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HEICO CORP
Form 10-Q
August 31, 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 July 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 65-0341002
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 August 27, 2007:

Common Stock, \$.01 par value 10,537,741 shares
Class A Common Stock, \$.01 par value 15,323,092 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

	JULY 31, 2007 -----	OCT -----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,708,000	\$
Accounts receivable, net	74,861,000	
Inventories, net	111,355,000	
Prepaid expenses and other current assets	4,897,000	
Deferred income taxes	9,466,000	
	-----	-----
Total current assets	206,287,000	
Property, plant and equipment, net	51,750,000	
Goodwill	282,517,000	

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Intangible assets, net	18,839,000	
Other assets	11,927,000	
	-----	-----
Total assets	\$ 571,320,000	\$ -----
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 1,986,000	\$
Trade accounts payable	26,089,000	
Accrued expenses and other current liabilities	36,004,000	
Income taxes payable	2,454,000	
	-----	-----
Total current liabilities	66,533,000	
Long-term debt, net of current maturities	39,036,000	
Deferred income taxes	31,730,000	
Other non-current liabilities	9,593,000	
	-----	-----
Total liabilities	146,892,000	
	-----	-----
Minority interests in consolidated subsidiaries	71,046,000	
	-----	-----
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred Stock, \$.01 par value per share; 10,000,000 shares authorized; 300,000 shares designated as Series B Junior Participating Preferred Stock and 300,000 shares designated as Series C Junior Participating Preferred Stock; none issued		--
Common Stock, \$.01 par value per share; 30,000,000 shares authorized; 10,537,741 and 10,311,564 shares issued and outstanding, respectively		105,000
Class A Common Stock, \$.01 par value per share; 30,000,000 shares authorized; 15,323,092 and 15,062,398 shares issued and outstanding, respectively		153,000
Capital in excess of par value		216,291,000
Accumulated other comprehensive (loss) income		(36,000)
Retained earnings		136,869,000

Total shareholders' equity		353,382,000

Total liabilities and shareholders' equity	\$ 571,320,000	\$ -----
	=====	=====

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

HEICO CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED

NINE MONTHS ENDED JULY 31,	THREE
-----	-----
2007	2006
-----	-----

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Net sales	\$ 368,054,000	\$ 282,365,000	\$ 133,1
Operating costs and expenses:			
Cost of sales	239,194,000	179,192,000	85,4
Selling, general, and administrative expenses	66,693,000	53,879,000	23,7
Total operating costs and expenses	305,887,000	233,071,000	109,2
Operating income	62,167,000	49,294,000	23,9
Interest expense	(2,438,000)	(2,627,000)	(7
Interest and other income (expense)	228,000	365,000	(
Income before income taxes and minority interests	59,957,000	47,032,000	23,1
Income tax expense	19,726,000	16,193,000	7,8
Income before minority interests	40,231,000	30,839,000	15,3
Minority interests' share of income	11,989,000	8,272,000	4,3
Net income	\$ 28,242,000	\$ 22,567,000	\$ 10,9
Net income per share:			
Basic	\$ 1.10	\$.90	\$
Diluted	\$ 1.05	\$.85	\$
Weighted average number of common shares outstanding:			
Basic	25,620,418	24,997,560	25,8
Diluted	26,871,310	26,521,065	26,9
Cash dividends per share	\$ 0.08	\$ 0.08	\$

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

	NINE MONTHS ENDED JULY 31,	
	2007	2006
Operating Activities:		
Net income	\$ 28,242,000	\$ 22,567,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,959,000	6,636,000
Deferred income tax provision	3,188,000	2,839,000
Minority interests' share of income	11,989,000	8,272,000
Tax benefit from stock option exercises	6,880,000	7,252,000
Excess tax benefit from stock option exercises	(5,267,000)	(1,139,000)
Stock option compensation expense	542,000	1,187,000
Changes in assets and liabilities, net of acquisitions:		
Increase in accounts receivable	(9,472,000)	(6,690,000)

