Q&A session. These statements apply to future events that are subject to risks and uncertainties, as well as other factors that could cause actual results to differ materially from what is stated here today. These risks and uncertainties and other factors are provided in the earnings release, as well as with other documents filed with the Securities and Exchange Commission. These documents can be found on our website or at sec.gov.

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

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

Pete Gundermann: Thank you, Debbie, and good morning everybody. Thanks for tuning in to our call.

We're going to talk through the following agenda:

> First, we're going to talk about our semiconductor test sale that we completed in the first quarter. It was obviously a big gain on that sale and it colored our financial statements. And the separation of that business is working its way through our operations in certain ways. So, we're going to talk through some of the consequences of that.
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> Then we're going to talk through first quarter results, both on a consolidated basis and then through our segments. Long story short, first quarter in most respects was a really strong quarter for the company. Demand is very strong. Margins, with a couple of weak spots, were generally strong and improved. We're happy with that as a start to the year.
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> Dave is going to talk through our balance sheet on the heels of our semiconductor sale and some of our debt covenants and financial status in those areas.
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> And then I'll take it back and we'll talk about the remainder of our 2019 expectations.

With respect to the semiconductor sale, as previously announced, it closed on February 13th. We sold that business to Advantest Corporation for $100 million cash at closing. There are some other earn-out opportunities, but it's a little early to begin to value those things at this point. The $104 million turned into a pretty profitable gain-on-sale of about $80 million.

I'm going to try to confuse people first, and then I'll let Dave un-confuse them in a minute. That $80 million gain-on-sale, when all is said and done, we feel will be a net gain of about $58.8 million. But you'll notice, if you look through our non-GAAP presentation at the end of the first quarter, the net value of that transaction was closer to $62 million. The reason for the disparity between the $58.8 million that we will mention frequently and the $62 million that is in that table, is that the tax treatment here is a little bit progressive in nature over four quarters. So, that $62 million in the table on page 8 of our press release will change in the second quarter release, and again on the third quarter release until it trues-up at $58.8 million.

Because of the nature of the sale and the importance of semiconductor tests to our Test business in particular last year, we are adopting this non-GAAP presentation the next three quarters where we expect to back out the semiconductor test business both from the comparator period of a year ago, and our current results, obviously. We feel, given the circumstances, this will present a much better understanding of what's going on in the business. We do not expect to do non-GAAP presentations forever. I do not think we've ever done that before, but given the circumstance here with this sale of our semiconductor test business, we think that's an appropriate and helpful thing to do.

First quarter overview on a consolidated basis, revenue was strong at $208 million. It's something like our third highest quarter ever. $3.4 million came from our semiconductor test product line prior to the sale, so adjusted consolidated sales were $204.5 million. That's up around 19% over the comparator period and all organic as we have not done an acquisition in the last year.

The results were strongly driven by our Aerospace business which is now 90% or so of our total. Test had a reasonable quarter, we'll talk about that in a minute.

GAAP Net income was $78.1 million including the net gain recognized on the semi sale. Adjusted net income, backing out that gain, was still strong at $16.1 million or 7.8% of sales.

That's up dramatically from our comparator period a year ago when we had adjusted net income of $2.8 million or 1.6% of sales. The comparator period a year ago had a number of things going on in it. There were relatively high acquisition-related costs from our Telefonix acquisition, which was in December of 2017. There was some legal expense in there, and pretty light volume, especially on the Test side. First quarter a year ago was not a solid quarter for the company.

Our GAAP diluted earnings per share for the first quarter was $2.35. Adjusting out the effect of our semiconductor test sale, the adjusted diluted earnings per share was $0.47.

Consolidated bookings were strong at $205 million. That's about equal to adjusted shipments. Aerospace bookings were relatively strong, that drove the total at $192 million. Test bookings were a little bit lighter. Consolidated backlog at the end of the first quarter was $400 million.

Going into the segments, we'll start with Aerospace. As I said, Aerospace is about 90% of our total. Given the way the company is structured right now, our Aerospace segment had really good first quarter revenue of $188.5 million. That's our fifth record quarter in a row, up 14.5% over the comparator period of a year ago and up 7.6% sequentially over the fourth quarter of last year.

