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HEICO CORP  
Form 10-Q  
March 02, 2007

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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 JANUARY 31, 2007 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  
(State or other jurisdiction of  
incorporation or organization)

65-0341002  
(I.R.S. Employer  
Identification No.)

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

33021  
(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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 February 28, 2007:

|                                       |                   |
|---------------------------------------|-------------------|
| Common Stock, \$.01 par value         | 10,417,778 shares |
| Class A Common Stock, \$.01 par value | 15,143,107 shares |

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HEICO CORPORATION

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

|   | JANUARY 31,<br>2007 | OCTOBER<br>2006 |
|---|---------------------|-----------------|
|   | -----               | -----           |
| ASSETS                                    |                     |                 |
| Current assets:                           |                     |                 |
| Cash and cash equivalents                 | \$ 5,843,000        | \$ 4,999        |
| Accounts receivable, net                  | 66,360,000          | 65,012          |
| Inventories, net                          | 99,228,000          | 97,283          |
| Prepaid expenses and other current assets | 5,605,000           | 3,418           |
| Deferred income taxes                     | 11,729,000          | 9,309           |

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|  |                |            |
|--|----------------|------------|
| Total current assets   | 188,765,000    | 180,021    |
| Property, plant and equipment, net   | 50,105,000     | 49,489     |
| Goodwill   | 276,423,000    | 275,116    |
| Intangible assets, net   | 21,125,000     | 22,011     |
| Other assets   | 10,542,000     | 8,178      |
|  | -----          | -----      |
| Total assets   | \$ 546,960,000 | \$ 534,815 |
|  | =====          | =====      |
| LIABILITIES AND SHAREHOLDERS' EQUITY   |                |            |
| Current liabilities:   |                |            |
| Current maturities of long-term debt   | \$ 6,000       | \$ 39      |
| Trade accounts payable   | 21,448,000     | 22,386     |
| Accrued expenses and other current liabilities   | 30,737,000     | 41,503     |
| Income taxes payable   | --             | 1,575      |
|  | -----          | -----      |
| Total current liabilities  | 52,191,000     | 65,503     |
| Long-term debt, net of current maturities  | 60,016,000     | 55,022     |
| Deferred income taxes  | 28,970,000     | 28,052     |
| Other non-current liabilities  | 8,099,000      | 5,679      |
|  | -----          | -----      |
| Total liabilities  | 149,276,000    | 154,256    |
|  | -----          | -----      |
| Minority interests in consolidated subsidiaries  | 65,674,000     | 63,301     |
|  | -----          | -----      |
| 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; 10,414,778 and 10,311,564 shares issued and outstanding, respectively   | 104,000        | 103        |
| Class A Common Stock, \$.01 par value per share; 30,000,000 shares authorized; 15,134,223 and 15,062,398 shares issued and outstanding, respectively   | 151,000        | 151        |
| Capital in excess of par value   | 214,065,000    | 206,260    |
| Accumulated other comprehensive income   | 109,000        | 62         |
| Retained earnings  | 117,581,000    | 110,682    |
|  | -----          | -----      |
| Total shareholders' equity   | 332,010,000    | 317,258    |
|  | -----          | -----      |
| Total liabilities and shareholders' equity   | \$ 546,960,000 | \$ 534,815 |
|  | =====          | =====      |

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

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|   | 2007           | 2006          |
|---|----------------|---------------|
| Net sales   | \$ 113,684,000 | \$ 88,101,000 |
| Operating costs and expenses:                         |                |               |
| Cost of sales   | 76,196,000     | 56,049,000    |
| Selling, general and administrative expenses          | 20,348,000     | 16,766,000    |
| Total operating costs and expenses                    | 96,544,000     | 72,815,000    |
| Operating income                                      | 17,140,000     | 15,286,000    |
| Interest expense                                      | (849,000)      | (808,000)     |
| Interest and other income (expense)                   | 184,000        | (53,000)      |
| Income before income taxes and minority interests     | 16,475,000     | 14,425,000    |
| Income tax expense                                    | 4,988,000      | 4,916,000     |
| Income before minority interests                      | 11,487,000     | 9,509,000     |
| Minority interests' share of income                   | 3,566,000      | 2,760,000     |
| Net income  | \$ 7,921,000   | \$ 6,749,000  |
| Net income per share:                                 |                |               |
| Basic   | \$ .31         | \$ .31        |
| Diluted   | \$ .30         | \$ .30        |
| Weighted average number of common shares outstanding: |                |               |
| Basic   | 25,482,633     | 24,673,000    |
| Diluted   | 26,811,861     | 26,231,000    |
| Cash dividends per share                              | \$ 0.04        | \$ 0.04       |

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 CASH FLOWS - UNAUDITED

|   | THREE MONTHS ENDED JANUARY |              |
|---|----------------------------|--------------|
|   | 2007                       | 2006         |
| Operating Activities:   |                            |              |
| Net income  | \$ 7,921,000               | \$ 6,749,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                            |              |
| Depreciation and amortization   | 2,945,000                  | 2,149,000    |
| Deferred income tax provision   | (1,502,000)                | 1,061,000    |
| Minority interests' share of income   | 3,566,000                  | 2,760,000    |
| Tax benefit from stock option exercises   | 6,885,000                  | 2,365,000    |
| Excess tax benefit from stock option exercises                                    | (5,271,000)                | (1,130,000)  |
| Stock option compensation expense   | 258,000                    | 428,000      |
| Changes in assets and liabilities, net of acquisitions:                           |                            |              |

