Operator: Greetings, and welcome to Astronics Corporation's Fourth Quarter and Full Year 2016 Financial Results Conference 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.

I will now turn the conference over to Mr. Craig Mychajluk, Investor Relations for Astronics. Mr. Mychajluk, you may now begin.

Craig Mychajluk: Thanks, Manny, 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 CFO. Pete will go through his prepared remarks, and then we'll open it up for questions-and-answers. You should have in hand the news release that crossed the wire this morning, which 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 these documents both at our website and at www.sec.gov.

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

Peter J. Gundermann: Thanks, Craig, and good morning, everybody. Thanks for tuning in. We're going to first talk about the fourth quarter, which was a little bit weaker than we wanted, but generally consistent with both the preceding quarter and our comparator quarter. We will then do a post-mortem on 2016, now that it's over, which in general was fine with us. We're ready to move on to 2017, which will be our third topic, and give some initial colors on what we expect to unfold over the course of the year.

Starting with the quarter, fourth quarter revenue was $154 million, slightly below our comparator quarter of the fourth quarter of 2015, and pretty much even sequentially with the third quarter of 2016. Aero sales were $128 million, up from the third quarter, but still one of our weaker quarters in 2016. Test sales were $26 million, down from $30 million in the third quarter, but better than the first couple quarters of the year when we were in the $21 - $22 million range.

Bottom line results were also a little bit lighter than we'd have liked. Net income was $9.9 million, 6.4% of sales, diluted earnings per share was $0.33, down from $0.46 in 2015. If you look at the tax line that largely explains the differences between the fourth quarter 2016 and the fourth quarter 2015, we had a very light tax rate in 2015 and a much more normal tax rate in 2016.

Engineering and Development expense for the quarter was $22.7 million, 14.7% of sales, slightly down from last year, and consistent with recent quarters. Bookings were also a little light at $137 million with a book to bill ratio of 0.89x, about the same as the third quarter. Bookings in the Aerospace segment was $114 million and the Test segment was $23 million. Backlog at the end of the quarter and the end of the year was $258 million.

Moving from the quarter to year-end, revenue for the year ended up being at $633 million, down 8.5% from $692 million in 2015. 2016 is the first year since 2003 when we recorded a sequential decline in sales from one year to the next. The drop of $59 million can largely be explained by two events or situations. One is a reduction in our semiconductor test product line, which was $54 million out of the total decline of $59 million, and a reduction in our avionics product line of $23 million.

These two together, the semiconductor test and the avionics product line, explain a $77 million decline in revenues. The rest of the business cumulatively fought some of that decline back, so instead of a $77 million decline, we ended up at $59 million.

Jumping to the bottom line, net income for the year was $48.4 million, down from $67 million in 2015. Our net income margin was 7.6%, or $1.61 per diluted share versus $2.22 in 2015. The margin decline was generally driven by the 1% drop in Aerospace operating profit and a substantial drop the in Test operating profit, as you might expect looking at the drop in revenue.

2016 bookings ended up at $617 million, roughly equal to sales with a book-to-bill ratio of 0.97x, despite weak bookings in the third and fourth quarters. You might remember that the second quarter was one of our best booking quarter ever and the first quarter was also pretty strong. So if you take it as a moving four-quarter average, it roughly worked out to be in the same neighborhood as sales. As I mentioned that before, backlog going into 2017 was $258 million.

Looking at our segments, starting with year-to-date Aerospace results, revenue was $534 million, about 84% of our consolidated total and marginally down 2.9% compared to $550 million in 2015. The decline of $15.7 million was again more than explained by the avionics decline of $23 million for the year. Operating profit turned out to be $78 million, 14.6% of sales, down from $85 million or 15.5% of sales in 2015.

Looking at sales by market table from the back of the press release, commercial transports sales were $435 million, 69% of total sales, down 4.4%, again, mostly driven by Avionics. Military turned out to be $55 million, 8.6% of our total sales and up 26%, largely driven by some military missile products that we have. Business jet sales was $25 million, only 4% of sales and down 22% from 2015, largely driven by in-flight entertainment systems that we make for VVIP airplanes. So, there is a lot of movement in our Aerospace business. If you cut it a different way and look at it by product lines; our electrical power and motion product line, which includes our in-seat power franchise, was $289 million, 45% of our total revenue and up 3% for the year. Lighting and safety was $157 million, about flat with 2015 and 25% of our total sales. Avionics was the big mover for Aerospace, $33 million in sales in 2016, down 42% over 2015, and making up 5.2% of our total. Finally, our systems certification product line was $16.5 million, down 22%, only 2.6% of our total sales.

Moving to the Test segment, revenue in the fourth quarter was $26 million, up 25% over the comparative period of the fourth quarter of 2015, and operating profit was $2 million, 7.6% of sales. Year-to-date our Test segment recorded a revenue just shy of $100 million, down 30% from $142 million in 2015. The decline in semiconductor test sales was somewhat offset by an increase in our traditional Aerospace and Defense test sales.

