

HEICO CORP
Form 10-Q
May 21, 2015
Index

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

FORM 10-Q

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

For the quarterly period ended April 30, 2015

OR

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

For the transition period from _____ to _____

Commission File Number: 1-4604

HEICO CORPORATION

(Exact name of registrant as specified in its charter)

Florida

65-0341002

(State or other jurisdiction of incorporation or organization)

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

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

33021
(Zip Code)

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No "

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

Large accelerated filer x Accelerated filer " Non-accelerated filer " Smaller reporting company "

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

The number of shares outstanding of each of the registrant's classes of common stock as of May 20, 2015 is as follows:

| | | |
|---------------------------------------|------------|--------|
| Common Stock, \$.01 par value | 26,890,107 | shares |
| Class A Common Stock, \$.01 par value | 39,915,823 | shares |

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HEICO CORPORATION

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PART I. FINANCIAL INFORMATION; Item 1. FINANCIAL STATEMENTS

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

| | April 30, 2015 | October 31, 2014 |
|--|----------------|------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$20,679 | \$20,229 |
| Accounts receivable, net | 152,663 | 149,669 |
| Inventories, net | 231,035 | 218,042 |
| Prepaid expenses and other current assets | 15,099 | 8,868 |
| Deferred income taxes | 33,011 | 34,485 |
| Total current assets | 452,487 | 431,293 |
| Property, plant and equipment, net | 104,493 | 93,865 |
| Goodwill | 712,043 | 686,271 |
| Intangible assets, net | 223,304 | 200,810 |
| Deferred income taxes | 1,207 | 1,063 |
| Other assets | 87,060 | 75,912 |
| Total assets | \$1,580,594 | \$1,489,214 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$346 | \$418 |
| Trade accounts payable | 56,092 | 57,157 |
| Accrued expenses and other current liabilities | 82,090 | 92,578 |
| Income taxes payable | 2,464 | 2,067 |
| Total current liabilities | 140,992 | 152,220 |
| Long-term debt, net of current maturities | 326,471 | 328,691 |
| Deferred income taxes | 115,288 | 111,429 |
| Other long-term liabilities | 105,528 | 82,289 |
| Total liabilities | 688,279 | 674,629 |
| Commitments and contingencies (Note 10) | | |
| Redeemable noncontrolling interests (Note 3) | 63,914 | 39,966 |
| Shareholders' equity: | | |
| Common Stock, \$.01 par value per share; 75,000 shares authorized; 26,890 and 26,847 shares issued and outstanding | 269 | 268 |
| Class A Common Stock, \$.01 par value per share; 75,000 shares authorized; 39,911 and 39,699 shares issued and outstanding | 399 | 397 |
| Capital in excess of par value | 280,608 | 269,351 |
| Deferred compensation obligation | 1,296 | 1,138 |
| HEICO stock held by irrevocable trust | (1,296 |) (1,138 |
| Accumulated other comprehensive loss | (19,214 |) (8,289 |
| Retained earnings | 486,534 | 437,757 |

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| | | |
|----------------------------------|-------------|-------------|
| Total HEICO shareholders' equity | 748,596 | 699,484 |
| Noncontrolling interests | 79,805 | 75,135 |
| Total shareholders' equity | 828,401 | 774,619 |
| Total liabilities and equity | \$1,580,594 | \$1,489,214 |

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

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

| | Six months ended April 30, | | Three months ended April 30, | |
|---|----------------------------|-----------|------------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | \$559,606 | \$549,058 | \$291,421 | \$282,232 |
| Operating costs and expenses: | | | | |
| Cost of sales | 360,315 | 357,019 | 185,927 | 182,310 |
| Selling, general and administrative expenses | 97,097 | 92,483 | 49,706 | 50,751 |
| Total operating costs and expenses | 457,412 | 449,502 | 235,633 | 233,061 |
| Operating income | 102,194 | 99,556 | 55,788 | 49,171 |
| Interest expense | (2,258 |) (2,722 |) (1,146 |) (1,441 |
| Other income | 559 | 508 | 362 | 350 |
| Income before income taxes and noncontrolling interests | 100,495 | 97,342 | 55,004 | 48,080 |
| Income tax expense | 29,900 | 32,000 | 16,500 | 15,300 |
| Net income from consolidated operations | 70,595 | 65,342 | 38,504 | 32,780 |
| Less: Net income attributable to noncontrolling interests | 9,850 | 9,520 | 5,399 | 4,413 |
| Net income attributable to HEICO | \$60,745 | \$55,822 | \$33,105 | \$28,367 |
| Net income per share attributable to HEICO shareholders: | | | | |
| Basic | \$.91 | \$.84 | \$.50 | \$.43 |
| Diluted | \$.90 | \$.83 | \$.49 | \$.42 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 66,653 | 66,415 | 66,711 | 66,437 |
| Diluted | 67,735 | 67,403 | 67,801 | 67,455 |
| Cash dividends per share | \$.07 | \$.41 | \$— | \$— |

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

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

| | Six months ended April 30, | | Three months ended April 30, | |
|---|----------------------------|----------|------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Net income from consolidated operations | \$70,595 | \$65,342 | \$38,504 | \$32,780 |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustments | (11,735 |) (651 |) 3 | 1,811 |
| Total other comprehensive (loss) income | (11,735 |) (651 |) 3 | 1,811 |
| Comprehensive income from consolidated operations | 58,860 | 64,691 | 38,507 | 34,591 |
| Less: Net income attributable to noncontrolling interests | 9,850 | 9,520 | 5,399 | 4,413 |
| Less: Foreign currency translation adjustments attributable to noncontrolling interests | (810 |) — | (353 |) — |
| Comprehensive income attributable to noncontrolling interests | 9,040 | 9,520 | 5,046 | 4,413 |
| Comprehensive income attributable to HEICO | \$49,820 | \$55,171 | \$33,461 | \$30,178 |

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

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

| | HEICO Shareholders' Equity | | | | | | | | | |
|--|---|--------------------------|--------------------------|--------------------------------------|---|---|---|----------------------|-----------------------------|----------------------------------|
| | Redeemable Noncontrolling Interests | Class Common Stock | Class Common Stock | Capital in Excess of Par Value | Deferred Compensation Obligations | HEICO Stock Held by Irrevocable Trust | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Noncontrolling Interests | Total Shareholders' Equity |
| Balances as of October 31, 2014 | \$39,966 | \$268 | \$397 | \$269,351 | \$1,138 | (\$1,138) | (\$8,289) | \$437,757 | \$75,135 | \$774,619 |
| Comprehensive income (loss) | 2,288 | — | — | — | — | — | (10,925) | 60,745 | 6,752 | 56,572 |
| Cash dividends (\$.07 per share) | — | — | — | — | — | — | — | (4,666) | — | (4,666) |
| Issuance of common stock to HEICO | — | 1 | — | 4,127 | — | — | — | — | — | 4,128 |
| Savings and Investment Plan Share-based compensation expense | — | — | — | 2,778 | — | — | — | — | — | 2,778 |
| Proceeds from stock option exercises | — | — | 2 | 2,952 | — | — | — | — | — | 2,954 |
| Tax benefit from stock option exercises | — | — | — | 1,405 | — | — | — | — | — | 1,405 |
| Redemptions of common stock related to share-based compensation | — | — | — | (5) | — | — | — | — | — | (5) |
| Noncontrolling interests assumed related to acquisitions | 17,007 | — | — | — | — | — | — | — | — | — |
| Distributions to noncontrolling interests | (2,651) | — | — | — | — | — | — | — | (2,082) | (2,082) |
| Adjustments to redemption amount of redeemable noncontrolling interests | 7,304 | — | — | — | — | — | — | (7,304) | — | (7,304) |
| | — | — | — | — | 158 | (158) | — | — | — | — |