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Increase in inventories	(13,132,000)	(11,038,000)
Increase in prepaid expenses and other current assets	(739,000)	(148,000)
Increase in trade accounts payable	3,625,000	2,865,000
Increase (decrease) in accrued expenses and other current liabilities	1,369,000	(754,000)
Increase (decrease) in income taxes payable	872,000	(4,705,000)
Other	208,000	16,000
	-----	-----
Net cash provided by operating activities	37,264,000	27,160,000
	-----	-----
Investing Activities:		
Acquisitions and related costs, net of cash acquired	(14,875,000)	(45,618,000)
Capital expenditures	(9,465,000)	(7,055,000)
Other	135,000	539,000
	-----	-----
Net cash used in investing activities	(24,205,000)	(52,134,000)
	-----	-----
Financing Activities:		
Borrowings on revolving credit facility	15,000,000	46,000,000
Payments on revolving credit facility	(29,000,000)	(20,000,000)
Borrowings on short-term line of credit	1,000,000	1,000,000
Payments on short-term line of credit	(1,000,000)	(3,000,000)
Cash dividends paid	(2,056,000)	(2,004,000)
Proceeds from stock option exercises	2,615,000	4,471,000
Excess tax benefit from stock option exercises	5,267,000	1,139,000
Distributions to minority interest owners	(4,165,000)	(1,643,000)
Other	(39,000)	5,000
	-----	-----
Net cash (used in) provided by financing activities	(12,378,000)	25,968,000
	-----	-----
Effect of exchange rate changes on cash	28,000	47,000
Net increase in cash and cash equivalents	709,000	1,041,000
Cash and cash equivalents at beginning of year	4,999,000	5,330,000
	-----	-----
Cash and cash equivalents at end of period	\$ 5,708,000	\$ 6,371,000
	=====	=====

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of HEICO Corporation and its subsidiaries ("HEICO" or the "Company") have been prepared in conformity with accounting principles generally accepted in the 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, 2006. The October 31, 2006 Condensed Consolidated Balance Sheet has been

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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 nine months ended July 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 uncertain 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, or in fiscal 2008 for HEICO. 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 accordance with generally accepted accounting principles more consistent and comparable. SFAS No. 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, or in fiscal 2009 for HEICO. The Company is currently in the process of evaluating the effect, if any, the adoption of SFAS No. 157 will have on its results of operations, financial position, and cash flows.

In September 2006, the Securities and Exchange Commission issued Staff

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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 plans to adopt SAB No. 108 as of October 31, 2007 and does not expect it to have a material effect on its results of operations, financial position, or cash flows.

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

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 interest in one of its subsidiaries, which increased the Company's ownership interest to 90%. The purchase price was paid using cash provided by operating activities.

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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.)

In April 2007, the Company, through its HEICO Electronics Technologies Corp. subsidiary, acquired all the stock of FerriShield, Inc. ("FerriShield"). FerriShield is engaged in the design and manufacture of Radio Frequency Interference and Electromagnetic Frequency Interference ("RFI-EMI") Suppressors for a variety of markets. HEICO is in the process of integrating FerriShield into the operations of one of its existing subsidiaries. The purchase price was principally paid in cash using proceeds from the Company's revolving credit facility. The allocation of the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed in these condensed consolidated financial statements is preliminary until the Company obtains final information regarding their fair values.

In May 2007, the Company, through its HEICO Aerospace Holdings subsidiary, acquired certain assets of a supplier. The acquired assets were integrated into one of its existing subsidiaries and will be utilized to bring certain manufacturing operations in-house. The purchase price was paid using cash provided by operating activities.

During the third quarter of fiscal 2007, the Company, through its HEICO

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Electronic Technologies Corp. subsidiary, acquired an additional .75% equity interest in one of its subsidiaries effective April 2007, which increased the Company's ownership interest to 85.75%. The purchase price was accrued as of July 31, 2007 and paid in August 2007 using cash provided by operating activities.

All of the acquisitions described above were accounted for using the purchase method of accounting. The purchase price of each acquisition was not significant to the Company's consolidated financial statements individually or in aggregate.

The operating results of the Company's fiscal 2007 acquisitions as noted above and fiscal 2006 acquisitions of Arger Enterprises, Inc. and its related companies in May 2006 and Prime Air, LLC in September 2006 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 nine and three months ended July 31, 2006 would have been \$318.5 million and \$112.3 million, respectively, and net sales on a pro forma basis for the nine and three months ended July 31, 2007 would not have been materially different from the reported amounts. The pro forma net income and net income per share (basic and diluted) assuming these acquisitions had taken place as of the beginning of fiscal 2006 would not have been materially different than the reported amounts.

