BLACKROCK MUNIENHANCED FUND, INC.
Form N-Q
September 22, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED

MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number: 811-05739

Name of Fund: BlackRock MuniEnhanced Fund, Inc. (MEN)

Fund Address: 100 Bellevue Parkway, Wilmington, DE 19809

Name and address of agent for service: John M. Perlowski, Chief Executive Officer, BlackRock

MuniEnhanced Fund, Inc., 55 East 52nd Street, New York, NY 10055

Registrant s telephone number, including area code: (800) 882-0052, Option 4

Date of fiscal year end: 04/30/2016

Date of reporting period: 07/31/2015

Item 1 Schedule of Investments

Schedule of Investments July 31, 2015 (Unaudited)

BlackRock MuniEnhanced Fund, Inc. (MEN)

(Percentages shown are based on Net Assets)

Municipal Bonds	**Par (000)**	**Value**
Alabama 1.4%		
County of Jefferson Alabama, RB, Limited Obligation School, Series A:		
5.50%, 1/01/22	$ 2,750	$ 2,770,625
4.75%, 1/01/25	2,200	2,216,500
		4,987,125
Alaska 0.7%		
Alaska Industrial Development & Export Authority, RB, Providence Health Services, Series A, 5.50%, 10/01/41	990	1,121,799
Borough of Matanuska-Susitna Alaska, RB, Goose Creek Correctional Center (AGC):		
6.00%, 9/01/19 (a)	765	912,117
6.00%, 9/01/28	435	509,350
		2,543,266
Arizona 1.3%		
Greater Arizona Development Authority, RB, Series B (NPFGC), 5.00%, 8/01/35	1,300	1,303,900
State of Arizona, COP, Department of Administration, Series A (AGM):		
5.00%, 10/01/27	2,700	2,990,385
5.00%, 10/01/29	400	443,924
		4,738,209
Arkansas 0.1%		
County of Pulaski Arkansas Public Facilities Board, RB, 5.00%, 12/01/42	390	419,792
California 19.5%		
Alameda Corridor Transportation Authority, Refunding RB, CAB, Subordinate Lien, Series A (AMBAC):		
5.40%, 10/01/24	10,185	11,051,031
5.45%, 10/01/25	3,700	4,018,570
Anaheim Public Financing Authority California, RB, Senior, Public Improvements Project, Series A (AGM), 6.00%, 9/01/24	5,000	5,867,600
Cabrillo Community College District, GO, CAB, Election of 2004, Series B (NPFGC), 0.00%, 8/01/37 (b)	2,400	840,528

Municipal Bonds	**Par (000)**	**Value**
California (continued)		
California Health Facilities Financing Authority, RB:		
St. Joseph Health System, Series A, 5.75%, 7/01/39	$ 550	$ 628,655
Sutter Health, Series B, 5.88%, 8/15/31	1,200	1,417,404
California Health Facilities Financing Authority, Refunding RB, St. Joseph Health System, Series A, 5.00%, 7/01/37	1,090	1,211,720
California State University, Refunding RB, Systemwide, Series A (AGM), 5.00%, 11/01/37	2,000	2,123,660
California Statewide Communities Development Authority, RB, Kaiser Permanente, Series A, 5.00%, 4/01/42	1,480	1,618,276
City of Redding California, COP, Refunding, Series A (AGM), 5.00%, 6/01/30	1,420	1,550,541
City of San Jose California, Refunding ARB, Series A-1, AMT, 5.75%, 3/01/34	850	974,661
County of Orange California Sanitation District, COP, Series B (AGM), 5.00%, 2/01/17 (a)	1,500	1,602,525
County of San Joaquin California Transportation Authority, Refunding RB, Limited Tax, Measure K, Series A, 6.00%, 3/01/36	2,175	2,618,200
Golden State Tobacco Securitization Corp., Refunding RB, Asset-Backed, Series A, 5.00%, 6/01/40	1,490	1,650,980
Los Angeles Community College District California, GO, Election of 2001, Series A (AGM), 5.00%, 8/01/17 (a)	1,300	1,414,036
Mount San Antonio Community College District, GO, Refunding, CAB, Election of 2008, Series A, 0.00%, 8/01/43 (c)	2,500	1,781,100
Poway Unified School District, GO, Refunding, CAB, School Facilities Improvement, Election of 2008, Series B, 0.00%, 8/01/36 (b)	3,750	1,522,125

Rio Hondo Community College District California, GO, CAB, Election of 2004, Series C, 0.00%, 8/01/38 (b)	5,000	1,883,250

Schedule of Investments (continued)

BlackRock MuniEnhanced Fund, Inc. (MEN)

(Percentages shown are based on Net Assets)

Municipal Bonds	Par (000)	Value
California (concluded)		
San Diego California Unified School District, GO, CAB, Election of 2008 (b):		
Series C, 0.00%, 7/01/38	$ 1,600	$ 603,520
Series G, 0.00%, 7/01/34	650	261,170
Series G, 0.00%, 7/01/35	690	260,882
Series G, 0.00%, 7/01/36	1,035	369,464
Series G, 0.00%, 7/01/37	690	230,529
San Diego California Unified School District, GO, Refunding, Series R-1 (b):		
0.00%, 7/01/30	5,000	2,814,400
0.00%, 7/01/31	1,280	681,459
San Diego Community College District California, GO, CAB, Election of 2006 (b):		
0.00%, 8/01/31	2,145	1,048,197
0.00%, 8/01/32	2,680	1,226,046
San Marcos Unified School District, GO, Election of 2010, Series A:		
5.00%, 8/01/34	700	794,549
5.00%, 8/01/38	600	677,034
San Mateo County Community College District, GO, CAB, Election of 2001, Series C (NPFGC), 0.00%, 9/01/30 (b)	12,740	7,515,326
State of California, GO, Refunding, Various Purposes, 5.00%, 10/01/41	1,000	1,114,770
State of California Public Works Board, LRB, Judicial Council Projects, Series A, 5.00%, 3/01/38	710	793,404
Walnut Valley Unified School District, GO, CAB, Election of 2007, Series B, 0.00%, 8/01/36 (b)	5,500	2,200,990
West Basin Municipal Water District California, COP, Refunding, Series B (AGC), 5.00%, 8/01/30	5,035	5,505,722
		69,872,324
Colorado 0.8%		
Regional Transportation District, COP, Refunding, Series A, 5.38%, 6/01/31	2,000	2,281,460