Year-to-date bookings were $76 million, book-to-bill ratio was 0.77x. In 2016 we obviously did not record substantial semiconductor test orders, but to the extent we had semiconductor sales that would erode our backlog. Our backlog at the end of the year for Test was $38.9 million.

Looking at our balance sheet we consider it to be very healthy, with a cash of $18 million at the end of the year, total debt of $148 million, and net debt of $130 million. Through our share repurchase plan, year-to-date we have bought 523,000 shares at $17.6 million. The total authorization was for $50 million, so we have $33 million remaining.

And finally, looking forward and talking about 2017, we are issuing an initial guidance for 2017 of $640 million to $720 million range for consolidated revenue. We expect our Aerospace segment to be in the $560 million to $600 million range. Taking the midpoint of this range, we would be growing 8.6% over 2016 in this segment. For our Test business, we're coming out with an initial revenue guidance of $80 million to $120 million. That's a pretty wide range and it reflects a number of open issues that we have in the market that could collectively throw us off the midpoint pretty strongly one way or the other. We're putting a plus or minus 20% on that midpoint range. Our goal is to be towards the high-end of that range. $120 million would be an increase of 20% over 2016, but it's possible if everything were to go the wrong way, we end up at the other end and that's a negative 20%, around $80 million. We will report on those orders as they develop as quickly as we can, but today, we think it's prudent to have a wide range.

When you look at the year, we're expecting the year to grow in momentum based on the scheduling of programs as we see it. We expect the first quarter to look quite a bit like the third and fourth quarter of 2016, we expect the second and third quarter to represent a step up, and the fourth quarter to represent another step up to reach our budgeted numbers. So it'll be a year of growing momentum if everything works according to plan.

That concludes my prepared remarks. Manny, if you want to open up the lines for question, we'll take them now.

Operator: Thank you. Our first question is from Jonathan Tanwanteng of CJS Securities.

Jon Tanwanteng: Good morning, Pete. Thank you for taking my questions.

Peter J. Gundermann: Sure, Jon.

Jon Tanwanteng: Can you talk about the different factors that give you confidence in the Aerospace growth outlook and the sequential step up that you're going to see in the next couple of quarters or over the year? I think you have mentioned in the press release and during past several calls that the pipeline design activity looks good, but what's actually going to break the logjam in terms of spending from your customers?

Peter J. Gundermann: Well, actually there are two things that are going to happen.
We have a number of product lines that are doing very well, are very well positioned, and we expect those product lines to continue their performance going into the new year. Nothing has changed in feedback or the orientation that we get from our customers, which you might find a little surprising, given the lighter-than-average bookings we've had for the third and fourth quarter, but we think that waiting is more driven by just customer scheduling than anything else, there aren't any systematic changes.
So, we as I said we have a number of product lines that are doing well, and then the part that we've had trouble with, for example, the incentive systems, we've invested pretty heavily in a number of new products and we continue to get very good feedback from the industry and we're excited about where that may go. We're in the final stages of the development and certification processes and we'd expect to start recording revenue there towards the end of the first quarter and beginning of the second quarter. If that all goes according to plan, we think it will go a long way driving us towards our growth expectations and our growth initiatives. So, I would say these are the two things.

Jon Tanwanteng: Okay, great. I have another question regarding the Aerospace segment. We've seen some reports at a higher level that airlines seem to be more inclined to let the customers bring the screen on planes these days. How does a plane with no screens but in-seat power compare to a plane with a full in-flight entertainment system in terms of benefits for your company?

Peter J. Gundermann: Well, our standard position is that we believe power is important, and we believe power needs to be there one way or the other. I think different airlines will have different perspectives on whether seat-back IFE is important. There certainly is a prominent view, there is some in our company that share this view, that on wide-body long haul airplanes seat-back IFE will continue to be quite prevalent.
It appears that the trends in the industry in the narrow-body airplanes are going the other way, where maybe seat-back IFE isn't necessary as long as there is streaming content or Wi-Fi access, and people can use their personal devices. Either way, we think power is needed and we're seeing those trends work out.

Of couse, there are certainly outliers, like wide-body operators who choose the streaming content. Maybe that will increase in the future, we don't know. There are also narrow-body operators that like to offer a higher amenity suite to their passengers and that will often include seat-back IFE, and that's fine too. We just think power is important either way.

Jon Tanwanteng: Okay, great. Moving on to the Test segment outlook. What are you assuming in terms of legacy or new customers at the high-end of the range and at the low-end, and what would the margins actually look like at those two extremes?