Operating profit was strong on the volume, $25.8 million or 13.7%. That's our highest operating profit in a couple of years, and that's after operating losses from what we've been referring to over the last year or so as our "three stragglers", or our three troubled businesses. Actually it's down to two now, and those two put in a combined operating loss of $10.7 million, which is a high number. If we get the two down to breakeven, just for comparison purposes and they're not hurting us, our operating margin for Aerospace would have been in excess of 19%.

Bookings for our Aerospace business for the first quarter were $192 million, just shy of one-to-one book-to-bill, even on record revenue, and our ending backlog was $329 million for our Aerospace business, our highest ever.

Now I want to talk a little bit about these "three stragglers", and help put the situation there in context and help you understand where we think we're going. We think we have line-of-sight for pretty substantial improvement in the immediate quarters, including the current quarter. The long and the short of it here is that, while we had a $10.7 million operating loss in the first quarter, we are expecting the second quarter loss to be less than half of that, $5 million or a little bit less, then we expect it to drop in half again in the third quarter, down to $2.5 million or so.

So, the question is how do we get from the operating loss that we observed in the first quarter of $10.7 million to somewhere in the neighborhood of $2.5 million in the third quarter. To understand the situation in the first quarter, in the press release we detailed that we had an inventory reserve of a couple million dollars which is not expected to repeat. We had an increased estimate-to-complete of $1.7 million for this development program that's been going on for about a year now. That was disappointing, but again, at this point we do not expect that to repeat either.

Between the material write-down and the estimate-to-complete, that's $3.7 million on a total of $10.7 million which gets us down to $7 million, which is in the range of what we predicted the first quarter operating loss for these businesses would be. I think we said $6.4 million last time we talked. So, it was a little bit higher than that, net of this estimate-to-complete increase and the material write-down.

The program that's driving the estimate-to-complete is largely going to be coming due in terms of delivery to the customer in various stages in July, August, and September. So, we're at the trailing edge of that development program. Unless something goes substantially wrong as we get closer to the end, as you might expect, we feel like we have better visibility into where things are going to end up. We're one month into the second quarter here and the indications thus far are pretty positive. So, we're reasonably confident that we're not going to have another estimate-to-complete. Things can happen, but at this point we feel pretty good.

We also, in one of those two businesses, had a pretty major restructuring. Not in the first quarter but in the opening days of the second quarter that was at our AeroSat business, and it was a restructuring that we expect will save fixed costs in the neighborhood of $3.5 million on an annual basis. That will bring that business much more in line with the revenue expectations we have for the remainder of the year.

The final thing that's worth mentioning is that both of these two troubled businesses, AeroSat and CCC, are anticipating revenue increases, specifically in the third quarter and fourth quarter. For that to happen at CCC, this development program that they've been working on needs to be wrapped up, but they pretty much have the business in backlog to drive those revenue increases. So the risk there is getting the program developed on time and within budget.

At AeroSat, we're also expecting revenue increases in the third and fourth quarter. Those orders are not yet in place so we need to get those orders. That's where the risk is there. It's less development risk and more an order risk, and a timing risk. We're optimistic about our prospects. It's a question of whether they line up with our expectations for our 2019 year-end results.

So, that's the issue. We've put in a major restructuring in one of those two businesses, and we've chipped away at the development expense. We think we have the material reserve cleaned up, and if the revenue picks up in both locations towards the end of the year, then those predictions I made should be pretty solid - which is having the operating loss from those two businesses drop to $5 million or a little bit less in the second quarter and to $2.5 million or so in the third quarter on our way to breakeven.

Switching over to our Test segment, our Test business is going through a pretty major adjustment, as you might expect. The sale of the semi business fundamentally reshapes the business. Last year, we came in with Test revenues of about $128 million. This year, our revenue forecast is between $50 million and $60 million. You can see that our first quarter adjusted segment sales were about $16.3 million which is in line with that annual forecast.

