

HEICO CORP  
Form 10-Q  
February 29, 2016  
Index

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

FORM 10-Q

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

For the quarterly period ended January 31, 2016

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 incorporation or organization)

(I.R.S. Employer Identification No.)

3000 Taft Street, Hollywood, Florida  
(Address of principal executive offices)  
(954) 987-4000

33021  
(Zip Code)

(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 x No "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer " Non-accelerated filer " 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 x

The number of shares outstanding of each of the registrant's classes of common stock as of February 26, 2016 is as follows:

|                                       |            |        |
|---------------------------------------|------------|--------|
| Common Stock, \$.01 par value         | 26,915,090 | shares |
| Class A Common Stock, \$.01 par value | 39,980,018 | shares |

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HEICO CORPORATION

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## PART I. FINANCIAL INFORMATION; Item 1. FINANCIAL STATEMENTS

HEICO CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED  
(in thousands, except per share data)

|  | January 31, 2016 | October 31, 2015 |
|--|------------------|------------------|
| <b>ASSETS</b>  |                  |                  |
| Current assets:  |                  |                  |
| Cash and cash equivalents  | \$29,886         | \$33,603         |
| Accounts receivable, net   | 173,915          | 181,593          |
| Inventories, net   | 273,494          | 243,517          |
| Prepaid expenses and other current assets  | 12,691           | 9,369            |
| Deferred income taxes  | 33,443           | 35,530           |
| Total current assets   | 523,429          | 503,612          |
| Property, plant and equipment, net   | 112,686          | 105,670          |
| Goodwill   | 863,916          | 766,639          |
| Intangible assets, net   | 391,907          | 272,593          |
| Deferred income taxes  | 656              | 847              |
| Other assets   | 88,906           | 87,026           |
| Total assets   | \$1,981,500      | \$1,736,387      |
| <b>LIABILITIES AND EQUITY</b>  |                  |                  |
| Current liabilities:   |                  |                  |
| Current maturities of long-term debt   | \$346            | \$357            |
| Trade accounts payable   | 59,861           | 64,682           |
| Accrued expenses and other current liabilities   | 86,242           | 100,155          |
| Income taxes payable   | 9,001            | 3,193            |
| Total current liabilities  | 155,450          | 168,387          |
| Long-term debt, net of current maturities  | 594,575          | 367,241          |
| Deferred income taxes  | 110,469          | 110,588          |
| Other long-term liabilities  | 107,652          | 105,618          |
| Total liabilities  | 968,146          | 751,834          |
| Commitments and contingencies (Note 10)  |                  |                  |
| Redeemable noncontrolling interests (Note 3)   | 91,136           | 91,282           |
| Shareholders' equity:  |                  |                  |
| Common Stock, \$.01 par value per share; 75,000 shares authorized; 26,915 and 26,906 shares issued and outstanding         | 269              | 269              |
| Class A Common Stock, \$.01 par value per share; 75,000 shares authorized; 39,980 and 39,967 shares issued and outstanding | 400              | 400              |
| Capital in excess of par value   | 289,810          | 286,220          |
| Deferred compensation obligation   | 1,635            | 1,783            |
| HEICO stock held by irrevocable trust  | (1,635           | ) (1,783         |
| Accumulated other comprehensive loss   | (27,543          | ) (25,080        |
| Retained earnings  | 574,233          | 548,054          |

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|                                  |             |             |
|----------------------------------|-------------|-------------|
| Total HEICO shareholders' equity | 837,169     | 809,863     |
| Noncontrolling interests         | 85,049      | 83,408      |
| Total shareholders' equity       | 922,218     | 893,271     |
| Total liabilities and equity     | \$1,981,500 | \$1,736,387 |

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

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HEICO CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS – UNAUDITED  
 (in thousands, except per share data)

|   | Three months ended January 31, |           |
|---|--------------------------------|-----------|
|   | 2016                           | 2015      |
| Net sales   | \$306,227                      | \$268,185 |
| Operating costs and expenses:                             |                                |           |
| Cost of sales   | 194,031                        | 174,388   |
| Selling, general and administrative expenses              | 59,575                         | 47,391    |
| Total operating costs and expenses                        | 253,606                        | 221,779   |
| Operating income  | 52,621                         | 46,406    |
| Interest expense  | (1,567                         | ) (1,112  |
| Other (expense) income                                    | (430                           | ) 197     |
| Income before income taxes and noncontrolling interests   | 50,624                         | 45,491    |
| Income tax expense  | 14,700                         | 13,400    |
| Net income from consolidated operations                   | 35,924                         | 32,091    |
| Less: Net income attributable to noncontrolling interests | 4,653                          | 4,451     |
| Net income attributable to HEICO                          | \$31,271                       | \$27,640  |
| Net income per share attributable to HEICO shareholders:  |                                |           |
| Basic   | \$.47                          | \$.42     |
| Diluted   | \$.46                          | \$.41     |
| Weighted average number of common shares outstanding:     |                                |           |
| Basic   | 66,875                         | 66,595    |
| Diluted   | 67,940                         | 67,669    |
| Cash dividends per share                                  | \$.08                          | \$.07     |

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

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HEICO CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF  
 COMPREHENSIVE INCOME – UNAUDITED  
 (in thousands)

|   | Three months ended January 31, |           |
|---|--------------------------------|-----------|
|   | 2016                           | 2015      |
| Net income from consolidated operations   | \$35,924                       | \$32,091  |
| Other comprehensive loss:   |                                |           |
| Foreign currency translation adjustments  | (2,667                         | ) (11,738 |
| Total other comprehensive loss  | (2,667                         | ) (11,738 |
| Comprehensive income from consolidated operations                                       | 33,257                         | 20,353    |
| Less: Net income attributable to noncontrolling interests                               | 4,653                          | 4,451     |
| Less: Foreign currency translation adjustments attributable to noncontrolling interests | (204                           | ) (457    |
| Comprehensive income attributable to noncontrolling interests                           | 4,449                          | 3,994     |
| Comprehensive income attributable to HEICO  | \$28,808                       | \$16,359  |

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

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HEICO CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY - UNAUDITED  
 (in thousands, except per share data)