Dave Burney: Well, the margins can be highly variable. I think we've demonstrated that over the last year, year and a half. We have been and we continue to be on a march to develop a set of technologies, a set of capabilities that we think are of interest and are appealing to both the traditional Aerospace and Defense Test market and also to the Semiconductor market. We have a number of programs in process in both markets that we think are pretty exciting and could be good. On the Aerospace and Defense side, there is a new Sheriff up in town in the Whitehouse, and we think that probably will mean good things for that market in general and for us, because as we look around after 8 years of the last Sheriff, we think we're one of the better positioned, better equipped companies to compete in that arena.

On the semiconductor side we continue to work with a number of customers on a number of programs, which are promising. It's a question of timing. So, we're very confident that we're going to have good news there, it's a question of when and how big. 2017 has a defined end. We're already in the middle of February. The question for both sides is: will these new programs be launched in time to have substantial impacts for the year? The way I would answer your question is, we think we've some good opportunities, they're going to happen, however it's a question of when and how much they're going to help 2017.

Jon Tanwanteng: Okay, great. One final question just regarding consolidation in the industry, especially with Zodiac, which I believe is someone you do work with on a regular basis. Any high level thoughts on how that might impact you? Will this benefit you or hurt you?

Peter J. Gundermann: Zodiac and B/E, they're both important, I'll call them contenders. They're not really competitors of ours, they're more customers than anything. We do work with both of them. We work closely with them for our airline customers, a lot of our products bid on their products even though they're not necessarily our customer for that.

So, they're important entities and I guess we're in a wait and see. We don't see any obvious impact. We expect that they were both purchased because Rockwell Collins, Safran and the others, they want to have substantial roles in the cabin. They've got them now and I think we're going to continue be their partners, as we've been in the past, and I don't really see it having much of an impact on us.

Jon Tanwanteng: Great, Pete. Thank you for the color.

Peter J. Gundermann: Sure.

Operator: Thank you. The next question is from Ken Herbert of Canaccord. Please go ahead.

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

Peter J. Gundermann: Hi, Ken.

Ken Herbert: Hi, Pete. I just wanted to dig a little deeper into the Aerospace segment. If you look at the midpoint of the guidance and the implied $45 million in growth there, based on your comments, is it fair to say that the majority of that midpoint would be a recovery or sales in the avionics products, and that the low point of the guidance implies flat to up slightly avionics product sales? Is that the right way to think about the guidance?

Peter J. Gundermann: That's one possible set of outcomes, yes. However, there are obviously many moving parts and many possible outcomes. To answer your question, yes, we're thinking that our avionics product line will make up a good chunk of that increase.

Ken Herbert: Okay. The subsequent question to that is, when you look at the range on the Aerospace guidance for the full year, what would you identify as one or two of the other product lines or markets where perhaps you see the most variability, or would help you get to the upper end of guidance for the full year?

Peter J. Gundermann: I wouldn't say they are major risk items, I'd say instead that it's the cumulative effect of many little events that could happen. There are major programs that get scheduled and then sometimes get moved. Something like that could affect us. The 777 production rate is important to us, to the extent that if that moves unexpectedly, it could be a little bit of a problem or a challenge for us. However, I think overall, we would expect the rest of that business to be fairly consistent and fairly predictable, and on a percentage basis, it's a relatively narrow range when you back out, as you suggested, the expected growth from the avionics side.

Ken Herbert: Okay, that's helpful. Gross margins in the quarter were some of the lowest you have seen in quite a while. Was there anything unique going on there? Was that really just a combination of the negative mix with the mix of headwinds you have faced across the year?

Peter J. Gundermann: Yeah, we'd chalk it up more to the noise than anything else.

Ken Herbert: Okay. We can see the same thing in Aerospace, operating margins are again weaker in the second half, and I know mix and the volume was a part of that. What should we assume or what's a good starting point to think about 2017? Are you back to the 2015 to 2016 range for Aerospace or what's your expectation from an operating margin standpoint?

Peter J. Gundermann: I would expect the first half of the year, which would be qualitatively similar to the second half of last year, to be kind of what you see is what you get. I would expect things to improve in the second half of the year when we expect the volume to kick up.

Ken Herbert: Okay, that's helpful. You obviously have cash remaining left on the buyback authorization, you could argue quieter than your historical pattern in terms of M&A. Can you comment on what you're seeing in terms of the M&A pipeline, any change in your thinking around capital deployment, considering what's left on the authorization, and what's out there in terms of the M&A pipeline?

Peter J. Gundermann: Well, let me answer the second part first. The way we look at our authorization is we want to see if it is consistent with what we've seen when we put it in place. You might recall, a year ago, we went through some gyrations with some anticipated business that fell through and our stock reacted badly to that, so we basically created the authorization in part in order to prevent that from happening again, because we thought that was unnecessary at that time. We've used it on occasion when we thought that the stock gets in that territory, and we continue to think the same way about that authorization.