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3. SELECTED FINANCIAL STATEMENT INFORMATION

ACCOUNTS RECEIVABLE

	JULY 31, 2007	OCTOBER 31,
	-----	-----
Accounts receivable	\$ 76,218,000	\$ 67,90
Less: Allowance for doubtful accounts	(1,357,000)	(2,89
	-----	-----
Accounts receivable, net	\$ 74,861,000	\$ 65,01
	=====	=====

The \$1.5 million decrease in the Company's allowance for doubtful accounts is principally as a result of a sale and associated write-off in the second quarter as well as a write-off during the third quarter of fiscal 2007 of accounts receivable for certain customers in the aviation industry that were fully reserved in fiscal 2005 when the customers filed for bankruptcy. The proceeds from the aforementioned sale were recorded as a reduction to selling, general and administrative expenses in the Company's condensed consolidated financial statements and increased net income by approximately \$.2 million, or \$.01 per diluted share, for the nine months ended July 31, 2007.

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

	JULY 31, 2007	OCTOBER 31,
	-----	-----
Costs incurred on uncompleted contracts	\$ 20,825,000	\$ 16,42
Estimated earnings	11,499,000	12,22

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	-----	-----
	32,324,000	28,64
Less: Billings to date	(25,020,000)	(21,61
	-----	-----
	\$ 7,304,000	\$ 7,03
	=====	=====
Included in accompanying Condensed Consolidated Balance Sheets under the following captions:		
Accounts receivable, net (costs and estimated earnings in excess of billings)	\$ 7,304,000	\$ 7,20
Accrued expenses and other current liabilities (billings in excess of costs and estimated earnings) earnings)	--	(16
	-----	-----
	\$ 7,304,000	\$ 7,03
	=====	=====

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

INVENTORIES

	JULY 31, 2007	OCTOBER 31,
	-----	-----
Finished products	\$ 57,995,000	\$ 52,24
Work in process	15,156,000	13,80
Materials, parts, assemblies and supplies	38,204,000	31,23
	-----	-----
Inventories, net	\$ 111,355,000	\$ 97,28
	=====	=====

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

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PROPERTY, PLANT AND EQUIPMENT

	JULY 31, 2007	OCTOBER 31,
	-----	-----
Land	\$ 3,155,000	\$ 3,15
Buildings and improvements	28,755,000	27,72
Machinery, equipment and tooling	61,119,000	59,05
Construction in progress	7,217,000	3,79
	-----	-----
	100,246,000	93,72
Less: Accumulated depreciation and amortization	(48,496,000)	(44,23
	-----	-----
Property, plant and equipment, net	\$ 51,750,000	\$ 49,48
	=====	=====

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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 nine months ended July 31, 2007 are as follows:

	SEGMENT		CONSOLIDATED TOTALS
	FSG	ETG	
Balances as of October 31, 2006	\$ 157,204,000	\$ 117,912,000	\$ 275,116,000
Goodwill acquired	1,145,000	3,996,000	5,141,000
Adjustments to goodwill	2,000,000	260,000	2,260,000
Balances as of July 31, 2007	\$ 160,349,000	\$ 122,168,000	\$ 282,517,000

The goodwill acquired is a result of the acquisitions described in Note 2, Acquisitions. Adjustments to goodwill consist primarily of final purchase price adjustments related to the preliminary allocation of the purchase price during the allocation period for prior year acquisitions to the assets acquired and liabilities assumed.

Identifiable intangible assets consist of:

	AS OF JULY 31, 2007			AS OF OCTOBER 31, 2006	
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
Amortizing Assets:					
Customer relationships	\$ 12,350,000	\$ (3,725,000)	\$ 8,625,000	\$ 13,595,000	\$ (2,800,000)
Intellectual property	1,992,000	(872,000)	1,120,000	1,992,000	(1,000,000)
Licenses	1,000,000	(381,000)	619,000	1,000,000	(1,000,000)
Non-compete agreements	832,000	(593,000)	239,000	800,000	(800,000)
Patents	571,000	(134,000)	437,000	560,000	(560,000)
	16,745,000	(5,705,000)	11,040,000	17,947,000	(3,760,000)
Non-Amortizing Assets:					
Trade names	7,799,000	--	7,799,000	7,562,000	--
	\$ 24,544,000	\$ (5,705,000)	\$ 18,839,000	\$ 25,509,000	\$ (3,760,000)

The decrease in the gross carrying amount of customer relationships as of July 31, 2007 compared to October 31, 2006 principally relates to an adjustment to the preliminary allocation of the purchase price of a prior year acquisition. This decrease was partially offset by the intangible assets recognized in connection with the fiscal 2007 acquisitions referenced in Note 2, Acquisitions.