|  | HEICO Shareholders' Equity                |                 |                               |                                      |  |   |   |                      |                             |                                  |
|--|---|-----------------|-------------------------------|--------------------------------------|--|---|---|----------------------|-----------------------------|----------------------------------|
|  | Redeemable<br>Noncontrolling<br>Interests | Common<br>Stock | Class<br>A<br>Common<br>Stock | Capital in<br>Excess of<br>Par Value | Deferred<br>Compensation<br>Obligation | HEICO<br>Stock<br>Held by<br>Irrevocable<br>Trust | Accumulated<br>Other<br>Comprehensive<br>Loss | Retained<br>Earnings | Noncontrolling<br>Interests | Total<br>Shareholders'<br>Equity |
| Balances as of<br>October 31,<br>2015  | \$91,282                                  | \$269           | \$400                         | \$286,220                            | \$1,783                                | (\$1,783)   | (\$25,080)                                    | \$548,054            | \$83,408                    | \$893,271                        |
| Comprehensive<br>income (loss)   | 1,972                                     | —               | —                             | —                                    | —                                      | —   | (2,463)                                       | 31,271               | 2,477                       | 31,285                           |
| Cash dividends<br>(\$ .08 per share)   | —   | —               | —                             | —                                    | —                                      | —   | —   | (5,350)              | —                           | (5,350)                          |
| Issuance of<br>common stock<br>to HEICO  | —   | —               | —                             | 945                                  | —                                      | —   | —   | —                    | —                           | 945                              |
| Savings and<br>Investment Plan<br>Share-based<br>compensation<br>expense               | —   | —               | —                             | 1,680                                | —                                      | —   | —   | —                    | —                           | 1,680                            |
| Proceeds from<br>stock option<br>exercises   | —   | —               | —                             | 94                                   | —                                      | —   | —   | —                    | —                           | 94                               |
| Tax benefit<br>from stock<br>option exercises  | —   | —               | —                             | 871                                  | —                                      | —   | —   | —                    | —                           | 871                              |
| Distributions to<br>noncontrolling<br>interests  | (1,860)                                   | —               | —                             | —                                    | —                                      | —   | —   | —                    | (836)                       | (836)                            |
| Adjustments to<br>redemption<br>amount of<br>redeemable<br>noncontrolling<br>interests | (258)                                     | —               | —                             | —                                    | —                                      | —   | —   | 258                  | —                           | 258                              |
| Deferred<br>compensation<br>obligation   | —   | —               | —                             | —                                    | (148)                                  | 148   | —   | —                    | —                           | —                                |
| Balances as of<br>January 31,<br>2016  | \$91,136                                  | \$269           | \$400                         | \$289,810                            | \$1,635                                | (\$1,635)   | (\$27,543)                                    | \$574,233            | \$85,049                    | \$922,218                        |
|  | HEICO Shareholders' Equity                |                 |                               |                                      |  |   |   |                      |                             |                                  |
|  | Redeemable<br>Noncontrolling<br>Interests | Common<br>Stock | Class<br>A<br>Common<br>Stock | Capital in<br>Excess of<br>Par Value | Deferred<br>Compensation<br>Obligation | HEICO<br>Stock<br>Held by                         | Accumulated<br>Other<br>Comprehensive         | Retained<br>Earnings | Noncontrolling<br>Interests | Total<br>Shareholders'<br>Equity |

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|   |          | Stock |       |           |         | Irrevocable Trust |             | Loss      |          |           |
|---|----------|-------|-------|-----------|---------|-------------------|-------------|-----------|----------|-----------|
| Balances as of October 31, 2014   | \$39,966 | \$268 | \$397 | \$269,351 | \$1,138 | (\$1,138)         | (\$8,289 )  | \$437,757 | \$75,135 | \$774,619 |
| Comprehensive income (loss)   | 959      | —     | —     | —         | —       | —                 | (11,281 )   | 27,640    | 3,035    | 19,394    |
| Cash dividends (\$0.07 per share)                                       | —        | —     | —     | —         | —       | —                 | —           | (4,666 )  | —        | (4,666 )  |
| Issuance of common stock to HEICO                                       | —        | 1     | —     | 614       | —       | —                 | —           | —         | —        | 615       |
| Savings and Investment Plan   |          |       |       |           |         |                   |             |           |          |           |
| Share-based compensation expense  | —        | —     | —     | 1,422     | —       | —                 | —           | —         | —        | 1,422     |
| Proceeds from stock option exercises                                    | —        | —     | 1     | 1,515     | —       | —                 | —           | —         | —        | 1,516     |
| Tax benefit from stock option exercises                                 | —        | —     | —     | 1,407     | —       | —                 | —           | —         | —        | 1,407     |
| Redemptions of common stock related to share-based compensation         | —        | —     | —     | (4 )      | —       | —                 | —           | —         | —        | (4 )      |
| Noncontrolling interests assumed related to acquisitions                | 15,674   | —     | —     | —         | —       | —                 | —           | —         | —        | —         |
| Distributions to noncontrolling interests                               | (1,379 ) | —     | —     | —         | —       | —                 | —           | —         | (1,178 ) | (1,178 )  |
| Adjustments to redemption amount of redeemable noncontrolling interests | 9,189    | —     | —     | —         | —       | —                 | 338         | (9,527 )  | —        | (9,189 )  |
| Deferred compensation obligation  | —        | —     | —     | —         | 158     | (158 )            | —           | —         | —        | —         |
| Other   | —        | —     | —     | —         | —       | —                 | —           | 1         | —        | 1         |
| Balances as of January 31, 2015   | \$64,409 | \$269 | \$398 | \$274,305 | \$1,296 | (\$1,296)         | (\$19,232 ) | \$451,205 | \$76,992 | \$783,937 |

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





HEICO CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED  
 (in thousands)

|  | Three months ended January 31, |          |
|--|--------------------------------|----------|
|  | 2016                           | 2015     |
| <b>Operating Activities:</b>   |                                |          |
| Net income from consolidated operations  | \$35,924                       | \$32,091 |
| Adjustments to reconcile net income from consolidated operations to net cash provided by operating activities: |                                |          |
| Depreciation and amortization  | 13,921                         | 10,904   |
| Deferred income tax provision  | 2,276                          | 1,557    |
| Share-based compensation expense   | 1,680                          | 1,422    |
| Employer contributions to HEICO Savings and Investment Plan  | 1,417                          | 1,393    |
| Tax benefit from stock option exercises  | 871                            | 1,407    |
| Excess tax benefit from stock option exercises   | (871)                          | (1,407)  |
| Increase in accrued contingent consideration   | 847                            | 20       |
| Foreign currency transaction adjustments, net  | (839)                          | (1,374)  |
| Changes in operating assets and liabilities, net of acquisitions:  |                                |          |
| Decrease in accounts receivable  | 12,348                         | 2,082    |
| Increase in inventories  | (2,326)                        | (2,851)  |
| Increase in prepaid expenses and other current assets  | (3,030)                        | (2,105)  |
| Decrease in trade accounts payable   | (7,696)                        | (5,299)  |
| Decrease in accrued expenses and other current liabilities   | (14,787)                       | (14,172) |
| Increase in income taxes payable   | 5,851                          | 6,323    |
| Other long-term assets and liabilities, net  | (419)                          | (536)    |
| Net cash provided by operating activities  | 45,167                         | 29,455   |
| <b>Investing Activities:</b>   |                                |          |
| Acquisitions, net of cash acquired   | (264,324)                      | (49,312) |
| Capital expenditures   | (5,690)                        | (4,254)  |
| Other  | 474                            | 76       |
| Net cash used in investing activities  | (269,540)                      | (53,490) |
| <b>Financing Activities:</b>   |                                |          |
| Borrowings on revolving credit facility  | 260,000                        | 56,696   |
| Payments on revolving credit facility  | (32,000)                       | (29,000) |
| Cash dividends paid  | (5,350)                        | (4,666)  |
| Distributions to noncontrolling interests  | (2,696)                        | (2,557)  |
| Proceeds from stock option exercises   | 94                             | 1,516    |
| Excess tax benefit from stock option exercises   | 871                            | 1,407    |
| Other  | (86)                           | (112)    |
| Net cash provided by financing activities  | 220,833                        | 23,284   |
| Effect of exchange rate changes on cash  | (177)                          | (1,106)  |
| Net decrease in cash and cash equivalents  | (3,717)                        | (1,857)  |
| Cash and cash equivalents at beginning of year   | 33,603                         | 20,229   |
| Cash and cash equivalents at end of period   | \$29,886                       | \$18,372 |

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



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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 (collectively, “HEICO,” or the “Company”) have been prepared in conformity with accounting principles generally accepted in the 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, 2015. The October 31, 2015 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, statements of comprehensive income, statements of shareholders' equity and statements of cash flows for such interim periods presented. The results of operations for the three months ended January 31, 2016 are not necessarily indicative of the results which may be expected for the entire fiscal year.