We do not create cash in order to buy back our shares. That's not been our objective. Our objective has been and continues to be to do what we can in terms of strategic investments in our business to make our company bigger and better in the future. That continues to be our priority, as you know, we do tend to invest pretty heavily in our own product development efforts to get there and we continue to do that.

We continue to be active in the merger and acquisition area. You're right when you're noting that we have been quieter there over the last few years; at least it looks that way from the outside. From the inside, we do actually spend quite a bit of time and effort on this front.

I believe because we are bigger than we used to be and because we are pretty conservatively financed, we are being shown more and more opportunities. Actually, one of the things that could play into our favor, referring to the earlier question from Jon, is the impact of some of the consolidation in our space.

It could be that we get shown more opportunities, not less, because there are fewer buyers in our chosen markets. We'll see how that works out. That's obviously up to the new owners, but we are seeing a pretty steady stream and we do spend a lot of time. So, it's reasonable to think that if the right thing comes along and it's got the right value proposition for us, we'll be ready to move.

Ken Herbert: Okay, that's helpful. I have one final question for Dave. Can you comment on where free cash flow ended 2016 and expectations for free cash flow in 2017?

Dave Burney: Sure. We ended up in 2016 roughly with around $50 million in free cash flow, if you look at our EBITDA and you take away for cash taxes and CapEx. We see the CapEx in 2016 as being a little bit higher than 2016. We had a couple of smaller things that we were thinking we're going to do in 2016 and then we're going to slide into 2017. So we think that the CapEx will go up a little, not a lot, in the $4 million - $5 million range. I think our tax rate is going to remain in that 30% range, so you can put those into your models and see where the free cash flow ends up.

Ken Herbert: Okay. So, we shouldn't make any assumptions around any material changes in working capital in 2017?

Dave Burney: No, I hope it gets better. I think that we had some receivables that have become a little bit long in the tooth on a couple of military programs, I think we're going to get the final billings out later in the first quarter this year, that will help that a little bit, probably close to about $10 million there. Other than that, I think the working capital is pretty consistent with what you've seen, with the exception of those roughly $10 million of receivables that I think will pick up at the end of the first quarter.

Ken Herbert: Okay, great. Thank you very much.

Operator: Thank you. The next question is from Dick Ryan of Dougherty & Company. Please go ahead.

Dick Ryan: Thank you. Pete, under the electric power and motion umbrella, can you talk specifically on what In-Seat Power did in the fourth quarter and what you're looking at for that segment in 2017?

Peter J. Gundermann: The fourth quarter compared to the fourth quarter of 2015 was actually pretty flat. Year-to-date, it was up in the order of 3% or so, which was a lower growth rate than we've seen in a while.

Some color on that is that we saw a couple of major programs slide. Some of them were actually broadcasted in the industry, but we think that we continue to be pretty well positioned from a competitive standpoint and nothing has changed. There is pretty strong demand continuing, despite the fact that growth rate was definitely a little bit lighter than we've seen in the recent years.

Dick Ryan: So, the weakness in the remaining part of electric power was out in the PGA side?

Peter J. Gundermann: Seat power or seat motion was definitely down a little bit, and our other power businesses were relatively flat.

Dick Ryan: Okay, so the competitive landscape hasn't changed and you always say it's kind of fifty-fifty, retrofit versus new build. Can you give a perspective on how you think the remaining market is for wide-body and narrow-body deployment?

Peter J. Gundermann: I wouldn't say anything major has changed. We've been on a trend where we're seeing narrow bodies increasing and we continue to see that. There's for sure more narrow-body demand today than it was two years ago. Wide-body is relatively mature, but stays strong. It's one of those situations where we're more and more nose to tail on every airplane that gets built in the short term. With A-384 and 777 slowing down, there's probably a little bit less coming off the production line, but in general, that reduction has been more than compensated for by increased usage in narrow-body operations.

Dick Ryan: Okay. Any comments on the issues that Panasonic may be facing, how that may or may not impact you guys?

Peter J. Gundermann: Well, we certainly can't talk for them. We don't really know the situation there. We feel sorry for some of the people involved because we've known them for a long time, and we obviously have been a big partner of Panasonic. We are through many parts of our business at this point. We're watching and waiting to see what we might do to help them in their situation. It's obvious that you just prefer to have one of your bigger customers not go through something like that, but other than that we're not involved.

Dick Ryan: Okay. I'm just trying to connect the dots on your comments on the Test side, looking at the numbers in your commentary. If you look at Aero Test side that ended the year at $60- something million, up 20%, and you said that's more or the same for next year, which puts that in the $70 million - low $70 million range, which isn't that far from the $80 million floor guidance you gave. Semi test was $38 million, in your comments of multiple programs and a rebound in semi would suggest that you'd be looking for more than $8 million in that business, just to get to the low end of the guidance.

So, I'm trying to look at the numbers and weigh your commentary. Can you give us some further comments on Test, and looking at Apple, how much of the $38 million did they represent and how much are you seeing flow from other customers yet?

