HEICO CORP
Form 10-Q
May 31, 2018
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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, 2018

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: 001-04604
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	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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨
Smaller reporting company ¨ Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
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 29, 2018 is as follows:

Common Stock, $.01 par value	42,673,859	shares
Class A Common Stock, $.01 par value	63,538,812	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, 2018	October 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$48,227	$52,066
Accounts receivable, net	238,233	222,456
Inventories, net	382,669	343,628
Prepaid expenses and other current assets	25,597	13,742
Total current assets	694,726	631,892
Property, plant and equipment, net	148,114	129,883
Goodwill	1,104,555	1,081,306
Intangible assets, net	532,263	538,081
Other assets	148,223	131,269
Total assets	$2,627,881	$2,512,431
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	$480	$451
Trade accounts payable	94,373	89,724
Accrued expenses and other current liabilities	135,200	147,612
Income taxes payable	—	11,650
Total current liabilities	230,053	249,437
Long-term debt, net of current maturities	683,362	673,528
Deferred income taxes	46,875	59,026
Other long-term liabilities	164,050	151,025
Total liabilities	1,124,340	1,133,016
Commitments and contingencies (Note 10)		
Redeemable noncontrolling interests (Note 3)	134,034	131,123
Shareholders’ equity:		
Preferred Stock, $.01 par value per share; 10,000 shares authorized; none issued	—	—
Common Stock, $.01 par value per share; 150,000 and 75,000 shares authorized; 42,665 and 42,221 shares issued and outstanding	427	338
Class A Common Stock, $.01 par value per share; 150,000 and 75,000 shares authorized; 63,523 and 63,381 shares issued and outstanding	635	507
Capital in excess of par value	311,710	326,544
Deferred compensation obligation	3,118	3,118
HEICO stock held by irrevocable trust	(3,118)	(3,118)
Accumulated other comprehensive loss	(1,516)	(10,556)
Retained earnings	964,571	844,247

Total HEICO shareholders’ equity	1,275,827	1,161,080
Noncontrolling interests	93,680	87,212
Total shareholders’ equity	1,369,507	1,248,292
Total liabilities and equity	$2,627,881	$2,512,431

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,	
	2018	2017	2018	2017
Net sales	$835,012	$712,089	$430,602	$368,657
Operating costs and expenses:				
Cost of sales	512,364	446,290	262,745	228,275
Selling, general and administrative expenses	151,523	124,707	76,292	63,840
Total operating costs and expenses	663,887	570,997	339,037	292,115
Operating income	171,125	141,092	91,565	76,542
Interest expense	(9,629)	(3,929)	(4,904)	(1,960)
Other income (expense)	110	635	(250)	151
Income before income taxes and noncontrolling interests	161,606	137,798	86,411	74,733
Income tax expense	23,900	40,700	20,400	23,900
Net income from consolidated operations	137,706	97,098	66,011	50,833
Less: Net income attributable to noncontrolling interests	12,936	10,485	6,393	5,147
Net income attributable to HEICO	$124,770	$86,613	$59,618	$45,686
Net income per share attributable to HEICO shareholders:				
Basic	$1.18	$.82	$.56	$.43
Diluted	$1.14	$.80	$.55	$.42
Weighted average number of common shares outstanding:				
Basic	105,789	105,227	105,940	105,276
Diluted	109,191	108,150	109,271	108,296
Cash dividends per share	$.070	$.058	$—	$—

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,	
	2018	2017	2018	2017
Net income from consolidated operations	$137,706	$97,098	$66,011	$50,833
Other comprehensive income (loss):				
Foreign currency translation adjustments	9,390	234	(6,573)	1,758
Amortization of unrealized loss on defined benefit pension plan, net of tax	6	15	2	8
Total other comprehensive income (loss)	9,396	249	(6,571)	1,766
Comprehensive income from consolidated operations	147,102	97,347	59,440	52,599
Net income attributable to noncontrolling interests	12,936	10,485	6,393	5,147
Foreign currency translation adjustments attributable to noncontrolling interests	577	(75)	(417)	221
Comprehensive income attributable to noncontrolling interests	13,513	10,410	5,976	5,368
Comprehensive income attributable to HEICO	$133,589	$86,937	$53,464	$47,231

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	Common Stock	Class A Common Stock	Capital in Excess of Par Value	Deferred Compensation Obligation	HEICO Stock Held by Irrevocable Trust	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interests	Total Shareholders' Equity
Balances as of October 31, 2017	$131,123	$338	$507	$326,544	$3,118	($3,118)	($10,556)	$844,247	$87,212	$1,248,292
Comprehensive income	6,636	—	—	—	—	—	8,819	124,770	6,877	140,466
Cash dividends ($.070 per share)	—	—	—	—	—	—	—	(7,395)	—	(7,395)
Five-for-four common stock split	—	84	127	(211)	—	—	—	—	—	—
Issuance of common stock to HEICO Savings and Investment Plan	—	1	—	4,547	—	—	—	—	—	4,548
Share-based compensation expense	—	—	—	4,459	—	—	—	—	—	4,459
Proceeds from stock option exercises	—	7	1	1,985	—	—	—	—	—	1,993
Redemptions of common stock related to stock option exercises	—	(3)	—	(24,620)	—	—	—	—	—	(24,623)
Distributions to noncontrolling interests	(4,040)	—	—	—	—	—	—	—	(409)	(409)
Adjustments to redemption amount of redeemable noncontrolling interests	(3,170)	—	—	—	—	—	—	3,170	—	3,170
Noncontrolling interests assumed related	2,491	—	—	—	—	—	—	—	—	—

to acquisitions										
Other	994	—	—	(994)	—	—	221	(221)	—	(994)
Balances as of April 30, 2018	$134,034	$427	$635	$311,710	$3,118	($3,118)	($1,516)	$964,571	$93,680	$1,369,507