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| | | | | | | | | | | |
|---|-------------------------------------|----------------------|----------------------|--------------------------------|----------------------------------|---------------------------------------|---|-------------------|--------------------------|----------------------------|
| Deferred compensation obligation | | | | | | | | | | |
| Other | — | — | — | — | — | — | 2 | — | 2 | |
| Balances as of April 30, 2015 | \$63,914 | \$269 | \$399 | \$280,608 | \$1,296 | (\$1,296) | (\$19,214) | \$486,534 | \$79,805 | \$828,401 |
| HEICO Shareholders' Equity | | | | | | | | | | |
| | Redeemable Noncontrolling Interests | Class A Common Stock | Class B Common Stock | Capital in Excess of Par Value | Deferred Compensation Obligation | HEICO Stock Held by Irrevocable Trust | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Noncontrolling Interests | Total Shareholders' Equity |
| Balances as of October 31, 2013 | \$59,218 | \$268 | \$396 | \$255,889 | \$1,138 | (\$1,138) | \$144 | \$349,649 | \$116,889 | \$723,235 |
| Comprehensive income (loss) | 3,583 | — | — | — | — | — | (651) | 55,822 | 5,937 | 61,108 |
| Cash dividends (\$.41 per share) | — | — | — | — | — | — | — | (27,225) | — | (27,225) |
| Issuance of common stock to HEICO | — | — | — | 3,071 | — | — | — | — | — | 3,071 |
| Savings and Investment Plan Share-based compensation expense | — | — | — | 4,189 | — | — | — | — | — | 4,189 |
| Proceeds from stock option exercises | — | — | — | 400 | — | — | — | — | — | 400 |
| Tax benefit from stock option exercises | — | — | — | 93 | — | — | — | — | — | 93 |
| Redemptions of common stock related to share-based compensation | — | — | — | (273) | — | — | — | — | — | (273) |
| Distributions to noncontrolling interests | (3,712) | — | — | — | — | — | — | — | (67,400) | (67,400) |
| Acquisitions of noncontrolling interests | (1,243) | — | — | — | — | — | — | — | — | — |
| Reclassification of redeemable noncontrolling interests to noncontrolling interests | (19,383) | — | — | — | — | — | — | — | 19,383 | 19,383 |
| | (630) | — | — | — | — | — | — | 630 | — | 630 |

Adjustments to
redemption
amount of
redeemable
noncontrolling
interests

| | | | | | | | | | | | |
|----------------------------------|----------|-------|-------|-----------|---------|-----------|--------|----|-----------|----------|-----------|
| Other | — | — | 1 | 5 | — | — | — | (1 |) | 1 | 6 |
| Balances as of April 30, 2014 | \$37,833 | \$268 | \$397 | \$263,374 | \$1,138 | (\$1,138) | (\$507 |) | \$378,875 | \$74,810 | \$717,217 |

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

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

| | Six months ended April 30, | |
|--|----------------------------|----------|
| | 2015 | 2014 |
| Operating Activities: | | |
| Net income from consolidated operations | \$70,595 | \$65,342 |
| Adjustments to reconcile net income from consolidated operations to net cash provided by operating activities: | | |
| Depreciation and amortization | 23,141 | 24,139 |
| Share-based compensation expense | 2,778 | 4,189 |
| Employer contributions to HEICO Savings and Investment Plan | 2,596 | 3,071 |
| Deferred income tax benefit | (1,851) | (3,146) |
| Tax benefit from stock option exercises | 1,405 | 93 |
| Excess tax benefit from stock option exercises | (1,405) | (93) |
| Decrease in accrued contingent consideration | (1,058) | (9,295) |
| Foreign currency transaction adjustments, net | (2,247) | — |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Decrease (increase) in accounts receivable | 2,039 | (8,113) |
| Increase in inventories | (4,962) | (6,199) |
| Increase in prepaid expenses and other current assets | (5,622) | (4,336) |
| (Decrease) increase in trade accounts payable | (3,699) | 1,507 |
| Decrease in accrued expenses and other current liabilities | (16,300) | (18,152) |
| Increase in income taxes payable | 173 | — |
| Other long-term assets and liabilities, net | (778) | 5,994 |
| Net cash provided by operating activities | 64,805 | 55,001 |
| Investing Activities: | | |
| Acquisitions, net of cash acquired | (49,482) | (569) |
| Capital expenditures | (9,460) | (7,485) |
| Other | 86 | (8) |
| Net cash used in investing activities | (58,856) | (8,062) |
| Financing Activities: | | |
| Borrowings on revolving credit facility | 61,696 | 105,000 |
| Payments on revolving credit facility | (61,000) | (45,000) |
| Distributions to noncontrolling interests | (4,733) | (71,112) |
| Cash dividends paid | (4,666) | (27,225) |
| Acquisitions of noncontrolling interests | — | (1,243) |
| Revolving credit facility issuance costs | — | (767) |
| Redemptions of common stock related to share-based compensation | (5) | (273) |
| Proceeds from stock option exercises | 2,954 | 400 |
| Excess tax benefit from stock option exercises | 1,405 | 93 |
| Other | (201) | (936) |
| Net cash used in financing activities | (4,550) | (41,063) |
| Effect of exchange rate changes on cash | (949) | 27 |
| Net increase in cash and cash equivalents | 450 | 5,903 |
| Cash and cash equivalents at beginning of year | 20,229 | 15,499 |

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| | | |
|--|----------|----------|
| Cash and cash equivalents at end of period | \$20,679 | \$21,402 |
|--|----------|----------|

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of HEICO Corporation and its subsidiaries (collectively, “HEICO,” or the “Company”) have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions to Form 10-Q. Therefore, the condensed consolidated financial statements do not include all information and footnotes normally included in annual consolidated financial statements and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended October 31, 2014. The October 31, 2014 Condensed Consolidated Balance Sheet has been derived from the Company’s audited consolidated financial statements. In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments (consisting principally of normal recurring accruals) necessary for a fair presentation of the condensed consolidated balance sheets, statements of operations, statements of comprehensive income, statements of shareholders' equity and statements of cash flows for such interim periods presented. The results of operations for the six months ended April 30, 2015 are not necessarily indicative of the results which may be expected for the entire fiscal year.

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

New Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2013-05, “Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity,” which clarifies the applicable guidance for the release of any cumulative translation adjustments into net earnings. ASU 2013-05 specifies that the entire amount of cumulative translation adjustments should be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the investment in the foreign entity. The Company adopted ASU 2013-05 in the first quarter of fiscal 2015, resulting in no impact on the Company’s consolidated results of operations, financial position or cash flows.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers,” which provides a comprehensive new revenue recognition model that will supersede

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nearly all existing revenue recognition guidance. Under ASU 2014-09, an entity will recognize revenue when it transfers promised goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09 is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2016, or in fiscal 2018 for HEICO. Early adoption is not permitted. ASU 2014-09 shall be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. The Company is currently evaluating which transition method it will elect and the effect the adoption of this guidance will have on its consolidated results of operations, financial position or cash flows.

2. ACQUISITIONS

In January 2015, the Company, through its HEICO Flight Support Corp. subsidiary, acquired 80% of the equity of Aeroworks International Holdings, B.V. ("Aeroworks"). Aeroworks, which is headquartered in The Netherlands and maintains significant production facilities in Thailand and Laos, is a manufacturer of both composite and metal parts used primarily in aircraft interior applications, including seating, galleys, lavatories, doors, and overhead bins. The remaining 20% interest continues to be owned by a certain member of Aeroworks' management team (see Note 3, Selected Financial Statement Information, for additional information). The total consideration includes an accrual representing the fair value of contingent consideration that the Company may be obligated to pay should Aeroworks meet certain earnings objectives during each of the first four years following the acquisition. See Note 7, Fair Value Measurements, for additional information regarding the Company's contingent consideration obligation.