Peter J. Gundermann: Okay. A lot of questions there. The one thing that you got to remember, maybe you're not aware of or not thinking about, is that a fair amount of our revenue when we sell equipment is deferred to cover warranty expense over the first couple of years. Some of the revenue in 2016 was based on equipment sales in 2015 and 2014. That's going to drop off.

So it's not just building from that base. That base is going to drop off unless we get new business to replace it now. That will help you understand the dynamic and the potential for the lower floor.

Dick Ryan: Yes**.**

Peter J. Gundermann: As far as customers go, we just aren't able to talk about them specifically other than to say that we think of customers but we also think of programs, and I believe programs are probably a little bit more useful because they yield the potential. It doesn't really matter if they are the same customer or different customers.

We certainly have multiple programs that we're pursuing, and we think they're all promising. From our perspective they all have very productive, thoughtful and encouraging joint efforts, joint studies that go to prove out the technology and basically establish a value proposition.

Once that value proposition is established, which represents a pretty substantial investment on the part of both us and our customers, it's a collective effort to prove the value in the technology. Then, of course, there is the funding and production cycle, which are a little bit outside our control. We can obviously control how quickly we respond to requests, how quickly and how effectively we can cooperate. However, there is a level of initiative and a level of scheduling that comes from the customer's side that we can't necessarily influence. So that's where a lot of the lack of predictability comes from. Our perspective is that it continues to be very promising. It's a little bit slower than we thought it would be, no doubt, but we're still hopeful that there is a lot of upside potential in 2017, yet.

It's February, we're going to announce first quarter results in early May. If we get to early May and we don't have anything exciting to talk about at that point, then it's going to start to look like the window on 2017 is going to get a little bit darker, that would be bad news. We're hoping we don't get there, but that's kind of the timing we're talking about.

Dick Ryan: Sure. One last question: has the exclusive with Apple dropped off?

Peter J. Gundermann: Well, pretty much every project we have with customers involves the exchange of what they would consider to be proprietary data and proprietary practices. One of the things that I think we do really well is we respect that proprietary information. So to that extent, when we work with the customer, whether it is Apple or anyone else, there are certain aspects of what we do with them that will be proprietary and confidential forever.

I think what you're referring to is a contract, because we had that a while ago, and that was maybe a little bit different than what we would normally consider to be useful, both for them and for us. We were able to work that through and I think it's mutually satisfactory at this point.

It's not restricting us from what we think we needed to do in the market and yet it protects what they feel is important about their technology. That's where you get to a win-win situation on these kinds of things. So, my answer is no, that's not a significant restriction in our efforts these days.

Dick Ryan: Okay, great. Thanks, Pete.

Peter J. Gundermann: Sure.

Operator: Thank you. The next question is from Michael Ciarmoli of SunTrust. Please go ahead.

Mike Ciarmoli: Hi. Good morning, guys. Thanks for taking my question.

Peter J. Gundermann: Sure thing.

Mike Ciarmoli: I'm just still having a little bit of trouble with the Aerospace guidance. You talked about some of the wide-body pressures. Did you guys have a good sense or good visibility into some of the big customers, Panasonic, Thales, Rockwell, what their inventory levels are right now?

Do you think there could be some destocking as they prep for five per month on the 777, certainly A380 deferrals? I know you got some of the narrow bodies ramping, but do you have that sense that they're stocked correctly right now?

Peter J. Gundermann: I don't know if we know enough to answer that question, Michael. I think there is a certain amount of maneuvering going on in the industry between the wide-body, narrow-body, but also just in competition between the feedback IFE suppliers against the connectivity suppliers that are moving into the space.

So, it's a little bit different than it used to be in terms of competitive pressures for those customers of ours, at their level. How they respond to that is a little bit beyond what we do. We stand by basically to help out as best we can with whatever they want to accomplish, but your question specifically about their inventory levels, I don't think we can answer that. I don't think we know that. Sometimes they ask us to hold certain inventory for them and to do direct shipping.

I can tell you that we have seen significant changes in those practices, so nothing really noteworthy to talk about there. If it would have helped explain anything in our financials, we would have done that proactively, but beyond that, we would just be speculating. I don't think we're knowledgeable enough on this particular issue to speculate.

Mike Ciarmoli: Got it. Even looking at the uptick - I know it sounds like first quarter will be kind of consistent here -, but you're going to have to get to a fairly steep run rate. The booking trends haven't been great. Are you seeing any change in the bookings so far this quarter? We're basically half way through. Have you seen any directional change or pickup in the bookings on the commercial transport side or the broader Aerospace segment?

Peter J. Gundermann: I don't know if we have prepared that look for this call. I'm not sure we can talk about that. But you're right, we are going to have to see things pick up to make the second half fit our forecast. I'm sure that will be an active part of our discussion when we talk about the end of the first quarter. As of today, we're pretty comfortable with those expectations.