Municipal Bonds	Par (000)	Value
Colorado (concluded)		
Regional Transportation District, COP, Series A, 5.00%, 6/01/39	$ 575	$ 636,525
		2,917,985
District of Columbia 1.6%		
District of Columbia Ballpark Revenue, RB, Series B-1 (NPFGC), 5.00%, 2/01/31	5,480	5,570,749
Florida 9.7%		
County of Brevard Florida Health Facilities Authority, Refunding RB, Health First, Inc. Project, 5.00%, 4/01/39	1,600	1,717,344
County of Broward Florida Water & Sewer Utility, Refunding RB, Series A, 5.25%, 10/01/18 (a)	850	963,025
County of Collier Florida School Board, COP (AGM), 5.00%, 2/15/16 (a)	3,000	3,077,160
County of Duval Florida School Board, COP, Master Lease Program (AGM), 5.00%, 7/01/17 (a)	2,625	2,792,002
County of Highlands Florida Health Facilities Authority, RB, Adventist Health System/Sunbelt, Series B, 6.00%, 11/15/37	1,450	1,685,176
County of Hillsborough Florida Aviation Authority, RB, Series A, AMT (AGC), 5.38%, 10/01/33	4,050	4,444,065
County of Lee Florida, Refunding ARB, Series A, AMT:		
5.63%, 10/01/26	960	1,107,542
5.38%, 10/01/32	3,160	3,501,722
County of Miami-Dade Florida, GO, Building Better Communities Program, Series B-1, 5.75%, 7/01/33	1,400	1,568,532
County of Miami-Dade Florida, RB, Seaport:		
Series A, 6.00%, 10/01/38	2,025	2,429,554
Series B, AMT, 6.00%, 10/01/30	640	774,515
Series B, AMT, 6.25%, 10/01/38	415	506,649
Series B, AMT, 6.00%, 10/01/42	660	773,216
County of Miami-Dade Florida Aviation, Refunding ARB, AMT, 5.00%, 10/01/34	190	207,653

Schedule of Investments (continued)

BlackRock MuniEnhanced Fund, Inc. (MEN)

(Percentages shown are based on Net Assets)

Municipal Bonds	**Par (000)**	**Value**
Florida (concluded)		
County of Orange Florida School Board, COP, Series A, 5.00%, 8/01/16 (a)	$ 2,000	$ 2,092,600
County of Palm Beach Florida Solid Waste Authority, Refunding RB, 5.00%, 10/01/31	2,000	2,316,780
County of Sarasota Florida Public Hospital District, RB, Sarasota Memorial Hospital Project, Series A, 5.63%, 7/01/39	275	305,025
Florida Ports Financing Commission, Refunding RB, State Transportation Trust Fund, Series B, AMT:		
5.13%, 6/01/27	2,000	2,293,200
5.38%, 10/01/29	1,050	1,214,315
South Florida Water Management District, COP (AGC), 5.00%, 10/01/22	1,000	1,054,470
		34,824,545
Georgia 3.6%		
County of Burke Georgia Development Authority, Refunding RB, Oglethorpe Power-Vogtle Project, Series C, 5.70%, 1/01/43	1,150	1,245,278
County of Gainesville Georgia & Hall Hospital Authority, Refunding RB, Northeast Georgia Health System, Inc. Project, Series A, 5.50%, 8/15/54	500	567,900
Municipal Electric Authority of Georgia, Refunding RB, Series EE (AMBAC), 7.00%, 1/01/25	7,475	10,116,814
Private Colleges & Universities Authority, RB, Savannah College of Art & Design:		
5.00%, 4/01/31	190	208,457
5.00%, 4/01/33	140	153,056
5.00%, 4/01/44	625	668,000
		12,959,505
Illinois 20.4%		
City of Chicago Illinois, GARB, O Hare International Airport, 3rd Lien:		
Series A, 5.75%, 1/01/39	5,110	5,858,768
Series B-2, AMT (Syncora), 6.00%, 1/01/29	1,460	1,466,278
Municipal Bonds	**Par (000)**	**Value**
Illinois (continued)		
City of Chicago Illinois, GO, Refunding, Series A:		
5.00%, 1/01/34	$ 5,750	$ 5,337,725
Project, 5.25%, 1/01/33	2,700	2,595,591
City of Chicago Illinois, GO, 5.25%, 1/01/35	400	381,260
City of Chicago Illinois, Refunding RB, Sales Tax Receipts, Series A, 5.00%, 1/01/41	3,425	3,504,049
City of Chicago Illinois Park District, GO, Harbor Facilities Revenue, Series C, 5.25%, 1/01/40	550	570,686
City of Chicago Illinois Transit Authority, RB:		
5.25%, 12/01/49	900	955,908
Sales Tax Receipts, 5.25%, 12/01/36	595	632,449
County of Cook Illinois Forest Preserve District, GO, Refunding, Limited Tax Project, Series B, 5.00%, 12/15/37	285	308,547
Illinois Finance Authority, RB, Carle Foundation, Series A:		
5.75%, 8/15/34	650	752,719
6.00%, 8/15/41	1,000	1,166,370
Illinois Finance Authority, Refunding RB, Silver Cross Hospital And Medical Centers:		
4.13%, 8/15/37	700	685,097
5.00%, 8/15/44	700	745,472
Illinois HDA, RB, Liberty Arms Senior Apartments, M/F Housing, Series D, AMT (AMBAC), 4.88%, 7/01/47	2,115	2,117,792
Illinois Municipal Electric Agency, RB, Series A (NPFGC), 5.25%, 2/01/17 (a)	1,000	1,069,740
Illinois Sports Facilities Authority, RB, State Tax Supported (AMBAC), 5.50%, 6/15/30	12,490	12,662,487
Kane McHenry Cook & De Kalb Counties Unit School District No. 300, GO, Refunding, 5.25%, 1/01/33	9,145	10,380,215
Metropolitan Pier & Exposition Authority, RB, CAB, McCormick Place Expansion Project, Series A (NPFGC) (b):		
0.00%, 12/15/26	5,000	3,277,800
0.00%, 12/15/33	9,950	4,322,479

Schedule of Investments (continued)

BlackRock MuniEnhanced Fund, Inc. (MEN)

(Percentages shown are based on Net Assets)

Municipal Bonds	Par (000)	Value
Illinois (concluded)		
Metropolitan Pier & Exposition Authority, Refunding RB, McCormick Place Expansion Project, Series B:		
CAB (AGM), 0.00%, 6/15/44 (b)	$ 3,450	$ 815,131
4.25%, 6/15/42	1,070	1,019,699
Railsplitter Tobacco Settlement Authority, RB, 6.00%, 6/01/28	675	794,414
Regional Transportation Authority, RB, Series A (AMBAC), 7.20%, 11/01/20	6,455	7,384,391
State of Illinois, GO:		
5.25%, 2/01/33	830	859,921
5.50%, 7/01/33	820	881,984
5.25%, 2/01/34	830	857,573
5.50%, 7/01/38	445	471,607
University of Illinois, RB, Auxiliary Facilities System, Series A, 5.00%, 4/01/39	905	986,604
		72,862,756
Indiana 1.5%		
Indiana Finance Authority, RB, Series A:		
CWA Authority Project, 1st Lien, 5.25%, 10/01/38	1,100	1,269,950
Private Activity Bond, Ohio River Bridges East End Crossing Project, AMT, 5.00%, 7/01/44	515	536,496
Private Activity Bond, Ohio River Bridges, AMT, 5.00%, 7/01/40	890	930,789
Indianapolis Local Public Improvement Bond Bank, Refunding RB, Waterworks Project, Series A (AGC):		
5.25%, 1/01/29	600	670,188
5.50%, 1/01/38	1,825	2,055,516
		5,462,939
Iowa 3.4%		
Iowa Finance Authority, RB, Iowa Health Care Facilities, Series A (AGC), 5.63%, 8/15/37	5,725	6,477,036
Iowa Student Loan Liquidity Corp., RB, Senior Series A-2, AMT:		
5.60%, 12/01/26	2,580	2,785,703
5.70%, 12/01/27	1,170	1,256,252
5.80%, 12/01/29	790	847,220