In January 2015, the Company, through its HEICO Flight Support Corp. subsidiary, acquired 80.1% of the equity of Harter Aerospace, LLC ("Harter"). Harter is a globally recognized component and accessory maintenance, repair, and overhaul (MRO) station specializing in commercial aircraft accessories, including thrust reverse actuation systems and pneumatics, and electromechanical components. The remaining 19.9% interest continues to be owned by certain members of Harter's management team (see Note 3, Selected Financial Statement Information, for additional information).

In May 2015, the Company, through its HEICO Flight Support Corp. subsidiary, acquired all of the stock of Thermal Energy Products, Inc. ("TEP"). TEP engineers, designs and manufactures removable/reusable insulation systems for industrial, commercial, aerospace and defense applications.

The purchase prices of the fiscal 2015 acquisitions were paid in cash principally using proceeds from the Company's revolving credit facility and the total consideration for the acquisitions is not material or significant to the Company's condensed consolidated financial

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statements. The allocation of the total consideration to the tangible and identifiable intangible assets acquired and liabilities and noncontrolling interests assumed for the Aeroworks and Harter acquisitions is preliminary until the Company obtains final information regarding their fair values.

The operating results of Aeroworks and Harter were included in the Company's results of operations from the effective acquisition dates. The amount of net sales and earnings of Aeroworks and Harter included in the Condensed Consolidated Statements of Operations is not material. Had the Aeroworks and Harter acquisitions been consummated as of November 1, 2013, net sales, net income from consolidated operations, net income attributable to HEICO, and basic and diluted net income per share attributable to HEICO shareholders on a pro forma basis for the six and three months ended April 30, 2015 and April 30, 2014 would not have been materially different than the reported amounts.

3. SELECTED FINANCIAL STATEMENT INFORMATION

| | | |
|--|----------------|------------------|
| Accounts Receivable (in thousands) | April 30, 2015 | October 31, 2014 |
| Accounts receivable | \$154,807 | \$151,812 |
| Less: Allowance for doubtful accounts | (2,144 |) (2,143 |
| Accounts receivable, net | \$152,663 | \$149,669 |
| Costs and Estimated Earnings on Uncompleted Percentage-of-Completion Contracts (in thousands) | April 30, 2015 | October 31, 2014 |
| Costs incurred on uncompleted contracts | \$16,866 | \$24,437 |
| Estimated earnings | 8,510 | 11,747 |
| | 25,376 | 36,184 |
| Less: Billings to date | (22,769 |) (29,829 |
| | \$2,607 | \$6,355 |
| Included in the accompanying Condensed Consolidated Balance Sheets under the following captions: | | |
| Accounts receivable, net (costs and estimated earnings in excess of billings) | \$5,052 | \$8,161 |
| Accrued expenses and other current liabilities (billings in excess of costs and estimated earnings) | (2,445 |) (1,806 |
| | \$2,607 | \$6,355 |

Changes in estimates pertaining to percentage-of-completion contracts did not have a material effect on net income from consolidated operations for the six and three months ended April 30, 2015 and 2014.

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| Inventories (in thousands) | April 30, 2015 | October 31, 2014 |
|---|----------------|------------------|
| Finished products | \$109,914 | \$106,229 |
| Work in process | 31,051 | 30,056 |
| Materials, parts, assemblies and supplies | 87,267 | 79,163 |
| Contracts in process | 4,997 | 2,594 |
| Less: Billings to date | (2,194 |) — |
| Inventories, net of valuation reserves | \$231,035 | \$218,042 |

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

| Property, Plant and Equipment (in thousands) | April 30, 2015 | October 31, 2014 |
|---|----------------|------------------|
| Land | \$4,963 | \$4,501 |
| Buildings and improvements | 67,117 | 60,332 |
| Machinery, equipment and tooling | 149,249 | 139,963 |
| Construction in progress | 8,898 | 6,905 |
| | 230,227 | 211,701 |
| Less: Accumulated depreciation and amortization | (125,734 |) (117,836 |
| Property, plant and equipment, net | \$104,493 | \$93,865 |

Accrued Customer Rebates and Credits

The aggregate amount of accrued customer rebates and credits included within accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheets was \$7.7 million and \$10.9 million as of April 30, 2015 and October 31, 2014, respectively. The total customer rebates and credits deducted within net sales for the six months ended April 30, 2015 and 2014 was \$2.9 million and \$3.4 million, respectively. The total customer rebates and credits deducted within net sales for the three months ended April 30, 2015 and 2014 was \$1.3 million and \$1.7 million, respectively. The decrease in the amount of accrued customer rebates and credits since October 31, 2014 principally reflects payments made during the second quarter of fiscal 2015.

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Employee Retirement Plan

The components of net pension income for the six and three months ended April 30, 2015 and 2014 that were recorded within the Company's Condensed Consolidated Statements of Operations are as follows (in thousands):

| | Six months ended April 30, | | Three months ended April 30, | |
|--------------------------------|----------------------------|-------|------------------------------|-------|
| | 2015 | 2014 | 2015 | 2014 |
| Expected return on plan assets | \$370 | \$370 | \$185 | \$185 |
| Interest cost | 280 | 306 | 140 | 153 |
| Net pension income | \$90 | \$64 | \$45 | \$32 |

Research and Development Expenses

The amount of new product research and development ("R&D") expenses included in cost of sales for the six and three months ended April 30, 2015 and 2014 is as follows (in thousands):

| | Six months ended April 30, | | Three months ended April 30, | |
|--------------|----------------------------|----------|------------------------------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| R&D expenses | \$19,439 | \$18,416 | \$10,137 | \$9,300 |

Redeemable Noncontrolling Interests

The holders of equity interests in certain of the Company's subsidiaries have put rights that may be exercised on varying dates causing the Company to give cash consideration to purchase their equity interests based on fair value or a formula that management intended to reasonably approximate fair value based solely on a multiple of future earnings over a measurement period. Management's estimate of the aggregate redemption amount of all put rights (inclusive of the fiscal 2015 transactions described below) that the Company could be required to pay at varying dates through fiscal 2023 is as follows (in thousands):

| | April 30, 2015 | October 31, 2014 |
|---|----------------|------------------|
| Redeemable at fair value | \$51,614 | \$27,666 |
| Redeemable based on a multiple of future earnings | 12,300 | 12,300 |
| Redeemable noncontrolling interests | \$63,914 | \$39,966 |

As discussed in Note 2, Acquisitions, the Company, through the FSG, acquired interests of 80% and 80.1% in Aeroworks and Harter, respectively, in January 2015. As part of the Aeroworks purchase agreement, the Company has the right to purchase the noncontrolling interest over a four-year period beginning in fiscal 2019, or sooner under certain conditions, and the noncontrolling interest holder has the right to cause the Company to purchase the same equity interest over the same period. As part of the Harter purchase agreement, the Company has the right to purchase the noncontrolling interests over a four-year period beginning in fiscal 2020, or sooner under certain conditions, and the noncontrolling interest holders have the right to cause the Company to purchase the same equity interests over the same period.

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Accumulated Other Comprehensive Loss

Changes in the components of accumulated other comprehensive loss for the six months ended April 30, 2015 are as follows (in thousands):

| | Foreign Currency Translation | Pension Benefit Obligation | Accumulated Other Comprehensive Loss | |
|---------------------------------|---------------------------------|-------------------------------|--|---|
| Balances as of October 31, 2014 | (\$8,348 |) \$59 | (\$8,289 |) |
| Unrealized loss, net | (10,925 |) — | (10,925 |) |
| Balances as of April 30, 2015 | (\$19,273 |) \$59 | (\$19,214 |) |

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill by operating segment for the six months ended April 30, 2015 are as follows (in thousands):

| | Segment FSG | ETG | Consolidated Totals | |
|--|----------------|-----------|------------------------|---|
| Balances as of October 31, 2014 | \$282,407 | \$403,864 | \$686,271 | |
| Goodwill acquired | 33,624 | — | 33,624 | |
| Foreign currency translation adjustments | (1,597 |) (6,255 |) (7,852 |) |
| Balances as of April 30, 2015 | \$314,434 | \$397,609 | \$712,043 | |

The goodwill acquired pertains to the fiscal 2015 acquisitions described in Note 2, Acquisitions, and represents the residual value after the allocation of the total consideration to the tangible and identifiable intangible assets acquired and liabilities and noncontrolling interests assumed. The Company estimates that approximately \$7 million of the goodwill acquired in fiscal 2015 will be deductible for income tax purposes.