Mike Ciarmoli: Okay. Is there anything in the pipeline that you sense is getting close on the retrofit side? United was talking pretty aggressively about used aircraft the other day. Do you get the sense that maybe you'll see a pickup in the retrofit side that could offset some of the wide-body OE weakness?

Peter J. Gundermann: I don't think I meant to talk about the wide-body as a major concern of ours. We put a lot of product on the 777, not just in-seat power but passenger servicing and some other things like that. I was talking about that in the context of things that can go down a little here or up a little over there. Our business compared to a lot of aerospace companies has a heavy aftermarket element to it. We don't see that being weak, really. We see it being a pretty strong part of our business and continuing there, and we would assume to have growth in the second half.

To get to your question to the extent that OE business drops off, yes, if we're going to do better overall, we're going to have to do quite a bit better in the aftermarket. One thing to think about too, most of our antenna ambitions at least to begin with will be aftermarket-related, although we feel there are some exciting OE opportunities also in that environment. To begin with, we would expect that to be largely an aftermarket pursuit.

Mike Ciarmoli: Okay.

Dave Burney: Mike, I'll color what Pete said a little bit just to help you in your modeling a little bit. We usually don't like to get into talking about quarterly breakouts, but I think in this case, clearly, we expect our first quarter to be much lighter, the lightest quarter of the year for us now. So, down, similar to where we were in the fourth quarter in terms of revenue.

Mike Ciarmoli: Okay. Pete, you just said that you've got significant content on that 777. That's going to be a pretty tough comp, just on that platform, with them going down to five per month in the back half for the year. It sounds like you've got enough potential offset to negate that headwind, if you would.

Peter J. Gundermann: Yes. We've got their stated plans built into our plans.

Mike Ciarmoli: Okay.

Peter J. Gundermann: I think my comment earlier was, if there is further unexpected cut, because we build parts well in advance of when they build airplanes, we'll start to see all that before the end of the year, for example in the middle of 2018 or something.

Mike Ciarmoli: Okay. My last question, as it was brought up earlier, is on the operating margins for Aerospace. They've been trending down maybe since 2011. We can see these margins get back up into 17%, 18%? Is there anything structurally keeping them lower at this point? Can you give any color there?

Peter J. Gundermann: I think the biggest challenge we have margin wise, and the biggest opportunity for improvement, would be to fix those parts of our business that are real sore spots. The way we work, we don't have one huge factory where we do all these different product lines.

We've got a number of different operating entities, and when they're all operating well, we have tremendous margin potential. When one or two of them stumble and struggle, then we can get in trouble pretty quickly. I think that's most of what we're seeing. It is a competitive world. We do have competitive pressures here and there, and those can at times influence margins. I would say the biggest opportunity for us and the things that are baked into our plan here, especially in the second half of the year, would be to get some of those softer operations back on their feet, and that should have a good positive impact on our margins.

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

Peter J. Gundermann: Sure thing.

Operator: Thank you. The next question is from George Godfrey of C.L. King. Please go ahead.

George Godfrey: Thank you. Good morning, Peter and Dave, how are you today?

Peter J. Gundermann: Doing well, George. How are you?

George Godfrey: Fine, thank you. Wanted to just roll the clock back a year look at the Aerospace guidance that was provided at the beginning of the year. The midpoint was $594 million and today the finished result is $534 million. So, if we go back and look at that $60 million delta relative to the midpoint, with the benefit of hindsight, how much of that was in your control, meaning having the right product, the right quantity, color whatever, versus customers just not demanding product, therefore, that wasn't in your control?

Peter J. Gundermann: Well, it was a little bit of both. We certainly did not expect the drop-off in some of the weak parts of our business that we got. We've talked about those a lot on this call. That's a big part of it. Some of the other parts though, to address your question, it is lower growth rates of demand on the part of some of our customers.

We've fallen into this pattern like the rest of the industry, for example, expecting business jet unit volumes to increase. Every year there is a prediction of that, and every year it seems like at some point early in the year the industry decides, well, not this year, maybe next year. So, there was some of that. I think some of our bigger product lines, like in-seat power, we talked about a 3.5% growth rate or something over the last year, which is well off of where we've been, and it's a big number.

So, you take that and you calculate what could have been or what usually have been in the 12% to 15% growth rates, and then you pretty quickly make up that delta on the aerospace side. So, it's a combination of the two.

George Godfrey: Okay. So where I was going with this, if I look at the midpoint of your guidance for this year within that Aerospace segment, as a percentage of what you can control and cannot control, would you view it the same to get to that midpoint, that going into 2017 is similar to 2016?

Peter J. Gundermann: No, I would like to think that we're one-year older and one-year smarter. I think we're a little bit more cautious. I guess I'd look at it across the board. I try not to think about this too much, but a year ago we had some contracts under development, or actually pretty much approved, negotiations signed off on major programs on the Test side of our business that basically evaporated. So, that taught us a lesson.