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|  |              |          |
|--|--------------|----------|
| (Increase) decrease in accounts receivable                 | (1,329,000)  | 1,444    |
| Increase in inventories                                    | (2,131,000)  | (4,157)  |
| Increase in prepaid expenses and other current assets      | (2,185,000)  | (440)    |
| (Decrease) increase in trade accounts payable              | (944,000)    | 287      |
| Decrease in accrued expenses and other current liabilities | (3,529,000)  | (6,038)  |
| (Decrease) increase in income taxes payable                | (1,579,000)  | 579      |
| Other  | (4,000)      | 291      |
|  | -----        | -----    |
| Net cash provided by operating activities                  | 3,101,000    | 6,348    |
|  | -----        | -----    |
| <b>Investing Activities:</b>                               |              |          |
| Acquisitions and related costs, net of cash acquired       | (8,385,000)  | (30,062) |
| Capital expenditures                                       | (2,666,000)  | (1,207)  |
| Other  | 72,000       | 360      |
|  | -----        | -----    |
| Net cash used in investing activities                      | (10,979,000) | (30,909) |
|  | -----        | -----    |
| <b>Financing Activities:</b>                               |              |          |
| Borrowings on revolving credit facility                    | 7,000,000    | 28,000   |
| Payments on revolving credit facility                      | (2,000,000)  | (1,000)  |
| Borrowings on short-term line of credit                    | --           | 1,000    |
| Cash dividends paid  | (1,022,000)  | (991)    |
| Proceeds from stock option exercises                       | 664,000      | 576      |
| Excess tax benefit from stock option exercises             | 5,271,000    | 1,130    |
| Distributions to minority interest owners                  | (1,164,000)  | (250)    |
| Other  | (39,000)     | (13)     |
|  | -----        | -----    |
| Net cash provided by financing activities                  | 8,710,000    | 28,452   |
|  | -----        | -----    |
| Effect of exchange rate changes on cash                    | 12,000       | 5        |
|  | -----        | -----    |
| Net increase in cash and cash equivalents                  | 844,000      | 3,896    |
| Cash and cash equivalents at beginning of year             | 4,999,000    | 5,330    |
|  | -----        | -----    |
| Cash and cash equivalents at end of period                 | \$ 5,843,000 | \$ 9,226 |
|  | =====        | =====    |

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 (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

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the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended October 31, 2006. The October 31, 2006 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 three months ended January 31, 2007 are not necessarily indicative of the results which may be expected for the entire fiscal year.

### NEW ACCOUNTING PRONOUNCEMENTS

In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle. The Statement eliminates the requirement in Accounting Principles Board ("APB") Opinion No. 20 to include the cumulative effect of changes in accounting principle in the income statement in the period of change, and instead requires that changes in accounting principle be retrospectively applied unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The Statement applies to all voluntary changes in accounting principle. SFAS No. 154 is effective for changes made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 did not have a material effect on the Company's results of operations, financial position, or cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109," which seeks to reduce the diversity in practice associated with the accounting and reporting for uncertainty in income tax positions. This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in an income tax return. FIN 48 presents a two-step process for evaluating a tax position. 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

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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. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact that the adoption of FIN 48 will have on its results of operations, financial position, and cash flows.

In September 2006, the FASB issued 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 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 financial statements issued in fiscal years beginning after November 15, 2007. The Company is currently in the process

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of evaluating the effect, if any, the adoption of SFAS No. 157 will have on its results of operations, financial position, or cash flows.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 was issued in order to eliminate the diversity in practice surrounding how public companies quantify financial statement misstatements. SAB No. 108 requires that registrants quantify errors using both a balance sheet (iron curtain) approach and an income statement (rollover) approach then evaluate whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The Company does not expect the adoption of SAB No. 108 to have a material effect on its results of operations, financial position, or cash flows.

### 2. ACQUISITIONS

During the first quarter of fiscal 2007, the Company, through its HEICO Aerospace Holdings Corp. subsidiary, acquired an additional 10% of the equity interests for one of its subsidiaries, which increased the Company's ownership interest to 90%. The purchase price was paid using cash provided by operating activities and was not significant to the Company's condensed consolidated financial statements.

During the first quarter of fiscal 2007, the Company, through its HEICO Electronic Technologies Corp. subsidiary, paid \$7.3 million of additional purchase consideration related to two subsidiaries acquired in previous years, of which \$7.2 million was accrued as of October 31, 2006 based on each subsidiary's estimated earnings relative to target. (See Note 11, Commitments and Contingencies, for additional information on contingent purchase consideration associated with certain of the Company's acquisitions.)