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

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers,” which provides a comprehensive new revenue recognition model that will supersede nearly all existing revenue recognition guidance. Under ASU 2014-09, an entity will recognize revenue when it transfers promised goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09, as amended, is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2017, or in fiscal 2019 for HEICO. Early adoption in the year preceding the effective date is permitted. ASU 2014-09 shall be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. The Company is currently evaluating which transition method it will elect and the

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effect the adoption of this guidance will have on its consolidated results of operations, financial position and cash flows.

In February 2015, the FASB issued ASU 2015-02, "Amendments to the Consolidation Analysis," which changes the guidance for evaluating whether to consolidate certain legal entities. Specifically, ASU 2015-02 modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities. Additionally, this guidance eliminates the presumption that a general partner should consolidate a limited partnership, and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2015, or in fiscal 2017 for HEICO. Early adoption is permitted. ASU 2015-02 shall be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2015-02 recognized at the date of initial application. The Company is currently evaluating which transition method it will elect and the effect the adoption of this guidance will have on its consolidated results of operations, financial position and cash flows.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory," which requires entities to measure inventories at the lower of cost or net realizable value. Under current guidance, inventories are measured at the lower of cost or market. ASU 2015-11 must be applied prospectively and is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2016, or in fiscal 2018 for HEICO. Early adoption is permitted. The Company is currently evaluating the effect, if any, the adoption of this guidance will have on its consolidated results of operations, financial position and cash flows.

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes," which requires that all deferred tax assets and liabilities be classified as noncurrent in the balance sheet. ASU 2015-17 may be applied either prospectively or retrospectively and is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2016, or in fiscal 2018 for HEICO. Early adoption is permitted. The Company is currently evaluating which transition method it will elect. The adoption of this guidance will only effect the presentation of deferred taxes in the Company's consolidated statement of financial position.

In February 2016, the FASB issued ASU 2016-02, "Leases," which requires recognition of lease assets and lease liabilities on the balance sheet of lessees. ASU 2016-02 is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2018, or in fiscal 2020 for HEICO. Early adoption is permitted. ASU 2016-02 requires a modified retrospective transition approach and provides certain optional transition relief. The Company is currently evaluating the effect the adoption of this guidance will have on its consolidated results of operations, financial position and cash flows.

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## 2. ACQUISITIONS

In December 2015, the Company, through a subsidiary of HEICO Electronic, acquired certain assets of a company that designs and manufactures underwater locator beacons used to locate aircraft cockpit voice recorders, flight data recorders, marine ship voyage recorders and other devices which have been submerged under water. The total consideration includes an accrual of \$1.2 million representing the estimated fair value of contingent consideration the Company may be obligated to pay in aggregate during the first five years following the acquisition. The maximum amount of contingent consideration that the Company could be required to pay is \$2.0 million. See Note 7, Fair Value Measurements, for additional information regarding the Company's contingent consideration obligation. The purchase price of this acquisition was paid using cash provided by operating activities and the total consideration for the acquisition is not material or significant to the Company's condensed consolidated financial statements.

On January 11, 2016, the Company, through HEICO Electronic, acquired all of the limited liability company interests of Robertson Fuel Systems, LLC ("Robertson"). The purchase price of this acquisition was paid in cash using proceeds from the Company's revolving credit facility. Robertson is a world leader in the design and production of mission-extending, crashworthy and ballistically self-sealing auxiliary fuel systems for military rotorcraft. The Company believes that this acquisition is consistent with HEICO's practice of acquiring outstanding niche designers and manufacturers of critical components in the defense industry and will further enable the Company to broaden its product offerings, technologies and customer base.

The following table summarizes the total consideration for the acquisition of Robertson (in thousands):

|                                   |           |   |
|-----------------------------------|-----------|---|
| Cash paid                         | \$256,806 |   |
| Less: cash acquired               | (3,271    | ) |
| Cash paid, net                    | 253,535   |   |
| Additional purchase consideration | (352      | ) |
| Total consideration               | \$253,183 |   |

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The following table summarizes the allocation of the total consideration for the acquisition of Robertson to the estimated fair values of the tangible and identifiable intangible assets acquired and liabilities assumed (in thousands):

|                                       |           |
|---------------------------------------|-----------|
| Assets acquired:                      |           |
| Identifiable intangible assets        | \$123,100 |
| Goodwill                              | 91,824    |
| Inventories                           | 27,955    |
| Property, plant and equipment         | 7,038     |
| Accounts receivable                   | 5,000     |
| Other assets                          | 1,884     |
| Total assets acquired, excluding cash | 256,801   |
| Liabilities assumed:                  |           |
| Accounts payable                      | 2,971     |
| Accrued expenses                      | 647       |
| Total liabilities assumed             | 3,618     |
| Net assets acquired, excluding cash   | \$253,183 |

The allocation of the total consideration to the tangible and identifiable intangible assets acquired and liabilities assumed is preliminary until the Company obtains final information regarding their fair values. The primary items that generated the goodwill recognized were the premiums paid by the Company for the future earnings potential of Robertson and the value of its assembled workforce that do not qualify for separate recognition. Acquisition costs associated with the purchase of Robertson totaled \$3.2 million for the three months ended January 31, 2016 and were recorded as a component of selling, general and administrative ("SG&A") expenses in the Company's Condensed Consolidated Statements of Operations. The operating results of Robertson were included in the Company's results of operations from the effective acquisition date. The amount of net sales and earnings of Robertson included in the Condensed Consolidated Statements of Operations is not material.

The following table presents unaudited pro forma financial information for the three months ended January 31, 2016 as if the acquisition of Robertson had occurred as of November 1, 2014 (in thousands):

|  | Three months ended<br>January 31, 2016 | Three months ended<br>January 31, 2015 |
|--|--|--|
| Net sales  | \$327,561                              | \$284,206                              |
| Net income from consolidated operations                  | \$39,479                               | \$32,517                               |
| Net income attributable to HEICO                         | \$34,826                               | \$28,066                               |
| Net income per share attributable to HEICO shareholders: |  |  |
| Basic  | \$.52                                  | \$.42                                  |
| Diluted  | \$.51                                  | \$.41                                  |

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The pro forma financial information is presented for comparative purposes only and is not necessarily indicative of the results of operations that actually would have been achieved if the acquisition had taken place as of November 1, 2014. The unaudited pro forma financial information includes adjustments to historical amounts such as additional amortization expense related to intangible assets acquired, increased interest expense associated with borrowings to finance the acquisition and inventory purchase accounting adjustments charged to cost of sales as the inventory is sold.

## 3. SELECTED FINANCIAL STATEMENT INFORMATION

|  |                  |                  |
|--|------------------|------------------|
| Accounts Receivable<br>(in thousands)  | January 31, 2016 | October 31, 2015 |
| Accounts receivable  | \$177,065        | \$183,631        |
| Less: Allowance for doubtful accounts  | (3,150           | ) (2,038         |
| Accounts receivable, net   | \$173,915        | \$181,593        |
| Costs and Estimated Earnings on Uncompleted Percentage-of-Completion Contracts<br>(in thousands)       | January 31, 2016 | October 31, 2015 |
| Costs incurred on uncompleted contracts  | \$24,387         | \$22,645         |
| Estimated earnings   | 18,247           | 16,116           |
|  | 42,634           | 38,761           |
| Less: Billings to date   | (36,119          | ) (36,442        |
|  | \$6,515          | \$2,319          |
| Included in the accompanying Condensed Consolidated Balance<br>Sheets under the following captions:    |                  |                  |
| Accounts receivable, net (costs and estimated earnings in excess of<br>billings)                       | \$11,437         | \$6,263          |
| Accrued expenses and other current liabilities (billings in excess of<br>costs and estimated earnings) | (4,922           | ) (3,944         |
|  | \$6,515          | \$2,319          |

Changes in estimates pertaining to percentage-of-completion contracts did not have a material effect on net income from consolidated operations for the three months ended January 31, 2016 and 2015.