Municipal Bonds	Par (000)	Value
Iowa (concluded)		
Iowa Student Loan Liquidity Corp., RB, Senior Series A-2, AMT (concluded):		
5.85%, 12/01/30	$ 825	$ 885,440
		12,251,651
Louisiana 1.3%		
City of New Orleans Louisiana Aviation Board, RB, Series B, AMT, 5.00%, 1/01/40	2,795	3,030,702
Louisiana Public Facilities Authority, Refunding RB, Christus Health, Series B (AGC), 6.50%, 7/01/30	1,250	1,420,200
		4,450,902
Massachusetts 1.5%		
Massachusetts HFA, Refunding RB, Series C, AMT, 5.35%, 12/01/42	1,150	1,188,766
Massachusetts School Building Authority, RB, Dedicated Sales Tax, Senior Series A, 5.00%, 5/15/43	1,280	1,425,536
Massachusetts Water Resources Authority, Refunding RB, General, Series A (NPFGC), 5.00%, 8/01/34	2,530	2,710,971
		5,325,273
Michigan 3.0%		
City of Detroit Michigan Sewage Disposal System, Refunding RB, 2nd Lien, Series E (BHAC), 5.75%, 7/01/31	2,500	2,762,775
City of Detroit Michigan Water Supply System, RB, 2nd Lien, Series B (AGM), 6.25%, 7/01/36	400	435,032
City of Lansing Michigan, RB, Board of Water & Light Utilities System, Series A, 5.50%, 7/01/41	1,700	1,994,678

Royal Oak Hospital Finance Authority Michigan, Refunding RB, William Beaumont Hospital,		
Series D, 5.00%, 9/01/39	1,390	1,496,377
State of Michigan Building Authority, Refunding RB, Facilities Program:		
Series I, 5.00%, 10/15/45 (d)	865	955,937
Series I-A, 5.38%, 10/15/36	145	166,569
Series I-A, 5.38%, 10/15/41	700	802,403

Schedule of Investments (continued)

BlackRock MuniEnhanced Fund, Inc. (MEN)

(Percentages shown are based on Net Assets)

Municipal Bonds	Par (000)	Value
Michigan (concluded)		
State of Michigan Building Authority, Refunding RB, Facilities Program (concluded):		
Series II-A (AGM), 5.25%, 10/15/36	$ 900	$ 1,000,908
State of Michigan HDA, RB, S/F Housing, Series C, AMT, 5.50%, 12/01/28	790	832,834
Western Michigan University, Refunding RB, General, University and College Improvements (AGM), 5.00%, 11/15/39	380	418,387
		10,865,900
Minnesota 0.8%		
City of Minneapolis Minnesota, Refunding RB, Fairview Health Services, Series B (AGC), 6.50%, 11/15/38	2,500	2,859,400
Nebraska 1.8%		
Central Plains Energy Project Nebraska, RB, Gas Project No. 3, 5.25%, 9/01/37	750	816,473
Central Plains Nebraska Energy Project, RB, Gas Project No. 3, 5.00%, 9/01/32	5,000	5,427,600
		6,244,073
Nevada 1.6%		
City of Las Vegas Nevada, GO, Limited Tax, Performing Arts Center, 6.00%, 4/01/34	850	973,904
County of Clark Nevada, ARB, Las Vegas-McCarran International Airport, Series A:		
5.25%, 7/01/42	500	559,815
(AGM), 5.25%, 7/01/39	3,800	4,256,266
County of Clark Nevada, RB, Southwest Gas Corp. Project, Series A, AMT (NPFGC), 4.75%, 9/01/36	75	75,505
		5,865,490
New Jersey 10.2%		
New Jersey EDA, RB:		
Motor Vehicle Surcharge, Series A (NPFGC), 5.25%, 7/01/31	3,125	3,179,031
Motor Vehicle Surcharge, Series A (NPFGC), 5.25%, 7/01/33	7,800	7,934,862

Municipal Bonds	Par (000)	Value
New Jersey (continued)		
New Jersey EDA, RB (concluded):		
Private Activity Bond, The Goethals Bridge Replacement Project, AMT, 5.13%, 1/01/34	$ 685	$ 746,486
School Facilities Construction (AGC), 6.00%, 12/15/18 (a)	1,975	2,302,060
School Facilities Construction (AGC), 6.00%, 12/15/34	25	28,540
School Facilities Construction, Series UU, 5.00%, 6/15/34	570	590,628
School Facilities Construction, Series UU, 5.00%, 6/15/40	1,420	1,456,764
The Goethals Bridge Replacement Project, Private Activity Bond, AMT, 5.38%, 1/01/43	895	958,652
New Jersey Higher Education Student Assistance Authority, Refunding RB, Series 1, AMT:		
5.50%, 12/01/26	600	660,864
5.75%, 12/01/27	3,870	4,290,050
New Jersey Housing & Mortgage Finance Agency, Refunding RB, M/F Housing, Series 2, AMT, 4.35%, 11/01/33	1,230	1,252,915
New Jersey Transportation Trust Fund Authority, RB:		
Transportation Program, Series AA, 5.25%, 6/15/33	1,460	1,539,760
Transportation Program, Series AA, 5.00%, 6/15/38	1,760	1,809,421
Transportation System, CAB, Series A, 0.00%, 12/15/29 (b)	4,360	2,076,057
Transportation System, Series A, 5.50%, 6/15/41	2,000	2,107,940
Transportation System, Series AA, 5.50%, 6/15/39	1,150	1,232,547
Transportation System, Series B, 5.50%, 6/15/31	1,000	1,068,050
Transportation System, Series B, 5.00%, 6/15/42	2,500	2,558,575
Transportation System, Series D, 5.00%, 6/15/32	625	650,106
		36,443,308

Schedule of Investments (continued)

BlackRock MuniEnhanced Fund, Inc. (MEN)

(Percentages shown are based on Net Assets)

Municipal Bonds	Par (000)	Value
New York 5.6%		
City of New York New York Municipal Water Finance Authority, Refunding RB, Second General Resolution, Fiscal 2012, Series BB, 5.25%, 6/15/44	$ 1,425	$ 1,600,874
City of New York New York Transitional Finance Authority, BARB, Fiscal 2009, Series S-4, 5.50%, 1/15/33	1,600	1,819,200
City of New York New York Transitional Finance Authority, RB, Fiscal 2009, Series S-4, 5.50%, 1/15/34	2,750	3,126,750
City of New York New York Transitional Finance Authority, Refunding RB, Future Tax Secured, Series B, 5.00%, 11/01/32	1,480	1,696,420
County of Erie New York Industrial Development Agency, RB, City School District of Buffalo, Series A (AGM), 5.75%, 5/01/17 (a)	1,500	1,635,105
Hudson Yards Infrastructure Corp., RB, Senior, Fiscal 2012, Series A, 5.75%, 2/15/47	700	797,076
Metropolitan Transportation Authority, RB, Series C, 6.50%, 11/15/28	4,000	4,698,600
Port Authority of New York & New Jersey, Refunding RB, AMT, 5.00%, 10/01/30	620	636,145
State of New York Dormitory Authority, ERB, Series B, 5.75%, 3/15/36	1,200	1,375,284
State of New York HFA, RB, Affordable Housing, M/F, Series B, AMT, 5.30%, 11/01/37	2,500	2,560,975
		19,946,429
Ohio 1.3%		
County of Lucas Ohio, Refunding RB, Promedica Healthcare, Series A, 6.50%, 11/15/37	530	651,948
State of Ohio Turnpike Commission, RB, CAB, Junior Lien, Infrastructure Projects, Series A-2, 0.00%, 2/15/37 (b)	10,000	3,842,700
		4,494,648