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During fiscal 2006, the Company, through its HEICO Aerospace Holdings Corp. subsidiary, acquired Arger Enterprises, Inc. and its related companies (collectively "Arger") in May 2006 and Prime Air, LLC in September 2006. The operating results of each acquired company 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 2006, net sales on a pro forma basis for the first quarter of fiscal 2006 would have been \$98.9 million. The pro forma net income and net income per share (basic and diluted) assuming these acquisitions had been consummated as of the beginning of fiscal 2006 would not have been materially different than the reported amounts.

In conjunction with the acquisition of Arger, the Company recognized a \$1.8 million restructuring liability as of the acquisition date to combine the operations of Arger with other subsidiaries of HEICO Aerospace Holdings Corp. The restructuring costs consisted principally of employee termination and relocation costs, moving costs and associated expenses and contract termination costs of which \$1.1 million were paid and \$.6 million were deemed not necessary and reversed during fiscal 2006. The remaining \$.1 million of costs were paid in the first quarter of fiscal 2007.

### 3. SELECTED FINANCIAL STATEMENT INFORMATION

#### ACCOUNTS RECEIVABLE

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|                                       | JANUARY 31,<br>2007 | OCTOBER 31,<br>2006 |
|---------------------------------------|---------------------|---------------------|
|                                       | -----               | -----               |
| Accounts receivable                   | \$ 69,302,000       | \$ 67,905,000       |
| Less: Allowance for doubtful accounts | (2,942,000)         | (2,893,000)         |
|                                       | -----               | -----               |
| Accounts receivable, net              | \$ 66,360,000       | \$ 65,012,000       |
|                                       | =====               | =====               |

COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED PERCENTAGE-OF-COMPLETION CONTRACTS

|   | JANUARY 31,<br>2007 | OCTOBER 31,<br>2006 |
|---|---------------------|---------------------|
|   | -----               | -----               |
| Costs incurred on uncompleted contracts   | \$ 18,254,000       | \$ 16,428,000       |
| Estimated earnings  | 12,857,000          | 12,221,000          |
|   | -----               | -----               |
|   | 31,111,000          | 28,649,000          |
| Less: Billings to date  | (25,630,000)        | (21,614,000)        |
|   | -----               | -----               |
|   | \$ 5,481,000        | \$ 7,035,000        |
|   | =====               | =====               |
| Included in accompanying Condensed Consolidated<br>Balance Sheets under the following captions:                     |                     |                     |
| Accounts receivable, net (costs and estimated<br>earnings in excess of billings)                                    | \$ 7,373,000        | \$ 7,204,000        |
| Accrued expenses and other current liabilities<br>(billings in excess of costs and estimated earnings)<br>earnings) | (1,892,000)         | (169,000)           |
|   | -----               | -----               |
|   | \$ 5,481,000        | \$ 7,035,000        |
|   | =====               | =====               |

Changes in estimates did not have a material effect on net income or diluted net income per share in the three months ended January 31, 2007 and 2006.

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INVENTORIES

|   | JANUARY 31,<br>2007 | OCTOBER 31,<br>2006 |
|---|---------------------|---------------------|
|   | -----               | -----               |
| Finished products                         | \$ 53,239,000       | \$ 52,245,000       |
| Work in process                           | 14,136,000          | 13,805,000          |
| Materials, parts, assemblies and supplies | 31,853,000          | 31,233,000          |
|   | -----               | -----               |
| Inventories, net                          | \$ 99,228,000       | \$ 97,283,000       |
|   | =====               | =====               |



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Inventories related to long-term contracts were not significant as of January 31, 2007 and October 31, 2006.

PROPERTY, PLANT AND EQUIPMENT

|   | JANUARY 31,<br>2007 | OCTOBER 31,<br>2006 |
|---|---------------------|---------------------|
|   | -----               | -----               |
| Land  | \$ 3,155,000        | \$ 3,155,000        |
| Buildings and improvements                      | 28,112,000          | 27,724,000          |
| Machinery, equipment and tooling                | 60,272,000          | 59,052,000          |
| Construction in progress                        | 4,767,000           | 3,796,000           |
|   | -----               | -----               |
|   | 96,306,000          | 93,727,000          |
| Less: Accumulated depreciation and amortization | (46,201,000)        | (44,238,000)        |
|   | -----               | -----               |
| Property, plant and equipment, net              | \$ 50,105,000       | \$ 49,489,000       |
|   | =====               | =====               |

4. GOODWILL AND OTHER INTANGIBLE ASSETS

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 three months ended January 31, 2007 are as follows:

|                                 | SEGMENT        |                | CONSOLIDATED   |
|---------------------------------|----------------|----------------|----------------|
|                                 | FSG            | ETG            |                |
|                                 | -----          | -----          | -----          |
| Balances as of October 31, 2006 | \$ 157,204,000 | \$ 117,912,000 | \$ 275,116,000 |
| Goodwill acquired               | 993,000        | --             | 993,000        |
| Adjustments to goodwill         | 54,000         | 260,000        | 314,000        |
|                                 | -----          | -----          | -----          |
| Balances as of January 31, 2007 | \$ 158,251,000 | \$ 118,172,000 | \$ 276,423,000 |
|                                 | =====          | =====          | =====          |

The goodwill acquired is a result of the acquisition described in Note 2, Acquisitions. Adjustments to goodwill consist primarily of contingent purchase price payments to previous owners of acquired businesses and adjustments related to the preliminary allocation of the purchase price of prior year acquisitions to the assets acquired and liabilities assumed.