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

| | As of April 30, 2015 | | | As of October 31, 2014 | | |
|-------------------------------|-----------------------|--------------------------|---------------------|------------------------|--------------------------|---------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Amortizing Assets: | | | | | | |
| Customer relationships | \$160,753 | (\$55,908) |) \$104,845 | \$144,478 | (\$55,393) |) \$89,085 |
| Intellectual property | 73,892 | (18,860) |) 55,032 | 73,005 | (17,620) |) 55,385 |
| Licenses | 2,900 | (1,758) |) 1,142 | 2,900 | (1,645) |) 1,255 |
| Non-compete agreements | 927 | (927) |) — | 1,020 | (1,020) |) — |
| Patents | 715 | (419) |) 296 | 712 | (405) |) 307 |
| Trade names | 166 | (28) |) 138 | 166 | (17) |) 149 |
| | 239,353 | (77,900) |) 161,453 | 222,281 | (76,100) |) 146,181 |
| Non-Amortizing Assets: | | | | | | |
| Trade names | 61,851 | — |) 61,851 | 54,629 | — |) 54,629 |
| | \$301,204 | (\$77,900) |) \$223,304 | \$276,910 | (\$76,100) |) \$200,810 |

The increase in the gross carrying amount of customer relationships, non-amortizing trade names and intellectual property as of April 30, 2015 compared to October 31, 2014 principally relates to such intangible assets recognized in connection with the fiscal 2015 acquisitions (see Note 2, Acquisitions). The weighted-average amortization period of the customer relationships and intellectual property acquired during fiscal 2015 is 9 and 10 years, respectively.

Amortization expense related to intangible assets for the six months ended April 30, 2015 and 2014 was \$13.1 million and \$14.1 million, respectively. Amortization expense related to intangible assets for the three months ended April 30, 2015 and 2014 was \$7.0 million. Amortization expense related to intangible assets for the remainder of fiscal 2015 is estimated to be \$13.0 million. Amortization expense for each of the next five fiscal years and thereafter is estimated to be \$25.2 million in fiscal 2016, \$24.3 million in fiscal 2017, \$22.4 million in fiscal 2018, \$20.5 million in fiscal 2019, \$18.0 million in fiscal 2020, and \$38.1 million thereafter.

5. LONG-TERM DEBT

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

| | April 30, 2015 | October 31, 2014 |
|--|----------------|------------------|
| Borrowings under revolving credit facility | \$324,289 | \$326,000 |
| Capital leases | 2,528 | 3,109 |
| | 326,817 | 329,109 |
| Less: Current maturities of long-term debt | (346) |) (418) |
| | \$326,471 | \$328,691 |

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During the first quarter of fiscal 2015, the Company elected to borrow €32 million under its revolving credit facility, which allows for borrowings made in foreign currencies up to a \$50 million sublimit. The funds were used to facilitate an acquisition made during the same fiscal quarter. As of April 30, 2015, the United States ("U.S.") dollar equivalent of the Company's Euro borrowing was \$35.3 million.

As of April 30, 2015 and October 31, 2014, the weighted average interest rate on borrowings under the Company's revolving credit facility was 1.3%. The revolving credit facility contains both financial and non-financial covenants. As of April 30, 2015, the Company was in compliance with all such covenants.

6. INCOME TAXES

As of April 30, 2015, the Company's liability for gross unrecognized tax benefits related to uncertain tax positions was \$1.0 million of which \$.7 million would decrease the Company's income tax expense and effective income tax rate if the tax benefits were recognized. A reconciliation of the activity related to the liability for gross unrecognized tax benefits for the six months ended April 30, 2015 is as follows (in thousands):

| | |
|---|-------|
| Balance as of October 31, 2014 | \$879 |
| Increases related to current year tax positions | 76 |
| Increases related to prior year tax positions | 14 |
| Balance as of April 30, 2015 | \$969 |

There were no material changes in the liability for unrecognized tax positions resulting from tax positions taken during the current or a prior year, settlements with other taxing authorities or a lapse of applicable statutes of limitations. The accrual of interest and penalties related to the unrecognized tax benefits was not material for the six months ended April 30, 2015. Further, the Company does not expect the total amount of unrecognized tax benefits to materially change in the next twelve months.

The Company's effective tax rate in the first six months of fiscal 2015 decreased to 29.8% from 32.9% in the first six months of fiscal 2014. The decrease is principally due to an income tax credit for qualified R&D activities for the last ten months of fiscal 2014 that was recognized in the first quarter of fiscal 2015 resulting from the retroactive extension of the U.S. federal R&D tax credit in December 2014 to cover calendar year 2014. Additionally, the decrease in the effective tax rate reflects the benefit of recognizing additional foreign tax credits related to R&D activities at one of the Company's foreign subsidiaries inclusive of a prior year tax return amendment. These decreases were partially offset by the impact of a larger reduction in accrued contingent consideration in the first six months of fiscal 2014 compared to fiscal 2015 associated with a prior year acquisition acquired by means of a nontaxable stock transaction.

The Company's effective tax rate in the second quarter of fiscal 2015 decreased to 30.0% from 31.8% in the second quarter of fiscal 2014. The decrease is principally attributed to the

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benefit of recognizing additional foreign tax credits related to R&D activities at one of the Company's foreign subsidiaries inclusive of a prior year tax return amendment. The decrease in the effective tax rate also reflects no provision for U.S. income taxes on the undistributed earnings of a fiscal 2015 foreign acquisition located in a lower tax rate jurisdiction. These decreases were partially offset by the impact of a larger reduction in accrued contingent consideration in the first six months of fiscal 2014 compared to fiscal 2015 associated with a prior year acquisition acquired by means of a nontaxable stock transaction.

The Company has not made a provision for U.S. income taxes on the undistributed earnings of a fiscal 2015 foreign acquisition as such earnings are considered permanently reinvested outside of the U.S. The amount of undistributed earnings is not material to the Company's condensed consolidated financial statements.

7. FAIR VALUE MEASUREMENTS

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

| | As of April 30, 2015 | | | |
|--------------------------------|---|--|---|----------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets: | | | | |
| Deferred compensation plans: | | | | |
| Corporate owned life insurance | \$— | \$76,506 | \$— | \$76,506 |
| Equity securities | 2,382 | — | — | 2,382 |
| Mutual funds | 1,800 | — | — | 1,800 |
| Money market funds | 979 | — | — | 979 |
| Other | 905 | 50 | — | 955 |
| Total assets | \$6,066 | \$76,556 | \$— | \$82,622 |
| Liabilities: | | | | |
| Contingent consideration | \$— | \$— | \$20,118 | \$20,118 |

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| | As of October 31, 2014 | | | |
|--------------------------------|---|--|---|----------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets: | | | | |
| Deferred compensation plans: | | | | |
| Corporate owned life insurance | \$— | \$61,958 | \$— | \$61,958 |
| Equity securities | 2,225 | — | — | 2,225 |
| Mutual funds | 1,903 | — | — | 1,903 |
| Money market funds | 3,974 | — | — | 3,974 |
| Other | 1,339 | 50 | — | 1,389 |
| Total assets | \$9,441 | \$62,008 | \$— | \$71,449 |
| Liabilities: | | | | |
| Contingent consideration | \$— | \$— | \$1,184 | \$1,184 |

The Company maintains two non-qualified deferred compensation plans. The assets of the HEICO Corporation Leadership Compensation Plan (the “LCP”) principally represent cash surrender values of life insurance policies, which derive their fair values from investments in mutual funds that are managed by an insurance company and are classified within Level 2 and valued using a market approach. Certain other assets of the LCP represent investments in money market funds that are classified within Level 1. The assets of the Company’s other deferred compensation plan are principally invested in equity securities and mutual funds that are classified within Level 1. The assets of both plans are held within irrevocable trusts and classified within other assets in the Company’s Condensed Consolidated Balance Sheets and have an aggregate value of \$82.6 million as of April 30, 2015 and \$71.4 million as of October 31, 2014, of which the LCP related assets were \$77.5 million and \$65.9 million as of April 30, 2015 and October 31, 2014, respectively. The related liabilities of the two deferred compensation plans are included within other long-term liabilities in the Company’s Condensed Consolidated Balance Sheets and have an aggregate value of \$81.6 million as of April 30, 2015 and \$70.5 million as of October 31, 2014, of which the LCP related liability was \$76.5 million and \$65.0 million as of April 30, 2015 and October 31, 2014, respectively.