Municipal Bonds	Par (000)	Value
Pennsylvania 5.2%		
Commonwealth Financing Authority, RB, Series B, 5.00%, 6/01/42	$ 1,600	$ 1,723,504
Pennsylvania Economic Development Financing Authority, RB, The Pennsylvania Rapid Bridge Replacement Project, AMT:		
5.00%, 12/31/34	7,290	7,809,412
5.00%, 12/31/38	1,305	1,388,559
Pennsylvania Higher Educational Facilities Authority, Refunding RB, Thomas Jefferson University, Series A, 5.25%, 9/01/50	4,125	4,518,195
Pennsylvania Turnpike Commission, RB:		
Series A, 5.00%, 12/01/38	620	686,706
Series C, 5.50%, 12/01/33	555	651,248
Subordinate, Special Motor License Fund, 6.00%, 12/01/36	575	676,522
Pennsylvania Turnpike Commission, Refunding RB, Series A-1, 5.00%, 12/01/40	765	848,316
Philadelphia School District, GO, Series E:		
6.00%, 9/01/18 (a)	5	5,757
6.00%, 9/01/38	395	441,547
		18,749,766
South Carolina 5.8%		
Charleston Educational Excellence Finance Corp., RB (AGC), 5.25%, 12/01/15 (a)	3,120	3,172,666
South Carolina Jobs EDA, Refunding RB, Palmetto Health, Series A (AGM), 6.50%, 8/01/39	115	137,719
South Carolina Transportation Infrastructure Bank, RB, Series A, 5.25%, 10/01/40	3,000	3,359,430
State of South Carolina Public Service Authority, RB, Santee Cooper:		
Series A, 5.50%, 12/01/54	8,725	9,780,027
Series E, 5.50%, 12/01/53	745	832,493

Schedule of Investments (continued)

BlackRock MuniEnhanced Fund, Inc. (MEN)

(Percentages shown are based on Net Assets)

Municipal Bonds	Par (000)	Value
South Carolina (concluded)		
State of South Carolina Public Service Authority, Refunding RB:		
Santee Cooper, Series B, 5.00%, 12/01/38	$ 2,080	$ 2,298,983
Series A, 5.50%, 1/01/19 (a)	80	91,974
Series A, 5.50%, 1/01/38	920	1,030,998
		20,704,290
Tennessee 1.6%		

Identifiable Assets

(In thousands)	March 29, 2014	December 31, 2013
Aerospace	$ 449,935	$ 428,619
Test Systems	124,438	11,035
Corporate	28,346	51,617
Total Assets	$ 602,719	$ 491,271

16) Fair Value

ASC Topic 820, *Fair value Measurements and Disclosures*, (ASC Topic 820) defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. This statement applies under other accounting pronouncements that require or permit fair value measurements. The statement indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. ASC Topic 820 defines fair value based upon an exit price model. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and involves consideration of factors specific to the asset or liability.

ASC Topic 820 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value.

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On a Recurring Basis:

A financial asset or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The following table provides the financial assets and liabilities carried at fair value measured on a recurring basis as of March 29, 2014 and December 31, 2013:

(In thousands)	Classification	Total	Level 1	Level 2	Level 3
Interest rate swaps	Other Liabilities				
March 29, 2014		$ (94)	$	$ (94)	$
December 31, 2013		(108)		(108)	
Acquisition contingent consideration	Current Liabilities				
March 29, 2014		$ (2,489)	$	$	$ (2,489)
December 31, 2013		(137)			(137)
March 29, 2014	Other Liabilities	$ (3,490)	$	$	$ (3,490)
December 31, 2013		(5,709)			(5,709)

Interest rate swaps are securities with no quoted readily available Level 1 inputs, and therefore are measured at fair value using inputs that are directly observable in active markets and are classified within Level 2 of the valuation hierarchy, using the income approach (See Note 17).

Our Level 3 fair value liabilities represent contingent consideration recorded related to the 2011 Ballard acquisition, to be paid up to a maximum of $5.5 million if certain revenue growth targets are met over the next three years, the 2012 Max-Viz acquisition, to be paid up to a maximum of $8.0 million if certain revenue growth targets are met over the next two years and the 2013 AeroSat acquisition, to be paid up to a maximum of $53.0 million if certain revenue growth targets are met over the next two years. The calculation of additional purchase consideration (Earn Out) related to the acquisition of AeroSat is as follows:

	AeroSat Revenue	Earn Out Formula
2014	<$30 million	No Earn Out
	>$30 million < $50 million	(AeroSat Revenue X 15%) x ((AeroSat Revenue-$30 million)/$20 million)
	>$50 million	AeroSat Revenue X 15%
2015	<$40 million	No Earn Out
	>$40 million < $60 million	(AeroSat Revenue X 15%) x ((AeroSat Revenue-$40 million)/$20 million)
	>$60 million	AeroSat Revenue X 15%

The amounts recorded were calculated using an estimate of the probability of future revenue. The varying contingent payments were then discounted to the present value utilizing a discounted cash flow methodology. The contingent consideration liabilities have no observable Level 1 or Level 2 inputs.

On a Non-recurring Basis:

In accordance with the provisions of ASC Topic 350 *Intangibles Goodwill and Other,* the Company estimates the fair value of reporting units, utilizing unobservable Level 3 inputs. Level 3 inputs require significant management judgment due to the absence of quoted market prices or observable inputs for assets of a similar nature. The Company utilizes a discounted cash flow analysis to estimate the fair value of reporting units utilizing unobservable inputs. The fair value measurement of the reporting unit under the step-one and step-two analysis of the quantitative goodwill impairment test are classified as Level 3 inputs.

Intangible assets that are amortized are evaluated for recoverability whenever adverse effects or changes in circumstances indicate that the carrying value may not be recoverable. The recoverability test consists of comparing the undiscounted projected cash flows with the carrying amount. Should the carrying amount exceed undiscounted projected cash flows, an impairment loss would be recognized to the extent the carrying amount exceeds fair value. For the Company s indefinite-lived intangible asset, the impairment test consists of comparing the fair value, determined using the relief from royalty method, with its carrying amount. An impairment loss would be recognized for the carrying amount in excess of its fair value.

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At March 29, 2014, the fair value of goodwill and intangible assets classified using Level 3 inputs are as follows:

Beginning January 1, 2012, previously unamortized trade names in the Test Systems segment with a fair value of $0.4 million are now being amortized over 10 years. The fair value measurement of total amortized intangible assets in the Test Systems reporting unit is $3.9 million. Inputs used to calculate the fair value were internal forecasts used to estimate undiscounted future cash flows. There was no change in fair value from December 31, 2012.