I think we've historically expected and achieved higher growth rates in some of our products that last year didn't work out. So, this year even though we seem to sense strong demand and strong enthusiasm on the part of our customers, I think we're a little bit more reluctant to bake those things into the numbers. Last year we thought we were going to be able to claw our way out of our antenna situation a little bit more quickly than we have. So, we've got those dialed in at a more conservative rate. I'd like to think that there is a higher quality to our projected growth rate this year than there was last year at this time.

George Godfrey: Got it, great. And then the second question is just looking at the Test business at the extremes. If I take out the Aerospace and the bench test, that call it $73 million with the 20% growth, and then I look at the variability on the forecast and assign all that to semiconductor going from $7 million to $47 million at the range of those extremes.

I don't want to put words in your mouth, but what I heard is - I feel pretty confident I can get towards the $47 million like over a period of time. It just may not be within the quarters of the calendar year. It could happen, it may not happen, but as far as the volume of business eventually flowing to us, I feel pretty good about that. Is that what I should take away from that?

Peter J. Gundermann: I'm not sure I followed some of the numbers you were producing there, but yes, I think we feel like we're on a good track, there's very good potential, and we feel like customers are pretty enthusiastic. It's a question of when those programs are going to hit the ramp stage. So, we're hoping that we get a good weighting in 2017, but it will be the second half of 2017 just based on how the calendar is going.

I would tell you in advance that if it doesn't happen in 2017, if we are talking again in another quarter and it's still kind of loosey-goosey out there a little bit, then I tell you that we have a pretty exciting 2018. That's going to be one of those kinds of situations. But at this point, from the best we can tell, we've got a good shot at getting a meaningful portion in 2017 and that's what we're shooting for.

George Godfrey: Got it. You just answered the question the way that I tried to frame it. Then just on the last housekeeping item, how many weeks or months have you been selling the Test product to customer or marketing – I shouldn't say selling – but marketing and pushing the product? Now that you've reworked the Apple agreement, how many months have you been able to talk more freely with prospective customers about the product?

Peter J. Gundermann: I got to think about that. It's got to be close to a year. It was a while ago, but I don't have that in front of me. I really don't think that was a material issue in our business.

Again, for a long time we're doing a lot of work for that customer, and we were basically standing on our heads and doing whatever we had to do, and agreement or no agreement, limitation or no limitation, we were doing everything we could just to keep that program and that customer happy and coming back, and we were affective at that. I think it's worked pretty well.

It's never been a situation where we had some kind of legal situation, either because of our own capacity or anything else. That's not really been an excuse for how we run our business. I think that's been a cooperative relationship, and I think we have a good sense of what's important to them and what's important to us, and I think everybody is okay with it.

George Godfrey: Understood. Thank you very much for taking my questions.

Peter J. Gundermann: Sure thing.

Operator: Thank you. The next question is from Matt McGeary of Eagle Asset Management. Please go ahead.

Matt McGeary: Hi. Couple quick ones, and I'm sorry if I missed some of the answers. I got on late. Do you know what your exposure is from a revenue perspective to the defense ministry?

Peter J. Gundermann: Well, that's on the tables on some of our press releases. So, if you go back to page eight, there's basically a military aircraft and there's an aerospace and defense test line and if you add those two percentages up, you get 8% and 10%, so 18%, 20% or so. We've been there for quite a while.

Matt McGeary: Could you remind me what are roughly the new build versus the retrofit percentages for in-seat power?

Peter J. Gundermann: Our working numbers are roughly fifty-fifty with the caveat that we have. For example, major customers are IFE customers, where we ship them product and we don't necessarily know where they send it. We don't know if they're sending it to Seattle for a new build line fit or they're sending it to wherever, Singapore, China. We can't really track it and that's a big chunk of our sales. However, for working assumptions, fifty-fifty, is probably a pretty good assumption. It could be sixty-forty, one way or the other in any period you're looking at depending on how the programs are working. But fifty-fifty is probably as good as anything.

Matt McGeary: Right, perfect. I know you mentioned in the past that you made some guesstimates on the penetration rate on the retrofit side. Do you have any update on what you think that looks like at this point?

Peter J. Gundermann: We would say it probably hasn't changed much over the last six months or a year. Wide-body is the more mature market. We'd probably say, on a per-seat basis, it's somewhere in the 50%-60% range of available seats. Now, we discount some seats. Older airplanes closer to retirement generally don't get the same level of investment or updating that new airplanes do. So, there's some subjectivity in deciding what the available market is. The narrow-body side is much newer, much younger and much lower penetration rate. We'd say it's somewhere shy of 20% worldwide on a per-seat basis.