As part of the agreement to acquire a subsidiary by the FSG in the first quarter of fiscal 2015, the Company may be obligated to pay contingent consideration of up to €24.4 million in aggregate, which translates to approximately \$26.9 million based on the April 30, 2015 exchange rate, should the acquired entity meet certain earnings objectives during each of the first four years following the acquisition. As of April 30, 2015, the estimated fair value of the contingent consideration was \$20.1 million.

As part of the agreement to acquire a subsidiary by the ETG in fiscal 2013, the Company may be obligated to pay contingent consideration of up to \$30.0 million should the acquired entity meet certain earnings objectives during calendar years 2014 and 2015. The \$1.2 million estimated fair value of the contingent consideration as of October 31, 2014 was recorded as a

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reduction to selling, general and administrative expenses in the Company's Condensed Consolidated Statement of Operations in the second quarter of fiscal 2015. The decrease in the fair value of the contingent consideration is principally attributed to revised earnings estimates that reflect less favorable projected market conditions during the earnout period.

The estimated fair value of the fiscal 2015 contingent consideration arrangement described above is classified within Level 3 and was determined using a probability-based scenario analysis approach. Under this method, a set of discrete potential future subsidiary earnings was determined using internal estimates based on various revenue growth rate assumptions for each scenario. A probability of likelihood was assigned to each discrete potential future earnings estimate and the resultant contingent consideration was calculated. The resulting probability-weighted contingent consideration amount was discounted using a weighted average discount rate reflecting the credit risk of a market participant. Changes in either the revenue growth rates, related earnings or the discount rate could result in a material change to the amount of contingent consideration accrued and such changes will be recorded in the Company's condensed consolidated statements of operations.

The Level 3 inputs used to derive the estimated fair value of the Company's contingent consideration liability as of April 30, 2015 were as follows:

| | |
|---|--------------------------------------|
| Compound annual revenue growth rate range | Fiscal 2015 Subsidiary (7 %)- 12% |
| Weighted average discount rate | 2.2% |

Changes in the Company's contingent consideration liability measured at fair value on a recurring basis using unobservable inputs (Level 3) for the six months ended April 30, 2015 are as follows (in thousands):

| | | |
|---|----------|---|
| Balance as of October 31, 2014 | \$1,184 | |
| Contingent consideration related to acquisition | 21,355 | |
| Decrease in accrued contingent consideration | (1,058 |) |
| Foreign currency translation adjustments | (1,363 |) |
| Balance as of April 30, 2015 | \$20,118 | |

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

| | |
|--|----------|
| Accrued expenses and other current liabilities | \$5,963 |
| Other long-term liabilities | 14,155 |
| | \$20,118 |

The Company did not have any transfers between Level 1 and Level 2 fair value measurements during the six months ended April 30, 2015.

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The carrying amounts of the Company's cash and cash equivalents, accounts receivable, trade accounts payable and accrued expenses and other current liabilities approximate fair value as of April 30, 2015 due to the relatively short maturity of the respective instruments. The carrying amount of long-term debt approximates fair value due to its variable interest rates.

8. NET INCOME PER SHARE ATTRIBUTABLE TO HEICO SHAREHOLDERS

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

| | Six months ended April 30, | | Three months ended April 30, | |
|--|----------------------------|----------|------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Numerator: | | | | |
| Net income attributable to HEICO | \$60,745 | \$55,822 | \$33,105 | \$28,367 |
| Denominator: | | | | |
| Weighted average common shares outstanding - basic | 66,653 | 66,415 | 66,711 | 66,437 |
| Effect of dilutive stock options | 1,082 | 988 | 1,090 | 1,018 |
| Weighted average common shares outstanding - diluted | 67,735 | 67,403 | 67,801 | 67,455 |
| Net income per share attributable to HEICO shareholders: | | | | |
| Basic | \$.91 | \$.84 | \$.50 | \$.43 |
| Diluted | \$.90 | \$.83 | \$.49 | \$.42 |
| Anti-dilutive stock options excluded | 305 | 425 | 305 | 305 |

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9. OPERATING SEGMENTS

Information on the Company's two operating segments, the FSG and ETG, for the six and three months ended April 30, 2015 and 2014, respectively, is as follows (in thousands):

| | Segment | | Other, Primarily Corporate and Intersegment | Consolidated Totals |
|------------------------------------|-----------|-----------|--|------------------------|
| | FSG | ETG | | |
| Six months ended April 30, 2015: | | | | |
| Net sales | \$384,832 | \$180,216 | (\$5,442) |) \$559,606 |
| Depreciation and amortization | 11,161 | 11,578 | 402 | 23,141 |
| Operating income | 68,248 | 41,624 | (7,678) |) 102,194 |
| Capital expenditures | 6,477 | 2,857 | 126 | 9,460 |
| Six months ended April 30, 2014: | | | | |
| Net sales | \$376,477 | \$177,233 | (\$4,652) |) \$549,058 |
| Depreciation and amortization | 9,863 | 13,871 | 405 | 24,139 |
| Operating income | 69,089 | 41,040 | (10,573) |) 99,556 |
| Capital expenditures | 4,256 | 2,759 | 470 | 7,485 |
| Three months ended April 30, 2015: | | | | |
| Net sales | \$202,775 | \$90,995 | (\$2,349) |) \$291,421 |
| Depreciation and amortization | 6,349 | 5,686 | 202 | 12,237 |
| Operating income | 37,545 | 22,206 | (3,963) |) 55,788 |
| Capital expenditures | 3,863 | 1,226 | 117 | 5,206 |
| Three months ended April 30, 2014: | | | | |
| Net sales | \$194,892 | \$89,741 | (\$2,401) |) \$282,232 |
| Depreciation and amortization | 4,943 | 6,946 | 200 | 12,089 |
| Operating income | 36,886 | 18,136 | (5,851) |) 49,171 |
| Capital expenditures | 2,231 | 1,051 | 213 | 3,495 |

Total assets by operating segment as of April 30, 2015 and October 31, 2014 are as follows (in thousands):

| | Segment | | Other, Primarily Corporate | Consolidated Totals |
|-------------------------------------|-----------|-----------|----------------------------------|------------------------|
| | FSG | ETG | | |
| Total assets as of April 30, 2015 | \$779,920 | \$679,534 | \$121,140 | \$1,580,594 |
| Total assets as of October 31, 2014 | 676,824 | 703,144 | 109,246 | 1,489,214 |

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10. COMMITMENTS AND CONTINGENCIES

Guarantees

As of April 30, 2015, the Company has arranged for standby letters of credit aggregating \$2.3 million, which are supported by its revolving credit facility. One letter of credit in the amount of \$1.5 million is to satisfy the security requirement of the Company's insurance company for potential workers' compensation claims and the remainder pertain to performance guarantees related to customer contracts entered into by certain of the Company's subsidiaries.