Our first quarter adjusted operating margin was 7.8% after backing out the semiconductor sale and semiconductor revenues. That 7.8% on in-line revenue confirms that our cost structure needed to be adjusted to the lower volume expectations. We have also gone through, as I was just describing on the Aerospace side, a pretty substantial restructuring exercise in our Test business earlier this month on the heels of closing the first quarter. That restructuring exercise will bring the overhead structure in the business in line with where we think the revenues will be, and we think we're going to have another $4 million or so of cost savings, which coincidentally is equal to about 7% of our anticipated sales in that business.

A lot of moving parts in Test. Our best advice for model makers at this point is to anticipate somewhere near breakeven or a little bit north for the business and we're obviously keeping a really close eye on it, and will report regularly as to how we see things shaping up.

At this point, I think I'll turn it over to Dave to talk through balance sheet and related issues.

Dave Burney: Okay. Thanks, Pete. I guess for clarification, Pete mentioned, when we look at the non-GAAP reconciliation to pull out the activity of the semi business that we sold. He touched on the $62 million adjustment to net income to remove the effect of semiconductor. There will be activity going through there to remove the operating activity of the semi business from the first quarter, and some straggling activity that we'll have through the year potentially.

When he talked about the net gain there, the difference between the $58 million and roughly $61-plus-million non-GAAP adjustment, not to get too technical because I'm not a tax guy, but our taxes are accrued at the expected annualized tax rate, which in our case is about 22%, including the tax on the gain of the sale of that semi business, which actually has a higher effective tax rate than our consolidated rate. But we do not record that particular expense in the quarter it happened. It's part of our blended rate of 22%. When we talk about the net gain on that particular transaction, we're talking about it net of the gain on a standalone basis. So, by the end of the year, everything will even out.

Getting to our balance sheet, it was a solid quarter. We generated about $11 million in cash from operations.

Our outstanding debt at the end of the quarter was $115 million, down from $232 million at the end of 2018. We used the proceeds from the semi sale to reduce leverage.

We have about $384 million available from our revolving credit facility. Our current borrowing rate is at a low LIBOR plus 100 basis points through the second quarter. That's a very favorable borrowing rate. We expect to have another strong year of free cash flow, and are currently levered fairly conservatively which gives us many options in terms of capital deployment.

Our focus is to continue organic growth and acquisitions to grow the business, but we do have an authorization to repurchase $50 million worth of our shares. It's fully available at this point. If it presents the right opportunity, I expect that we would measure that against other investment alternatives in terms of capital deployment decisions.

Let me mention too that we've made significant improvements in our working capital management. Our inventory turns have improved significantly over the last three quarters as a percent of sales, as has our net working capital. I expect that to continue to be strong. Included in our net working capital is a significant amount of unbilled receivables largely related to a handful of military programs that we expect to deliver and complete in the second and third quarters. So, I expect that unbilled receivable to drop as we move through the second half of the year.

Lastly, we have two 10% customers for the quarter, both in our Aerospace segment, one represented 14% of sales; the other was 13% of sales. Pete.

Pete Gundermann: Okay. Looking forward, the rest of 2019 we are leaving our revenue guidance intact and unchanged. That has consolidated revenue in the range of $760 million to $805 million. At the midpoint, that's about 8% growth on an adjusted basis. Aerospace, we expect to be $710 million to $745 million, 8% growth at the midpoint; and Test, $50 million to $60 million but actually quite a bit up, 14% on an adjusted basis over last year.

In terms of the sequence or the flow of the year, we're actually expecting the second quarter to be a little bit lighter. We're expecting revenues somewhere in the $190 million range. It's just timing and the way things are lining up. We also will have some restructuring charges of approximately $2 million based on the initiatives that I described earlier in this call that will hit in the second quarter.

Again, we're expecting that our two struggling businesses will improve their operating losses to somewhere in the neighborhood of $5 million or a little bit less. So, even including the restructuring charges, this should be a pretty big improvement over what we saw in the first quarter.

I think that ends our prepared remarks. Christine, let's open it up for questions now.

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question comes from the line of Jon Tanwanteng with CJS Securities. Please proceed with your question.

Jon Tanwanteng: Good morning, gentlemen. Nice quarter, and thanks for taking my questions.

Pete Gundermann: Thank you.

Jon Tanwanteng: Pete, can you talk about the real-time progress you're currently seeing at AeroSat? I think you mentioned some order risks for the back half, but if I recall correctly, your distribution partner should have been taking orders for a little over a month by now. What's the update from them? What's the feedback good or bad?