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Identifiable intangible assets consist of:

| AS OF JANUARY 31, 2007 |       | AS OF OCTOBER 31, 2006 |       |
|------------------------|-------|------------------------|-------|
| GROSS                  | NET   | GROSS                  | NET   |
| -----                  | ----- | -----                  | ----- |
|                        |       |                        |       |

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|                        | CARRYING<br>AMOUNT | ACCUMULATED<br>AMORTIZATION | CARRYING<br>AMOUNT | CARRYING<br>AMOUNT | ACCUMU<br>AMORTI |
|------------------------|--------------------|-----------------------------|--------------------|--------------------|------------------|
|                        | -----              | -----                       | -----              | -----              | -----            |
| Amortizing Assets:     |                    |                             |                    |                    |                  |
| Customer relationships | \$ 13,595,000      | \$ (2,801,000)              | \$ 10,794,000      | \$ 13,595,000      | \$ (2,1          |
| Intellectual property  | 1,992,000          | (623,000)                   | 1,369,000          | 1,992,000          | (4               |
| Licenses               | 1,000,000          | (345,000)                   | 655,000            | 1,000,000          | (3               |
| Non-compete agreements | 800,000            | (506,000)                   | 294,000            | 800,000            | (4               |
| Patents                | 563,000            | (112,000)                   | 451,000            | 560,000            | (1               |
|                        | -----              | -----                       | -----              | -----              | -----            |
|                        | 17,950,000         | (4,387,000)                 | 13,563,000         | 17,947,000         | (3,4             |
| Non-Amortizing Assets: |                    |                             |                    |                    |                  |
| Trade names            | 7,562,000          | --                          | 7,562,000          | 7,562,000          |                  |
|                        | -----              | -----                       | -----              | -----              | -----            |
|                        | \$ 25,512,000      | (\$ 4,387,000)              | \$ 21,125,000      | \$ 25,509,000      | (\$ 3,4          |
|                        | =====              | =====                       | =====              | =====              | =====            |

5. SHORT-TERM AND LONG-TERM DEBT

As of January 31, 2007, no borrowings were outstanding under the \$7.0 million short-term line of credit that one of the Company's subsidiaries has with a bank.

Long-term debt consists of:

|  | JANUARY 31,<br>2007 | OCTOBER 31,<br>2006 |
|--|---------------------|---------------------|
|  | -----               | -----               |
| Borrowings under revolving credit facility | \$ 58,000,000       | \$ 53,000,0         |
| Industrial Development Revenue Refunding   |                     |                     |
| Bonds - Series 1988                        | 1,980,000           | 1,980,0             |
| Capital leases and equipment loans         | 42,000              | 81,0                |
|  | -----               | -----               |
|  | 60,022,000          | 55,061,0            |
| Less: Current maturities of long-term debt | (6,000)             | (39,0               |
|  | -----               | -----               |
|  | \$ 60,016,000       | \$ 55,022,0         |
|  | =====               | =====               |

As of January 31, 2007 and October 31, 2006, the weighted average interest rate on borrowings under the Company's revolving credit facility was 6.1%. The revolving credit facility contains both financial and non-financial covenants. As of January 31, 2007, the Company believes it is in compliance with all such covenants.

The interest rates on the Series 1988 industrial development revenue bonds were 3.5% and 3.6% as of January 31, 2007 and October 31, 2006, respectively.

6. INCOME TAXES

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, in the

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first quarter of 2007, the Company recognized an income tax credit for qualified research and development activities for the full fiscal 2006 year. The tax credit, net of expenses, increased net income by approximately \$.3 million, or \$.01 per diluted share, for the three months ended January 31, 2007.

### 7. SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Changes in consolidated shareholders' equity and comprehensive income for the three months ended January 31, 2007 are as follows:

|  | COMMON<br>STOCK | CLASS A<br>COMMON<br>STOCK | CAPITAL IN<br>EXCESS OF<br>PAR VALUE | ACCUMULATED<br>OTHER<br>COMPREHENSIVE<br>INCOME |
|--|-----------------|----------------------------|--------------------------------------|---|
|  | -----           | -----                      | -----                                | -----   |
| Balances as of October 31, 2006          | \$ 103,000      | \$ 151,000                 | \$ 206,260,000                       | \$ 62,  |
| Net income                               | --              | --                         | --                                   |   |
| Foreign currency translation adjustments | --              | --                         | --                                   | 47,   |
| Comprehensive income                     | --              | --                         | --                                   |   |
| Cash dividends (\$.04 per share)         | --              | --                         | --                                   |   |
| Tax benefit from stock option exercises  | --              | --                         | 6,885,000                            |   |
| Proceeds from stock option exercises     | 1,000           | --                         | 663,000                              |   |
| Stock option compensation expense        | --              | --                         | 258,000                              |   |
| Other                                    | --              | --                         | (1,000)                              |   |
|  | -----           | -----                      | -----                                | -----   |
| Balances as of January 31, 2007          | \$ 104,000      | \$ 151,000                 | \$ 214,065,000                       | \$ 109,   |
|  | =====           | =====                      | =====                                | =====   |

### 8. RESEARCH AND DEVELOPMENT EXPENSES

Cost of sales for the three months ended January 31, 2007 and 2006 includes approximately \$4.0 million and \$3.8 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.