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| Inventories<br>(in thousands)             | January 31, 2016 | October 31, 2015 |
|---|------------------|------------------|
| Finished products                         | \$122,442        | \$119,262        |
| Work in process                           | 35,459           | 32,201           |
| Materials, parts, assemblies and supplies | 113,576          | 89,739           |
| Contracts in process                      | 3,744            | 4,521            |
| Less: Billings to date                    | (1,727           | ) (2,206         |
| Inventories, net of valuation reserves    | \$273,494        | \$243,517        |

Contracts in process represents accumulated capitalized costs associated with fixed price contracts. Related progress billings and customer advances ("billings to date") are classified as a reduction to contracts in process, if any, and any excess is included in accrued expenses and other liabilities.

| Property, Plant and Equipment<br>(in thousands) | January 31, 2016 | October 31, 2015 |
|---|------------------|------------------|
| Land  | \$4,586          | \$5,060          |
| Buildings and improvements                      | 72,261           | 70,626           |
| Machinery, equipment and tooling                | 161,601          | 152,022          |
| Construction in progress                        | 5,915            | 4,668            |
|   | 244,363          | 232,376          |
| Less: Accumulated depreciation and amortization | (131,677         | ) (126,706       |
| Property, plant and equipment, net              | \$112,686        | \$105,670        |

## Accrued Customer Rebates and Credits

The aggregate amount of accrued customer rebates and credits included within accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheets was \$9.8 million and \$8.1 million as of January 31, 2016 and October 31, 2015, respectively. The total customer rebates and credits deducted within net sales for the three months ended January 31, 2016 and 2015 was \$2.3 million and \$1.6 million, respectively.

## Research and Development Expenses

The amount of new product research and development ("R&D") expenses included in cost of sales for the three months ended January 31, 2016 and 2015 is as follows (in thousands):

|              | Three months ended January 31, |         |
|--------------|--------------------------------|---------|
|              | 2016                           | 2015    |
| R&D expenses | \$9,007                        | \$9,302 |

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## Redeemable Noncontrolling Interests

The holders of equity interests in certain of the Company's subsidiaries have rights ("Put Rights") that may be exercised on varying dates causing the Company to purchase their equity interests through fiscal 2025. 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 their equity interests (the "Redemption Amount") be at fair value or a formula that management intended to reasonably approximate fair value based solely on a multiple of future earnings over a measurement period. Management's estimate of the aggregate Redemption Amount of all Put Rights that the Company could be required to pay is as follows (in thousands):

|   | January 31, 2016 | October 31, 2015 |
|---|------------------|------------------|
| Redeemable at fair value                          | \$76,783         | \$76,929         |
| Redeemable based on a multiple of future earnings | 14,353           | 14,353           |
| Redeemable noncontrolling interests               | \$91,136         | \$91,282         |

## Accumulated Other Comprehensive Loss

Changes in the components of accumulated other comprehensive loss for the three months ended January 31, 2016 are as follows (in thousands):

|                                 | Foreign Currency<br>Translation | Pension Benefit<br>Obligation | Accumulated<br>Other<br>Comprehensive Loss |
|---------------------------------|---------------------------------|-------------------------------|--|
| Balances as of October 31, 2015 | (\$24,368                       | ) (\$712                      | ) (\$25,080                                |
| Unrealized loss                 | (2,463                          | ) —                           | ) (2,463                                   |
| Balances as of January 31, 2016 | (\$26,831                       | ) (\$712                      | ) (\$27,543                                |

## 4. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill by operating segment for the three months ended January 31, 2016 are as follows (in thousands):

|  | Segment<br>FSG | ETG       | Consolidated<br>Totals |
|--|----------------|-----------|------------------------|
| Balances as of October 31, 2015          | \$337,507      | \$429,132 | \$766,639              |
| Goodwill acquired                        | —              | 98,844    | 98,844                 |
| Foreign currency translation adjustments | (459           | ) (1,372  | ) (1,831               |
| Adjustments to goodwill                  | 249            | 15        | 264                    |
| Balances as of January 31, 2016          | \$337,297      | \$526,619 | \$863,916              |

The goodwill acquired pertains to the fiscal 2016 acquisitions described in Note 2, Acquisitions, and represents the residual value after the allocation of the total consideration to the tangible and identifiable intangible assets acquired and liabilities assumed. Foreign currency

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translation adjustments are included in other comprehensive income (loss) in the Company's Condensed Consolidated Statements of Comprehensive Income. The adjustments to goodwill represent immaterial measurement period adjustments to the purchase price allocation of certain fiscal 2015 acquisitions. The Company estimates that all of the goodwill acquired in fiscal 2016 will be deductible for income tax purposes.

Identifiable intangible assets consist of the following (in thousands):

|                               | As of January 31, 2016 |                          |                     | As of October 31, 2015 |                          |                     |
|-------------------------------|------------------------|--------------------------|---------------------|------------------------|--------------------------|---------------------|
|                               | Gross Carrying Amount  | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount  | Accumulated Amortization | Net Carrying Amount |
| <b>Amortizing Assets:</b>     |                        |                          |                     |                        |                          |                     |
| Customer relationships        | \$247,987              | (\$69,182)               | ) \$178,805         | \$190,450              | (\$63,461)               | ) \$126,989         |
| Intellectual property         | 139,480                | (25,149)                 | ) 114,331           | 98,143                 | (22,912)                 | ) 75,231            |
| Licenses                      | 4,200                  | (1,964)                  | ) 2,236             | 4,200                  | (1,882)                  | ) 2,318             |
| Non-compete agreements        | 804                    | (804)                    | ) —                 | 914                    | (914)                    | ) —                 |
| Patents                       | 735                    | (444)                    | ) 291               | 746                    | (447)                    | ) 299               |
| Trade names                   | 466                    | (47)                     | ) 419               | 166                    | (38)                     | ) 128               |
|                               | 393,672                | (97,590)                 | ) 296,082           | 294,619                | (89,654)                 | ) 204,965           |
| <b>Non-Amortizing Assets:</b> |                        |                          |                     |                        |                          |                     |
| Trade names                   | 95,825                 | —                        | ) 95,825            | 67,628                 | —                        | ) 67,628            |
|                               | \$489,497              | (\$97,590)               | ) \$391,907         | \$362,247              | (\$89,654)               | ) \$272,593         |

The increase in the gross carrying amount of customer relationships, intellectual property and amortizing and non-amortizing trade names as of January 31, 2016 compared to October 31, 2015 principally relates to such intangible assets recognized in connection with fiscal 2016 acquisitions (see Note 2, Acquisitions). The weighted-average amortization period of the customer relationships, intellectual property and amortizing trade names acquired during fiscal 2016 is 15 years, 22 years and 15 years, respectively.