Pete Gundermann: Well, the feedback is that the system seems to work, and work pretty well, and customers seem to be pretty enthusiastic about it.

A couple things need to happen for orders to materialize the way we envision. One of the critical ones is STCs, Supplemental Type Certificates, to put the system on airplanes. That's where things are right now. There are, I'd say approximately half of the airplane models that we ultimately want to be targeting have STCs but half of them do not.

So, those STCs are getting a lot of attention and we're watching it really closely. I think by the end of the second quarter, we'll kind of know where the year is going to shape up. But what we need to do is see those STCs happen and then we need to see, you're right, our partners start accumulating orders, and in turn buying things from us.

Jon Tanwanteng: Got it. And on the models that do have the STCs now, are you seeing good uptake at all or is it too early to tell?

Pete Gundermann: Reasonably good. I mean it's a little early to tell. We have 20 systems or so out there sold, installed, or about to be installed. And so, it's one of these things where it's a little bit crawl, walk, run, but we're somewhere between the crawling and the walking. We'd like to be running in the third and fourth quarter. Those are the orders that are materially different than what we've seen so far.

Jon Tanwanteng: Okay, great. Thanks. And then just in terms of the comments you made about Q3 and Q4 strength, and I know you said that these problem businesses would step a little bit, do you see any strengthening in the core Aerospace business as well?

Pete Gundermann: Well, we would hope to continue to be strong. We watch our bookings pretty closely and bookings have been positive, even on pretty strong shipments. So, there are some things happening in the industry that we're mindful of. I mean all the trade tariffs, the 737 situation, things like that are a little bit concerning. But overall, our sense is that we're well-positioned. Our customers are enthusiastic about the goods and services that we're offering, and we continue to expect to have a really good second half of the year.

Jon Tanwanteng: Okay, great. And then you mentioned the 737. I was going to ask if you could break out what kind of impact that's currently having on your business now, if you expect it to be significant in the future? And when do you have it resuming full production in your outlook?

Pete Gundermann: Well, we do not pretend to know much about the status of the program that others do not know. Our impact, I would say, pretty modest. At this point, we're thinking it's going to be somewhere in the neighborhood of a $5 million to $7 million hit to revenue in 2019, as best we can tell.

Fortunately for us, we're seeing enough offset in growth in other areas that we did not feel it necessary to revise down our sales forecast for the rest of the year. That's part of the thinking as to why we held the plan where it was. It seems to be a pretty fluid environment. In our business, with the 737 line-fit in particular, we have a forecast and then we get release orders in relatively short order. Those release orders do not go out too far. So, it's a little hard for us to predict past the July timeframe, but what we've seen is generally consistent with what's been out there in the press in terms of build rates.

Jon Tanwanteng: Okay, great. Thank you.

Pete Gundermann: Sure.

Operator: Our next question comes from the line of Josh Sullivan with Seaport Global. Please proceed with your question.

Josh Sullivan: Hi. Good morning. Nice quarter here.

Pete Gundermann: Thank you.

Josh Sullivan: Just to follow up on that 737 question, curious if you've seen any dichotomy between supplier-furnished equipment versus buyer-furnished equipment related to the 737. And maybe you answered that by saying your time line doesn't go out that far but just curious if there's any difference between the two at this point.

Pete Gundermann: I'm not sure I know how to answer that question. I guess our BFE is usually not line-fit, it's usually retrofit for aftermarket. Those agreements are generally with leasing companies or airline operators, and I would not say that we've seen a related slowdown from those people. So, that's not really an effect. The effect on us so far has just been line-fit. For us, that's primarily exterior lighting on the 737, and we do some cockpit work through avionics companies. Most significantly we do passenger service units or PSUs in the cabin. Those things that hang overhead where the reading lights, audio and oxygen system and things like that are resident. So, we've definitely seen an impact on line-fit in the short-term. I do not feel like we've seen an aftermarket effect yet.

Josh Sullivan: Okay. That's helpful.