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The weighted average amortization period of the customer relationships and non-compete agreements acquired during the nine months ended July 31, 2007 is approximately seven years.

Amortization expense of other intangible assets for the nine months and three months ended July 31, 2007 was \$2,686,000 and \$911,000, respectively. Amortization expense of other intangible assets for the fiscal year ending October 31, 2007 is estimated to be \$2,997,000. Amortization expense for each of the next five fiscal years is estimated to be \$2,998,000 in fiscal 2008, \$2,384,000 in fiscal 2009, \$1,882,000 in fiscal 2010, \$1,195,000 in fiscal 2011 and \$1,138,000 in fiscal 2012.

5. SHORT-TERM AND LONG-TERM DEBT

In July 2007, one of the Company's subsidiaries entered into a \$5.0 million short-term line of credit with a bank, which expires in June 2008. The line may be used for inventory purchases and other working capital needs and is secured by all the assets of the subsidiary. Advances under the line of credit bear interest at the subsidiary's choice of the "Prime Rate Advance" (prime rate less .75%) or "LIBOR Advance" (LIBOR rate plus .75%). As of July 31, 2007, no borrowings were outstanding under the line of credit.

Long-term debt consists of:

	JULY 31, 2007	OCTOBER 31,
	-----	-----
Borrowings under revolving credit facility	\$ 39,000,000	\$ 53,000,000
Industrial Development Revenue Refunding		
Bonds - Series 1988	1,980,000	1,980,000
Capital leases and equipment loans	42,000	8,000
	-----	-----
	41,022,000	55,068,000
Less: Current maturities of long-term debt	(1,986,000)	(3,000,000)
	-----	-----
	\$ 39,036,000	\$ 55,028,000
	=====	=====

As of July 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 July 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 3.7% and 3.6% as of July 31, 2007 and October 31, 2006, respectively. The bonds are payable in April 2008.

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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, the Company recognized an income tax credit for qualified research and development activities in fiscal 2007 for the full fiscal 2006 year. The tax credit, net of expenses, increased net income by approximately \$.5 million, or \$.02 per diluted

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share for the nine months ended July 31, 2007.

7. SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

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

	COMMON STOCK	CLASS A COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	ACCUMULA OTHER COMPREHEN INCOME (L
	-----	-----	-----	-----
Balances as of October 31, 2006	\$ 103,000	\$ 151,000	\$206,260,000	\$ 62
Net income	--	--	--	
Foreign currency translation adjustments	--	--	--	103
Unrealized losses on available-for-sale securities, net of tax	--	--	--	(201
Comprehensive income	--	--	--	
Cash dividends (\$.08 per share)	--	--	--	
Tax benefit from stock option exercises	--	--	6,880,000	
Proceeds from stock option exercises	2,000	3,000	2,610,000	
Stock option compensation expense	--	--	542,000	
Other	--	(1,000)	(1,000)	
Balances as of July 31, 2007	\$ 105,000	\$ 153,000	\$216,291,000	\$ (36

8. RESEARCH AND DEVELOPMENT EXPENSES

Cost of sales for the nine months ended July 31, 2007 and 2006 includes approximately \$11.8 million and \$12.2 million, respectively, of new product research and development expenses. Cost of sales for the three months ended July 31, 2007 and 2006 includes approximately \$3.8 million and \$4.0 million, respectively, of new product research and development expenses. The expenses are net of reimbursements pursuant to research and development cooperation and joint venture agreements, which were not significant.

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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 nine months and three months ended July 31:

	NINE MONTHS ENDED JULY 31,		THREE MONTH
	2007	2006	2007
	-----	-----	-----
Numerator:			
Net income	\$ 28,242,000	\$ 22,567,000	\$ 10,914,000

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Denominator:

Weighted average common shares outstanding-basic	25,620,418	24,997,560	25,804,418
Effect of dilutive stock options	1,250,892	1,523,505	1,155,390
	-----	-----	-----
Weighted average common shares outstanding-diluted	26,871,310	26,521,065	26,959,810
	=====	=====	=====
Net income per share-basic	\$ 1.10	\$ 0.90	\$ 0.44
Net income per share-diluted	\$ 1.05	\$ 0.85	\$ 0.44
Anti-dilutive stock options excluded	--	16,720	--

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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 nine months and three months ended July 31, 2007 and 2006, respectively, is as follows:

