

Edgar Filing: HEICO CORP - Form 10-Q

HEICO CORP
Form 10-Q
June 03, 2008

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

FORM 10-Q

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

For the Quarterly Period Ended April 30, 2008 or

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

For the transition period from _____ to _____

Commission file number 1-4604

HEICO CORPORATION
(Exact name of registrant as specified in its charter)

Florida 65-0341002
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

3000 Taft Street, Hollywood, Florida 33021
(Address of principal executive offices) (Zip Code)

(954) 987-4000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of each of the registrant's classes of common stock as of May 31, 2008:

Common Stock, \$.01 par value	10,572,641 shares
Class A Common Stock, \$.01 par value	15,803,730 shares

HEICO CORPORATION

INDEX TO QUARTERLY REPORT ON FORM 10-Q

Edgar Filing: HEICO CORP - Form 10-Q

Part I. Financial Information:

Item 1. Condensed Consolidated Balance Sheets (unaudited)
as of April 30, 2008 and October 31, 2007.....

Condensed Consolidated Statements of Operations (unaudited)
for the six months and three months ended April 30, 2008 and 2007

Condensed Consolidated Statements of Cash Flows (unaudited)
for the six months ended April 30, 2008 and 2007.....

Notes to Condensed Consolidated Financial Statements (unaudited)

Item 2. Management's Discussion and Analysis of Financial
Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures About Market Risk.....

Item 4. Controls and Procedures

Part II. Other Information:

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Item 4. Submission of Matters to a Vote of Security Holders.....

Item 6. Exhibits.....

Signature.....

PART I. Item 1. FINANCIAL INFORMATION
HEICO CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED

	April 30, 2008 -----
ASSETS	
Current assets:	
Cash and cash equivalents	\$5,427,000
Accounts receivable, net	83,618,000
Inventories, net	123,532,000
Prepaid expenses and other current assets	5,430,000
Deferred income taxes	14,682,000

Total current assets	232,689,000
Property, plant and equipment, net	59,088,000
Goodwill	318,608,000
Intangible assets, net	36,184,000

Edgar Filing: HEICO CORP - Form 10-Q

Other assets	17,859,000

Total assets	\$664,428,000
	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:	
Current maturities of long-term debt	\$208,000
Trade accounts payable	28,648,000
Accrued expenses and other current liabilities	40,252,000
Income taxes payable	5,006,000

Total current liabilities	74,114,000
Long-term debt, net of current maturities	55,621,000
Deferred income taxes	37,984,000
Other non-current liabilities	21,049,000

Total liabilities	188,768,000

Minority interests in consolidated subsidiaries (Note 11)	77,669,000

Commitments and contingencies (Note 11)	
Shareholders' equity:	
Preferred Stock, \$.01 par value per share; 10,000,000 shares authorized; 300,000 shares designated as Series B Junior Participating Preferred Stock and 300,000 shares designated as Series C Junior Participating Preferred Stock; none issued	--
Common Stock, \$.01 par value per share; 30,000,000 shares authorized; 10,572,641 and 10,538,691 shares issued and outstanding, respectively	106,000
Class A Common Stock, \$.01 par value per share; 30,000,000 shares authorized; 15,773,363 and 15,612,862 shares issued and outstanding, respectively	158,000
Capital in excess of par value	228,865,000
Accumulated other comprehensive income	1,147,000
Retained earnings	167,715,000

Total shareholders' equity	397,991,000

Total liabilities and shareholders' equity	\$664,428,000
	=====

The accompanying notes are an integral part of these condensed consolidated financial statements.

HEICO CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED

Six months ended April 30,	
-----	-----
2008	2007
-----	-----

Edgar Filing: HEICO CORP - Form 10-Q

Net sales	\$278,326,000	\$234,899,000
Operating costs and expenses:		
Cost of sales	179,141,000	153,744,000
Selling, general and administrative expenses	49,596,000	42,932,000
Total operating costs and expenses	228,737,000	196,676,000
Operating income	49,589,000	38,223,000
Interest expense	(1,507,000)	(1,709,000)
Interest and other (expense) income	(74,000)	308,000
Income before income taxes and minority interests	48,008,000	36,822,000
Income tax expense	16,540,000	11,896,000
Income before minority interests	31,468,000	24,926,000
Minority interests' share of income	9,434,000	7,598,000
Net income	\$22,034,000	\$17,328,000
Net income per share:		
Basic	\$.84	\$.68
Diluted	\$.81	\$.65
Weighted average number of common shares outstanding:		
Basic	26,230,514	25,528,419
Diluted	27,227,458	26,827,057
Cash dividends per share	\$0.05	\$0.04

The accompanying notes are an integral part of these condensed consolidated financial statements.

3

HEICO CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

	Six months ended
	2008
Operating Activities:	
Net income	\$22,034,000
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	7,308,000
Deferred income tax provision	2,011,000
Minority interests' share of income	9,434,000
Tax benefit from stock option exercises	6,285,000
Excess tax benefit from stock option exercises	(4,350,000)

Edgar Filing: HEICO CORP - Form 10-Q

Stock option compensation expense	129,000
Changes in assets and liabilities, net of acquisitions:	
Decrease (increase) in accounts receivable	690,000
Increase in inventories	(6,592,000)
Increase in prepaid expenses and other current assets	(754,000)
(Decrease) increase in trade accounts payable	(492,000)
Decrease in accrued expenses and other current liabilities	(2,459,000)
Increase in income taxes payable	2,111,000
Other	(128,000)

Net cash provided by operating activities	35,227,000

Investing Activities:	
Acquisitions and related costs, net of cash acquired	(28,221,000)
Capital expenditures	(6,948,000)
Other	87,000

Net cash used in investing activities	(35,082,000)

Financing Activities:	
Borrowings on revolving credit facility	32,800,000
Payments on revolving credit facility	(30,800,000)
Borrowings on short-term line of credit	500,000
Payments on short-term line of credit	(500,000)
Payment of industrial development revenue bonds	(1,980,000)
Cash dividends paid	(1,312,000)
Proceeds from stock option exercises	1,797,000
Excess tax benefit from stock option exercises	4,350,000
Distributions to minority interest owners	(4,321,000)
Other	(67,000)

Net cash provided by (used in) financing activities	467,000

Effect of exchange rate changes on cash	(132,000)

Net increase in cash and cash equivalents	480,000
Cash and cash equivalents at beginning of year	4,947,000

Cash and cash equivalents at end of period	\$5,427,000
	=====

The accompanying notes are an integral part of these condensed consolidated financial statements.

4

HEICO CORPORATION AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of HEICO Corporation and its subsidiaries ("HEICO" or the "Company") have been prepared in conformity with accounting principles generally accepted in the

Edgar Filing: HEICO CORP - Form 10-Q

United States of America for interim financial information and in accordance with the instructions to Form 10-Q. Therefore, the condensed consolidated financial statements do not include all information and footnotes normally included in annual consolidated financial statements and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended October 31, 2007. The October 31, 2007 Condensed Consolidated Balance Sheet has been derived from the Company's audited consolidated financial statements. In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments (consisting principally of normal recurring accruals) necessary for a fair presentation of the condensed consolidated balance sheets, statements of operations and statements of cash flows for such interim periods presented. The results of operations for the six months ended April 30, 2008 are not necessarily indicative of the results which may be expected for the entire fiscal year.

Income Taxes

Effective November 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109," and began evaluating tax positions utilizing a two-step process. The first step is to determine whether it is more-likely-than-not that a tax position will be sustained upon examination based on the technical merits of the position. The second step is to measure the benefit to be recorded from tax positions that meet the more-likely-than-not recognition threshold by determining the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement and recognizing that amount in the financial statements.

As a result of adopting the provisions of FIN 48, the Company recognized a cumulative effect adjustment that decreased retained earnings as of the beginning of fiscal 2008 by \$639,000. Further, effective with the adoption of FIN 48, the Company's policy is to recognize interest and penalties related to income tax matters as a component of income tax expense. Interest and penalties, which were not significant in fiscal 2007, were previously recorded in interest expense and in selling, general and administrative expenses, respectively, in the Company's consolidated statements of operations.

Further information regarding income taxes can be found in Note 6, Income Taxes.

New Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements," which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in accordance with generally accepted accounting principles more consistent and comparable. SFAS No. 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, or in fiscal 2009 for HEICO. In February 2008, the FASB issued FASB Staff Position ("FSP") No. SFAS 157-2, "Effective Date of FASB Statement No. 157." FSP No. SFAS 157-2 delays the effective date of SFAS No. 157 by one year for nonfinancial assets and nonfinancial liabilities, except for the items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The

Edgar Filing: HEICO CORP - Form 10-Q

Company is currently in the process of evaluating the effect, if any, the adoption of SFAS No. 157 will have on its results of operations, financial position and cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure certain financial assets and liabilities at fair value and report unrealized gains and losses on items for which the fair value option has been elected in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, or in fiscal 2009 for HEICO. The Company has not yet determined if it will elect to apply any of the provisions of SFAS No. 159 and is currently evaluating the effect, if any, the adoption of SFAS No. 159 will have on its results of operations, financial position and cash flows.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, the goodwill acquired and any noncontrolling interest in the acquiree. This Statement also establishes disclosure requirements to enable the evaluation of the nature and financial effect of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008, or in fiscal 2010 for HEICO. The Company is in the process of evaluating the effect that the adoption of SFAS No. 141(R) will have on its results of operations, financial position and cash flows.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51." SFAS No. 160 establishes accounting and reporting standards pertaining to ownership interests in subsidiaries held by parties other than the parent, the amount of net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of any retained noncontrolling equity investment when a subsidiary is deconsolidated. This Statement also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008, or in fiscal 2010 for HEICO. The Company is in the process of evaluating the effect that the adoption of SFAS No. 160 will have on its results of operations, financial position and cash flows.

6

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133." SFAS No. 161 expands the disclosure requirements in SFAS No. 133 about an entity's derivative instruments and hedging activities. It requires enhanced disclosures about (a) how and why an entity uses derivatives instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008, or in the second quarter of fiscal 2009 for HEICO. The Company is currently in the process of evaluating the effect the adoption of SFAS No. 161 will have on its financial statement disclosures.

2. ACQUISITIONS

In November 2007, the Company, through an 80%-owned subsidiary of HEICO Aerospace Holdings Corp. ("HEICO Aerospace"), acquired all of the stock of a European company. Subject to meeting certain earnings objectives during the

Edgar Filing: HEICO CORP - Form 10-Q

first three years following the acquisition, the Company may be obligated to pay additional consideration of up to approximately \$.5 million in aggregate. The acquired company supplies aircraft parts for sale and exchange and repair management services to commercial and regional airlines, asset management companies and FAA overhaul and repair facilities. The purchase price was principally paid in cash using proceeds from the Company's revolving credit facility.

In January 2008, the Company, through HEICO Aerospace, acquired certain assets and assumed certain liabilities of a U.S. company that designs and manufactures FAA-approved aircraft and engine parts primarily for the commercial aviation market. The Company has since combined the operations of the acquired entity within other subsidiaries of HEICO Aerospace. The purchase price was principally paid in cash using proceeds from the Company's revolving credit facility.

During the first six months of fiscal 2008, the Company, through HEICO Aerospace and its HEICO Electronic Technologies Corp. subsidiary ("HEICO Electronic"), paid \$7.0 million and \$4.7 million, respectively, of additional purchase consideration pursuant to the terms of the purchase agreements associated with two prior year acquisitions. These amounts were accrued as of October 31, 2007 based on a multiple of each subsidiary's earnings relative to target. Since these amounts were not contingent upon the former shareholders of each acquired entity remaining employed by the Company or providing future services to the Company, the payments were recorded as an additional cost of the respective acquired entity. (See Note 11, Commitments and Contingencies, for additional information on contingent purchase consideration associated with certain of the Company's acquisitions.)

7

In February 2008, the Company, through HEICO Aerospace, acquired an 80% interest in certain assets and certain liabilities of a U.S. company that is an FAA-approved repair station which specializes in avionics primarily for the commercial aviation market. The remaining 20% is principally owned by certain members of the acquired company's management. The purchase price was principally paid in cash using proceeds from the Company's revolving credit facility. The Company has the right to purchase the minority interests beginning at approximately the sixth anniversary of the acquisition, or sooner under certain conditions, and the minority interest holders have the right to cause the Company to purchase the same equity interest over the same period.

In April 2008, the Company, through HEICO Aerospace, acquired an additional 7% equity interest in one of its subsidiaries, which increased the Company's ownership interest to 58%. The purchase price was principally paid in cash using proceeds from the Company's revolving credit facility.

In April 2008, the Company, through HEICO Electronic, acquired an additional .75% equity interest in one of its subsidiaries, which increased the Company's ownership interest to 86.5%. The purchase price was paid using cash provided by operating activities.

The fiscal 2008 acquisitions described above were accounted for using the purchase method of accounting. The purchase price of each acquisition was not significant to the Company's condensed consolidated financial statements. The allocation of the purchase price of the fiscal 2008 and certain fiscal 2007 acquisitions to the tangible and identifiable intangible assets acquired and liabilities assumed in these condensed consolidated financial statements is preliminary until the Company obtains final information regarding their fair values.

Edgar Filing: HEICO CORP - Form 10-Q

The operating results of each of the Company's fiscal 2008 acquisitions as noted above and the fiscal 2007 acquisitions were included in the Company's results of operations from their effective acquisition date. Had the acquisitions taken place as of the beginning of fiscal 2007, net sales on a pro forma basis for the six months and three months ended April 30, 2007 would have been approximately \$248 million and \$128 million, respectively, and net sales on a pro forma basis for the six months and three months ended April 30, 2008 would not have been materially different than the reported amounts. The pro forma net income and net income per share (basic and diluted) for the six months and three months ended April 30, 2007 and 2008 assuming these acquisitions had taken place as of the beginning of fiscal 2007 would not have been materially different than the reported amounts.

3. SELECTED FINANCIAL STATEMENT INFORMATION

Accounts Receivable

	April 30, 2008	October 31, 2007
Accounts receivable	\$85,510,000	\$84,111,000
Less: Allowance for doubtful accounts	(1,892,000)	(1,712,000)
	\$83,618,000	\$82,399,000
Accounts receivable, net	\$83,618,000	\$82,399,000

8

Costs and Estimated Earnings on Uncompleted Percentage-of-Completion Contracts

	April 30, 2008	October 31, 2007
Costs incurred on uncompleted contracts	\$22,141,000	\$21,832,000
Estimated earnings	12,998,000	13,111,000
	35,139,000	34,943,000
Less: Billings to date	(29,319,000)	(25,661,000)
	\$5,820,000	\$9,282,000
Included in accompanying Condensed Consolidated Balance Sheets under the following captions:		
Accounts receivable, net (costs and estimated earnings in excess of billings)	\$5,873,000	\$9,300,000
Accrued expenses and other current liabilities (billings in excess of costs and estimated earnings)	(53,000)	(18,000)
	\$5,820,000	\$9,282,000

Changes in estimates did not have a material effect on net income or diluted net income per share in the six months and three months ended April 30, 2008 and 2007.

Edgar Filing: HEICO CORP - Form 10-Q

Inventories

	April 30, 2008 -----	October 31, 2007 -----
Finished products	\$68,646,000	\$61,592,000
Work in process	15,878,000	15,406,000
Materials, parts, assemblies and supplies	39,008,000	38,772,000
	-----	-----
Inventories, net	\$123,532,000	\$115,770,000
	=====	=====

Inventories related to long-term contracts were not significant as of April 30, 2008 and October 31, 2007.

Property, Plant and Equipment

	April 30, 2008 -----	October 31, 2007 -----
Land	\$3,656,000	\$3,656,000
Buildings and improvements	34,465,000	30,732,000
Machinery, equipment and tooling	70,709,000	65,242,000
Construction in progress	5,160,000	6,339,000
	-----	-----
	113,990,000	105,969,000
Less: Accumulated depreciation and amortization	(54,902,000)	(50,415,000)
	-----	-----
Property, plant and equipment, net	\$59,088,000	\$55,554,000
	=====	=====

Accrued Customer Rebates and Credits

The aggregate amount of accrued customer rebates and credits included within the caption accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheets was \$14,465,000 and \$10,452,000 as of April 30, 2008 and October 31, 2007, respectively. These amounts generally relate to discounts negotiated with customers as part of certain sales contracts and are usually tied to sales volume thresholds. The Company accrues

9

customer rebates and credits as a reduction from net sales as the revenue is recognized based on the estimated level of discount rate expected to be earned by each customer over the life of the contract period (generally one year). Accrued customer rebates and credits are monitored by management and discount levels are updated at least quarterly. The total customer rebates and credits deducted within net sales for the six months ended April 30, 2008 and 2007 was \$5,102,000 and \$4,890,000, respectively. The total customer rebates and credits deducted within net sales for the three months ended April 30, 2008 and 2007 was \$2,664,000 and \$2,351,000, respectively.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Edgar Filing: HEICO CORP - Form 10-Q

The Company has two operating segments: the Flight Support Group ("FSG") and the Electronic Technologies Group ("ETG"). Changes in the carrying amount of goodwill by operating segment for the six months ended April 30, 2008 are as follows:

	Segment		Consolidated Totals
	FSG	ETG	
Balances as of October 31, 2007	\$169,689,000	\$140,813,000	\$310,502,000
Goodwill acquired	9,038,000	74,000	9,112,000
Foreign currency translation adjustments	(61,000)	(822,000)	(883,000)
Adjustments to goodwill	(15,000)	(108,000)	(123,000)
	-----	-----	-----
Balances as of April 30, 2008	\$178,651,000	\$139,957,000	\$318,608,000
	-----	-----	-----

The goodwill acquired is a result of the acquisitions described in Note 2, Acquisitions. The foreign currency translation adjustments principally reflect an unrealized translation loss on the goodwill recognized in connection the acquisition of a Canadian-based subsidiary. Foreign currency translation adjustments are included in other comprehensive income in the Company's Condensed Consolidated Balance Sheets (see Note 7, Shareholders' Equity and Comprehensive Income). Adjustments to goodwill were not material in the six months and three months ended April 30, 2008.