Dave Burney: In terms of timing of that, the biggest impact is going to be on the second quarter and that's part of the reason we're projecting the second quarter to be our weakest quarter. The expected cadences on our deliveries for 737 drops in the second quarter and then throughout the year. As you get to the end of the year, we expect it to recover and get back to a normal build rate by the end of the year.

Josh Sullivan: Yeah, that's fair. And then just with regard to the three stragglers, so is the total expectation for the year still $18 million as you broke it down $10 million, $5 million, $2.5 million, so we should be breakeven by Q4, is that the way to read that?

Pete Gundermann: I think that's a good plan at this point. We obviously will update it as the quarters go by. I should say that I think based on timing, there's opportunity to do significantly better than that, but we're hedging a little bit just because this has been a little bit of an ugly road. So, for now, that's our expectation. But there is room for it to go better. I suppose there is also room for it to get worse as we could have setbacks on our development plan. We could have a slower than desired take up in some of the programs that we're expecting to hit in the third and fourth quarter. But on balance for now, that's a reasonable expectation.

Josh Sullivan: And then just one last one on capital allocation front, what are the thoughts on target acquisition multiples at this point? What you're seeing – what verticals remain attractive? And then I guess what's the hurdle rate between doing more M&A versus executing on that repurchase authorization at this point?

Dave Burney: Typically we do not use a cookie cutter approach in terms of our hurdle rate for the acquisitions. They come with different qualities of earnings, if you will. But I'd say at the low point, we would expect at least a 15% hurdle rate on an acquisition. For one that might be a little more speculative in earnings potential, we would look at a discounted cash flow using a rate probably approaching 20% in some cases. So, that's how we approach the acquisition side of it.

Josh Sullivan: Okay. Thank you.

Dave Burney: We would use a similar approach to look at share repurchases, probably at the lower end of risks since we tend to know more about our own business. There are a lot of academic articles out there that notoriously cite management's inability to predict their stock price in the future. There are a couple of very large companies out there that have had big share buybacks at peaks. When we did our last share buyback, we put a 10b-5 program in place with different purchase prices where we would buy more shares at lower prices, and execute through that program and that ended up being very successful for us. I do not remember the average prices we purchased, but it was significantly lower than where the share prices were a year later.

Josh Sullivan: Okay. Thank you.

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

Ken Herbert: Hi. Good morning.

Pete Gundermann: Good morning.

Ken Herbert: Pete, I just wanted to first ask you, you had a really nice quarter within Aerospace in the electrical power and motion product line and it's clearly sort of reset up here into the low-90s in terms of the contribution. Is that a revenue run rate that's sustainable through 2019 and into 2020 or is there even maybe upside as some of the bigger programs you're on with U.S. airlines pick up speed or how should we think about that?

Pete Gundermann: Well, we think it's a pretty solid business and it is performing really well as you point out, up 27% over a year ago. A year ago, it was flexing up I believe in the first quarter, and strengthened over the course of the year. So, it's been a nice run.

We continue to have a very strong market position there. We think it continues to be an in-demand kind of product offering, increasingly in narrow-bodies, just like it has been for a long time in wide-bodies. I sure hope it continues to expand like that.

I'll tell you that one of the lesser product lines, Ken, and you probably know - built into that product grouping is our flight-critical power distribution, primarily for smaller private aircraft, which is something we have been working on and investing in pretty heavily over the last five years, and it's taking on a bigger role also. Our expectation is that, the end of this year/next year, that product line is going to start having a more material impact not only on our electrical power and motion product reporting specifically, but in terms of our overall consolidated income statement. It should be a good contributor.

Ken Herbert: Okay, that's helpful. Because you did have a nice ramp last year on this product line, and so the comps are going to get tougher, so I imagine the reported growth will slow as you go through the year, but if you're able to maintain that sort of $90 million to $95 million run rate that's represents a very nice step-up in that business. So, that's encouraging.

Pete Gundermann: Yes, I agree.

Ken Herbert: On the Test Systems side of the market, you had a really nice military quarter there, and I know this business can be very lumpy, but are you seeing any sort of catch up? It sounds like from a lot of other suppliers that they're finally starting to see some of the money that was authorized in fiscal 2017 and 2018 flow through. Are you seeing that as well or are there any particular programs you'd point to there that drove the nice quarter on the military test side?