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### 9. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share for the three months ended January 31:

|  | THREE MONTHS ENDED JANUARY 31, |              |
|--|--------------------------------|--------------|
|  | 2007                           | 2006         |
|  | -----                          | -----        |
| Numerator:                                       |                                |              |
| Net income                                       | \$ 7,921,000                   | \$ 6,749,000 |
|  | =====                          | =====        |
| Denominator:                                     |                                |              |
| Weighted average common shares outstanding-basic | 25,482,633                     | 24,673,957   |

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|  |            |            |
|--|------------|------------|
| Effect of dilutive stock options                   | 1,329,228  | 1,557,891  |
|  | -----      | -----      |
| Weighted average common shares outstanding-diluted | 26,811,861 | 26,231,848 |
|  | =====      | =====      |
| Net income per share- basic                        | \$ 0.31    | \$ 0.27    |
| Net income per share- diluted                      | \$ 0.30    | \$ 0.26    |
| Anti-dilutive stock options excluded               | --         | 48,161     |

### 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 three months ended January 31, 2007 and 2006, respectively, is as follows:

|  | SEGMENT (1)   |               | OTHER,<br>PRIMARILY<br>CORPORATE AND<br>INTERSEGMENT |
|--|---------------|---------------|--|
|  | FSG           | ETG           |  |
| For the three months ended January 31, 2007: |               |               |  |
| Net sales                                    | \$ 88,075,000 | \$ 25,609,000 | \$ -   |
| Depreciation and amortization                | 2,015,000     | 847,000       | 83,000   |
| Operating income                             | 14,425,000    | 5,764,000     | (3,049,000)  |
| Capital expenditures                         | 2,339,000     | 315,000       | 12,000   |
| For the three months ended January 31, 2006: |               |               |  |
| Net sales                                    | \$ 63,678,000 | \$ 24,482,000 | \$ (59,000)  |
| Depreciation and amortization                | 1,435,000     | 628,000       | 86,000   |
| Operating income                             | 11,615,000    | 6,403,000     | (2,732,000)  |
| Capital expenditures                         | 823,000       | 378,000       | 6,000  |

- (1) During the third quarter of fiscal 2006, one of the Company's subsidiaries formerly included in the ETG was reclassified to the FSG. Prior period amounts have been retroactively restated to reflect the revised segment classification.

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### 11. COMMITMENTS AND CONTINGENCIES

#### LEASE COMMITMENTS

During the first quarter of fiscal 2007, the Company, through a subsidiary of the FSG, entered in an operating lease commitment for a new facility which is under construction and expected to be occupied in the fourth quarter of fiscal 2007. The minimum lease payments for fiscal 2007, which commence upon the completion of the facility, are estimated to be \$96,000. Minimum lease payments for the next five fiscal years are estimated to be \$462,000 in fiscal 2008, \$479,000 in fiscal 2009, \$495,000 in fiscal 2010, \$513,000 in fiscal 2011, \$531,000 in fiscal 2012 and \$3,481,000 thereafter.

#### GUARANTEES

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The Company has arranged for standby letters of credit aggregating \$1.8 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. In addition, the Company's industrial development revenue bonds are secured by a \$2.0 million letter of credit expiring April 2008 and a mortgage on the related properties pledged as collateral.

Changes in the Company's product warranty liability for the three months ended January 31, 2007 and 2006, respectively, are as follows:

|   | THREE MONTHS ENDED JANUARY 31, |            |
|---|--------------------------------|------------|
|   | 2007                           | 2006       |
| Balances as of beginning of fiscal year | \$ 534,000                     | \$ 395,000 |
| Acquired warranty liabilities           | --                             | 15,000     |
| Accruals for warranties                 | 158,000                        | 112,000    |
| Warranty claims settled                 | (200,000)                      | (125,000)  |
| Balances as of January 31               | \$ 492,000                     | \$ 397,000 |

As part of the agreement to acquire 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 during the first quarter of 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 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 beginning at approximately the tenth anniversary of the acquisition, or sooner under certain conditions, and the minority holders have the right to cause the Company to purchase their interests commencing on approximately the fifth anniversary of the acquisition, or sooner under certain conditions.

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

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fifth years following the acquisition. The additional purchase consideration will be accrued when the earnings objectives are met.

As part of the agreement to acquire an 85% interest in a subsidiary by the ETG in fiscal 2005, the minority 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.

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 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

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minority holders have the right to cause the Company to purchase the same equity interest over the same period.

As part of the agreement to acquire a subsidiary by the ETG in fiscal 2006, the Company may be obligated to pay additional consideration of up to \$9.2 million in fiscal 2007, \$17.8 million in fiscal 2008 and \$19.2 million in fiscal 2009. The additional purchase consideration will be accrued when the earnings objectives are met.