The Max-Viz, Peco, AeroSat, and PGA, goodwill and intangible assets acquired were measured at fair value using a discounted cash flow methodology and are classified as Level 3 inputs.

As of March 29, 2014, the Company concluded that no indicators of impairment relating to intangible assets or goodwill existed and an interim test was not performed.

Due to their short-term nature, the carrying value of cash and equivalents, accounts receivable, accounts payable, and notes payable approximate fair value. The carrying value of the Company s variable rate long-term debt instruments also approximates fair value due to the variable rate feature of these instruments.

17) Derivative Financial Instruments

At March 29, 2014, we had an interest rate swap with a notional amount of approximately $1.5 million, entered into on February 6, 2006, related to the Company s Series 1999 New York Industrial Revenue Bond, which effectively fixes the rate at 3.99% plus a spread based on the Company s leverage ratio on this obligation through February 1, 2016.

An interest rate swap entered into on March 19, 2009 related to the Company s term note issued January 30, 2009, was terminated in the third quarter of 2013 with no significant impact to the results of our operations.

At March 29, 2014 and December 31, 2013, the fair value of the interest rate swap was a liability of $0.1 million which is included in other liabilities (See Note 14 - Fair Value). Amounts expected to be reclassified to earnings in the next twelve months are not expected to be significant.

Activity in AOCI related to these derivatives is summarized below:

	Three Months Ended	
(In thousands)	March 29, 2014	March 30, 2013
Derivative balance at the beginning of the period in AOCI	$ (69)	$ (142)
Net deferral in AOCI of derivatives:		
Net increase in fair value of derivatives	14	(14)
Tax effect	(4)	5

	10	(9)
Net reclassification from AOCI into earnings:		
Reclassification from AOCI into earnings interest expense	15	37
Tax effect	(5)	(13)
	10	24
Net change in derivatives for the period	20	15
Derivative balance at the end of the period in AOCI	$ (49)	$ (127)

18) Recent Accounting Pronouncements

The Company s management has reviewed recent accounting pronouncements issued through the date of the issuance of financial statements. In management s opinion, none of these new pronouncements apply or will have a material effect on the Company s financial statements.

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19) Acquisitions

Astronics Test Systems

On January 20, 2014, we entered into an agreement to purchase substantially all of the assets and liabilities of the Test and Services Division of EADS North America, Inc. for approximately $70 million in cash, including a net working capital adjustment of approximately $17.0 million. The net working capital adjustment is yet to be finalized. On February 28, 2014, the assets were acquired by our wholly owned subsidiary Astronics Test Systems, Inc. (ATS). Located in Irvine, California, ATS is a leading provider of highly engineered automatic test systems, subsystems and instruments for the semi-conductor, consumer electronics, commercial aerospace and defense industries. ATS provides fully customized testing systems and support services for these markets. It also designs and manufactures test equipment under the well-respected test instrument brands known as Racal and Talon. The acquisition will strengthen our service offerings and expertise in the test market. This division will be reported as part of our Test Systems segment. The purchase price allocation for this acquisition is not finalized as the fair value determination of assets and liabilities is not complete.

PGA Electronic S.A.

On December 5, 2013 we acquired 100% of the stock of PGA, a designer and manufacturer of seat motion and lighting systems primarily for business and first class aircraft seats and is Europe s leading provider of in-flight entertainment/communication systems as well as cabin management systems for private VVIP aircraft. The addition of PGA further diversifies the products and technologies that Astronics offers. The purchase price was approximately $32.9 million for which approximately $10.7 million, net of cash acquired, was paid in cash and the balance paid with 264,168 shares of Astronics stock valued at $51.00 per share. PGA is included in our Aerospace reporting segment. The purchase price allocation for this acquisition is not finalized as the fair value determination of assets and liabilities is not complete.

Astronics AeroSat Corporation

On October 1, 2013, we acquired certain assets and liabilities from AeroSat Corporation and related entities, a supplier of aircraft antenna systems for $12 million in cash, plus the potential additional purchase consideration of up to $53 million based upon the achievement of certain revenue targets in 2014 and 2015. The addition of AeroSat further diversifies the products and technologies that Astronics offers. The additional contingent purchase consideration is recorded at its estimated fair value of approximately $5.0 million at the date of acquisition based upon the Company s assessment of the probability of AeroSat achieving the revenue growth targets. Substantially all of the goodwill and purchased intangible assets are expected to be deductible for tax purposes over 15 years. Aerosat is included in our Aerospace reporting segment. The purchase price allocation for this acquisition is not complete. The purchase price allocation for this acquisition is not finalized as the fair value determination of the earn out liability is still being evaluated.

Peco, Inc.

On July 18, 2013, we acquired 100% of the stock of Peco which designs and manufacturers highly engineered commercial aerospace interior components and systems for the aerospace industry. The company specializes in PSUs which incorporate air handling, emergency oxygen, electrical power management and cabin lighting systems. It also manufactures a wide range of fuel access doors that meet stringent strength, fuel sealing and anti-corrosion requirements. The addition of Peco diversifies the products and technologies that Astronics offers. We purchased the outstanding stock of Peco for $136.0 million in cash. Peco is included in our Aerospace reporting segment.

The following summary, prepared on a pro forma basis, combines the consolidated results of operations of the Company with those of Peco as if the acquisition took place on January 1, 2012. The pro forma consolidated results include the impact of certain adjustments, including increased interest expense on acquisition debt, amortization of purchased intangible assets and income taxes.

(in thousands, except earnings per share)

	March 29, 2014	March 30, 2013 as reported	March 30, 2013 Pro Forma
Sales	$ 140,951	$ 73,967	$ 94,911
Net income	7,507	8,564	9,156
Basic earnings per share	$ 0.42	$ 0.49	$ 0.53
Diluted earnings per share	0.40	0.47	0.50

The pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been in effect for the three months ended March 30, 2013. In addition, they are not intended to be a projection of future results.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(The following should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations contained in the Company s Form 10-K for the year ended December 31, 2013.)

OVERVIEW

Astronics Corporation, through our subsidiaries, designs and manufactures advanced, high-performance lighting and safety systems, electrical power generation and distribution systems, aircraft structures and avionics products for the global aerospace industry as well as test, training and simulation systems for the military, semi-conductor and consumer electronics markets. On February 28, 2014 we completed the acquisition of substantially all of the assets and liabilities of EADS North America s Test and Services division (Astronics Test Systems or ATS) which is included in our Test Systems segment.

Our Aerospace segment serves four primary markets. They are the commercial transport, military, business jet and other aerospace markets. The Test Systems segment serves the military and defense markets and with the addition of ATS in 2014, the Test Systems segment also serves the commercial electronics and semi-conductor markets.

Our strategy is to invest significantly in engineering, research and development to develop and maintain positions of technical leadership. We expect to leverage those positions to increase our ship set content, growing the amount of content and volume of products we sell and to selectively acquire businesses with similar technical capabilities.

Important factors affecting our growth and profitability are the rate at which new aircraft are produced, government funding of military programs, our ability to have our products designed into the plans for new aircraft and the rates at which aircraft owners, including commercial airlines, refurbish or install upgrades to their aircraft. New aircraft build rates and aircraft owners spending on upgrades and refurbishments is cyclical and dependent on the strength of the global economy. Once designed into a new aircraft, the spare parts business is frequently retained by the Company. With the acquisition of ATS in 2014, future growth and profitability of the test business will be dependent on developing and procuring new and follow-on business in commercial electronics and semi-conductor markets as well as with the military.