Amortization expense related to intangible assets for the three months ended January 31, 2016 and 2015 was \$8.3 million and \$6.1 million, respectively. Amortization expense related to intangible assets for the remainder of fiscal 2016 is estimated to be \$27.8 million. Amortization expense for each of the next five fiscal years and thereafter is estimated to be \$36.1 million in fiscal 2017, \$34.1 million in fiscal 2018, \$32.0 million in fiscal 2019, \$29.4 million in fiscal 2020, \$27.0 million in fiscal 2021, and \$109.7 million thereafter.

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## 5. LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

|  | January 31, 2016 | October 31, 2015 |
|--|------------------|------------------|
| Borrowings under revolving credit facility | \$592,650        | \$365,203        |
| Capital leases                             | 2,271            | 2,395            |
|  | 594,921          | 367,598          |
| Less: Current maturities of long-term debt | (346             | ) (357           |
|  | \$594,575        | \$367,241        |

As of January 31, 2016 and October 31, 2015, the weighted average interest rate on borrowings under the Company's revolving credit facility was 1.5% and 1.3%, respectively. The revolving credit facility contains both financial and non-financial covenants. As of January 31, 2016, the Company was in compliance with all such covenants.

## 6. INCOME TAXES

The Company's effective tax rate in the first quarter of fiscal 2016 decreased to 29.0% from 29.5% in the first quarter of fiscal 2015. The decrease principally reflects the benefit from the Company's decision to not make a provision for U.S. income taxes on the undistributed earnings of a fiscal 2015 foreign acquisition with operations in lower tax rate jurisdictions. The Company's effective tax rate in both the first quarter of fiscal 2016 and 2015 reflects a similar economic benefit from a retroactive extension of the U.S. federal R&D tax credit that resulted in an additional income tax credit recognized for qualified R&D activities for the last ten months of the respective prior fiscal year.

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## 7. FAIR VALUE MEASUREMENTS

The Company's assets and liabilities that were measured at fair value on a recurring basis are set forth by level within the fair value hierarchy in the following tables (in thousands):

|                                | As of January 31, 2016  |  |   |          |
|--------------------------------|---|--|---|----------|
|                                | Quoted Prices<br>in Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) | Total    |
| Assets:                        |   |  |   |          |
| Deferred compensation plans:   |   |  |   |          |
| Corporate owned life insurance | \$—   | \$73,450   | \$—   | \$73,450 |
| Money market funds             | 4,637   | —  | —   | 4,637    |
| Equity securities              | 1,582   | —  | —   | 1,582    |
| Mutual funds                   | 1,552   | —  | —   | 1,552    |
| Other                          | 880   | 50   | —   | 930      |
| Total assets                   | \$8,651   | \$73,500   | \$—   | \$82,151 |
| Liabilities:                   |   |  |   |          |
| Contingent consideration       | \$—   | \$—  | \$23,141  | \$23,141 |
|                                | As of October 31, 2015  |  |   |          |
|                                | Quoted Prices<br>in Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) | Total    |
| Assets:                        |   |  |   |          |
| Deferred compensation plans:   |   |  |   |          |
| Corporate owned life insurance | \$—   | \$73,238   | \$—   | \$73,238 |
| Money market funds             | 3,832   | —  | —   | 3,832    |
| Equity securities              | 1,845   | —  | —   | 1,845    |
| Mutual funds                   | 1,665   | —  | —   | 1,665    |
| Other                          | 946   | 50   | —   | 996      |
| Total assets                   | \$8,288   | \$73,288   | \$—   | \$81,576 |
| Liabilities:                   |   |  |   |          |
| Contingent consideration       | \$—   | \$—  | \$21,405  | \$21,405 |

The Company maintains two non-qualified deferred compensation plans. The assets of the HEICO Corporation Leadership Compensation Plan (the "LCP") principally represent cash surrender values of life insurance policies, which derive their fair values from investments in mutual funds that are managed by an insurance company and are classified within Level 2 and valued using a market approach. Certain other assets of the LCP represent investments in money market funds that are classified within Level 1. The assets of the Company's other deferred compensation plan are principally invested in equity securities and mutual funds that are

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classified within Level 1. The assets of both plans are held within irrevocable trusts and classified within other assets in the Company's Condensed Consolidated Balance Sheets and have an aggregate value of \$82.2 million as of January 31, 2016 and \$81.6 million as of October 31, 2015, of which the LCP related assets were \$78.1 million and \$77.1 million as of January 31, 2016 and October 31, 2015, respectively. The related liabilities of the two deferred compensation plans are included within other long-term liabilities in the Company's Condensed Consolidated Balance Sheets and have an aggregate value of \$81.5 million as of January 31, 2016 and \$80.7 million as of October 31, 2015, of which the LCP related liability was \$77.4 million and \$76.2 million as of January 31, 2016 and October 31, 2015, respectively.

As part of the agreement to acquire certain assets of a company by the ETG in fiscal 2016, the Company may be obligated to pay contingent consideration of up to \$2.0 million in aggregate during the five year period following the acquisition. As of January 31, 2016, the estimated fair value of the contingent consideration was \$1.2 million.

As part of the agreement to acquire a subsidiary by the FSG in fiscal 2015, the Company may be obligated to pay contingent consideration of up to €6.1 million per year, or €24.4 million in aggregate, which translates to approximately \$26.5 million based on the January 31, 2016 exchange rate, should the acquired entity meet certain earnings objectives during the first four years following the acquisition. As of January 31, 2016, the estimated fair value of the contingent consideration was €20.2 million, or \$21.9 million, of which €6.1 million, or \$6.6 million, represents the portion expected to be paid in the second quarter of fiscal 2016 based on the actual earnings of the acquired entity during the first year following the acquisition.

The estimated fair value of the contingent consideration arrangements described above are classified within Level 3 and were determined using a probability-based scenario analysis approach. Under this method, a set of discrete potential future subsidiary earnings was determined using internal estimates based on various revenue growth rate assumptions for each scenario. A probability of likelihood was assigned to each discrete potential future earnings estimate and the resultant contingent consideration was calculated. The resulting probability-weighted contingent consideration amounts were discounted using a weighted average discount rate reflecting the credit risk of a market participant. Changes in either the revenue growth rates, related earnings or the discount rate could result in a material change to the amount of contingent consideration accrued and such changes will be recorded in the Company's condensed consolidated statements of operations.

The Level 3 inputs used to derive the estimated fair value of the Company's contingent consideration liability as of January 31, 2016 were as follows:

|   | Fiscal 2016<br>Acquisition | Fiscal 2015<br>Acquisition |
|---|----------------------------|----------------------------|
| Compound annual revenue growth rate range | (3 %)- 11%                 | 2 %- 17%                   |
| Weighted average discount rate            | 3.6%                       | 1.9%                       |

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Changes in the Company's contingent consideration liability measured at fair value on a recurring basis using unobservable inputs (Level 3) for the three months ended January 31, 2016 are as follows (in thousands):

|   |          |   |
|---|----------|---|
| Balance as of October 31, 2015                  | \$21,405 |   |
| Contingent consideration related to acquisition | 1,225    |   |
| Increase in accrued contingent consideration    | 847      |   |
| Foreign currency translation adjustments        | (336     | ) |
| Balance as of January 31, 2016                  | \$23,141 |   |

Included in the accompanying Condensed Consolidated Balance Sheet under the following captions:

|  |          |
|--|----------|
| Accrued expenses and other current liabilities | \$6,858  |
| Other long-term liabilities                    | 16,283   |
|  | \$23,141 |

The Company recorded the increase in accrued contingent consideration and foreign currency translation adjustments set forth in the table above within SG&A expenses in the Company's Condensed Consolidated Statement of Operations.