Identifiable intangible assets consist of:

	As of April 30, 2008			As of Octo	
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accum Amort
Amortizing Assets:					
Customer relationships	\$22,724,000	(\$6,943,000)	\$15,781,000	\$19,784,000	(\$4,9
Intellectual property	5,956,000	(1,509,000)	4,447,000	6,204,000	(1,0
Licenses	1,000,000	(437,000)	563,000	1,000,000	(4
Non-compete agreements	1,058,000	(680,000)	378,000	937,000	(6
Patents	572,000	(163,000)	409,000	560,000	(1
	-----	-----	-----	-----	-----
	31,310,000	(9,732,000)	21,578,000	28,485,000	(7,1
Non-Amortizing Assets:					
Trade names	14,606,000	--	14,606,000	13,986,000	
	-----	-----	-----	-----	-----
	\$45,916,000	(\$9,732,000)	\$36,184,000	\$42,471,000	(\$7,1
	-----	-----	-----	-----	-----

The increase in the gross carrying amount of customer relationships,

Edgar Filing: HEICO CORP - Form 10-Q

non-compete agreements and trade names as of April 30, 2008 compared to October 31, 2007 principally relates to such intangible assets recognized in connection with the acquisitions described in Note 2, Acquisitions. The weighted average amortization period of the customer relationships and non-compete agreements acquired during the six months ended April 30, 2008 is approximately six years and four years, respectively. In addition, foreign currency translation adjustments on certain intangible assets recognized as part of the acquisition of a Canadian-based subsidiary had the effect of reducing the gross carrying amount of such assets.

Amortization expense of other intangible assets for the six months and three months ended April 30, 2008 was \$2,622,000 and \$1,365,000, respectively. Amortization expense of other intangible assets for the fiscal year ending October 31, 2008 is estimated to be \$5,304,000. Amortization expense for each of the next five fiscal years is estimated to be \$4,831,000 in fiscal 2009, \$4,283,000 in fiscal 2010, \$3,593,000 in fiscal 2011, \$2,846,000 in fiscal 2012 and \$1,312,000 in fiscal 2013.

5. SHORT-TERM AND LONG-TERM DEBT

As of April 30, 2008, no borrowings were outstanding under the \$5.0 million short-term line of credit that one of the Company's subsidiaries has with a bank.

Long-term debt consists of:

	April 30, 2008	October 31, 2007
Borrowings under revolving credit facility	\$55,000,000	\$53,000,000
Industrial Development Revenue Refunding		
Bonds - Series 1988	--	1,980,000
Notes payable, capital leases and equipment loans	829,000	972,000
	55,829,000	55,952,000
Less: Current maturities of long-term debt	(208,000)	(2,187,000)
	\$55,621,000	\$53,765,000

As of April 30, 2008 and October 31, 2007, the weighted average interest rate on borrowings under the Company's revolving credit facility was 3.5% and 5.8%, respectively. The revolving credit facility contains both financial and non-financial covenants. As of April 30, 2008, the Company was in compliance with all such covenants. In May 2008, the Company increased amounts available under its revolving credit facility and extended the term when it entered into the Second Amended and Restated Revolving Credit Agreement (see Note 12, Subsequent Event).

In April 2008, the Company paid the matured Series 1988 industrial development revenue bonds aggregating \$1,980,000.

6. INCOME TAXES

As discussed in Note 1, Summary of Significant Accounting Policies - Income Taxes, the Company adopted the provisions of FIN 48 effective November 1, 2007.

Edgar Filing: HEICO CORP - Form 10-Q

As a result, the Company increased its liabilities related to uncertain tax positions by \$4,622,000 and accounted for this change as a \$3,889,000 increase to deferred tax assets, a \$639,000 decrease to retained earnings (the cumulative effect of adopting FIN 48), and a \$94,000 decrease to deferred tax liabilities. Upon adoption, the Company also reclassified \$2,680,000 in unrecognized tax benefits from income taxes payable to long-term income tax liabilities since the Company does not anticipate payment or receipt of cash within one year. Long-term income tax liabilities are classified within other non-current liabilities in the Company's Condensed Consolidated Balance Sheets.

As of November 1, 2007, the Company's liability for gross unrecognized tax benefits related to uncertain tax positions was \$7,396,000, of which \$2,948,000 would decrease the Company's income tax expense and effective income tax rate if the tax benefits were recognized. The remaining liability was for tax positions for which the uncertainty was only related to the timing of such tax benefits. The amounts recorded for interest and penalties as of the date of adoption were not significant.

The Company files income tax returns in the United States ("U.S.") federal jurisdiction and in multiple state jurisdictions. The Company is also subject to income taxes in certain jurisdictions outside the U.S., none of which are individually material to the accompanying unaudited condensed consolidated financial statements. Generally, the Company is no longer subject to U.S. federal or state examinations by tax authorities for fiscal years prior to 2001. The Company's U.S. federal filings and state of California filings for fiscal years 2001 through 2005 are currently under examination by the Internal Revenue Service and California Franchise Tax Board, respectively, who are reviewing the income tax credit claimed by the Company for qualified research and development activities incurred during those years. The Company does not expect these reviews to be completed within one year and, accordingly, reclassified \$2,621,000 of income tax refunds from income taxes payable to long-term income tax assets. Long-term income tax assets are classified within other assets in the Company's Condensed Consolidated Balance Sheets.

During the six months and three months ended April 30, 2008, there were no material changes in the liability for unrecognized tax positions resulting from tax positions taken during the current or a prior year, settlements with taxing authorities or a lapse of applicable statutes of limitations. The Company does not expect the total amount of unrecognized tax benefits to materially change in the next twelve months.

In December 2006, Section 41 of the Internal Revenue Code, "Credit for Increasing Research Activities," was retroactively extended for two years to cover the period from January 1, 2006 to December 31, 2007. As a result, the Company recognized an income tax credit for qualified research and development activities in fiscal 2007 for the full fiscal 2006 year. The tax credit, net of expenses, increased net income by approximately \$.5 million and \$.2 million for the six months and three months ended April 30, 2007, respectively.

12

7. SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Changes in consolidated shareholders' equity and comprehensive income for the six months ended April 30, 2008 are as follows:

	Class A Common	Capital in Excess of Common	Accumulated Other Comprehensive
--	-------------------	-----------------------------------	---------------------------------------

Edgar Filing: HEICO CORP - Form 10-Q

	Stock	Stock	Par Value	Loss
	-----	-----	-----	-----
Balances as of October 31, 2007	\$105,000	\$156,000	\$220,658,000	\$ 3,050,000
Net income	--	--	--	--
Foreign currency translation adjustments	--	--	--	(1,907,000)
Comprehensive income	--	--	--	--
Cash dividends (\$.05 per share)	--	--	--	--
Cumulative effect of adopting FIN 48 (Note 6)	--	--	--	--
Tax benefit from stock option exercises	--	--	6,285,000	--
Proceeds from stock option exercises	1,000	2,000	1,794,000	--
Stock option compensation expense	--	--	129,000	--
Other	--	--	(1,000)	4,000
	-----	-----	-----	-----
Balances as of April 30, 2008	\$106,000	\$158,000	\$228,865,000	\$ 1,147,000
	=====	=====	=====	=====

8. RESEARCH AND DEVELOPMENT EXPENSES

Cost of sales for the six months ended April 30, 2008 and 2007 includes approximately \$8.5 million and \$8.0 million, respectively, of new product research and development expenses. Cost of sales for the three months ended April 30, 2008 and 2007 includes approximately \$4.3 million and \$4.0 million, respectively, of new product research and development expenses. The expenses are net of reimbursements pursuant to research and development cooperation and joint venture agreements, which were not significant.

9. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share for the six months and three months ended April 30:

	Six months ended April 30,		Three m
	-----	-----	-----
	2008	2007	
	-----	-----	-----
Numerator:			
Net income	\$22,034,000	\$17,328,000	\$11,
	=====	=====	=====
Denominator:			
Weighted average common shares outstanding-basic	26,230,514	25,528,419	26,
Effect of dilutive stock options	996,944	1,298,638	
	-----	-----	-----
Weighted average common shares outstanding-diluted	27,227,458	26,827,057	27,
	=====	=====	=====
Net income per share-basic	\$0.84	\$0.68	
Net income per share-diluted	\$0.81	\$0.65	
Anti-dilutive stock options excluded	--	--	

Edgar Filing: HEICO CORP - Form 10-Q

10. OPERATING SEGMENTS

Information on the Company's two operating segments, the Flight Support Group ("FSG"), consisting of HEICO Aerospace Holdings Corp. and its subsidiaries, and the Electronic Technologies Group ("ETG"), consisting of HEICO Electronic Technologies Corp. and its subsidiaries, for the six months and three months ended April 30, 2008 and 2007, respectively, is as follows:

	Segment		Other, Primarily Corporate and Intersegment	
	FSG	ETG		
For the six months ended April 30, 2008:				
Net sales	\$210,317,000	\$68,021,000	(\$12,000)	\$27
Depreciation and amortization	4,422,000	2,702,000	184,000	
Operating income	39,331,000	16,948,000	(6,690,000)	4
Capital expenditures	5,332,000	1,166,000	450,000	
For the six months ended April 30, 2007:				
Net sales	\$180,471,000	\$54,434,000	(\$6,000)	\$23
Depreciation and amortization	4,080,000	1,700,000	168,000	
Operating income	32,292,000	13,140,000	(7,209,000)	3
Capital expenditures	4,871,000	813,000	37,000	
For the three months ended April 30, 2008:				
Net sales	\$107,968,000	\$36,083,000	(\$12,000)	\$14
Depreciation and amortization	2,315,000	1,352,000	102,000	
Operating income	20,385,000	9,771,000	(3,797,000)	2
Capital expenditures	3,164,000	725,000	247,000	
For the three months ended April 30, 2007:				
Net sales	\$92,396,000	\$28,825,000	(\$6,000)	\$12
Depreciation and amortization	2,065,000	853,000	85,000	
Operating income	17,867,000	7,376,000	(4,160,000)	2
Capital expenditures	2,532,000	498,000	25,000	

Total assets by operating segment as of April 30, 2008 and October 31, 2007 are as follows:

	Segment		Other, Primarily Corporate	
	FSG	ETG		
Total assets as of April 30, 2008	\$404,399,000	\$226,027,000	\$34,002,000	\$6
Total assets as of October 31, 2007	379,433,000	230,448,000	21,421,000	6

Edgar Filing: HEICO CORP - Form 10-Q

11. COMMITMENTS AND CONTINGENCIES

Guarantees

The Company has arranged for standby letters of credit aggregating \$1.4 million to meet the security requirement of its insurance company for potential workers' compensation claims, which are supported by the Company's revolving credit facility.

Product Warranty

Changes in the Company's product warranty liability for the six months ended April 30, 2008 and 2007, respectively, are as follows:

	Six months ended April 30,	
	2008	2007
Balances as of beginning of fiscal year	\$1,181,000	\$534,000
Acquired warranty liabilities	--	--
Accruals for warranties	576,000	600,000
Warranty claims settled	(393,000)	(381,000)
	\$1,364,000	\$753,000
	=====	=====

Acquisitions

Put/Call Rights

Pursuant to the purchase agreement related to the acquisition of an 80% interest in a subsidiary by the FSG in fiscal 2001, the Company acquired an additional 10% of the equity interests of the subsidiary in fiscal 2007. The Company has the right to purchase the remaining 10% of the equity interests in fiscal 2011, or sooner under certain conditions, and the minority interest holder has the right to cause the Company to purchase the same equity interest in the same period.

As part of the agreement to acquire an 80% interest in a subsidiary by the ETG in fiscal 2004, the Company has the right to purchase the minority interests over a five-year period beginning at approximately the tenth anniversary of the acquisition, or sooner under certain conditions, and the minority interest holders have the right to cause the Company to purchase their interests over a five-year period commencing on approximately the fifth anniversary of the acquisition, or sooner under certain conditions.

As part of the agreement to acquire an 85% interest in a subsidiary by the ETG in fiscal 2005, the minority interest holders have the right to cause the Company to purchase their interests over a four-year period starting around the second anniversary of the acquisition, or sooner under certain conditions. In fiscal 2007, some of the minority interest holders exercised their option to cause the Company to purchase their aggregate 3% interest over the four-year period ending in fiscal 2010. Accordingly, the Company has since increased its ownership interest in the subsidiary by 1.5% (or one-fourth of such minority interest holders' aggregate interest in fiscal 2007 and 2008, respectively) to 86.5% effective April 2008.

Edgar Filing: HEICO CORP - Form 10-Q

As part of the agreement to acquire a 51% interest in a subsidiary by the FSG in fiscal 2006, the Company has the right to purchase 28% of the equity interests of the subsidiary over a four-year period beginning approximately after the second anniversary of the acquisition, or sooner under certain conditions, and the minority interest holders have the right to cause the Company to purchase the same equity interest over the same period. Further, the Company has the right to purchase the remaining 21% of the equity interests of the subsidiary over a three-year period beginning approximately after the fourth anniversary of the acquisition, or sooner under certain conditions, and the minority interest holders have the right to cause the Company to purchase the same equity interest over the same period. During fiscal 2008, the minority interest holders exercised their option to cause the Company to purchase their aggregate 28% interest over the four-year period ending in fiscal 2011. Accordingly, the Company increased its ownership interest in the subsidiary by 7% (or one-fourth of such minority interest holders' aggregate interest) to 58% effective April 2008.

As part of the agreement to acquire an 80% interest in a subsidiary by the FSG in fiscal 2006, the Company has the right to purchase the minority interests over a four-year period beginning at approximately the eighth anniversary of the acquisition, or sooner under certain conditions, and the minority interest holders have the right to cause the Company to purchase the same equity interest over the same period.

As part of an agreement to acquire an 80% interest in a subsidiary by the FSG in fiscal 2008, the Company has the right to purchase the minority interests over a five-year period beginning at approximately the sixth anniversary of the acquisition, or sooner under certain conditions, and the minority interest holders have the right to cause the Company to purchase the same equity interest over the same period.

The above referenced rights of the minority interest holders to cause the Company to purchase their equity interests ("Put Rights") may be exercised on varying dates beginning in fiscal 2008 through fiscal 2018. The Put Rights, all of which relate either to common shares or membership interests in limited liability companies, provide that the cash consideration to be paid for the minority interests ("Redemption Amount") be at a formula that management intended to reasonably approximate fair value, as defined in the applicable agreements based on a multiple of future earnings over a measurement period. Assuming the subsidiaries perform over the future measurement periods at the same earnings levels they performed in the comparable historical measurement periods and assuming all Put Rights are exercised, the aggregate Redemption Amount that the Company would be required to pay is approximately \$49 million. The actual Redemption Amount will likely be different. Upon exercise of any Put Right, the Company's ownership interest in the subsidiary would increase and minority interest expense would decrease. The Put Rights are embedded in the shares owned by the minority interest holders and are not freestanding. Consistent with Accounting Research Bulletin No. 51., "Consolidated Financial Statements," minority interests have been recorded on the Company's consolidated balance sheets at historical cost plus an allocation of subsidiary earnings based on ownership interests, less dividends paid to the minority interest holders. As described in Note 1, in December 2007, the FASB issued SFAS No. 160 that will change the current accounting and financial reporting for non-controlling (minority) interests. SFAS No. 160 will be effective for fiscal years beginning after December 15, 2008. The Company will adopt SFAS No. 160 on

Edgar Filing: HEICO CORP - Form 10-Q

interests be reported in the consolidated statement of financial position within equity. It also will require that any increases or decreases in ownership interests in a subsidiary that do not result in a loss of control be accounted for as equity transactions and as a result, any difference between the amount by which the non-controlling (minority) interest is adjusted and the fair value of the consideration paid or received, if any, would be recognized directly in equity attributable to the controlling interest. The Company is not yet in a position to assess the full impact and related disclosure of adopting SFAS No. 160 on its minority interest liabilities and related Put Rights.

Additional Contingent Purchase Consideration

As part of the agreement to purchase a subsidiary by the ETG in fiscal 2005, the Company may be obligated to pay additional purchase consideration currently estimated to total up to \$2.3 million should the subsidiary meet certain product line-related earnings objectives during the fourth and fifth years following the acquisition.

As part of the agreement to acquire a subsidiary by the ETG in fiscal 2006, the Company may be obligated to pay additional purchase consideration up to \$17.8 million and \$19.2 million, respectively, based on the subsidiary's fiscal 2008 and 2009 respective earnings relative to target.

As part of the agreement to acquire a subsidiary by the ETG in fiscal 2007, the Company may be obligated to pay additional purchase consideration up to \$72.3 million in aggregate should the subsidiary meet certain earnings objectives during the first five years following the acquisition.

As part of the agreement to acquire a subsidiary by the FSG in fiscal 2008, the Company may be obligated to pay additional consideration of up to approximately \$0.5 million in aggregate should the subsidiary meet certain earnings objectives during the first three years following the acquisition.