ACQUISITIONS

On February 28, 2014, Astronics completed the acquisition of substantially all of the assets and liabilities of EADS North America s Test and Services division. Astronics Test Systems is located in Irvine, California and is a leading provider of highly engineered automatic test systems, subsystems and instruments for the semi-conductor, consumer electronics to both the commercial and defense industries. The purchase price was approximately $70 million in cash, including a net working capital adjustment of approximately $17.0 million. The net working capital adjustment is yet to be finalized. The addition of ATS compliments products and technologies that the Astronics Test Segment offers. ATS is included in our Test Systems segment.

On December 5, 2013 we completed the acquisition of 100% of the stock of PGA Electronic s.a. (PGA) located in Chateauroux, France. PGA designs and manufactures seat motion and lighting systems primarily for premium class aircraft seats and is a provider of in-flight entertainment/communication systems as well as cabin management systems for private VVIP aircraft. The addition of PGA further diversifies the products and technologies that Astronics offers. The purchase price was approximately $32.9 million for which approximately $10.7 million, net of cash acquired, was paid in cash and the balance paid with 264,168 shares of Astronics stock valued at $51.00/share. PGA is included in our Aerospace reporting segment.

On October 1, 2013, we acquired certain assets and liabilities from AeroSat Corporation and related entities, a supplier of aircraft antenna systems for $12 million in cash, plus contingent purchase consideration (Earn Out) of up to a maximum of $53.0 million based upon the achievement of certain revenue levels in 2014 and 2015. The fair value of the estimated contingent consideration at March 29, 2014 was $ 5.4 million. The addition of AeroSat further diversifies the products and technologies that Astronics offers. AeroSat is included in our Aerospace reporting segment.

On July 18, 2013, we completed the acquisition of 100% of the stock of Peco, Inc. which designs and manufacturers highly engineered commercial aerospace interior components and systems for the aerospace industry. The company specializes in overhead Passenger Service Units, (PSUs) which incorporate air handling, emergency oxygen, electrical power management and cabin lighting systems. It also manufactures a wide range of fuel access doors that meet stringent strength, fuel sealing and anti-corrosion requirements. The addition of Peco diversifies the products and technologies that Astronics offers. We purchased the outstanding stock of Peco for $136.0 million in cash. Peco is included in our Aerospace reporting segment.

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CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK

(Dollars in thousands)	Three Months Ended March 29, 2014	Three Months Ended March 30, 2013
Sales	$ 140,951	$ 73,967
Gross Profit	$ 30,005	$ 20,219
Gross Profit Percentage	21.3%	27.3%
SG&A Expenses as a Percentage of Sales	11.6%	12.4%
Interest Expense, net of interest income	$ 2,323	$ 218
Effective Tax Rate	33.6%	21.0%
Net Earnings	$ 7,507	$ 8,564

A discussion by segment can be found at Segment Results of Operations and Outlook in this MD&A.

Our consolidated sales for the first quarter of 2014 increased by 90.6% to $141.0 million compared with $74.0 million for the same period last year. Aerospace sales increased by $50.7 million and Test Systems sales increased by $16.3 million. From July 2013 through the end of our 2014 first quarter we have made four business acquisitions, three in our aerospace segment and one in our test systems segment. Acquisitions contributed $58.8 million to the sales increase and organic sales increased $8.2 million or 11%.

Consolidated cost of products sold increased $57.2 million to $110.9 million in the first three months of 2014 from $53.7 million for the same period last year. The increase was due to the cost of products sold associated with increased organic sales volumes and cost of products sold of $50.9 million associated with sales from acquired businesses. Cost of products sold as a percentage of sales was 78.7% for the first three months of 2014 as compared with 72.7% for the same period last year. Included in the 2014 first quarter cost of products sold was approximately $8.7 million for the expensing of fair value cost step-up of inventory of the acquired businesses resulting in lower gross margins for those business until the acquired inventory associated with the step up is sold. Typically this occurs over a period of two or three quarters subsequent to the acquisition. Excluding the effect on cost of products sold of this fair value step up cost of products sold as a percent of sales would have been 72.6% in the first quarter of 2014. Additionally, Engineering & development (E&D) costs for our organic businesses increased by approximately $1.2 million compared with the same period last year. Total E&D costs, including acquired businesses were $17.3 million for the first quarter of 2014 including $3.2 million for acquired businesses compared with $12.8 million for the same period last year.

Selling, general and administrative (SG&A) expenses were approximately $16.4 million, or 11.6% of sales in the first quarter of 2014 compared with $9.2 million, or 12.4% of sales in the same period last year. The increase was due primarily to the incremental SG&A costs of the acquired businesses, which added approximately $7.0 million to SG&A in the first quarter of 2014 when compared to the prior year first quarter.

The effective tax rate for the three month period ended March 29, 2014 was 33.6%, slightly lower than would be expected by applying the U.S. federal statutory tax rate to earnings before income taxes. This is due to the domestic production activity deduction and lower effective tax rates on foreign income. The income tax rate for the first quarter of 2014 does not reflect any benefit for U.S. Research & Development (R&D) tax credits. As of March 29, 2014 the R&D tax credit had not been extended by Congress beyond 2013. Assuming that the R&D tax credit is not extended we expect our effective tax rate for the full year of 2014 to be in the range of 33% to 35%.

Net income for the first quarter of 2014 was $7.5 million or $0.40 per diluted share, a decrease of $1.1 million from $8.6 million, or $0.47 per diluted share in the first quarter of 2013. The earnings per share decrease is due primarily to the decrease in net income. Earnings per share for all periods presented have been calculated reflecting the effect of the one-for-five Class B share distribution for shareholders of record on October 10, 2013.

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SEGMENT RESULTS OF OPERATIONS AND OUTLOOK

Operating profit, as presented below, is sales less cost of products sold and other operating expenses, excluding interest expense and other corporate expenses. Cost of products sold and other operating expenses are directly identifiable to the respective segment. Operating profit is reconciled to earnings before income taxes in Note 15 of the Notes to Consolidated Condensed Financial Statements included in this report.