As part of an agreement to acquire an 80% interest in a subsidiary by the FSG in fiscal 2006, the Company may be obligated to pay additional purchase consideration of up to \$7.0 million in aggregate should the subsidiary meet certain earnings objectives during the first two years following the acquisition. The additional purchase consideration will be accrued when the earnings objectives are met. Further, the Company has the right to purchase the remaining 20% minority interests beginning at approximately the eighth anniversary of the acquisition, or sooner under certain conditions, and the minority holders have the right to cause the Company to purchase the same equity interest over the same period.

As part of an agreement for exclusive license rights to intellectual property, one of the subsidiaries of the ETG has guaranteed minimum royalty payments aggregating \$.2 million through fiscal 2007.

### 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.

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, 2006.

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.

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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.

|  | THREE MONTHS ENDED JANUARY 31, |               |
|--|--------------------------------|---------------|
|  | 2007                           | 2006          |
| Net sales                                    | \$ 113,684,000                 | \$ 88,101,000 |
| Cost of sales                                | 76,196,000                     | 56,049,000    |
| Selling, general and administrative expenses | 20,348,000                     | 16,766,000    |
| Total operating costs and expenses           | 96,544,000                     | 72,815,000    |
| Operating income                             | \$ 17,140,000                  | \$ 15,286,000 |
| Net sales by segment: (1)                    |                                |               |
| Flight Support Group                         | \$ 88,075,000                  | \$ 63,678,000 |
| Electronic Technologies Group                | 25,609,000                     | 24,482,000    |
| Intersegment sales                           | --                             | (59,000)      |
|  | \$ 113,684,000                 | \$ 88,101,000 |
| Operating income by segment: (1)             |                                |               |
| Flight Support Group                         | \$ 14,425,000                  | \$ 11,615,000 |
| Electronic Technologies Group                | 5,764,000                      | 6,403,000     |
| Other, primarily corporate                   | (3,049,000)                    | (2,732,000)   |
|  | \$ 17,140,000                  | \$ 15,286,000 |
| Net sales                                    | 100.0%                         | 100.0%        |
| Gross profit                                 | 33.0%                          | 36.4%         |
| Selling, general and administrative expenses | 17.9%                          | 19.0%         |
| Operating income                             | 15.1%                          | 17.4%         |
| Interest expense                             | 0.7%                           | 0.9%          |
| Interest and other income (expense)          | 0.2%                           | (0.1)%        |
| Income tax expense                           | 4.4%                           | 5.6%          |
| Minority interests' share of income          | 3.1%                           | 3.1%          |
| Net income                                   | 7.0%                           | 7.7%          |

(1) During the third quarter of fiscal 2006, one of the Company's subsidiaries formerly included in the Electronic Technologies Group was reclassified to the Flight Support Group. Prior period amounts have been retroactively restated to reflect the revised segment classification.

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COMPARISON OF FIRST QUARTER OF FISCAL 2007 TO FIRST QUARTER OF FISCAL 2006

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### Net Sales

Net sales for the first quarter of fiscal 2007 increased by 29.0% to \$113.7 million, as compared to net sales of \$88.1 million for the first quarter of fiscal 2006. The increase in net sales reflects an increase of \$24.4 million (a 38.3% increase) to \$88.1 million in net sales within the FSG, and an increase of \$1.1 million (a 4.6% increase) to \$25.6 million in net sales within the ETG. The FSG's net sales increase reflects the prior year acquisitions of Arger Enterprises, Inc. and its related companies (collectively "Arger") in May 2006 and Prime Air, LLC ("Prime Air") in September 2006 as well as organic growth of approximately 18%. The organic growth 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 (consisting entirely of organic growth) reflects increased demand for certain products.

### Gross Profit and Operating Expenses

The Company's gross profit margin decreased to 33.0% for the first quarter of fiscal 2007 as compared to 36.4% for the first quarter of fiscal 2006, reflecting lower margins within the FSG and ETG due principally to product mix. Consolidated cost of sales for the first quarter of fiscal 2007 and 2006 includes approximately \$4.0 million and \$3.8 million, respectively, of new product research and development expenses.

SG&A expenses were \$20.3 million and \$16.8 million for the first quarter of fiscal 2007 and fiscal 2006, respectively. The increase in SG&A expenses was mainly due to higher operating costs, principally personnel related, associated with the Arger and Prime Air acquisitions and the increase in net sales discussed above.

As a percentage of net sales, SG&A expenses decreased to 17.9% for the first quarter of fiscal 2007 compared to 19.0% for the first quarter of fiscal 2006. The decrease as a percentage of net sales is due to efficiencies in controlling costs while increasing revenues.

### Operating Income

Operating income for the first quarter of fiscal 2007 increased by 12.1% to \$17.1 million, compared to operating income of \$15.3 million for the first quarter of fiscal 2006. The increase in operating income reflects an increase of \$2.8 million (a 24.2% increase) to \$14.4 million in operating income of the FSG in the first quarter of fiscal 2007 from \$11.6 million for the first quarter of fiscal 2006 partially offset by a \$0.3 million increase in Corporate expenses and a \$.6 million decrease (a 10.0% decrease) in operating income of the ETG from \$6.4 million for the first quarter of fiscal 2006 to \$5.8 million for the first quarter of fiscal 2007.