The above referenced additional contingent purchase consideration will be accrued when the earnings objectives are met. Such additional contingent consideration is based on a multiple of earnings above a threshold (subject to a cap in certain cases) and is not contingent upon the former shareholders of the acquired entities remaining employed by the Company or providing future services to the Company. Accordingly, such consideration will be recorded as an additional cost of the respective acquired entity when accrued. The maximum amount of such contingent consideration that the Company could be required to pay aggregates approximately \$112 million payable over the future periods beginning in fiscal 2009 through fiscal 2013. Assuming the subsidiaries perform over the future measurement periods at the same earnings levels they performed in the comparable historical measurement periods, the aggregate amount of such contingent consideration that the Company would be required to pay is approximately \$9 million. The actual contingent purchase consideration will likely be different.

Litigation

The Company is involved in various legal actions arising in the normal course of business. Based upon the Company's and its legal counsel's evaluations of any claims or assessments,

management is of the opinion that the outcome of these matters will not have a material adverse effect on the Company's results of operations, financial position or cash flows.

Edgar Filing: HEICO CORP - Form 10-Q

12. SUBSEQUENT EVENT

In May 2008, the Company amended its revolving credit facility by entering into a \$300 million Second Amended and Restated Revolving Credit Agreement ("Credit Facility") with a bank syndicate, which matures in May 2013. Under certain circumstances, the maturity may be extended for two one-year periods. The Credit Facility also includes a feature that will allow the Company to increase the Credit Facility, at its option, up to \$500 million through increased commitments from existing lenders or the addition of new lenders. The Credit Facility may be used for working capital and general corporate needs of the Company, including letters of credit, capital expenditures and to finance acquisitions.

Advances under the Credit Facility accrue interest at the Company's choice of the "Base Rate" or the London Interbank Offered Rate ("LIBOR") plus applicable margins (based on the Company's ratio of total funded debt to earnings before interest, taxes, depreciation and amortization, minority interest and non-cash charges, or "leverage ratio"). The Base Rate is the higher of (i) the Prime Rate or (ii) the Federal Funds rate plus .50%. The applicable margins for LIBOR based borrowings range from .625% to 2.25%. A fee is charged on the amount of the unused commitment ranging from .125% to .35% (depending on the Company's leverage ratio). The Credit Facility also includes a \$50 million sublimit for borrowings made in euros, a \$30 million sublimit for letters of credit and a \$20 million swingline sublimit. The Credit Facility is unsecured and contains covenants that require, among other things, the maintenance of the leverage ratio, a senior leverage ratio and a fixed charge coverage ratio. In the event the Company's leverage ratio exceeds a specified level, the Credit Facility would become secured by the capital stock owned in substantially all of the Company's subsidiaries.

18

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

Overview

This discussion of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and notes thereto included herein. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates if different assumptions were used or different events ultimately transpire.

The Company's critical accounting policies, some of which require management to make judgments about matters that are inherently uncertain, are described in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Critical Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended October 31, 2007.

The Company has two operating segments: the Flight Support Group ("FSG"), consisting of HEICO Aerospace Holdings Corp. ("HEICO Aerospace") and its subsidiaries, and the Electronic Technologies Group ("ETG"), consisting of HEICO Electronic Technologies Corp. ("HEICO Electronic") and its subsidiaries.

19

Edgar Filing: HEICO CORP - Form 10-Q

Results of Operations

The following table sets forth the results of the Company's operations, net sales and operating income by segment and the percentage of net sales represented by the respective items in the Company's Condensed Consolidated Statements of Operations.

	Six months ended April 30,		Three months ended
	2008	2007	2008
Net sales	\$278,326,000	\$234,899,000	\$144,039,000
Cost of sales	179,141,000	153,744,000	91,683,000
Selling, general and administrative expenses	49,596,000	42,932,000	25,997,000
Total operating costs and expenses	228,737,000	196,676,000	117,680,000
Operating income	\$49,589,000	\$38,223,000	\$26,359,000
Net sales by segment:			
Flight Support Group	\$210,317,000	\$180,471,000	\$107,968,000
Electronic Technologies Group	68,021,000	54,434,000	36,083,000
Intersegment sales	(12,000)	(6,000)	(12,000)
	\$278,326,000	\$234,899,000	\$144,039,000
Operating income by segment:			
Flight Support Group	\$39,331,000	\$32,292,000	\$20,385,000
Electronic Technologies Group	16,948,000	13,140,000	9,771,000
Other, primarily corporate	(6,690,000)	(7,209,000)	(3,797,000)
	\$49,589,000	\$38,223,000	\$26,359,000
Net sales	100.0%	100.0%	100.0%
Gross profit	35.6%	34.5%	36.3%
Selling, general and administrative expenses	17.8%	18.3%	18.0%
Operating income	17.8%	16.3%	18.3%
Interest expense	0.5%	0.7%	0.4%
Interest and other (expense) income	0.0%	0.1%	0.0%
Income tax expense	5.9%	5.1%	6.2%
Minority interests' share of income	3.4%	3.2%	3.4%
Net income	7.9%	7.4%	8.3%

20

Comparison of First Six Months of Fiscal 2008 to First Six Months of Fiscal 2007

Net Sales

Net sales for the first six months of fiscal 2008 increased by 18.5% to \$278.3 million, as compared to net sales of \$234.9 million for the first six months of fiscal 2007. The increase in net sales reflects an increase of \$29.8 million (a 16.5% increase) to \$210.3 million in net sales within the FSG and an increase of \$13.6 million (a 25.0% increase) to \$68.0 million in net sales

Edgar Filing: HEICO CORP - Form 10-Q

within the ETG. The FSG's net sales increase reflects organic growth of approximately 12% as well as the impact on net sales from prior year and fiscal 2008 acquisitions. The organic growth principally reflects higher sales of new products and services and continued increased demand for the FSG's aftermarket replacement parts and repair and overhaul services. The ETG's net sales increase reflects organic growth of approximately 14% reflecting increased demand for certain products as well as the impact on net sales from prior year acquisitions.

Gross Profit and Operating Expenses

The Company's gross profit margin increased to 35.6% for the first six months of fiscal 2008 as compared to 34.5% for the first six months of fiscal 2007, reflecting higher margins within the FSG and ETG due principally to a more favorable product mix. Consolidated cost of sales for the first six months of fiscal 2008 and 2007 includes approximately \$8.5 million and \$8.0 million, respectively, of new product research and development expenses.

Selling, general and administrative ("SG&A") expenses were \$49.6 million and \$42.9 million for the first six months of fiscal 2008 and fiscal 2007, respectively. The increase in SG&A expenses was mainly due to higher operating costs, principally personnel related, associated with the growth in net sales discussed above including the acquired businesses. As a percentage of net sales, SG&A expenses decreased to 17.8% for the first six months of fiscal 2008 compared to 18.3% for the first six months of fiscal 2007.

Operating Income

Operating income for the first six months of fiscal 2008 increased by 29.7% to \$49.6 million, compared to operating income of \$38.2 million for the first six months of fiscal 2007. The increase in operating income reflects an increase of \$7.0 million (a 21.8% increase) to \$39.3 million in operating income of the FSG in the first six months of fiscal 2008 from \$32.3 million for the first six months of fiscal 2007, a \$3.8 million increase (a 29.0% increase) in operating income of the ETG from \$13.1 million for the first six months of fiscal 2007 to \$16.9 million for the first six months of fiscal 2008 and a \$.5 million decrease in corporate expenses.

As a percentage of net sales, consolidated operating income increased to 17.8% for the first six months of fiscal 2008 compared to 16.3% for the first six months of fiscal 2007. The consolidated operating income as a percentage of net sales reflects an increase in the FSG's operating income as a percentage of net sales from 17.9% in the first six months of fiscal 2007 to 18.7% in the first six months of fiscal 2008 accompanied by an increase in the ETG's operating income as a percentage of net sales from 24.1% in the first six months of fiscal 2007 to

21

24.9% in the first six months of fiscal 2008. The increase in operating income as a percentage of net sales for the FSG and ETG principally reflects the aforementioned increased gross profit margins. See "Outlook" below for additional information on the operating margins of the FSG and ETG.

Interest Expense

Interest expense decreased to \$1,507,000 in the first six months of fiscal 2008 from \$1,709,000 in the first six months of fiscal 2007. The decrease was principally due to lower interest rates, partially offset by the higher weighted average balance outstanding under the revolving credit facility in the first six months of fiscal 2008.

Edgar Filing: HEICO CORP - Form 10-Q

Interest and Other (Expense) Income

Interest and other (expense) income in the first six months of fiscal 2008 and 2007 were not material.

Income Tax Expense

The Company's effective tax rate for the first six months of fiscal 2008 increased to 34.5% from 32.3% for the first six months of fiscal 2007. The increase is principally due to an income tax credit for qualified research and development activities recognized for the full fiscal 2006 year in the first six months of fiscal 2007. The fiscal 2006 tax credit was recorded pursuant to the December 2006 retroactive extension for the two year period covering January 1, 2006 to December 31, 2007 of Section 41, "Credit for Increasing Research Activities," of the Internal Revenue Code and increased net income, net of expenses, by approximately \$.5 million for the first six months of fiscal 2007.