AEROSPACE

	Three Months Ended	
(In thousands)	March 29, 2014	March 30, 2013
Sales	$ 122,372	$ 71,669
Operating profit	$ 17,490	$ 14,288
Operating Margin	14.3%	19.9%

	March 29, 2014	December 31, 2013
Total Assets	$ 449,935	$ 428,619
Backlog	$ 208,307	$ 207,101

Aerospace Sales by Market	Three Months Ended	
(In thousands)	March 29, 2014	March 30, 2013
Commercial Transport	$ 99,287	$ 50,962
Military	8,958	8,616
Business Jet	9,866	8,665
Other	4,261	3,426
	$ 122,372	$ 71,669

Aerospace Sales by Product Line	Three Months Ended	
(In thousands)	March 29, 2014	March 30, 2013
Electrical Power & Motion	$ 65,833	$ 44,796
Lighting & Safety	35,091	18,117
Avionics	12,752	5,330
Structures	3,638	
Other	5,058	3,426

	$ 122,372	$ 71,669

Sales for the Aeropsace segment increased by $50.7 million or 70.7% compared with the prior year s first quarter. Organic sales grew 12.6% or $9.1 million and sales from acquired businesses added $41.6 million. Sales to the Commercial Transport market increased due primarily to the sales contributed by the acquired businesses of approximately $35.6 million. Additionally, organic sales of electrical power & motion products excluding acquired businesses increased approximately $12.1 million as global demand for passenger power systems continued to be strong. Military sales were up slightly when compared with the prior year s first quarter as sales contributed by the acquired businesses added $1.0 million and was partially offset by lower organic sales to the Military Market. Sales to the Business Jet market were up when compared with last year s first quarter due primarily to the sales contribution from acquired businesses of $2.7 million, which was partially offset by a decrease of organic sales of $1.5 million as Lighting & Safety and Electrical Power & Motion sales decreased slightly. The increase in first quarter Other sales was due primarily to the sales from the acquired businesses of approximately $2.3 million partially offset by decreased organic Other sales of $1.4 million.

Aerospace operating profit for the first quarter of 2014 was $17.5 million, or 14.3% of sales, compared with $14.3 million, or 19.9% of sales, in the same period last year. The margin leverage achieved from increased organic sales volume was offset by increased depreciation and amortization expense of $2.8 million and increased organic engineering and development (E&D) costs of approximately $1.2 million. Additionally, cost of products sold was approximately $2.4 million greater than would normally be expected due to the lower margins recognized from the sales of inventory written up to fair value at the time of acquisition for the acquired businesses. Aerospace SG&A expense increased $5.7 million in 2014 as compared with 2013. The increase was due to the incremental SG&A for the acquired businesses.

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2014 Outlook for Aerospace   We expect 2014 sales for our Aerospace segment to be in the range of $480 million to $505 million. The Aerospace segment s backlog at the end of the first quarter of 2014 was $208.3 million with approximately $191.1 million expected to be shipped over the remaining part of 2014 and $198.3 million is expected to ship over the next 12 months.

TEST SYSTEMS

(In thousands)	Three Months Ended March 29, 2014	March 30, 2013
Sales	$ 18,689	$ 2,390
Less Intersegment Sales	(110)	(92)
Net Sales	18,579	2,298
Operating loss	$ (1,695)	$ (1,525)
Operating Margin	(9.1)%	(63.8)%

	March 29, 2014	December 31, 2013
Total Assets	$ 124,438	$ 11,035
Backlog	$ 154,095	$ 7,062

Test Systems Sales by Market (In thousands)	Three Months Ended March 29, 2014	March 30, 2013
Commercial Electronics	$ 14,337	$
Military	4,242	2,298
	$ 18,579	$ 2,298

Sales in the 2014 first quarter increased approximately $16.3 million to $18.6 million when compared with sales of $2.3 million for the same period in 2013, due primarily to the incremental sales to both the Commercial Electronics and Military markets that was provided by the acquisition of Astronics Test Systems Inc. (ATS). ATS was acquired on February 28, 2014. ATS contributed $17.2 million in sales which was partially offset by decreased sales of our organic Test Systems business of approximately $0.9 million.

Test Systems operating loss for the first quarter of 2014 was $1.7 million or (9.1%), compared with an operating loss of $1.5 million or (63.8%) in the same period last year. The operating loss in the first quarter of 2014 includes, in cost of products sold, approximately $6.3 million relating to the fair value step-up of inventory from the acquired business. Depreciation and amortization expense relating to the acquisition was $0.2 million in the first quarter of 2014.

2014 Outlook for Test Systems We expect sales for the Test Systems segment for 2014 be in the range of $145 million to $155 million. The Test Systems segment s backlog at the end of the first quarter of 2014 was $154.1 million with approximately $133.0 million expected to be shipped over the remaining part of 2014 and approximately $138.7 million scheduled to ship over the next 12 months.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities:

Cash provided by operating activities totaled $2.6 million during the first quarter of 2014, as compared with $14.3 million provided by operating activities during the first quarter 2013. Cash flow from operating activities decreased primarily due to the impact of cash used by increases in net operating assets, in the first quarter of 2014 compared with the first three months of 2013 and lower net income. In particular accounts receivable increased significantly during the first quarter of 2014 as billings to customers were heavily weighted towards last half of the quarter.

Investing Activities:

Cash used for investing activities was $87.2 million in the first quarter of 2014 compared with $1.8 million used in the first quarter of 2013. Cash used for the acquisition of ATS in February of 2014 was $70.3 million. The increase in cash used for capital expenditures increased $15.1 million related primarily to the acquisition of the new building in Clackamas, Oregon by Peco. Peco expects to move its operations into the building by the end of this year. The Company expects capital spending in 2014 to be in the range of $33 million to $37 million, including the acquisition and build out of the new Peco building.

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Financing Activities:

In the first quarter of 2014, cash provided by financing activities totaled $59.1 million compared with cash used of $2.1 million in the first three months of 2013. The increase was due primarily to the draw of $58.0 million on the Company s credit facility to acquire ATS on February 28, 2014.

The Company s cash needs for working capital, debt service and capital equipment during 2014 is expected to be met by cash flows from operations, cash balances and if necessary, utilization of the revolving credit facility.

On February 28, 2014, in connection with the funding of the acquisition of ATS, the Company amended its existing credit facility by entering into Amendment No 2. to Third Amended and Restated Credit Agreement. The Company elected to exercise its option to increase the revolving credit commitment. The Credit Agreement now provides for a $125 million five-year revolving credit facility maturing on June 30, 2018, of which $58.0 million was drawn to finance the acquisition, which remains outstanding at March 29, 2014.

The credit facility carries an interest rate ranging from 225 basis points to 350 basis points above LIBOR, depending on the Company s leverage ratio as defined in the Credit Agreement. In addition, the Company is required to pay a commitment fee of between 25 basis points and 50 basis points quarterly, on the unused portion of the total revolving credit commitment, also based on the Company s Leverage Ratio.

The credit facility allocates up to $20 million of the $125 million revolving credit line for the issuance of letters of credit, including certain existing letters of credit. The credit facility is secured by substantially all of the Company s assets. At March 29, 2014, outstanding letters of credit totaled $10.9 million. There remains approximately $56.1 million available under the revolving credit facility on March 29, 2014.

The amended facility temporarily increases the maximum leverage ratio of adjusted EBITDA to funded debt as defined in the agreement to 4.0 to 1.0 for fiscal quarters ending March 31, 2014 and June 30, 2014, 3.75 to 1.0 as of the end of fiscal quarters from September 30, 2014 through March 31, 2015 and 3.5 to 1.0 as of the end of each fiscal quarter subsequent to March 31, 2015 to maturity. There were no changes to the other covenants, interest rates being charged or commitment fees. At March 29, 2014 the leverage as defined in the agreement was 2.91:1.

At March 29, 2014, we were in compliance with all of the covenants pursuant to the credit facility.

In the event of voluntary or involuntary bankruptcy of the Company or any subsidiary, all unpaid principal and other amounts owing under the Credit Agreement automatically become due and payable. Other events of default, such as failure to make payments as they become due and breach of financial and other covenants, give the Agent the option to declare all such amounts immediately due and payable.