The Company did not have any transfers between Level 1 and Level 2 fair value measurements during the three months ended January 31, 2016.

The carrying amounts of the Company's cash and cash equivalents, accounts receivable, trade accounts payable and accrued expenses and other current liabilities approximate fair value as of January 31, 2016 due to the relatively short maturity of the respective instruments. The carrying amount of long-term debt approximates fair value due to its variable interest rates.

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## 8. NET INCOME PER SHARE ATTRIBUTABLE TO HEICO SHAREHOLDERS

The computation of basic and diluted net income per share attributable to HEICO shareholders is as follows (in thousands, except per share data):

|  | Three months ended January 31, |          |
|--|--------------------------------|----------|
|  | 2016                           | 2015     |
| Numerator:   |                                |          |
| Net income attributable to HEICO                         | \$31,271                       | \$27,640 |
| Denominator:   |                                |          |
| Weighted average common shares outstanding - basic       | 66,875                         | 66,595   |
| Effect of dilutive stock options                         | 1,065                          | 1,074    |
| Weighted average common shares outstanding - diluted     | 67,940                         | 67,669   |
| Net income per share attributable to HEICO shareholders: |                                |          |
| Basic  | \$.47                          | \$.42    |
| Diluted  | \$.46                          | \$.41    |
| Anti-dilutive stock options excluded                     | 715                            | 305      |



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## 9. OPERATING SEGMENTS

Information on the Company's two operating segments, the FSG and the ETG, for the three months ended January 31, 2016 and 2015, respectively, is as follows (in thousands):

|                                      | Segment   |           | Other,<br>Primarily<br>Corporate and<br>Intersegment | Consolidated<br>Totals |
|--------------------------------------|-----------|-----------|--|------------------------|
|                                      | FSG       | ETG       |  |                        |
| Three months ended January 31, 2016: |           |           |  |                        |
| Net sales                            | \$204,576 | \$104,152 | (\$2,501   | ) \$306,227            |
| Depreciation                         | 2,950     | 1,852     | 56   | 4,858                  |
| Amortization                         | 4,128     | 4,770     | 165  | 9,063                  |
| Operating income                     | 35,480    | 22,269    | (5,128   | ) 52,621               |
| Capital expenditures                 | 3,705     | 1,683     | 302  | 5,690                  |
| Three months ended January 31, 2015: |           |           |  |                        |
| Net sales                            | \$182,057 | \$89,221  | (\$3,093   | ) \$268,185            |
| Depreciation                         | 2,253     | 1,701     | 35   | 3,989                  |
| Amortization                         | 2,559     | 4,191     | 165  | 6,915                  |
| Operating income                     | 30,703    | 19,418    | (3,715   | ) 46,406               |
| Capital expenditures                 | 2,614     | 1,631     | 9  | 4,254                  |

Total assets by operating segment as of January 31, 2016 and October 31, 2015 are as follows (in thousands):

|                                     | Segment   |             | Other,<br>Primarily<br>Corporate | Consolidated<br>Totals |
|-------------------------------------|-----------|-------------|----------------------------------|------------------------|
|                                     | FSG       | ETG         |                                  |                        |
| Total assets as of January 31, 2016 | \$846,999 | \$1,011,633 | \$122,868                        | \$1,981,500            |
| Total assets as of October 31, 2015 | 868,218   | 746,018     | 122,151                          | 1,736,387              |

## 10. COMMITMENTS AND CONTINGENCIES

## Guarantees

As of January 31, 2016, the Company has arranged for standby letters of credit aggregating \$2.6 million, which are supported by its revolving credit facility. One letter of credit in the amount of \$1.5 million is to satisfy the security requirement of the insurance company used by the Company for potential workers' compensation claims and the remainder pertain to performance guarantees related to customer contracts entered into by certain of the Company's subsidiaries.

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## Product Warranty

Changes in the Company's product warranty liability for the three months ended January 31, 2016 and 2015, respectively, are as follows (in thousands):

|   | Three months ended January 31, |         |
|---|--------------------------------|---------|
|   | 2016                           | 2015    |
| Balances as of beginning of fiscal year | \$3,203                        | \$4,079 |
| Accruals for warranties                 | 301                            | 238     |
| Warranty claims settled                 | (534                           | ) (533  |
| Balances as of January 31               | \$2,970                        | \$3,784 |

## 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.

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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.

Our critical accounting policies, 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 our Annual Report on Form 10-K for the year ended October 31, 2015. There have been no material changes to our critical accounting policies during the three months ended January 31, 2016.

Our business is comprised of two operating segments: the Flight Support Group ("FSG"), consisting of HEICO Aerospace Holdings Corp. and HEICO Flight Support Corp. and their respective subsidiaries; and the Electronic Technologies Group ("ETG"), consisting of HEICO Electronic Technologies Corp. and its subsidiaries.

Our results of operations for the three months ended January 31, 2016 have been affected by the fiscal 2015 acquisitions as further detailed in Note 2, Acquisitions, of the Notes to Consolidated Financial Statements of our Annual Report on Form 10-K for the year ended October 31, 2015 and the fiscal 2016 acquisitions as further detailed in Note 2, Acquisitions, of the Notes to Condensed Consolidated Financial Statements of this quarterly report.

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## Results of Operations

The following table sets forth the results of our operations, net sales and operating income by segment and the percentage of net sales represented by the respective items in our Condensed Consolidated Statements of Operations (in thousands):

|   | Three months ended January 31, |           |    |    |
|---|--------------------------------|-----------|----|----|
|   | 2016                           | 2015      |    |    |
| Net sales   | \$306,227                      | \$268,185 |    |    |
| Cost of sales                                       | 194,031                        | 174,388   |    |    |
| Selling, general and administrative expenses        | 59,575                         | 47,391    |    |    |
| Total operating costs and expenses                  | 253,606                        | 221,779   |    |    |
| Operating income                                    | \$52,621                       | \$46,406  |    |    |
| Net sales by segment:                               |                                |           |    |    |
| Flight Support Group                                | \$204,576                      | \$182,057 |    |    |
| Electronic Technologies Group                       | 104,152                        | 89,221    |    |    |
| Intersegment sales                                  | (2,501                         | ) (3,093  | )  | )  |
|   | \$306,227                      | \$268,185 |    |    |
| Operating income by segment:                        |                                |           |    |    |
| Flight Support Group                                | \$35,480                       | \$30,703  |    |    |
| Electronic Technologies Group                       | 22,269                         | 19,418    |    |    |
| Other, primarily corporate                          | (5,128                         | ) (3,715  | )  | )  |
|   | \$52,621                       | \$46,406  |    |    |
| Net sales   | 100.0                          | % 100.0   |    | %  |
| Gross profit  | 36.6                           | % 35.0    |    | %  |
| Selling, general and administrative expenses        | 19.5                           | % 17.7    |    | %  |
| Operating income                                    | 17.2                           | % 17.3    |    | %  |
| Interest expense                                    | (.5                            | %) (.4    | %) | %) |
| Other (expense) income                              | (.1                            | %) .1     | %) | %) |
| Income tax expense                                  | 4.8                            | % 5.0     |    | %  |
| Net income attributable to noncontrolling interests | 1.5                            | % 1.7     |    | %  |
| Net income attributable to HEICO                    | 10.2                           | % 10.3    |    | %  |