Minority Interests' Share of Income

Minority interests' share of income of consolidated subsidiaries relates to the 20% minority interest held in HEICO Aerospace and the minority interests held in certain subsidiaries of HEICO Aerospace and HEICO Electronic. The increase in the minority interests' share of income for the first six months of fiscal 2008 compared to the first six months of fiscal 2007 is attributable to the higher earnings of the FSG and certain ETG subsidiaries in which the minority interests exist.

Net Income

The Company's net income was \$22.0 million, or \$.81 per diluted share, for the first six months of fiscal 2008 compared to \$17.3 million, or \$.65 per diluted share, for the first six months of fiscal 2007 reflecting the increased operating income referenced above, partially offset by the increased minority interests' share of income of certain consolidated subsidiaries.

22

Outlook

The Company reported increased consolidated net sales and operating income in the first six months and three months ended April 30, 2008, reflecting both strong organic growth and growth through acquisitions. Increased consolidated operating margins for the first half and second quarter of fiscal 2008 versus the respective periods in fiscal 2007 reflect strong operating margins for the FSG and the ETG. Based on current market conditions, the Company continues to target growth in fiscal 2008 net sales and earnings during the remainder of the year over the comparable period in fiscal 2007.

Comparison of Second quarter of Fiscal 2008 to Second quarter of Fiscal 2007

Net Sales

Net sales for the second quarter of fiscal 2008 increased by 18.8% to \$144.0 million, as compared to net sales of \$121.2 million for the second quarter of fiscal 2007. The increase in net sales reflects an increase of \$15.6 million (a 16.9% increase) to \$108.0 million in net sales within the FSG and an increase of \$7.3 million (a 25.2% increase) to \$36.1 million in net sales within the ETG. The FSG's net sales increase reflects organic growth of approximately 12% as well as the impact on net sales from prior year and fiscal 2008 acquisitions. The organic growth principally reflects higher sales of new

Edgar Filing: HEICO CORP - Form 10-Q

products and services and continued increased demand for the FSG's aftermarket replacement parts and its repair and overhaul services. The ETG's net sales increase reflects organic growth of approximately 14% reflecting increased demand for certain products as well as the impact on net sales from prior year acquisitions.

Gross Profit and Operating Expenses

The Company's gross profit margin increased to 36.3% for the second quarter of fiscal 2008 as compared to 36.0% for the second quarter of fiscal 2007, reflecting higher gross profit margins within the ETG offset by slightly lower gross profit margins within FSG. The higher gross profit margins within the ETG principally reflects a more favorable product mix. Consolidated cost of sales for the second quarter of fiscal 2008 and 2007 includes approximately \$4.3 million and \$4.0 million, respectively, of new product research and development expenses.

SG&A expenses were \$26.0 million and \$22.6 million for the second quarter of fiscal 2008 and fiscal 2007, respectively. The increase in SG&A expenses was mainly due to higher operating costs, principally personnel related, associated with the growth in net sales discussed above including the acquired businesses. As a percentage of net sales, SG&A expenses decreased to 18.0% for the second quarter of fiscal 2008 from 18.6% for the second quarter of fiscal 2007.

Operating Income

Operating income for the second quarter of fiscal 2008 increased by 25.0% to \$26.4 million, compared to operating income of \$21.1 million for the second quarter of fiscal 2007. The increase in operating income reflects an increase of \$2.5 million (a 14.1% increase) to \$20.4

23

million in operating income of the FSG in the second quarter of fiscal 2008 from \$17.9 million for the second quarter of fiscal 2007, a \$2.4 million increase (a 32.5% increase) in operating income of the ETG from \$7.4 million for the second quarter of fiscal 2007 to \$9.8 million for the second quarter of fiscal 2008, and a \$.4 million decrease in corporate expenses.

As a percentage of net sales, consolidated operating income increased to 18.3% for the second quarter of fiscal 2008 compared to 17.4% for the second quarter of fiscal 2007. The consolidated operating income as a percentage of net sales reflects an increase in the ETG's operating income as a percentage of net sales from 25.6% in the second quarter of fiscal 2007 to 27.1% in the second quarter of fiscal 2008. The increase in operating income as a percentage of net sales for the ETG principally reflects the increase in net sales as well as the increased gross profit margins discussed previously. The FSG's operating income as a percentage of net sales was 18.9% and 19.3% in the second quarter of fiscal 2008 and 2007, respectively.

Interest Expense

Interest expense decreased to \$645,000 in the second quarter of fiscal 2008 from \$860,000 in the second quarter of fiscal 2007. The decrease was principally due to lower interest rates, partially offset by the higher weighted average balance outstanding under the revolving credit facility in the second quarter of 2008.

Interest and Other (Expense) Income

Interest and other (expense) income in the second quarter of fiscal 2008 and

Edgar Filing: HEICO CORP - Form 10-Q

2007 were not material.

Income Tax Expense

The Company's effective tax rate for the second quarter of fiscal 2008 increased to 34.8% from 34.0% for the second quarter of fiscal 2007. The increase is principally due to an income tax credit for qualified research and development activities recognized for the full fiscal 2006 year during fiscal 2007. The fiscal 2006 tax credit was recorded pursuant to the December 2006 retroactive extension for the two year period covering January 1, 2006 to December 31, 2007 of Section 41, "Credit for Increasing Research Activities," of the Internal Revenue Code and increased net income, net of expenses, by approximately \$.2 million for the second quarter of fiscal 2007.

Minority Interests' Share of Income

Minority interests' share of income of consolidated subsidiaries relates to the 20% minority interest held in HEICO Aerospace, the minority interests held in certain subsidiaries of HEICO Aerospace and the minority interests held in certain subsidiaries of HEICO Electronic. The increase in the minority interests' share of income for the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007 is primarily attributable to the higher earnings of the FSG and certain ETG subsidiaries in which the minority interests exist.

24

Net Income

The Company's net income was \$11.9 million, or \$.44 per diluted share, for the second quarter of fiscal 2008 compared to \$9.4 million, or \$.35 per diluted share, for the second quarter of fiscal 2007 reflecting the increased operating income referenced above, partially offset by the increased minority interests' share of income of certain consolidated subsidiaries and higher effective tax rate.

Liquidity and Capital Resources

The Company generates cash primarily from its operating activities and financing activities, including borrowings under short-term and long-term credit agreements.

Principal uses of cash by the Company include acquisitions, payments of principal and interest on debt, capital expenditures, cash dividends and increases in working capital.

The Company believes that its net cash provided by operating activities and available borrowings under its revolving credit facility will be sufficient to fund cash requirements for the foreseeable future.

Operating Activities

Net cash provided by operating activities was \$35.2 million for the first six months of fiscal 2008, consisting primarily of net income of \$22.0 million, minority interests' share of income of consolidated subsidiaries of \$9.4 million, depreciation and amortization of \$7.3 million, a tax benefit on stock option exercises of \$6.3 million, a deferred income tax provision of \$2.0 million and stock option compensation expense of \$.1 million, partially offset by an increase in net operating assets of \$7.5 million and the presentation of \$4.4 million of excess tax benefit from stock option exercises as a financing activity. The increase in net operating assets principally reflects a higher investment in inventories by the FSG required to meet increased sales demand

Edgar Filing: HEICO CORP - Form 10-Q

associated with new product offerings, sales growth and increased lead times on certain raw materials.

Net cash provided by operating activities increased \$13.3 million from \$21.9 million for the first six months of fiscal 2007 to \$35.2 million for the first six months of fiscal 2008 principally due to higher income before minority interests and depreciation and amortization as well as the timing of receivable collections, partially offset by the timing of the net payment of certain liabilities, including trade accounts payable, accrued expenses and income taxes, that vary somewhat from year to year.

Investing Activities

Net cash used in investing activities during the first six months of fiscal 2008 related primarily to acquisitions and related costs of \$28.2 million and capital expenditures totaling \$6.9 million. Acquisitions and related costs principally reflect three fiscal 2008 acquisitions, additional purchase consideration related to two subsidiaries acquired in previous years, which

25

was accrued as of October 31, 2007 based on each subsidiary's earnings relative to target, and an additional 7% of the equity interests of a subsidiary of the FSG. Further details on the fiscal 2008 acquisitions may be found in Note 2, Acquisitions, of the Notes to Condensed Consolidated Financial Statements.

Financing Activities

Net cash provided by financing activities during the first six months of fiscal 2008 primarily related to borrowings of \$32.8 million on the Company's revolving credit facility principally used to fund the aforementioned acquisitions and related costs, the presentation of \$4.4 million of excess tax benefit from stock option exercises as a financing activity and proceeds from stock option exercises of \$1.8 million, partially offset by repayments of \$30.8 million on the Company's revolving credit facility, distributions to minority interest owners of \$4.3 million, the payment of the matured industrial development revenue bonds aggregating \$2.0 million and the payment of \$1.3 million in cash dividends on the Company's common stock.