	FSG	ETG	OTHER, PRIMARILY CORPORATE AND INTERSEGMENT
	-----	-----	-----
For the nine months ended July 31, 2007:			
Net sales	\$ 280,959,000	\$ 87,111,000	\$ (16,000)
Depreciation and amortization	6,116,000	2,591,000	252,000
Operating income	50,094,000	23,383,000	(11,310,000)
Capital expenditures	7,687,000	1,620,000	158,000
For the nine months ended July 31, 2006:			
Net sales	\$ 198,586,000	\$ 83,858,000	\$ (79,000)
Depreciation and amortization	4,467,000	1,939,000	230,000
Operating income	33,832,000	25,036,000	(9,574,000)
Capital expenditures	5,915,000	1,034,000	106,000
For the three months ended July 31, 2007:			
Net sales	\$ 100,488,000	\$ 32,677,000	\$ (10,000)
Depreciation and amortization	2,036,000	891,000	84,000
Operating income	17,802,000	10,243,000	(4,101,000)
Capital expenditures	2,816,000	807,000	121,000
For the three months ended July 31, 2006:			
Net sales	\$ 71,069,000	\$ 31,113,000	\$ (10,000)
Depreciation and amortization	1,570,000	670,000	73,000
Operating income	11,471,000	9,688,000	(3,771,000)
Capital expenditures	2,196,000	173,000	64,000

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11. COMMITMENTS AND CONTINGENCIES

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LEASE COMMITMENTS

During the first quarter of fiscal 2007, the Company, through a subsidiary of the FSG, entered into an operating lease commitment for a new facility which is under construction and expected to be occupied as of the end of fiscal 2007. The minimum lease payments for the facility, which commence upon its completion, are estimated to be \$459,000 in fiscal 2008, \$475,000 in fiscal 2009, \$492,000 in fiscal 2010, \$509,000 in fiscal 2011, \$527,000 in fiscal 2012, and \$3,595,000 thereafter.

GUARANTEES

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.

PRODUCT WARRANTY

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

	NINE MONTHS ENDED JULY 31,	
	2007	2006
Balances as of beginning of fiscal year	\$ 534,000	\$ 395,000
Acquired warranty liabilities	--	15,000
Accruals for warranties	1,345,000	396,000
Warranty claims settled	(739,000)	(410,000)
	\$ 1,140,000	\$ 396,000
	=====	=====

ACQUISITIONS

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

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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. During fiscal 2007, some of the minority interest holders exercised their option to cause the Company to purchase their aggregate 3% interest over the four-year period ending in fiscal 2010. Accordingly, the Company increased its ownership interest in the subsidiary by .75% (or one-fourth of such minority interest holders' aggregate interest) to 85.75% effective April 2007.

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.

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

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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.

	NINE MONTHS ENDED JULY 31,		THREE MONTHS
	2007	2006	2007
	-----	-----	-----
Net sales	\$ 368,054,000	\$ 282,365,000	\$ 133,155,000
Cost of sales	239,194,000	179,192,000	85,450,000
Selling, general and administrative expenses	66,693,000	53,879,000	23,761,000
Total operating costs and expenses	305,887,000	233,071,000	109,211,000
Operating income	\$ 62,167,000	\$ 49,294,000	\$ 23,944,000
	=====	=====	=====
Net sales by segment:			
Flight Support Group	\$ 280,959,000	\$ 198,586,000	\$ 100,488,000
Electronic Technologies Group	87,111,000	83,858,000	32,677,000
Intersegment sales	(16,000)	(79,000)	(10,000)
	-----	-----	-----
	\$ 368,054,000	\$ 282,365,000	\$ 133,155,000
	=====	=====	=====
Operating income by segment:			
Flight Support Group	\$ 50,094,000	\$ 33,832,000	\$ 17,802,000
Electronic Technologies Group	23,383,000	25,036,000	10,243,000
Other, primarily corporate	(11,310,000)	(9,574,000)	(4,101,000)
	-----	-----	-----
	\$ 62,167,000	\$ 49,294,000	\$ 23,944,000
	=====	=====	=====
Net sales	100.0%	100.0%	100.0%
Gross profit	35.0%	36.5%	35.8%
Selling, general and administrative expenses	18.1%	19.1%	17.8%

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Operating income	16.9%	17.5%	18.0%
Interest expense	0.7%	0.9%	0.5%
Interest and other income (expense)	0.1%	0.1%	(0.1)
Income tax expense	5.4%	5.7%	5.9%
Minority interests' share of income	3.3%	2.9%	3.3%
Net income	7.7%	8.0%	8.2%

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COMPARISON OF FIRST NINE MONTHS OF FISCAL 2007 TO FIRST NINE MONTHS OF FISCAL 2006

Net Sales

Net sales for the first nine months of fiscal 2007 increased by 30.3% to \$368.1 million, as compared to net sales of \$282.4 million for the first nine months of fiscal 2006. The increase in net sales reflects an increase of \$82.4 million (a 41.5% increase) to \$281.0 million in net sales within the FSG and an increase of \$3.3 million (a 3.9% increase) to \$87.1 million in net sales within the ETG. The FSG's net sales increase reflects organic growth of approximately 21% as well as 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. 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 principally of organic growth) reflects increased demand for certain products.