Pete Gundermann: Well, I think the shipments in the first quarter are a reflection of bookings that we had in the third and fourth quarters, and it's a range of programs. I would agree with you that we are starting to see money flow a little bit better there. That's part of the reason why we were comfortable selling our semiconductor test business like we did. The adjusted growth that we're expecting on the A&D side of Test is in the neighborhood of 14% or so year-over-year. So, yes, we're pretty optimistic for some prospects.

Like is often the case in the Test business, there are a few target programs out there that for a company our size could be game changers. I guess I'd prefer to stay away from naming them at this point, but it's a little bit of a whale hunt, and it's nice to have two or three whales that you're pursuing. They won't be necessarily affecting 2019 results, but they could be 2019 awards driving the next two or three years in a much higher trajectory.

I said earlier it's a transition quarter for our Test business. It has not been easy. We sold off a big chunk of it, and we had to right-size the organization for the prospects that are immediately in front of it. Then we have to turn and execute on those prospects. So, there's a lot in front of our Test business, but it's by no means a doom and gloom scenario. It's one we think has some very worthwhile targets in front of it.

Ken Herbert: That's helpful. And if I could just finally on the struggling businesses, your stragglers on primarily AeroSat and CCC, is the right way to think about it with the restructuring you've done and with visibility you have on the cost side, that the targets you outlined in terms of sort of improvement on the cost side really are not reflective, especially in the case of AeroSat - they're not assuming that substantial revenue ramp in the second half of the year but you can really get this down to the $2.5 million, maybe some help from the top line in volume but that's really reflective of the improvements on the cost side? Is that the right way to think about it?

Pete Gundermann: It's both.

Ken Herbert: Okay.

Pete Gundermann: If we do not get the revenue ramp, then the cost cutting that we did will result in something more than a $2.5 million per quarter loss, I'm guessing. I do not have that in front of me, but we did what we did with the anticipation of a middle of the road range of likely outcomes for the revenue ramp. It's a similar situation at CCC where the cost challenge in terms of that development program and our assumption is that related cost winds down through the third quarter, and that the revenues, that are in part being driven by that development program, pick up in the third quarter and fourth quarter. It's a two-step approach, manage your cost, and get the revenue. If we do that, I think we're much closer to line of sight to a reasonable world than we have been over the last year or so, with those two in particular.

Ken Herbert: It looks you've significantly de-risked those businesses this year, so really nice work there. Well, great quarter. Thanks for the time.

Pete Gundermann: All right. Thank you.

Operator: Our next question comes from the line of Michael Ciarmoli with SunTrust. Please proceed with your question.

Mike Ciarmoli: Hey. Good morning, guys. Thanks for taking the questions. Nice quarter. I'll have to apologize, I know I had a note that went out earlier today with the wrong consensus numbers. So, that's on me, I apologize for that.

Pete Gundermann: No, we didn't notice. We didn't notice, Mike.

Mike Ciarmoli: I think everybody else did.

Pete Gundermann: Okay.

Mike Ciarmoli: Just on Ken's questioning, I know you had been looking for AeroSat, CCC, and Armstrong to I guess go from $45 million to $80 million, you took some cost out. Where do you see the revenues now this year, given sort of the revised expectations?

Pete Gundermann: That's a good question. It's hedging down a little bit in that, when we talked about AeroSat in particular, we talked about our tail-mount business jet program the most, but our expectations for 2019 were really built on three legs to a stool. One of those legs moved out of 2019 into 2020. So, I'm not exactly prepared for your question, but I'm going to say $85 million consolidated is going to turn into $70 million or so probably, for those three. Let me be more prepared next quarter, but I think it's in that range. It's down a little bit. It's still an important big improvement.

Mike Ciarmoli: Got it. But then to your point, you've got strength in other areas of the business, keeping the guidance the same.

Pete Gundermann: Yes.

Mike Ciarmoli: And then just maybe a little bit more on the 737. I know you called out the impact but what sort of scenarios? Can you kind of walk us through maybe what you had been thinking? I mean most of the supply chain was obviously doing 52 a month prepping for 57. I wouldn't expect you to have any other visibility beyond what we've heard from Boeing. But it seems like this plane is not going to fly until September. I know Spirit is producing at that 52 rate. But storing fuselages and presumably none of the interior equipment is going in there. I may be wrong. But I mean what sort of sensitivities or – I know you've got a range of content on narrow-bodies, but are you thinking that pull gets back up to 52 a month this year or any more color on that?