In May 2008, the Company amended its revolving credit facility by entering into a \$300 million Second Amended and Restated Revolving Credit Agreement ("Credit Facility") with a bank syndicate, which matures in May 2013. Under certain circumstances, the maturity may be extended for two one-year periods. The Credit Facility also includes a feature that will allow the Company to increase the Credit Facility, at its option, up to \$500 million through increased commitments from existing lenders or the addition of new lenders. The Credit Facility may be used for working capital and general corporate needs of the Company, including letters of credit, capital expenditures and to finance acquisitions.

Advances under the Credit Facility accrue interest at the Company's choice of the "Base Rate" or the London Interbank Offered Rate ("LIBOR") plus applicable margins (based on the Company's ratio of total funded debt to earnings before interest, taxes, depreciation and amortization, minority interest and non-cash charges, or "leverage ratio"). The Base Rate is the higher of (i) the Prime Rate or (ii) the Federal Funds rate plus .50%. The applicable margins for LIBOR based borrowings range from .625% to 2.25%. A fee is charged on the amount of the unused commitment ranging from .125% to .35% (depending on the Company's leverage ratio). The Credit Facility also includes a \$50 million sublimit for borrowings made in euros, a \$30 million sublimit for letters of credit and a \$20 million swingline sublimit. The Credit Facility is unsecured

Edgar Filing: HEICO CORP - Form 10-Q

and contains covenants that require, among other things, the maintenance of the leverage ratio, a senior leverage ratio and a fixed charge coverage ratio. In the event the Company's leverage ratio exceeds a specified level, the Credit Facility would become secured by the capital stock owned in substantially all of the Company's subsidiaries.

Contractual Obligations

There have not been any material changes to the amounts presented in table of contractual obligations that was included in the Company's Annual Report on Form 10-K for the year ended October 31, 2007, except for the extension of the term under the Company's amended revolving credit facility as discussed in "Liquidity and Capital Resources - Financing Activities" above.

26

As discussed in "New Accounting Pronouncements" below and Note 6, Income Taxes, of the Notes to Condensed Consolidated Financial Statements, the Company adopted the provisions of FIN 48 during the first quarter of fiscal 2008. As of April 30, 2008, the Company's liability for unrecognized tax benefits was \$7,588,000. At this time, it is uncertain if or when such amount may be settled with taxing authorities.

As discussed in "Off-Balance Sheet Arrangements - Acquisitions - Put/Call Rights" below, the minority interest holders of certain subsidiaries have the right to cause the Company to purchase their equity interests ("Put Rights"), which may be exercised on varying dates beginning in fiscal 2008 through fiscal 2018. Assuming the subsidiaries perform over the future measurement periods at the same earnings levels they performed in the comparable historical measurement periods and assuming all Put Rights are exercised, the aggregate amount that the Company would be required to pay is approximately \$49 million. The actual amount will likely be different.

Further, as discussed in "Off-Balance Sheet Arrangements - Acquisitions - Additional Contingent Purchase Consideration" below, the Company may be obligated to pay additional contingent purchase consideration based on future earnings of certain acquired businesses. The maximum amount of such contingent consideration that the Company could be required to pay aggregates approximately \$112 million payable over the future periods beginning in fiscal 2009 through fiscal 2013. Assuming the subsidiaries perform over the future measurement periods at the same earnings levels they performed in the comparable historical measurement periods, the aggregate amount of such contingent consideration that the Company would be required to pay is approximately \$9 million. The actual contingent purchase consideration will likely be different.

Off-Balance Sheet Arrangements

Guarantees

The Company has arranged for standby letters of credit aggregating \$1.4 million to meet the security requirement of its insurance company for potential workers' compensation claims, which are supported by the Company's revolving credit facility.

Acquisitions - Put/Call Rights

Pursuant to the purchase agreement related to the acquisition of an 80% interest in a subsidiary by the FSG in fiscal 2001, the Company acquired an additional 10% of the equity interests of the subsidiary in fiscal 2007. The Company has the right to purchase the remaining 10% of the equity interests in fiscal 2011, or sooner under certain conditions, and the minority interest

Edgar Filing: HEICO CORP - Form 10-Q

holder has the right to cause the Company to purchase the same equity interest in the same period.

As part of the agreement to acquire an 80% interest in a subsidiary by the ETG in fiscal 2004, the Company has the right to purchase the minority interests over a five-year period beginning at approximately the tenth anniversary of the acquisition, or sooner under certain conditions, and the minority interest holders have the right to cause the Company to purchase their interests over

27

a five-year period commencing on approximately the fifth anniversary of the acquisition, or sooner under certain conditions.

As part of the agreement to acquire an 85% interest in a subsidiary by the ETG in fiscal 2005, the minority interest holders have the right to cause the Company to purchase their interests over a four-year period starting around the second anniversary of the acquisition, or sooner under certain conditions. In fiscal 2007, some of the minority interest holders exercised their option to cause the Company to purchase their aggregate 3% interest over the four-year period ending in fiscal 2010. Accordingly, the Company has since increased its ownership interest in the subsidiary by 1.5% (or one-fourth of such minority interest holders' aggregate interest in fiscal 2007 and 2008, respectively) to 86.5% effective April 2008.

As part of the agreement to acquire a 51% interest in a subsidiary by the FSG in fiscal 2006, the Company has the right to purchase 28% of the equity interests of the subsidiary over a four-year period beginning approximately after the second anniversary of the acquisition, or sooner under certain conditions, and the minority interest holders have the right to cause the Company to purchase the same equity interest over the same period. Further, the Company has the right to purchase the remaining 21% of the equity interests of the subsidiary over a three-year period beginning approximately after the fourth anniversary of the acquisition, or sooner under certain conditions, and the minority interest holders have the right to cause the Company to purchase the same equity interest over the same period. During fiscal 2008, the minority interest holders exercised their option to cause the Company to purchase their aggregate 28% interest over the four-year period ending in fiscal 2011. Accordingly, the Company increased its ownership interest in the subsidiary by 7% (or one-fourth of such minority interest holders' aggregate interest) to 58% effective April 2008.

As part of the agreement to acquire an 80% interest in a subsidiary by the FSG in fiscal 2006, the Company has the right to purchase the minority interests over a four-year period beginning at approximately the eighth anniversary of the acquisition, or sooner under certain conditions, and the minority interest holders have the right to cause the Company to purchase the same equity interest over the same period.

As part of an agreement to acquire an 80% interest in a subsidiary by the FSG in fiscal 2008, the Company has the right to purchase the minority interests over a five-year period beginning at approximately the sixth anniversary of the acquisition, or sooner under certain conditions, and the minority interest holders have the right to cause the Company to purchase the same equity interest over the same period.

The above referenced rights of the minority interest holders to cause the Company to purchase their equity interests ("Put Rights") may be exercised on varying dates beginning in fiscal 2008 through fiscal 2018. The Put Rights, all of which relate either to common shares or membership interests in limited liability companies, provide that the cash consideration to be paid for the

Edgar Filing: HEICO CORP - Form 10-Q

minority interests ("Redemption Amount") be at a formula that management intended to reasonably approximate fair value, as defined in the applicable agreements based on a multiple of future earnings over a measurement period. Upon exercise of any Put Right, the Company's ownership interest in the subsidiary would increase and minority interest expense

28

would decrease. The Put Rights are embedded in the shares owned by the minority interest holders and are not freestanding. Consistent with Accounting Research Bulletin No. 51., "Consolidated Financial Statements," minority interests have been recorded on the Company's consolidated balance sheets at historical cost plus an allocation of subsidiary earnings based on ownership interests, less dividends paid to the minority interest holders. As described in Note 1, in December 2007, the FASB issued SFAS No. 160 that will change the current accounting and financial reporting for non-controlling (minority) interests. SFAS No. 160 will be effective for fiscal years beginning after December 15, 2008. The Company will adopt SFAS No. 160 on November 1, 2009. SFAS No. 160 will require that non-controlling (minority) interests be reported in the consolidated statement of financial position within equity. It also will require that any increases or decreases in ownership interests in a subsidiary that do not result in a loss of control be accounted for as equity transactions and as a result, any difference between the amount by which the non-controlling (minority) interest is adjusted and the fair value of the consideration paid or received, if any, would be recognized directly in equity attributable to the controlling interest. The Company is not yet in a position to assess the full impact and related disclosure of adopting SFAS No. 160 on its minority interest liabilities and related Put Rights.

Acquisitions - Additional Contingent Purchase Consideration

As part of the agreement to purchase a subsidiary by the ETG in fiscal 2005, the Company may be obligated to pay additional purchase consideration currently estimated to total up to \$2.3 million should the subsidiary meet certain product line-related earnings objectives during the fourth and fifth years following the acquisition.

As part of the agreement to acquire a subsidiary by the ETG in fiscal 2006, the Company may be obligated to pay additional purchase consideration up to \$17.8 million and \$19.2 million, respectively, based on the subsidiary's fiscal 2008 and 2009 respective earnings relative to target.

As part of the agreement to acquire a subsidiary by the ETG in fiscal 2007, the Company may be obligated to pay additional purchase consideration up to \$72.3 million in aggregate should the subsidiary meet certain earnings objectives during the first five years following the acquisition.