Gross Profit and Operating Expenses

The Company's gross profit margin decreased to 35.0% for the first nine months of fiscal 2007 as compared to 36.5% for the first nine months of fiscal 2006, reflecting lower margins within the ETG due principally to a less favorable product mix. Consolidated cost of sales for the first nine months of fiscal 2007 and 2006 includes approximately \$11.8 million and \$12.2 million, respectively, of new product research and development expenses.

Selling, general and administrative ("SG&A") expenses were \$66.7 million and \$53.9 million for the first nine months 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 growth in net sales discussed above including the Prime Air acquisition and an increase in corporate expenses. The higher corporate expenses primarily reflect higher accrued performance awards based on the improvement in consolidated operating results.

As a percentage of net sales, SG&A expenses decreased to 18.1% for the first nine months of fiscal 2007 compared to 19.1% for the first nine months 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 nine months of fiscal 2007 increased by 26.1% to \$62.2 million, compared to operating income of \$49.3 million for the first nine months of fiscal 2006. The increase in operating income reflects an increase of \$16.3 million (a 48.1% increase) to \$50.1 million in operating income of the FSG in the first nine months of fiscal 2007 from \$33.8 million for the first nine months of fiscal 2006, partially offset by a \$1.6 million decrease (a 6.6% decrease) in operating income of the ETG from \$25.0 million for the first nine months of fiscal 2006 to \$23.4 million for the first nine months

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of fiscal 2007 as a result of lower operating margins and a \$1.7 million increase in corporate expenses as discussed above.

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As a percentage of net sales, consolidated operating income decreased to 16.9% for the first nine months of fiscal 2007 compared to 17.5% for the first nine months of fiscal 2006. The consolidated operating income as a percentage of net sales reflects a decrease in the ETG's operating income as a percentage of net sales from 29.9% in the first nine months of fiscal 2006 to 26.8% in the first nine months of fiscal 2007, partially offset by an increase in the FSG's operating income as a percentage of net sales from 17.0% in the first nine months of fiscal 2006 to 17.8% in the first nine months of fiscal 2007. The decrease in operating income as a percentage of net sales for the ETG principally reflects the aforementioned decrease in gross profit margins. The increase in operating income as a percentage of net sales for the FSG principally reflects the increase in net sales and improved operating efficiencies within SG&A expenses. See "Outlook" below for additional information on the operating margins of the FSG and ETG.

Interest Expense

Interest expense decreased slightly to \$2,438,000 in the first nine months of fiscal 2007 from \$2,627,000 in the first nine months of fiscal 2006. The decrease was principally due to a lower weighted average balance outstanding under the revolving credit facility in the first nine months of fiscal 2007 partially offset by higher interest rates.

Interest and Other Income

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

Income Tax Expense

The Company's effective tax rate for the first nine months of fiscal 2007 decreased to 32.9% from 34.4% for the first nine months 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 in fiscal 2007. The fiscal 2006 tax credit was recorded pursuant to the December 2006 retroactive extension for the two year period covering January 1, 2006 to December 31, 2007 of Section 41, "Credit for Increasing Research Activities," of the Internal Revenue Code and increased net income, net of expenses, by approximately \$0.5 million for the first nine months of fiscal 2007.

Minority Interests' Share of Income

Minority interests' share of income of consolidated subsidiaries relates to the 20% minority interest held in HEICO Aerospace and the minority interests held in certain subsidiaries of HEICO Aerospace 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 nine months of fiscal 2007 compared to the first nine months of fiscal 2006 is primarily attributable to the higher earnings of the FSG and Seal LLC, as well as the September 2006 acquisition of Prime Air.

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Net Income

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The Company's net income was \$28.2 million, or \$1.05 per diluted share, for the first nine months of fiscal 2007 compared to \$22.6 million, or \$.85 per diluted share, for the first nine months of fiscal 2006 reflecting the increased operating income referenced above, partially offset by the increased minority interests' share of income of certain consolidated subsidiaries.