As a percentage of net sales, consolidated operating income decreased to 15.1% for the first quarter of fiscal 2007 compared to 17.4% for the first quarter of fiscal 2006. The consolidated operating income as a percentage of net sales reflects a decrease in the FSG's operating income as a percentage of net sales from 18.2% in the first quarter of fiscal 2006 to 16.4% in the first quarter of

fiscal 2007 and a decrease in the ETG's operating income as a percentage of net sales from 26.2% in the first quarter of fiscal 2006 to 22.5% in the first quarter of fiscal 2007. The decrease in operating income as a percentage of net sales for the FSG principally reflects the decreased gross profit margins discussed previously partially offset by operating efficiencies within SG&A



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expenses. The decrease in operating income as a percentage of net sales for the ETG principally reflects the aforementioned decreased gross profit margins. See "Outlook" below for additional information on the operating margins of the FSG and ETG.

### Interest Expense

Interest expense increased to \$849,000 in the first quarter of fiscal 2007 from \$808,000 in the first quarter of fiscal 2006. The increase was principally due to higher interest rates offset by a lower weighted average balance outstanding under the revolving credit facility in the first quarter of fiscal 2007.

### Interest and Other Income

Interest and other income in the first quarter of fiscal 2007 and 2006 were not material.

### Income Tax Expense

The Company's effective tax rate for the first quarter of fiscal 2007 decreased to 30.3% from 34.1% for the first quarter of fiscal 2006. The decrease is principally due to an income tax credit for qualified research and development activities recognized for the full fiscal 2006 year and the first quarter of fiscal 2007, as well as a higher amount of the minority interests' share of income excluded from the Company's fiscal 2007 consolidated income subject to federal income taxes. 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 \$.3 million for the first 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 and the minority interests held in certain subsidiaries of HEICO Aerospace including the 49% minority interest held in Seal Dynamics LLC ("Seal LLC") and the 20% minority interest held in Prime Air; and the minority interests held in certain subsidiaries of HEICO Electronic. The increase in the minority interests' share of income for the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006 is attributable to the higher earnings of Seal LLC and the FSG and the September 2006 acquisition of Prime Air.

### Net Income

The Company's net income was \$7.9 million, or \$0.30 per diluted share, for the first quarter of fiscal 2007 compared to \$6.7 million, or \$.26 per diluted share, for the first quarter of fiscal 2006 reflecting the increased operating income referenced above, partially offset by the increased

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minority interests' share of income of certain consolidated subsidiaries.

### OUTLOOK

The Company reported increased sales and operating income in its two business segments reflecting both growth through acquisitions and strong organic growth, but experienced a slight decline in operating margins. The first quarter

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of fiscal 2007 operating margin of the FSG of 16.4%, while down from the prior year first quarter, approximated the FSG's full fiscal 2006 operating margin of 16.9%. The ETG's operating margin, which varies somewhat from quarter-to-quarter based on the timing of product shipments and product mix, was also down in the first quarter of fiscal 2007. The backlog of the ETG, however, was up as of the end of the first quarter of fiscal 2007 reflecting an increase of \$10.3 million, or 22.8%, to \$55.9 million from \$45.6 million as of October 31, 2006. Further, sales orders of the ETG for the first quarter of fiscal 2007 were up 21.2% over the first quarter of fiscal 2006.

Based on current economic conditions, the state of the aviation, defense and electronics industries, order patterns and backlog, the Company continues to target growth in fiscal 2007 sales and net income over fiscal 2006 and operating margins to improve over the balance of the year such that full fiscal 2007 operating margins are expected to approximate those of the prior year.

### LIQUIDITY AND CAPITAL RESOURCES

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

Principal uses of cash by the Company include acquisitions additional consideration, 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 \$3.1 million for the first three months of fiscal 2007, consisting primarily of net income of \$7.9 million, a tax benefit on stock option exercises of \$6.9 million, minority interests' share of income of consolidated subsidiaries of \$3.6 million, depreciation and amortization of \$2.9 million, and stock option compensation expense of \$.3 million, partially offset by an increase in net operating assets of \$11.7 million, the presentation of \$5.3 million of excess tax benefit from stock option exercises as a financing activity and a deferred income tax provision of \$1.5 million.

Net cash provided by operating activities decreased from \$6.3 million for the first quarter of fiscal 2006 to \$3.1 million for the first quarter of fiscal 2007 principally due to a higher excess tax

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benefit from stock option exercises presented as a financing activity, partially offset by an increase in net income.

The Company generally recognizes a tax benefit from stock option exercises in the first quarter of its fiscal year ending January 31, or shortly after the tax year ends (December 31) for any option holder recognizing compensation income from stock option exercises. The Company experienced an increase in stock option exercises during calendar 2006 over the previous year due to continued appreciation in the value of its common stock, which led to a \$6.9 million tax benefit from stock option exercises in the first quarter of fiscal 2007 compared to a \$2.4 million benefit in the first quarter of fiscal 2006. The excess tax benefit from stock option exercise presented as a financing activity increased to \$5.3 million in the first quarter of fiscal 2007 compared to \$1.1 million in the first quarter of fiscal 2006.