Product Warranty

Changes in the Company's product warranty liability for the six months ended April 30, 2015 and 2014, respectively, are as follows (in thousands):

| | Six months ended April 30, | |
|---|----------------------------|---------|
| | 2015 | 2014 |
| Balances as of beginning of fiscal year | \$4,079 | \$3,233 |
| Accruals for warranties | 436 | 1,125 |
| Acquired warranty liabilities | 35 | — |
| Warranty claims settled | (1,078 |) (941 |
| Balances as of April 30 | \$3,472 | \$3,417 |

Litigation

The Company is involved in various legal actions arising in the normal course of business. Based upon the Company's and its legal counsel's evaluations of any claims or assessments, management is of the opinion that the outcome of these matters will not have a material adverse effect on the Company's results of operations, financial position or cash flows.

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

Overview

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

Our critical accounting policies, which require management to make judgments about matters that are inherently uncertain, are described in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Critical Accounting Policies" in our Annual Report on Form 10-K for the year ended October 31, 2014. There have been no material changes to our critical accounting policies during the six months ended April 30, 2015.

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

Our results of operations for the six and three months ended April 30, 2015 have been affected by the fiscal 2015 acquisitions as further detailed in Note 2, Acquisitions, of the Notes to Condensed Consolidated Financial Statements of this quarterly report.

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Results of Operations

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

| | Six months ended April 30, | | Three months ended April 30, | | |
|---|----------------------------|-----------|------------------------------|-----------|---|
| | 2015 | 2014 | 2015 | 2014 | |
| Net sales | \$559,606 | \$549,058 | \$291,421 | \$282,232 | |
| Cost of sales | 360,315 | 357,019 | 185,927 | 182,310 | |
| Selling, general and administrative expenses | 97,097 | 92,483 | 49,706 | 50,751 | |
| Total operating costs and expenses | 457,412 | 449,502 | 235,633 | 233,061 | |
| Operating income | \$102,194 | \$99,556 | \$55,788 | \$49,171 | |
| Net sales by segment: | | | | | |
| Flight Support Group | \$384,832 | \$376,477 | \$202,775 | \$194,892 | |
| Electronic Technologies Group | 180,216 | 177,233 | 90,995 | 89,741 | |
| Intersegment sales | (5,442) | (4,652) | (2,349) | (2,401) | |
| | \$559,606 | \$549,058 | \$291,421 | \$282,232 | |
| Operating income by segment: | | | | | |
| Flight Support Group | \$68,248 | \$69,089 | \$37,545 | \$36,886 | |
| Electronic Technologies Group | 41,624 | 41,040 | 22,206 | 18,136 | |
| Other, primarily corporate | (7,678) | (10,573) | (3,963) | (5,851) | |
| | \$102,194 | \$99,556 | \$55,788 | \$49,171 | |
| Net sales | 100.0 | % 100.0 | % 100.0 | % 100.0 | % |
| Gross profit | 35.6 | % 35.0 | % 36.2 | % 35.4 | % |
| Selling, general and administrative expenses | 17.4 | % 16.8 | % 17.1 | % 18.0 | % |
| Operating income | 18.3 | % 18.1 | % 19.1 | % 17.4 | % |
| Interest expense | .4 | % .5 | % .4 | % .5 | % |
| Other income | .1 | % .1 | % .1 | % .1 | % |
| Income tax expense | 5.3 | % 5.8 | % 5.7 | % 5.4 | % |
| Net income attributable to noncontrolling interests | 1.8 | % 1.7 | % 1.9 | % 1.6 | % |
| Net income attributable to HEICO | 10.9 | % 10.2 | % 11.4 | % 10.1 | % |

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Comparison of First Six Month of Fiscal 2015 to First Six Months of Fiscal 2014

Net Sales

Our net sales in the first six months of fiscal 2015 increased by 2% to a record \$559.6 million, as compared to net sales of \$549.1 million in the first six months of fiscal 2014. The increase in consolidated net sales principally reflects an increase of \$8.4 million (a 2% increase) to a record \$384.8 million in net sales within the FSG and a net sales increase of \$3.0 million (a 2% increase) to a record \$180.2 million in net sales within the ETG. The net sales increase in the FSG principally reflects net sales of \$16.1 million contributed by fiscal 2015 acquisitions as well as additional net sales from new product offerings and favorable market conditions in our aftermarket replacement parts and repair and overhaul services product lines of \$6.3 million. These increases were partially offset by a \$14.0 million net sales decrease in our specialty products lines principally reflecting lower net sales of certain industrial products that are principally attributed to a reduction in product demand associated with certain customers and the related completion of a customer's multi-year orders in late fiscal 2014. As a result of the net sales decrease of certain industrial products, the FSG experienced a 2% organic revenue decline in the first six months of fiscal 2015. Excluding this net sales decrease, the FSG experienced organic growth of approximately 3% in the first six months of fiscal 2015. The net sales increase in the ETG reflects organic growth of approximately 2% from an increase in demand for certain of the ETG's medical, defense and aerospace products resulting in an aggregate net sales increase of \$5.2 million, partially offset by an aggregate net sales decrease of \$2.2 million from lower demand for certain of the ETG's other product lines. Sales price changes were not a significant contributing factor to the ETG and FSG net sales growth in the first six months of fiscal 2015.

Gross Profit and Operating Expenses

Our consolidated gross profit margin increased to 35.6% in the first six months of fiscal 2015 from 35.0% in the first six months of fiscal 2014, principally reflecting an increase of 2.3% in the ETG's gross profit margin. The increase in the ETG's gross profit margin is principally attributed to a more favorable product mix for certain of our space and defense products. Total new product research and development expenses included within our consolidated cost of sales increased to \$19.4 million in the first six months of fiscal 2015, as compared to \$18.4 million in the first six months of fiscal 2014.

Selling, general and administrative ("SG&A") expenses were \$97.1 million in the first six months of fiscal 2015 as compared to \$92.5 million in the first six months of fiscal 2014. Reductions in accrued contingent consideration associated with a prior year acquisition reduced SG&A expenses by \$1.2 million and \$9.3 million in the first six months of fiscal 2015 and 2014, respectively. Additionally corporate expenses were \$2.9 million lower in the first six months of fiscal 2015 as compared to the same period in fiscal 2014, principally due to unrealized gains from foreign currency translation adjustments on borrowings denominated in Euros under our revolving credit facility and lower accrued performance-based compensation expense.

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SG&A expenses as a percentage of net sales increased from 16.8% in the first six months of fiscal 2014 to 17.4% in the first six months of fiscal 2015. The increase principally reflects the larger reduction in accrued contingent consideration recognized in the prior year, partially offset by the previously mentioned lower corporate expenses.

Operating Income

Operating income in the first six months of fiscal 2015 increased by 3% to a record \$102.2 million, up from \$99.6 million in the first six months of fiscal 2014. The increase in consolidated operating income reflects the previously mentioned \$2.9 million decrease in corporate expenses as well as a \$.6 million increase (a 1% increase) to a record \$41.6 million in operating income of the ETG in the first six months of fiscal 2015, up from \$41.0 million in the first six months of fiscal 2014, partially offset by a \$.8 million decrease (a 1% decrease) to \$68.2 million in operating income of the FSG in the first six months of fiscal 2015, as compared to \$69.1 million in the first six months of fiscal 2014. The increase in operating income of the ETG is principally attributed to the previously mentioned improved gross profit margin as well as lower amortization expense of intangible assets, partially offset by the aforementioned larger reduction in accrued contingent consideration recognized in the prior year. The decrease in the FSG's operating income is principally attributed to higher amortization expenses of intangible assets associated with the fiscal 2015 acquisitions as well as a slightly lower gross profit margin, partially offset by the increase in net sales.