OUTLOOK

The Company reported increased consolidated net sales and operating income in the first nine months of fiscal 2007 reflecting both strong organic growth and growth through acquisitions, but experienced a slight decline in operating margins. Consolidated operating margins for the nine months of fiscal 2007 reflect a lower margin for the ETG partially offset by a higher margin for the FSG. The ETG's operating margin, which may vary considerably from quarter-to-quarter based on the timing of product shipments/mix, increased to 31.3% in the third quarter from 25.6% in the second quarter of fiscal 2007, which marks the second consecutive quarter of improvement.

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 net sales and earnings over fiscal 2006 and full fiscal 2007 operating margins to approximate those of the prior year.

COMPARISON OF THIRD QUARTER OF FISCAL 2007 TO THIRD QUARTER OF FISCAL 2006

Net Sales

Net sales for the third quarter of fiscal 2007 increased by 30.3% to \$133.2 million, as compared to net sales of \$102.2 million for the third quarter of fiscal 2006. The increase in net sales reflects an increase of \$29.4 million (a 41.4% increase) to \$100.5 million in net sales within the FSG and an increase of \$1.6 million (a 5.0% increase) to \$32.7 million in net sales within the ETG. The FSG's net sales increase reflects organic growth of approximately 24% as well as the prior year acquisitions of Arger and Prime Air. The organic growth reflects higher sales of new products and services and continued increased demand for the FSG's aftermarket replacement parts and repairs and overhaul services. The ETG's net sales increase (consisting principally of organic growth) reflects increased demand for certain products.

Gross Profit and Operating Expenses

The Company's gross profit margin decreased to 35.8% for the third quarter of fiscal 2007 as compared to 36.8% for the third quarter of fiscal 2006, reflecting lower margins within the ETG partially offset by higher margins within the FSG. The lower margins within the ETG principally reflect higher new product research and development expenses as a percentage of net sales. The higher margins within the FSG were due principally to lower new product research and development expenses as a percentage of net sales partially offset by a slightly unfavorable product mix. Consolidated cost of sales for the third quarter of fiscal 2007 and 2006 includes

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approximately \$3.8 million and \$4.0 million, respectively, of new product research and development expenses.

SG&A expenses were \$23.8 million and \$20.2 million for the third 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 growth in net sales discussed above including the Prime Air

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acquisition, and a slight increase in corporate expenses.

As a percentage of net sales, SG&A expenses decreased to 17.8% for the third quarter of fiscal 2007 compared to 19.8% for the third 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 third quarter of fiscal 2007 increased by 37.7% to \$23.9 million, compared to operating income of \$17.4 million for the third quarter of fiscal 2006. The increase in operating income reflects an increase of \$6.3 million (a 55.2% increase) to \$17.8 million in operating income of the FSG in the third quarter of fiscal 2007 from \$11.5 million for the third quarter of fiscal 2006 and a \$.5 million increase (a 5.7% increase) in operating income of the ETG from \$9.7 million for the third quarter of fiscal 2006 to \$10.2 million for the third quarter of fiscal 2007 partially offset by a \$.3 million increase in corporate expenses.

As a percentage of net sales, consolidated operating income increased to 18.0% for the third quarter of fiscal 2007 compared to 17.0% for the third quarter of fiscal 2006. The consolidated operating income as a percentage of net sales reflects an increase in the FSG's operating income as a percentage of net sales from 16.1% in the third quarter of fiscal 2006 to 17.7% in the third quarter of fiscal 2007 and a slight increase in the ETG's operating income as a percentage of net sales from 31.1% in the third quarter of fiscal 2006 to 31.3% in the third quarter of fiscal 2007. The increase in operating income as a percentage of net sales for the FSG principally reflects the increase in net sales and improved operating efficiencies within SG&A expenses as well as the increased gross profit margins discussed previously. The increase in operating income as a percentage of net sales for the ETG principally reflects improved operating efficiencies within SG&A expenses partially offset by the aforementioned decreased gross profit margins. See "Outlook" above for additional information on the operating margins of the FSG and ETG.

Interest Expense

Interest expense decreased to \$729,000 in the third quarter of fiscal 2007 from \$958,000 in the third quarter of fiscal 2006. The decrease was principally due to a lower weighted average balance outstanding under the revolving credit facility in the third quarter of fiscal 2007.