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### Investing Activities

Net cash used in investing activities during the first three months of fiscal 2007 related primarily to acquisitions and related costs of \$8.4 million and capital expenditures totaling \$2.7 million. Acquisitions and related costs principally reflect the payment of additional purchase consideration related to two subsidiaries acquired in previous years, which was accrued as of October 31, 2006 based on each subsidiary's estimated earnings relative to target and the acquisition of an additional 10% of the equity interests of a subsidiary of the Company's HEICO Aerospace Holdings Corp. subsidiary.

### Financing Activities

Net cash provided by financing activities during the first three months of fiscal 2007 primarily related to borrowings of \$7.0 million on the Company's revolving credit facility principally used to fund the aforementioned additional purchase consideration, the presentation of \$5.3 million of excess tax benefit from stock option exercises as a financing activity and proceeds from stock option exercises of \$.7 million, partially offset by repayments of \$2.0 million on the Company's revolving credit facility, distributions to minority interest owners of \$1.2 million and the payment of \$1.0 million in cash dividends on the Company's common stock.

### OFF-BALANCE SHEET ARRANGEMENTS

The Company has arranged for standby letters of credit aggregating \$1.8 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. In addition, the Company's industrial development revenue bonds are secured by a \$2.0 million letter of credit expiring April 2008 and a mortgage on the related properties pledged as collateral.

As part of the agreement to acquire 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 during the first quarter of 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 holder has the right to cause the Company to purchase the same equity interest in the same period.

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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 beginning at approximately the tenth anniversary of the acquisition, or sooner under certain conditions, and the minority holders have the right to cause the Company to purchase their interests commencing on approximately the fifth anniversary of the acquisition, or sooner under certain conditions.

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. The additional purchase consideration will be accrued when the earnings objectives are met.

As part of the agreement to acquire an 85% interest in a subsidiary by the ETG in fiscal 2005, the minority 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.

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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 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 holders have the right to cause the Company to purchase the same equity interest over the same period.

As part of the agreement to acquire a subsidiary by the ETG in fiscal 2006, the Company may be obligated to pay additional consideration of up to \$9.2 million in fiscal 2007, \$17.8 million in fiscal 2008 and \$19.2 million in fiscal 2009. The additional purchase consideration will be accrued when the earnings objectives are met.

As part of an agreement to acquire an 80% interest in a subsidiary by the FSG in fiscal 2006, the Company may be obligated to pay additional purchase consideration of up to \$7.0 million in aggregate should the subsidiary meet certain earnings objectives during the first two years following the acquisition. The additional purchase consideration will be accrued when the earnings objectives are met. Further, the Company has the right to purchase the remaining 20% minority interests beginning at approximately the eighth anniversary of the acquisition, or sooner under certain conditions, and the minority holders have the right to cause the Company to purchase the same equity interest over the same period.

As part of an agreement for exclusive license rights to intellectual property, one of the subsidiaries of the ETG has guaranteed minimum royalty payments aggregating \$.2 million through fiscal 2007.

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### NEW ACCOUNTING PRONOUNCEMENTS

In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle. The Statement eliminates the requirement in Accounting Principles Board ("APB") Opinion No. 20 to include the cumulative effect of changes in accounting principle in the income statement in the period of change, and instead requires that changes in accounting principle be retrospectively applied unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The Statement applies to all voluntary changes in accounting principle. SFAS No. 154 is effective for changes made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 did not have a material effect on the Company's results of operations, financial position, or cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109," which seeks to reduce the diversity in practice associated with the accounting and reporting for uncertainty in income tax positions. This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in an income tax return. FIN 48 presents a two-step process for evaluating a tax position. The first step is to determine whether it is more-likely-than-not that a tax position will be sustained upon

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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. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact that the adoption of FIN 48 will have on its results of operations, financial position, and cash flows.

In September 2006, the FASB issued 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 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 financial statements issued in fiscal years beginning after November 15, 2007. 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, or cash flows.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 was issued in order to eliminate the diversity in practice surrounding how public companies quantify financial statement misstatements. SAB No. 108 requires that registrants quantify errors using both a balance sheet

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(iron curtain) approach and an income statement (rollover) approach then evaluate whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The Company does not expect the adoption of SAB No. 108 to have a material effect on its results of operations, financial position, or 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 "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 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

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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 or space 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.

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### 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 outstanding debt balance as of January 31, 2007, a hypothetical 10% increase in interest rates would increase the Company's interest expense by approximately \$359,000 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 British pound sterling. A hypothetical 10% weakening in the exchange rate of the British pound sterling to the United States dollar as of January 31, 2007 would not have a material effect on the Company's results of operations, financial position, or cash flows.

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### 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 control over financial reporting.

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## PART II. OTHER INFORMATION

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### 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 three months of fiscal 2007.

### ITEM 6. EXHIBITS

| EXHIBIT | DESCRIPTION  |
|---------|--|
| 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. **            |

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\* Filed herewith.  
\*\* Furnished herewith.

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### 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: March 2, 2007

By: /s/ THOMAS S. IRWIN

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

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### EXHIBIT INDEX

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