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## Comparison of First Quarter of Fiscal 2016 to First Quarter of Fiscal 2015

## Net Sales

Our consolidated net sales in the first quarter of fiscal 2016 increased by 14% to \$306.2 million, up from net sales of \$268.2 million in the first quarter of fiscal 2015. The increase in consolidated net sales principally reflects an increase of \$22.5 million (a 12% increase) to \$204.6 million in net sales within the FSG as well as an increase of \$14.9 million (a 17% increase) to \$104.2 million in net sales within the ETG. The net sales increase in the FSG reflects net sales of \$20.3 million contributed by our fiscal 2015 acquisitions as well as additional aggregate net sales of \$7.4 million from our specialty products and aftermarket replacement parts product lines reflecting increased demand and new product offerings. These increases were partially offset by \$5.1 million of lower net sales from our repair and overhaul services product line. Our repair and overhaul services product line was adversely impacted by the mix of products repaired during the first quarter of fiscal 2016, which required less extensive repair and overhaul services, in addition to softer demand from our South American market. The FSG experienced organic growth of 1% in the first quarter of fiscal 2016. Excluding the net sales decrease in our repair and overhaul services product line, the FSG experienced organic revenue growth of 6% in the first quarter of fiscal 2016. The net sales increase in the ETG reflects net sales of \$11.7 million contributed by our fiscal 2016 and 2015 acquisitions as well as organic growth of 4%. The ETG's organic growth is mainly attributed to an aggregate net sales increase of \$4.2 million from certain space and defense products, partially offset by a \$1.3 million net sales decrease from lower demand for certain aerospace products. Sales price changes were not a significant contributing factor to the FSG and ETG net sales growth in the first quarter of fiscal 2016.

## Gross Profit and Operating Expenses

Our consolidated gross profit margin increased to 36.6% in the first quarter of fiscal 2016, up from 35.0% in the first quarter of fiscal 2015, principally reflecting an increase of 2.6% and .9% in the ETG's and FSG's gross profit margin, respectively. The increase in the ETG's gross profit margin is principally attributed to increased net sales and a more favorable product mix for certain of our space and defense products. The increase in the FSG's gross profit margin is principally attributed to improved gross profit margins within our specialty products and aftermarket replacement parts product lines mainly reflecting the previously mentioned increased net sales and a more favorable product mix. Additionally, the increase in the FSG's gross profit margin was partially offset by the previously mentioned decrease in net sales and a less favorable product mix within our repair and overhaul services product line. Total new product research and development expenses included within our consolidated cost of sales were \$9.0 million in the first quarter of fiscal 2016 compared to \$9.3 million in the first quarter of fiscal 2015.

Our consolidated selling, general and administrative ("SG&A") expenses were \$59.6 million and \$47.4 million in the first quarter of fiscal 2016 and 2015, respectively. The increase in consolidated SG&A expenses principally reflects \$9.3 million attributable to the fiscal 2016 and 2015 acquisitions, inclusive of \$3.2 million of acquisition costs associated with a fiscal 2016 acquisition, and \$2.2 million of higher performance-based compensation expense.

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Our consolidated SG&A expenses as a percentage of net sales were 19.5% and 17.7% in the first quarter of fiscal 2016 and 2015, respectively. The increase in consolidated SG&A expenses as a percentage of net sales principally reflects a 1.0% impact from the aforementioned acquisition costs and a .6% and .3% impact from increases in performance-based compensation expense and amortization expense of intangible assets recognized in connection with the fiscal 2016 and 2015 acquired businesses, respectively.

## Operating Income

Our consolidated operating income in the first quarter of fiscal 2016 increased by 13% to \$52.6 million, up from \$46.4 million in the first quarter of fiscal 2015. As a percentage of net sales, our consolidated operating income was 17.2% and 17.3% in the first quarter of fiscal 2016 and 2015, respectively. The increase in consolidated operating income principally reflects a \$4.8 million increase (a 16% increase) to \$35.5 million in operating income of the FSG as well as a \$2.9 million increase (a 15% increase) to \$22.3 million in operating income of the ETG. The increase in operating income of the FSG is mainly attributed to the previously mentioned net sales growth and improved gross profit margin, partially offset by an aggregate \$2.6 million impact from an increase in amortization expense of intangible assets principally recognized in connection with the fiscal 2015 acquired businesses and higher performance-based compensation expense. The increase in operating income of the ETG is mainly attributed to the previously mentioned net sales growth and improved gross profit margin, partially offset by an aggregate \$3.7 million impact from the previously mentioned acquisition costs and an increase in amortization expense of intangible assets principally recognized in connection with the fiscal 2016 and 2015 acquired businesses.

## Interest Expense

Interest expense increased to \$1.6 million in the first quarter of fiscal 2016, up from \$1.1 million in the first quarter of fiscal 2015. The increase was principally due to a higher weighted average balance outstanding under our revolving credit facility associated with our fiscal 2015 and 2016 acquisitions.

## Other (Expense) Income

Other (expense) income in the first quarter of fiscal 2016 and 2015 was not material.

## Income Tax Expense

Our effective tax rate in the first quarter of fiscal 2016 decreased to 29.0% from 29.5% in the first quarter of fiscal 2015. The decrease principally reflects the benefit from our decision to not make a provision for U.S. income taxes on the undistributed earnings of a fiscal 2015 foreign acquisition with operations in lower tax rate jurisdictions. Our effective tax rate in both the first quarter of fiscal 2016 and 2015 reflects a similar economic benefit from a retroactive extension of the U.S. federal R&D tax credit that resulted in an additional income tax credit recognized for qualified R&D activities for the last ten months of the respective prior fiscal year.

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Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests relates to the 20% noncontrolling interest held by Lufthansa Technik AG in HEICO Aerospace and the noncontrolling interests held by others in certain subsidiaries of the FSG and ETG. Net income attributable to noncontrolling interests was \$4.7 million in the first quarter of fiscal 2016 compared to \$4.5 million in the first quarter of fiscal 2015.

Net Income Attributable to HEICO

Net income attributable to HEICO increased to \$31.3 million, or \$.46 per diluted share, in the first quarter of fiscal 2016 from \$27.6 million, or \$.41 per diluted share, in the first quarter of fiscal 2015 principally reflecting the previously mentioned increased net sales and operating income.

Outlook

As we look ahead to the remainder of fiscal 2016, we anticipate overall moderate organic growth within the FSG resulting from increased demand across all product lines. Additionally, we currently expect overall moderate organic growth within the ETG resulting from increased net sales for the majority of our products. During the remainder of fiscal 2016, we plan to continue our focus on new product development, further market penetration, executing our acquisition strategies and maintaining our financial strength. Based on our current economic visibility, we are increasing our estimated consolidated fiscal 2016 year-over-year growth in net sales to 14% - 16% and net income to 10% - 13%, up from prior growth estimates in both net sales and net income of 8% - 10%.

Liquidity and Capital Resources

Our principal uses of cash include acquisitions, capital expenditures, cash dividends, distributions to noncontrolling interests and working capital needs. Capital expenditures in fiscal 2016 are anticipated to approximate \$32 million. We finance our activities primarily from our operating and financing activities, including borrowings under our revolving credit facility.

The revolving credit facility contains both financial and non-financial covenants. As of January 31, 2016, we were in compliance with all such covenants. As of January 31, 2016, our net debt to shareholders' equity ratio was 61.3%, with net debt (total debt less cash and cash equivalents) of \$565.0 million.