Consolidated operating income as a percentage of net sales increased to 18.3% in the first six months of fiscal 2015, up from 18.1% in the first six months of fiscal 2014.

Interest Expense

Interest expense decreased to \$2.3 million in the first six months of fiscal 2015 from \$2.7 million in the first six months of fiscal 2014. The decrease was principally due to a higher weighted average balance outstanding under our revolving credit facility in the first six months of fiscal 2014 associated with our fiscal 2013 acquisitions.

Other Income

Other income in the first six months of fiscal 2015 and 2014 was not material.

Income Tax Expense

Our effective tax rate in the first six months of fiscal 2015 decreased to 29.8% from 32.9% in the first six months of fiscal 2014. The decrease is principally due to an income tax credit for qualified R&D activities for the last ten months of fiscal 2014 that was recognized in the first quarter of fiscal 2015 resulting from the retroactive extension of the U.S. federal R&D tax credit in December 2014 to cover calendar year 2014. Additionally, the decrease in the effective tax rate reflects the benefit of recognizing additional foreign tax credits related to R&D activities at one of our foreign subsidiaries inclusive of a prior year tax return amendment. These

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decreases were partially offset by the impact of a larger reduction in accrued contingent consideration in the first six months of fiscal 2014 compared to fiscal 2015 associated with a prior year acquisition acquired by means of a nontaxable stock transaction.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests relates to the 20% noncontrolling interest held by Lufthansa Technik AG in HEICO Aerospace and the noncontrolling interests held by others in certain subsidiaries of the FSG and ETG. Net income attributable to noncontrolling interests was \$9.9 million in the first six months of fiscal 2015 compared to \$9.5 million in the first six months of fiscal 2014. The increase in the first six months of fiscal 2015 principally reflects higher allocations of net income to certain subsidiaries of the FSG and ETG in which noncontrolling interests are held including the fiscal 2015 acquisitions, partially offset by lower allocations of net income to certain noncontrolling interests in the first six months of fiscal 2015 as a result of the acquisition of certain noncontrolling interests during fiscal 2014.

Net Income Attributable to HEICO

Net income attributable to HEICO increased to a record \$60.7 million, or \$.90 per diluted share, in the first six months of fiscal 2015 from \$55.8 million, or \$.83 per diluted share, in the first six months of fiscal 2014 principally reflecting the increased operating income and the lower effective tax rate.

Comparison of Second Quarter of Fiscal 2015 to Second Quarter of Fiscal 2014

Net Sales

Our net sales in the second quarter of fiscal 2015 increased by 3% to \$291.4 million, as compared to net sales of \$282.2 million in the second quarter of fiscal 2014. The increase in consolidated net sales principally reflects an increase of \$7.9 million (a 4% increase) to a record \$202.8 million in net sales within the FSG as well as an increase of \$1.3 million (a 1% increase) to \$91.0 million in net sales within the ETG. The net sales increase in the FSG principally reflects net sales of \$14.4 million contributed by fiscal 2015 acquisitions, partially offset by a \$6.4 million net sales decrease in our specialty products lines principally reflecting lower net sales of certain industrial products that are principally attributed to a reduction in product demand associated with certain customers and the related completion of a customer's multi-year orders in late fiscal 2014. As a result of the net sales decrease of certain industrial products, the FSG experienced a 3% organic revenue decline in the second quarter of fiscal 2015. Excluding this net sales decrease, the FSG experienced organic growth of approximately 1% in the second quarter of fiscal 2015. The net sales increase in the ETG reflects organic growth of approximately 1% resulting from an increase in demand for certain of the ETG's medical, defense and aerospace products resulting in an aggregate net sales increase of \$2.3 million, partially offset by lower demand for certain of the ETG's other product lines resulting in an aggregate net sales decrease of \$1.0 million. Sales price changes were not a significant contributing factor to the ETG and FSG net sales growth in the second quarter of fiscal 2015.

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Gross Profit and Operating Expenses

Our consolidated gross profit margin increased to 36.2% in the second quarter of fiscal 2015 as compared to 35.4% in the second quarter of fiscal 2014, principally reflecting an increase of 2.4% in the ETG's gross profit margin. The increase in the ETG's gross profit margin is principally attributed to a more favorable product mix for certain of our space and defense products. Total new product research and development expenses included within our consolidated cost of sales increased to \$10.1 million in the second quarter of fiscal 2015, as compared to \$9.3 million in the second quarter of fiscal 2014.

SG&A expenses were \$49.7 million in the second quarter of fiscal 2015 as compared to \$50.8 million in the second quarter of fiscal 2014. Corporate expenses were \$1.6 million lower in the second quarter of fiscal 2015 as compared to the same period in fiscal 2014, principally due to unrealized gains from foreign currency translation adjustments on borrowings denominated in Euros under our revolving credit facility and lower accrued performance-based compensation expense. Additionally, reductions in accrued contingent consideration associated with a prior year acquisition reduced SG&A expenses by \$1.2 million and \$2.3 million in the second quarter of fiscal 2015 and 2014, respectively.

SG&A expenses as a percentage of net sales decreased from 18.0% in the second quarter of fiscal 2014 to 17.1% in the second quarter of fiscal 2015 principally reflecting the previously mentioned lower corporate expenses.

Operating Income

Operating income in the second quarter of fiscal 2015 increased by 13% to a record \$55.8 million, up from \$49.2 million in the second quarter of fiscal 2014. The increase in consolidated operating income principally reflects a \$4.1 million increase (a 22% increase) to \$22.2 million in operating income of the ETG in the second quarter of fiscal 2015, up from \$18.1 million in the second quarter of fiscal 2014 and a \$.7 million increase (a 2% increase) to a record \$37.5 million in operating income of the FSG in the second quarter of fiscal 2015, up from \$36.9 million in the second quarter of fiscal 2014. Additionally, the increase in consolidated operating income reflects the previously mentioned \$1.6 million decrease in corporate expenses.

Consolidated operating income as a percentage of net sales increased to 19.1% in the second quarter of fiscal 2015, up from 17.4% in the second quarter of fiscal 2014. The increase in consolidated operating income as a percentage of net sales principally reflects an increase in the ETG's operating income as a percentage of net sales from 20.2% in the second quarter of fiscal 2014 to 24.4% in the second quarter of fiscal 2015 and a reduction in corporate expenses as a percentage of net sales from 2.1% in the second quarter of fiscal 2014 to 1.4% in the second quarter of fiscal 2015, partially offset by a decrease in the FSG's operating income as a percentage of net sales from 18.9% in the second quarter of fiscal 2014 to 18.5% in the second quarter of fiscal 2015. The increase in operating income and operating income as a percentage of net sales for the ETG principally reflects the previously mentioned improved gross profit margin as well as lower amortization expense of intangible assets. The increase in operating income of

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the FSG principally reflects the increase in net sales, partially offset by higher amortization expense of intangible assets associated with the fiscal 2015 acquisitions. The decrease in operating income as a percentage of net sales for the FSG principally reflects the higher amortization expense.

Interest Expense

Interest expense decreased to \$1.1 million in the second quarter of fiscal 2015 from \$1.4 million in the second quarter of fiscal 2014. The decrease was principally due to a higher weighted average balance outstanding under our revolving credit facility in the second quarter of fiscal 2014 associated with our fiscal 2013 acquisitions.

Other Income

Other income in the second quarter of fiscal 2015 and 2014 was not material.