BACKLOG

The Company s backlog at March 29, 2014 was $362.4 million compared with $214.2 million at December 31, 2013 and $119.0 million at March 30, 2013.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table represents contractual obligations as of March 29, 2014:

	Payments Due by Period				
(In thousands)	Total	2014	2015-2016	2017-2018	After 2018
Long-term Debt	$ 268,418	$ 13,092	$ 35,118	$ 212,223	$ 7,985
Purchase Obligations	142,723	137,831	4,798	94	
Interest on Long-term Debt	38,218	7,475	18,193	11,684	866
Supplemental Retirement Plan and Post Retirement Obligations	14,944	241	782	782	13,139
Operating Leases	7,828	1,908	3,169	1,854	897
Other Long-term Liabilities	6,203	116	5,766	257	64
Total Contractual Obligations	$ 478,334	$ 160,851	$ 62,404	$ 226,637	$ 22,887

Notes to Contractual Obligations Table

Purchase Obligations Purchase obligations are comprised of the Company s commitments for goods and services in the normal course of business.

Long-Term Debt See Part 1 Financial Information, Item 1 Financial Statements, Note 6, Long-Term Debt and Note Payable included in this report.

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Operating Leases Operating lease obligations are primarily related to facility leases for our AES, AeroSat, Ballard, DME, Max-Viz, Peco, and foreign operations.

MARKET RISK

The Company believes that there have been no material changes in the current year regarding the market risk information for its exposure to currency exchange rates or interest rate fluctuations. Refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2013 for a complete discussion of the Company s market risk.

CRITICAL ACCOUNTING POLICIES

Refer to the Company s annual report on Form 10-K for the year ended December 31, 2013 for a complete discussion of the Company s critical accounting policies.

RECENT ACCOUNTING PRONOUNCEMENTS

See Part 1, Note 1 and Note 18 to the Financial Statements Basis of Presentation, Accounting Pronouncements Adopted in 2014.

FORWARD-LOOKING STATEMENTS

This Quarterly Report contains certain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involves uncertainties and risks. These statements are identified by the use of the may, will, should, believes, expects, expected, intends, plans, projects, estimates, predicts, po anticipates, presume and assume, and words of similar import. Readers are cautioned not to place undue reliance on these forward looking statements as various uncertainties and risks could cause actual results to differ materially from those anticipated in these statements. These uncertainties and risks include the success of the Company with effectively executing its plans; successfully integrating its acquisitions; the timeliness of product deliveries by vendors and other vendor performance issues; changes in demand for our products from the U.S. government and other customers; the acceptance by the market of new products developed; our success in cross-selling products to different customers and markets; changes in government contracts; the state of the commercial and business jet aerospace market; the Company s success at increasing the content on current and new aircraft platforms; the level of aircraft build rates; as well as other general economic conditions and other factors. Certain of these factors, risks and uncertainties are discussed in the sections of this report entitled Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Market Risk in Item 2, above.

Item 4. Controls and Procedures

a) The Company s management, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company s disclosure controls and procedures as of March 29, 2014. Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of March 29, 2014.

b) Changes in Internal Control over Financial Reporting - There have been no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to various legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect these matters will have a material adverse effect on our business, financial position, results of operations, or cash flows. However, the results of these matters cannot be predicted with certainty. Should the Company fail to prevail in any legal matter or should several legal matters be resolved against the Company in the same reporting period, then the financial results of that particular reporting period could be materially adversely affected.

We are a defendant in an action filed in the Regional State Court of Mannheim, Germany (Lufthansa Technik AG v. Astronics Advanced Electronics Systems Corp.) relating to an allegation of patent infringement. The damages sought include injunctive relief, as well as monetary damages. We dispute the allegation and are vigorously defending ourselves in this action. We have filed a nullity action with the Federal Patent Court in Munich, Germany, requesting the court to revoke the German part of the European patent that is subject to the claim. In November 2011, the Regional State Court of Manheim, Germany, issued an interim decision to the effect that the infringement litigation proceedings be stayed until the Federal Patent Court decides on the concurrent nullity action. In February 2014, The Federal Patent Court issued a written judgment upholding the validity of a portion of the patent. This judgment is subject to appeal. However, as a result the judgment proclaimed by The Federal Patent Court the stay of the infringement litigation proceedings is no longer effective. At this time we are unable to provide a reasonable estimate of our potential liability or the potential amount of loss related to this action, if any. If the outcome of this litigation is adverse to us, our results and financial condition could be materially affected.

Other than this proceeding, we are not party to any significant pending legal proceedings that management believes will result in material adverse effect on our financial condition or results of operations.

Item 1a Risk Factors

In addition to other information set forth in this report, you should carefully consider the factors discussed in Part 1, Item 1A. Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2013, which could materially affect our business, financial condition or results of operations. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations.

The Company has a significant concentration of business with two customers, Panasonic Avionics Corporation and the Boeing Company, where a significant reduction in sales would negatively impact our sales and earnings. We provide Panasonic with electrical power and motion products which, in total were approximately 19.5% of revenue during the first three months of 2014. We provide the Boeing Company with lighting and safety products which, in total were approximately 15.3% of revenue during the first three months of 2014.

Our Test Systems Segment is highly dependent on winning large contract awards in both the military and commercial markets. Our future revenue stream and profits may be impacted significantly if we are not successful in developing new customers or are not selected for new programs by existing customers.

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Item 2. Unregistered sales of equity securities and use of proceeds

(c) The following table summarizes the Company s purchases of its common stock for the quarter ended March 29, 2014:

Period	(a) Total number of shares Purchased(1)	(b) Average Price Paid per Share	(c) Total number of shares Purchased as part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2014 January 25, 2014 (1)	637	64.66		
January 26, 2014 February 22, 2014 (2)	1,785	59.64		
February 23, 2014- March 29, 2014 (3)	4,551	69.70		
Total	6,973	64.67		

In connection with the exercise of stock options, we accept, from time to time, delivery of shares to pay the exercise price of stock options.

(1) On January 20, 2014, we accepted delivery of 637 shares at $64.66 in connection with the exercise of stock options.
(2) On February 17, 2014, we accepted delivery of 1,606 shares at $59.43 in connection with the exercise of stock options. On February 18, 2014, we accepted delivery of 179 shares at $61.49 in connection with the exercise of stock options.
(3) On February 28, 2014, we accepted delivery of 2,031 shares at $66.90 in connection with the exercise of stock options. On March 5, 2014, we accepted delivery of 2,520 shares at $71.96 connection with the exercise of stock options.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6 Exhibits

Exhibit 31.1	Section 302 Certification - Chief Executive Officer
Exhibit 31.2	Section 302 Certification - Chief Financial Officer
Exhibit 32.	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.1*	Instance Document
Exhibit 101.2*	Schema Document
Exhibit 101.3*	Calculation Linkbase Document
Exhibit 101.4*	Labels Linkbase Document
Exhibit 101.5*	Presentation Linkbase Document
Exhibit 101.6*	Definition Linkbase Document

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ASTRONICS CORPORATION
(Registrant)

Date: May 8, 2014

By: /s/ David C. Burney
David C. Burney

Vice President-Finance and Treasurer

(Principal Financial Officer)