Based on our current outlook, we believe that our net cash provided by operating activities and available borrowings under our revolving credit facility will be sufficient to fund cash requirements for at least the next twelve months.

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### Operating Activities

Net cash provided by operating activities was \$45.2 million in the first quarter of fiscal 2016 and consisted primarily of net income from consolidated operations of \$35.9 million, depreciation and amortization expense of \$13.9 million (a non-cash item), and a deferred income tax provision of \$2.3 million (a non-cash item), partially offset by an increase in working capital (current assets minus current liabilities) of \$9.6 million. Net cash provided by operating activities increased by \$15.7 million in the first quarter of fiscal 2016 from \$29.5 million in the first quarter of fiscal 2015. The increase in net cash provided by operating activities in the first quarter of fiscal 2016 is principally attributed to a net \$6.4 million decrease in working capital principally reflecting a decrease in accounts receivable resulting from the collection of previously reported strong net sales late in the fourth quarter of fiscal 2015 as well as a \$3.8 million increase in net income from consolidated operations and a \$3.0 million increase in depreciation and amortization expense (a non-cash item).

### Investing Activities

Net cash used in investing activities totaled \$269.5 million in the first quarter of fiscal 2016 and related primarily to acquisitions of \$264.3 million as well as capital expenditures of \$5.7 million. Further details regarding our fiscal 2016 acquisitions may be found in Note 2, Acquisitions, of the Notes to Condensed Consolidated Financial Statements.

### Financing Activities

Net cash provided by financing activities in the first quarter of fiscal 2016 totaled \$220.8 million. During the first quarter of fiscal 2016, we borrowed \$260.0 million on our revolving credit facility principally to fund an acquisition. Additionally, we made payments on our revolving credit facility aggregating \$32.0 million, paid \$5.4 million in cash dividends on our common stock and made distributions to noncontrolling interests aggregating \$2.7 million in the first quarter of fiscal 2016.

### Contractual Obligations

There have not been any material changes to the amounts presented in the table of contractual obligations that was included in our Annual Report on Form 10-K for the year ended October 31, 2015.

### Off-Balance Sheet Arrangements

#### Guarantees

As of January 31, 2016, we have arranged for standby letters of credit aggregating \$2.6 million, which are supported by our revolving credit facility. One letter of credit in the amount of \$1.5 million is to satisfy the security requirement of the insurance company we use for



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potential workers' compensation claims and the remainder pertain to performance guarantees related to customer contracts entered into by certain of our subsidiaries.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers," which provides a comprehensive new revenue recognition model that will supersede nearly all existing revenue recognition guidance. Under ASU 2014-09, an entity will recognize revenue when it transfers promised goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09, as amended, is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2017, or in fiscal 2019 for HEICO. Early adoption in the year preceding the effective date is permitted. ASU 2014-09 shall be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. We are currently evaluating which transition method we will elect and the effect the adoption of this guidance will have on our consolidated results of operations, financial position and cash flows.

In February 2015, the FASB issued ASU 2015-02, "Amendments to the Consolidation Analysis," which changes the guidance for evaluating whether to consolidate certain legal entities. Specifically, ASU 2015-02 modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities. Additionally, this guidance eliminates the presumption that a general partner should consolidate a limited partnership, and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2015, or in fiscal 2017 for HEICO. Early adoption is permitted. ASU 2015-02 shall be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2015-02 recognized at the date of initial application. We are currently evaluating which transition method we will elect and the effect the adoption of this guidance will have on our consolidated results of operations, financial position and cash flows.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory," which requires entities to measure inventories at the lower of cost or net realizable value. Under current guidance, inventories are measured at the lower of cost or market. ASU 2015-11 must be applied prospectively and is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2016, or in fiscal 2018 for HEICO. Early adoption is permitted. We are currently evaluating the effect, if any, the adoption of this guidance will have on our consolidated results of operations, financial position and cash flows.

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In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes," which requires that all deferred tax assets and liabilities be classified as noncurrent in the balance sheet. ASU 2015-17 may be applied either prospectively or retrospectively and is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2016, or in fiscal 2018 for HEICO. Early adoption is permitted. We are currently evaluating which transition method we will elect. The adoption of this guidance will only effect the presentation of deferred taxes in our consolidated statement of financial position.

In February 2016, the FASB issued ASU 2016-02, "Leases," which requires recognition of lease assets and lease liabilities on the balance sheet of lessees. ASU 2016-02 is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2018, or in fiscal 2020 for HEICO. Early adoption is permitted. ASU 2016-02 requires a modified retrospective transition approach and provides certain optional transition relief. We are currently evaluating the effect the adoption of this guidance will have on our consolidated results of operations, financial position and cash flows.

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 "anticipate," "believe," "expect," "estimate" and similar expressions are generally intended to identify forward-looking statements. Any forward-looking statement 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 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 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 or implied in those statements. Factors that could cause such differences include: lower demand for commercial air travel or airline fleet changes or airline purchasing decisions, 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; our ability to introduce new products and services at profitable pricing levels, which could reduce our sales or sales growth; product development or manufacturing difficulties, which could increase our product development costs and delay sales; and our ability to make acquisitions and achieve operating synergies from acquired businesses; customer credit risk; interest, foreign currency exchange and

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income tax rates; economic conditions within and outside of the aviation, defense, space, medical, telecommunications and electronics industries, which could negatively impact our costs and revenues; and defense budget cuts, which could reduce our defense-related revenue. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except to the extent required by applicable law.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have not been any material changes in our assessment of HEICO's sensitivity to market risk that was disclosed in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in our Annual Report on Form 10-K for the year ended October 31, 2015.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that HEICO'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 have been no changes in our internal control over financial reporting during the first quarter ended January 31, 2016 that have materially affected, or are reasonably likely to materially affect, HEICO's internal control over financial reporting.

On January 11, 2016, the Company acquired all of the limited liability company interests of Robertson Fuel Systems, LLC ("Robertson"). See Note 2, Acquisitions, of the Notes to Condensed Consolidated Financial Statements for additional information. The Company is in the process of integrating Robertson into its overall internal control over financial reporting process.

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## PART II. OTHER INFORMATION

## Item 6. EXHIBITS

| Exhibit | Description   |
|---------|---|
| 2.1#    | Interest Purchase Agreement by and among ASP-Robertson LLC, Robertson Fuel Systems, L.L.C., and HEICO Electronic Technologies Corp., dated as of December 18, 2015. * |
| 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. **   |
| 101.INS | XBRL Instance Document. *   |
| 101.SCH | XBRL Taxonomy Extension Schema Document. *  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. *  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. *   |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document. *   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. *   |

Schedules and similar attachments to the Interest Purchase Agreement by and among ASP-Robertson LLC, Robertson Fuel Systems, L.L.C., and HEICO Electronic Technologies Corp., dated as of December 18, 2015, have #been omitted pursuant to Item 601(b)(2) of Regulation S-K. The registrant hereby undertakes to furnish on a supplemental basis a copy of any omitted schedules and similar attachments to the Securities and Exchange Commission upon request.

\* Filed herewith.

\*\* Furnished herewith.

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SIGNATURES

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

HEICO CORPORATION

Date: February 29, 2016

By: /s/ CARLOS L. MACAU, JR.  
Carlos L. Macau, Jr.  
Executive Vice President - Chief Financial  
Officer and Treasurer  
(Principal Financial Officer)

By: /s/ STEVEN M. WALKER  
Steven M. Walker  
Chief Accounting Officer  
and Assistant Treasurer  
(Principal Accounting Officer)

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