Matt McGeary: Okay. Lastly, you talked earlier about some of the softer parts of the business impacting margins in a negative way. Which parts of the business is that, how are you addressing that, and what does the timing look like? Do you think about those things in terms of potential or some of these potential divestitures possibly, or is it just sort of a cyclical thing?

Peter J. Gundermann: Well, we have a bit of a portfolio. I don't think we've ever really sold anything, have we?

Dave Burney: No …

Peter J. Gundermann: Yeah, not in quite a while. So we're not active sellers of anything. The major weak part of the business, as we talked about throughout the call, is the semiconductor test area, which at this point, is between programs. Our avionics product line has a couple of challenges on the VVIP side, which is a function of where that industry is right now geopolitically and economically. However, also the antenna systems side. We've got effective plans underway for all those and we're working them aggressively. We're expecting a substantial turnaround this year for both of those. So, yes, it's getting a big part of our investment. It's got a big part of our plans.

So are we looking to sell them? No. Whatever it's worth, I'm a pretty firm believer that it's pretty much impossible to expect that everything is going to be great ever, all at the same time. There's always going to be challenges in a company. One of the things that you got to do and one of the things we do is try to identify those areas and make an adequate investment. We don't try to strangle those businesses to the point where they can't do anything unless we think the market potential's like next to nothing, which in both these cases I just mentioned, we think that there is very legitimate demand. It's a long game and what's weak today can be strong tomorrow and that's what we're trying to do.

Operator: Thank you. The next question is from Scott Lewis of Lewis Capital Management. Please go ahead.

Scott Lewis: Thanks. Good morning, Pete. Good morning, Dave.

Peter J. Gundermann: Hi, Scott.

Dave Burney: Hi.

Scott Lewis: Just a quick question on antenna systems and the new business jet product. Could you talk at all about what pacing items there are on that program? Just purely regulatory, getting us these or are other things that might affect when you can ramp up that product?

Peter J. Gundermann: Well, it boils down to three big gates. I'm thinking off the top of my head here. One of them is we got to make sure that the products are worthy and ready to go, and that certainly has been a challenge. These are complex systems with literally lots of moving parts. Making sure that they're all cemented and final and airworthy. You're a pilot. You understand that airplanes go through a ridiculously harsh environment up there. We need to make sure that this rather dedicate looking piece of equipment that sits up on the tail of an airplane is ready to go when we put it up there and bolt it down. It's not cheap. Customers expect it to work, so that's number one.

Number two, I would say is getting an STC like you asked for each and every possible installation. You can't just bolt anything you want on an airplane like you might a car or some land vehicle. Airplanes are different beast. The way it's installed, the way it's wired, the way it's reinforced has to be basically approved and solidly established by the FAA.

The third thing is that we need to make sure that our system works well with our partner. In this case Panasonic. We're doing the hardware. They're doing the content system network around the world. So, they need to make sure that our antenna works well in their system.

They can't do that job until our antenna is ready to go. It's a little bit of a push-pull, you go, I go kind of process. However, I would tell you today we're really making pretty good progress on all three of those fronts. The design is pretty much done, some tweaks here and there.

We do have an STC, the first one that's rolled out and the testing on the Panasonic network has been positive. I think the overall response has been great. I believe on our last call I talked about recently having been at the NBAA show and getting a sense for customer enthusiasm for this product, we think it's very positive and we think that it may be positive enough, even though we're gearing it towards aftermarket installations at first.

It may be strong enough from a competitive option standpoint to be attractive to certain OEM markets. We're addressing those also again with our partners at Panasonic. So, we're thinking that this is a promising product and a promising technology and we're looking forward to getting it field and talking more about it in the future.

Scott Lewis: Okay, thanks. Then just following up on a very early question. I just want to make sure when we're looking at a seat, and one seat has just in-seat power, another has in-seat power plus a seat back IFE from a supplier that you work with, are you agnostic, in other words, they're shipped out the same either way?

Peter J. Gundermann: There will be slight differences, but they're not different enough to really make us favor one program or the other. I think in general that the suppliers that do two jobs that both provide passenger power, but also IFE's seat back power tend to be a little bit bigger, probably a little bit more of an involved system there. However, it's the same basic architecture and the same basic technology. From a bottom line margin perspective, they're essentially equal. So, we don't differentiate it a whole lot there.

Again, the most important thing for us is that passengers want power. We're here to help airlines give it to them, and it maybe that we end up in these situations, because we work both with the airlines and with the IFE people that we can be on different ends of a program.

They may decide to go seat back, they may decide not to. If they go seat back, I guess I would say in that environment, to us we're going to put our best foot forward, both branches and we would like one of them to win. But does it make a huge difference to us, which way it goes? Not really.

Operator: Thank you. At this time, I would like to turn the conference back over to management for closing remarks.

Peter J. Gundermann: No closing remarks. Thanks for tuning in, appreciate your interest. Look forward to talking you at the end of the first quarter of 2017. Have a good day.

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