Pete Gundermann: Well, I think our official communication has it going back up to that intended 57 later in the year. We're taking a pretty big hit in terms of volume in the short-term, like May and June. As Dave said, that's part of why our second quarter is going to be a little bit lighter.

I guess I can offer this, most of our content comes out of our PECO operation in Portland, Oregon. PECO has done a really good job supporting Boeing in its various endeavors. And it is a very little inventory, very little float between our facility and Boeing. I think Boeing is highly confident in our ability to meet their requirements. If you stand near the loading dock at that operation, you see the Boeing trucks pull up in the morning and it's on the production floor up in Seattle that afternoon. I think we're not getting any relief. My sense is, in some cases, Boeing is using the slowdown as an opportunity for some suppliers to get caught up. That's not our case. We're not getting that treatment, I think because we are caught up, if that helps.

Mike Ciarmoli: Got it. And last one from me, you called out the operating margin which was really strong ex- the losses. I mean 19%, just to calibrate us going forward, you're going to have those losses improve obviously. But is that sort of a margin you guys think as sustainable once you get the challenged businesses up and running to normalized levels?

Pete Gundermann: I would sure like to think so and that's a pretty handsome margin, and it's a territory we have not been in for a really long time. That 19% assumes those three stragglers get to breakeven. We actually think they should be well above breakeven, and especially with the technology, and the niche markets that they operate in. You can take a napkin and play with some numbers assuming they got comparable margins to the rest of our business and it really starts to look like a nice picture.

That's where we want to get to. The first quarter was obviously strong. There was a lot going on. We need to make sure our revenue stays up at that level. Second quarter would be a little bit of a hit, and we've got the restructuring cost staring us in the face, and we're still winding down the operating losses on two stragglers at this point. But the second half of the year could shape up to be pretty nice.

Mike Ciarmoli: Got it. Perfect. Thanks a lot, guys.

Pete Gundermann: Thank you.

Operator: [Operator Instructions] Our next question comes from the line of Dick Ryan with Dougherty. Please proceed with your question.

Dick Ryan: Thank you. Pete, you took Armstrong off the list of stragglers. Is that due to better oversight or are there some changes going on in the certification business or combo or both?

Pete Gundermann: Certainly better oversight. As you know, we acquired Telefonix a year ago last December. Early middle last year, we moved Armstrong organizationally into the Telefonix structure, which led to, I think, much better synergies. Now we have three operations in the Greater Chicago area, so they can share resources and minimize some costs. We took them off the list in part because they just were not hurting us really badly. It's not as though that business by itself is very profitable at this point, but it's in that breakeven range. At that point, if we can get the other two there, we'll stop talking about them also. But obviously, $10.7 million operating loss in the first quarter was on the high side of everybody's expectations, and we're just really happy that the rest of the business performed really well so we could kind of swallow it. But we expect that to get better in the short order here also.

Dick Ryan: Sure. And Dave, it looks like you're talking about E&D expenses or breaking them out. Is there any reason necessarily to do that or should we kind of consider that they would remain in a 12% sort of range of revenue?

Dave Burney: I do not break them out because they're not the explanation to any of the margin changes. It's a pretty consistent run rate that we've been at for the last four quarters or so. That's the reason that we have not been breaking that out. On an annualized basis, a little over $100 million or so.

Dick Ryan: Yeah. Okay. Great, thank you.

Dave Burney: Let me be clear that's on the Aerospace side.

Dick Ryan: Yeah. Okay, great. Thanks, Dave.

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

Scott Lewis: Hey, good morning, guys. Good quarter. Thanks for taking the call.

Pete Gundermann: Thank you. Good morning.

Scott Lewis: Good morning. Pete, just on the CCC development program, I know there were a lot of technology high hurdles to get over kind of tens on the degree of difficulty scale. Are you past all those? In other words, you just have some kind of basic blocking and tackling things to get done before it's ready or do you still have some hurdles to get over?