Interest and Other Income (Expense)

Interest and other income (expense) in the third quarter of fiscal 2007 and 2006 were not material.

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Income Tax Expense

The Company's effective tax rate for the third quarter of fiscal 2007 increased to 33.8% from 33.0% for the third quarter of fiscal 2006. The increase is principally due to an income tax credit for qualified research and development activities claimed in the third quarter of fiscal 2006 on the Company's fiscal 2005 tax return and on amended return for a previous tax year. The aggregate tax credit, net of expenses, increased net income by approximately \$.2 million for the third quarter of fiscal 2006.

Minority Interests' Share of Income

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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 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 third quarter of fiscal 2007 compared to the third quarter of fiscal 2006 is primarily attributable to the higher earnings of the FSG and Seal LLC, as well as the September 2006 acquisition of Prime Air.

Net Income

The Company's net income was \$10.9 million, or \$.40 per diluted share, for the third quarter of fiscal 2007 compared to \$8.3 million, or \$.31 per diluted share, for the third quarter of fiscal 2006 reflecting the increased operating income referenced above, partially offset by the increased minority interests' share of income of certain consolidated subsidiaries.

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, 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.

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Operating Activities

Net cash provided by operating activities was \$37.3 million for the first nine months of fiscal 2007, consisting primarily of net income of \$28.2 million, minority interests' share of income of consolidated subsidiaries of \$12.0 million, depreciation and amortization of \$9.0 million, a tax benefit on stock option exercises of \$6.9 million, a deferred income tax provision of \$3.2 million and stock option compensation expense of \$.5 million, partially offset by an increase in net operating assets of \$17.2 million and the presentation of \$5.3 million of excess tax benefit from stock option exercises as a financing activity. The increase in net operating assets (current assets used in operating activities net of current liabilities) primarily reflects a higher investment in inventories by the FSG required to meet increased sales demand, improve product delivery times and higher prices of certain raw materials; and an increase in accounts receivable due to the sales growth.

Net cash provided by operating activities increased to \$37.3 million for the first nine months of fiscal 2007 from \$27.2 million for the first nine months of fiscal 2006 principally due to higher income before minority interests and a decrease in net operating assets. The decrease in net operating assets for the first nine months of fiscal 2007 compared to the first nine months of fiscal 2006 principally reflects differences in the timing of payment of certain recurring liabilities, which vary somewhat from year to year.

Investing Activities

Net cash used in investing activities during the first nine months of fiscal 2007 related primarily to acquisitions and related costs of \$14.9 million

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and capital expenditures totaling \$9.5 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 acquisitions of FerriShield, Inc. and an additional 10% of the equity interests of a subsidiary of the Company's HEICO Aerospace Holdings Corp. subsidiary. Further details on acquisitions may be found in Note 2, Acquisitions, of the Notes to Condensed Consolidated Financial Statements.

Financing Activities

Net cash used in financing activities during the first nine months of fiscal 2007 primarily related to repayments of \$29.0 million on the Company's revolving credit facility, distributions to minority interest owners of \$4.2 million, and the payment of \$2.1 million in cash dividends on the Company's common stock, partially offset by borrowings of \$15.0 million on the Company's revolving credit facility principally used to fund the aforementioned additional purchase consideration and acquisition, 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 \$2.6 million.

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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.

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. During fiscal 2007, some of the minority interest holders exercised their option to cause the Company to purchase their aggregate 3% interest over the four-year period ending in fiscal 2010. Accordingly, the Company increased its ownership interest in the subsidiary by .75% (or one-fourth of such minority interest

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holders' aggregate interest) to 85.75% effective April 2007.

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.

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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.

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 uncertain 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, or in fiscal 2008 for HEICO. 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.

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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 accordance with generally accepted accounting principles more consistent and comparable. SFAS No. 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, or in fiscal 2009 for HEICO. The Company is currently in the process of evaluating the effect, if any, the adoption of SFAS No. 157 will have on its results of operations, financial position, and cash flows.

In 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 plans to adopt SAB No. 108 as of October 31, 2007 and does not expect it to have a material effect on its results of operations, financial position, or cash flows.

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

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

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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

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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 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 July 31, 2007, a hypothetical 10% increase in interest rates would increase the Company's interest expense by approximately \$244,000 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 July 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

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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

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 nine 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. **

* 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: August 31, 2007

By: /s/ THOMAS S. IRWIN

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

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EXHIBIT INDEX

EXHIBIT DESCRIPTION

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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.