As part of the agreement to acquire a subsidiary by the FSG in fiscal 2008, the Company may be obligated to pay additional consideration of up to approximately \$0.5 million in aggregate should the subsidiary meet certain earnings objectives during the first three years following the acquisition.

The above referenced additional contingent purchase consideration will be accrued when the earnings objectives are met. Such additional contingent consideration is based on a multiple of earnings above a threshold (subject to a cap in certain cases) and is not contingent upon the former shareholders of the acquired entities remaining employed by the Company or providing future services to the Company. Accordingly, such consideration will be recorded as an additional cost of the respective acquired entity when accrued.

29

Edgar Filing: HEICO CORP - Form 10-Q

New Accounting Pronouncements

Effective November 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109," and began evaluating tax positions utilizing a two-step process. The first step is to determine whether it is more-likely-than-not that a tax position will be sustained upon examination based on the technical merits of the position. The second step is to measure the benefit to be recorded from tax positions that meet the more-likely-than-not recognition threshold by determining the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement and recognizing that amount in the financial statements.

As a result of adopting the provisions of FIN 48, the Company recognized a cumulative effect adjustment that decreased retained earnings as of the beginning of fiscal 2008 by \$639,000. Further, effective with the adoption of FIN 48, the Company's policy is to recognize interest and penalties related to income tax matters as a component of income tax expense. Interest and penalties, which were not significant in fiscal 2007, were previously recorded in interest expense and in selling, general, and administrative expenses, respectively, in the Company's consolidated statements of operations.

Further information regarding income taxes can be found in Note 6, Income Taxes, of the Notes to Condensed Consolidated Financial Statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements," which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in accordance with generally accepted accounting principles more consistent and comparable. SFAS No. 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, or in fiscal 2009 for HEICO. In February 2008, the FASB issued FASB Staff Position ("FSP") No. SFAS 157-2, "Effective Date of FASB Statement No. 157." FSP No. SFAS 157-2 delays the effective date of SFAS No. 157 by one year for nonfinancial assets and nonfinancial liabilities, except for the items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company is currently in the process of evaluating the effect, if any, the adoption of SFAS No. 157 will have on its results of operations, financial position and cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure certain financial assets and liabilities at fair value and report unrealized gains and losses on items for which the fair value option has been elected in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, or in fiscal 2009 for HEICO. The Company has not yet determined if it will elect to apply any of the provisions of SFAS No. 159 and is currently evaluating the effect, if any, the adoption of SFAS

No. 159 will have on its results of operations, financial position and cash flows.

Edgar Filing: HEICO CORP - Form 10-Q

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, the goodwill acquired and any noncontrolling interest in the acquiree. This Statement also establishes disclosure requirements to enable the evaluation of the nature and financial effect of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008, or in fiscal 2010 for HEICO. The Company is in the process of evaluating the effect that the adoption of SFAS No. 141(R) will have on its results of operations, financial position and cash flows.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51." SFAS No. 160 establishes accounting and reporting standards pertaining to ownership interests in subsidiaries held by parties other than the parent, the amount of net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of any retained noncontrolling equity investment when a subsidiary is deconsolidated. This Statement also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008, or in fiscal 2010 for HEICO. The Company is in the process of evaluating the effect that the adoption of SFAS No. 160 will have on its results of operations, financial position and cash flows.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133." SFAS No. 161 expands the disclosure requirements in SFAS No. 133 about an entity's derivative instruments and hedging activities. It requires enhanced disclosures about (a) how and why an entity uses derivatives instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008, or in the second quarter of fiscal 2009 for HEICO. The Company is currently in the process of evaluating the effect the adoption of SFAS No. 161 will have on its financial statement disclosures.

Forward-Looking Statements

Certain statements in this Report constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained herein that are not clearly historical in nature may be forward-looking and the words "believe," "expect," "estimate" and similar expressions are generally intended to identify forward looking statements. Any forward-looking statements contained herein, in press releases, written statements or other documents filed with the Securities and Exchange Commission or in communications and discussions with investors and analysts in the normal course of business through meetings, phone calls and conference calls, concerning our operations, economic performance and financial

condition are subject to known and unknown risks, uncertainties and contingencies. We have based these forward-looking statements on our current expectations and projections about future events. All forward-looking statements involve risks and uncertainties, many of which are beyond our control, which may cause actual results, performance or achievements to differ materially from anticipated results, performance or achievements. Also, forward-looking

Edgar Filing: HEICO CORP - Form 10-Q

statements are based upon management's estimates of fair values and of future costs, using currently available information. Therefore, actual results may differ materially from those expressed in or implied by those statements. Factors that could cause such differences, but are not limited to: lower demand for commercial air travel or airline fleet changes, which could cause lower demand for our goods and services; product specification costs and requirements, which could cause an increase to our costs to complete contracts; governmental and regulatory demands, export policies and restrictions, reductions in defense, space or homeland security spending by U.S. and/or foreign customers or competition from existing and new competitors, which could reduce our sales; HEICO's ability to introduce new products and product pricing levels, which could reduce our sales or sales growth; HEICO's ability to make acquisitions and achieve operating synergies from acquired businesses, customer credit risk, interest rates and economic conditions within and outside of the aviation, defense, space and electronics industries, which could negatively impact our costs and revenues; and HEICO's ability to maintain effective internal controls, which could adversely affect our business and the market price of our common stock. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

32

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Substantially all of the Company's borrowings bear interest at floating interest rates. Based on the Company's aggregate outstanding variable rate debt balance as of April 30, 2008, a hypothetical 10% increase in interest rates would increase the Company's interest expense by approximately \$194,000 on an annual basis.

The Company is also exposed to foreign currency exchange rate fluctuations on the United States dollar value of its foreign currency denominated transactions, which are principally in Canadian dollar and British pound sterling. A hypothetical 10% weakening in the exchange rate of the Canadian dollar or British pound sterling to the United States dollar as of April 30, 2008 would not have a material effect on the Company's results of operations, financial position or cash flows.

33

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and its Chief Financial Officer conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report. Based upon that evaluation, the Company's Chief Executive Officer and its Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation referred to above that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal

Edgar Filing: HEICO CORP - Form 10-Q

control over financial reporting.

34

PART II. OTHER INFORMATION

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Company did not incur any unregistered sales of its equity securities or repurchase any of its equity securities during the first six months of fiscal 2008.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual Meeting of Shareholders held on March 28, 2008, the Company's shareholders elected nine directors. The number of votes cast for and withheld for each nominee for director was as follows:

Director -----	For ---	Withheld -----
Samuel L. Higginbottom	10,889,340	469,828
Wolfgang Mayrhober	10,987,873	371,295
Eric A. Mendelson	11,077,101	282,067
Laurans A. Mendelson	11,123,260	235,908
Victor H. Mendelson	11,078,596	280,572
Albert Morrison, Jr.	10,976,978	382,190
Joseph W. Pallot	11,191,780	167,388
Dr. Alan Schriesheim	10,976,427	382,741
Frank J. Schwitter	11,190,439	168,729

The Company's shareholders also approved the HEICO Corporation Amended and Restated 2002 Stock Option Plan, with 7,792,400 voting for the proposal, 1,293,350 voting against and 52,917 abstaining. Furthermore, the Company's shareholders ratified the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending October 31, 2008, with 11,266,394 voting for the proposal, 60,052 voting against and 32,722 abstaining.

35

Item 6. EXHIBITS

Exhibit -----	Description -----
10.1	Second Amended and Restated Revolving Credit Agreement, dated as of May 27, 2008, among HEICO Corporation, as Borrower, the lenders from time to time party hereto, Regions Bank and Wells Fargo Bank, National Association, as Co-Documentation Agents, JPMorgan Chase Bank, N. A., as Syndication Agent, and SunTrust Bank, as Administrative Agent, is incorporated by reference to Exhibit 10.1 to the Form 8-K filed on May 30, 2008. ***
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer. *
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. *

Edgar Filing: HEICO CORP - Form 10-Q

32.1 Section 1350 Certification of Chief Executive Officer. **

32.2 Section 1350 Certification of Chief Financial Officer. **

- * Filed herewith.
- ** Furnished herewith.
- *** Previously filed.

36

SIGNATURE

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.

HEICO CORPORATION

Date: June 3, 2008

By: /s/ THOMAS S. IRWIN

Thomas S. Irwin
Executive Vice President
and Chief Financial Officer
(Principal Financial and
Accounting Officer)

37

EXHIBIT INDEX

Exhibit -----	Description -----
10.1	Second Amended and Restated Revolving Credit Agreement, dated as of May 27, 2008, among HEICO Corporation, as Borrower, the lenders from time to time party hereto, Regions Bank and Wells Fargo Bank, National Association, as Co-Documentation Agents, JPMorgan Chase Bank, N. A., as Syndication Agent, and SunTrust Bank, as Administrative Agent, is incorporated by reference to Exhibit 10.1 to the Form 8-K filed on May 30, 2008.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.