Pete Gundermann: Well, it's not done yet. So I guess, it would be risky for me to say there are no more hurdles. But we're reasonably confident that there are no architectural showstoppers in front. It is more execution, blocking and tackling, nothing that we're really nervous about, kind of holding our breath hoping it works. Again, we're within, in some cases, 8 to 10 weeks with some of the earlier delivery deadlines for the system to be delivered. So, there better not be major showstoppers at this point or we got a big problem. We're reasonably optimistic.

And I would just take the opportunity since you bring it up, Scott, the program that we're working on is substantial and we think will be something to brag about in due course. We think the architecture in the system we are developing is something that will be the premier program in the industry. So, it will enable systems and use cases, that otherwise in the state-of-the-art in the industry today is just really not very feasible. It's not going to be cheap, but these are designed for pretty expensive airplanes by operators who can generally afford the best. We expect it's going to be a highly considered and highly sought after system in the industry as the industry goes forward.

Scott Lewis: Okay, great. Do you expect to have a press release when you, at some point, install the first system or have them available for sale?

Pete Gundermann: It has been an active discussion point. At this point, our customer has proven to be more than shy. So, we have not been able to do it but I'd love to do it, if I could.

Scott Lewis: Okay, great. Thanks for taking the question.

Pete Gundermann: Sure thing.

Operator: Our next question comes from the line of Christopher Hillary with Roubaix Capital. Please proceed with your question.

Christopher Hillary: Hi. Good morning.

Pete Gundermann: Good morning.

Christopher Hillary: You made a few comments to this effect already, but I was curious if you could share any other comments you might have on where you see changes in your product demand out in the marketplace, things that are kind of going up or anything that you watch for things that aren't progressing as quickly as you'd like.

Pete Gundermann: Well, there are two sore spots we have devoted plenty of airplay to in recent calls, including today. But I think even in those cases we're feeling like the market is turning in our favor. Going back to CCC, the VVIP market for example, it was not too long ago that there were geopolitical tensions in the world, and there were severe oil price pressures, and there was this lag between airplane models which kept the market rather depressed. The 787 has never been tremendously popular as a VVIP platform, the 777 was between lifecycles, the 737 MAX was not out yet, the A320neo was not out yet, the A350 was not available, and all those things have kind of turned around such that all the airplanes are available. The MAX obviously has short-term challenges, but that's going to be a very popular VVIP platform. As those airplanes become available, and as we get through this development program, and have what I would claim to be an unrivaled product offering out there, we're going to have a front row seat at that business as it turns around. That business, I believe, has the potential to be a very solid, profitable contributor. I could go through a similar exercise with the business jet world, large business jets, trans-oceanic business jets with our tail-mount assembly.

The rest of our business, I feel, is really well-positioned. We've largely positioned ourselves to be a supporter of the in-flight entertainment industry, and we're not an in-flight entertainment provider. We do not go out there and sell content and bandwidth, and all the ancillary hardware, but rather we sell to the companies that do that, and primarily on the hardware side. That's proven to be something that they appreciate and really like. They need hardware and many of them would prefer to focus on the bandwidth and the software.

When you think of the airplanes that are scheduled to fly over the next 10 years, and you think of major parts of the world opening up, including China, and you think of the relatively short life cycle of consumer electronics and the increasing expectations of performance, we think there's an opportunity not only to outfit a lot of airplanes with hardware, but to obsolete our own stuff in relatively short order. It's not like a braking system on an airplane that's going to be relatively unchanged for 30 years. The wireless access points, the file servers, or the antenna systems are all going to need to change with the times.

I think we're pretty well-positioned, even if the industry were to slow down. The sweet spot of where we're focused is a rich one, and one that rewards good performance. I think we've got an unrivaled set of product offerings and customer relationships, and 250 airlines around the world. It's a good situation.

Christopher Hillary: Great. Thank you.

Pete Gundermann: Sure.

Operator: Thank you. We have no further questions at this time. I would like to turn the floor back over to management for closing comments.

Pete Gundermann: No closing comments. Thank you for your attention. We look forward to talking to you again at the end of the second quarter. Have a good day.

Operator: Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.