Income Tax Expense

Our effective tax rate in the second quarter of fiscal 2015 decreased to 30.0% from 31.8% in the second quarter of fiscal 2014. The decrease is principally attributed to the benefit of recognizing additional foreign tax credits related to R&D activities at one of our foreign subsidiaries inclusive of a prior year tax return amendment. The decrease in the effective tax rate also reflects no provision for U.S. income taxes on the undistributed earnings of a fiscal 2015 foreign acquisition located in a lower tax rate jurisdiction. These decreases were partially offset by the impact of a larger reduction in accrued contingent consideration in the first six months of fiscal 2014 compared to fiscal 2015 associated with a prior year acquisition acquired by means of a nontaxable stock transaction.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests relates to the 20% noncontrolling interest held by Lufthansa Technik AG in HEICO Aerospace and the noncontrolling interests held by others in certain subsidiaries of the FSG and ETG. Net income attributable to noncontrolling interests was \$5.4 million in the second quarter of fiscal 2015 compared to \$4.4 million in the second quarter of fiscal 2014. The increase in the second quarter of fiscal 2015 principally reflects higher allocations of net income to certain subsidiaries of the FSG and ETG in which noncontrolling interests are held including the fiscal 2015 acquisitions.

Net Income Attributable to HEICO

Net income attributable to HEICO increased to \$33.1 million, or \$.49 per diluted share, in the second quarter of fiscal 2015 from \$28.4 million, or \$.42 per diluted share, in the second quarter of fiscal 2014 principally reflecting the increased operating income and lower effective tax rate.

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Outlook

As we look ahead to the remainder of fiscal 2015, we anticipate organic growth within our product lines that serve the commercial aviation markets moderated by lower demand for certain of our industrial-related products within our specialty products lines. We expect improved organic growth within the ETG as compared to the prior year, reflecting increased demand for the majority of our products. During the remainder of fiscal 2015, we plan to continue our focus on new product development, further market penetration, executing our acquisition strategies and maintaining our financial strength. Based on the aforementioned, we continue to estimate consolidated fiscal 2015 year-over-year growth in both net sales and net income to approximate 8% - 10%.

Liquidity and Capital Resources

Our principal uses of cash include acquisitions, capital expenditures, cash dividends, distributions to noncontrolling interests and working capital needs. Capital expenditures in fiscal 2015 are anticipated to approximate \$25 million. We finance our activities primarily from our operating and financing activities, including borrowings under our revolving credit facility.

The revolving credit facility contains both financial and non-financial covenants. As of April 30, 2015, we were in compliance with all such covenants. As of April 30, 2015, our net debt to shareholders' equity ratio was 37.0%, with net debt (total debt less cash and cash equivalents) of \$306.1 million.

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

Operating Activities

Net cash provided by operating activities increased to \$64.8 million in the first six months of fiscal 2015 and consisted primarily of net income from consolidated operations of \$70.6 million and depreciation and amortization of \$23.1 million (a non-cash item), partially offset by an increase in working capital (current assets minus current liabilities) of \$28.4 million. Net cash provided by operating activities increased by \$9.8 million in the first six months of fiscal 2015 from \$55.0 million in the first six months of fiscal 2014. The increase in net cash provided by operating activities in the first six months of fiscal 2015 is principally attributed an \$8.2 million increase in accrued contingent consideration (a non-cash item) and a net \$6.9 million decrease in working capital principally reflecting the timing of collections on accounts receivable, partially offset by a net \$6.8 million decrease in other long-term assets and liabilities, principally reflecting the receipt of cash in the first six months of fiscal 2014 associated with a long-term contractual arrangement accounted for as deferred revenue.

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Investing Activities

Net cash used in investing activities totaled \$58.9 million in the first six months of fiscal 2015 and related primarily to acquisitions of \$49.5 million as well as capital expenditures of \$9.5 million. Further details regarding our fiscal 2015 acquisitions may be found in Note 2, Acquisitions, of the Notes to Condensed Consolidated Financial Statements.

Financing Activities

Net cash used in financing activities in the first six months of fiscal 2015 totaled \$4.6 million and related primarily to \$4.7 million in distributions to noncontrolling interests and \$4.7 million in cash dividends on our common stock, partially offset by \$3.0 million in proceeds from stock option exercises and the presentation of a \$1.4 million excess tax benefit from stock option exercises as a financing activity.

Contractual Obligations

There have not been any material changes to the amounts presented in the table of contractual obligations that was included in our Annual Report on Form 10-K for the year ended October 31, 2014.

Off-Balance Sheet Arrangements

Guarantees

As of April 30, 2015, we have arranged for standby letters of credit aggregating \$2.3 million, which are supported by our revolving credit facility. One letter of credit in the amount of \$1.5 million is to satisfy the security requirement of our insurance company for potential workers' compensation claims and the remainder pertain to performance guarantees related to customer contracts entered into by certain of our subsidiaries.

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New Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity," which clarifies the applicable guidance for the release of any cumulative translation adjustments into net earnings. ASU 2013-05 specifies that the entire amount of cumulative translation adjustments should be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the investment in the foreign entity. We adopted ASU 2013-05 in the first quarter of fiscal 2015, resulting in no impact on our consolidated results of operations, financial position or cash flows.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which provides a comprehensive new revenue recognition model that will supersede nearly all existing revenue recognition guidance. Under ASU 2014-09, an entity will recognize revenue when it transfers promised goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09 is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2016, or in fiscal 2018 for HEICO. Early adoption is not permitted. ASU 2014-09 shall be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. We are currently evaluating which transition method we will elect and the effect the adoption of this guidance will have on our consolidated results of operations, financial position or cash flows.

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Forward-Looking Statements

Certain statements in this report constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained herein that are not clearly historical in nature may be forward-looking and the words “anticipate,” “believe,” “expect,” “estimate” and similar expressions are generally intended to identify forward-looking statements. Any forward-looking statement contained herein, in press releases, written statements or other documents filed with the Securities and Exchange Commission or in communications and discussions with investors and analysts in the normal course of business through meetings, phone calls and conference calls, concerning our operations, economic performance and financial condition are subject to risks, uncertainties and contingencies. We have based these forward-looking statements on our current expectations and projections about future events. All forward-looking statements involve risks and uncertainties, many of which are beyond our control, which may cause actual results, performance or achievements to differ materially from anticipated results, performance or achievements. Also, forward-looking statements are based upon management’s estimates of fair values and of future costs, using currently available information. Therefore, actual results may differ materially from those expressed or implied in those statements. Factors that could cause such differences include: lower demand for commercial air travel or airline fleet changes or airline purchasing decisions, which could cause lower demand for our goods and services; product development or product specification costs and requirements, which could cause an increase to our costs to complete contracts; governmental and regulatory demands, export policies and restrictions, reductions in defense, space or homeland security spending by U.S. and/or foreign customers or competition from existing and new competitors, which could reduce our sales; our ability to introduce new products and product pricing levels, which could reduce our sales or sales growth; product development difficulties, which could increase our product development costs and delay sales; our ability to make acquisitions and achieve operating synergies from acquired businesses, customer credit risk, interest and income tax rates and economic conditions within and outside of the aviation, defense, space, medical, telecommunications and electronics industries, which could negatively impact our costs and revenues; and defense budget cuts, which could reduce our defense-related revenue. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except to the extent required by applicable law.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have not been any material changes in our assessment of HEICO's sensitivity to market risk that was disclosed in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in our Annual Report on Form 10-K for the year ended October 31, 2014 except as discussed below:

During the first quarter of fiscal 2015, we borrowed €32 million under our revolving credit facility and used the funds to facilitate an acquisition. A hypothetical 10% weakening of the United States ("U.S.") dollar in comparison to the Euro as of April 30, 2015 would increase the U.S. dollar equivalent of our Euro borrowing by \$3.5 million and decrease operating income by the same amount.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that HEICO's disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the second quarter ended April 30, 2015 that have materially affected, or are reasonably likely to materially affect, HEICO's internal control over financial reporting.

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PART II. OTHER INFORMATION

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. ** |
| 101.INS | XBRL Instance Document. * |
| 101.SCH | XBRL Taxonomy Extension Schema Document. * |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. * |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. * |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document. * |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. * |

* Filed herewith.

** Furnished herewith.

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SIGNATURES

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

HEICO CORPORATION

Date: May 21, 2015

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

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

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