		HEICO Shareholders' Equity								
	Redeemable Noncontrolling Interests	Common Stock	Class A Common Stock	Capital in Excess of Par Value	Deferred Compensation Obligation	HEICO Stock Held by Irrevocable Trust	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interests	Total Shareholders' Equity
Balances as of October 31, 2016	$99,512	$270	$403	$306,328	$2,460	($2,460)	($25,326)	$681,704	$84,326	$1,047,705
Comprehensive income	5,151	—	—	—	—	—	324	86,613	5,259	92,196
Cash dividends ($.058 per share)	—	—	—	—	—	—	—	(6,059)	—	(6,059)
Five-for-four common stock split	—	68	101	(169)	—	—	—	(23)	—	(23)
Issuance of common stock to HEICO Savings and Investment Plan	—	—	—	5,484	—	—	—	—	—	5,484
Share-based compensation expense	—	—	—	3,110	—	—	—	—	—	3,110
Proceeds from stock option exercises	—	—	1	2,296	—	—	—	—	—	2,297
Distributions to noncontrolling interests	(3,544)	—	—	—	—	—	—	—	(353)	(353)
Acquisitions of noncontrolling interest	(3,848)	—	—	—	—	—	—	—	—	—
Adjustments to redemption amount of redeemable noncontrolling interests	5,826	—	—	—	—	—	—	(5,826)	—	(5,826)
Noncontrolling interests assumed related to acquisitions	22,035	—	—	—	—	—	—	—	—	—
Deferred compensation	—	—	—	—	(140)	140	—	—	—	—

obligation										
Other	—	—	1	—	—	—	—	(1)	—	—
Balances as of April 30, 2017	$125,132	$338	$506	$317,049	$2,320	($2,320)	($25,002)	$756,408	$89,232	$1,138,531

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,	
	2018	2017
Operating Activities:		
Net income from consolidated operations	$137,706	$97,098
Adjustments to reconcile net income from consolidated operations to net cash provided by operating activities:		
Depreciation and amortization	38,089	30,501
Employer contributions to HEICO Savings and Investment Plan	4,083	3,679
Share-based compensation expense	4,459	3,110
(Decrease) increase in accrued contingent consideration, net	(3,412)	1,148
Foreign currency transaction adjustments, net	117	(280)
Deferred income tax benefit	(13,157)	(2,909)
Changes in operating assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	(14,337)	1,358
Increase in inventories	(29,814)	(14,251)
Increase in prepaid expenses and other current assets	(4,266)	(225)
Increase (decrease) in trade accounts payable	3,912	(7,567)
Decrease in accrued expenses and other current liabilities	(14,534)	(11,176)
Decrease in income taxes payable	(14,714)	(2,023)
Other long-term assets and liabilities, net	868	(750)
Net cash provided by operating activities	95,000	97,713
Investing Activities:		
Acquisitions, net of cash acquired	(39,364)	(80,838)
Capital expenditures	(29,457)	(13,538)
Other	(2,744)	(944)
Net cash used in investing activities	(71,565)	(95,320)
Financing Activities:		
Borrowings on revolving credit facility	53,000	87,000
Payments on revolving credit facility	(43,000)	(84,000)
Redemptions of common stock related to stock option exercises	(24,623)	—
Cash dividends paid	(7,395)	(6,059)
Distributions to noncontrolling interests	(4,449)	(3,897)
Revolving credit facility issuance costs	(4,067)	(270)
Acquisitions of noncontrolling interests	—	(3,848)
Payment of contingent consideration	(300)	—
Proceeds from stock option exercises	1,993	2,297
Other	(232)	(371)
Net cash used in financing activities	(29,073)	(9,148)
Effect of exchange rate changes on cash	1,799	532
Net decrease in cash and cash equivalents	(3,839)	(6,223)
Cash and cash equivalents at beginning of year	52,066	42,955
Cash and cash equivalents at end of period	$48,227	$36,732

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, 2017. The October 31, 2017 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, 2018 are not necessarily indicative of the results which may be expected for the entire fiscal year.

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

Stock Split

In December 2017, the Company's Board of Directors declared a 5-for-4 stock split on both classes of the Company's common stock. The stock split was effected as of January 18, 2018 in the form of a 25% stock dividend distributed to shareholders of record as of January 3, 2018. All applicable share and per share information has been adjusted retrospectively to give effect to the 5-for-4 stock split.

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New Accounting Pronouncements

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

The Company is in the process of reviewing a representative sample of customer contracts across its identified revenue streams. Based on the work completed to-date, the Company foresees two types of contracts for which ASU 2014-09 will impact the timing of revenue recognition. For certain contracts under which it produces products with no alternative use and for which the Company has an enforceable right to payment during the production cycle and for certain other contracts under which the Company creates or enhances customer-owned assets while performing repair and overhaul services, ASU 2014-09 will require HEICO to recognize revenue using an over time recognition model as opposed to the Company’s current policy of recognizing revenue at the time of shipment. The Company has not yet determined the effect the adoption of this guidance will have on its consolidated results of operations, financial position and cash flows.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory,” which requires entities to measure inventories at the lower of cost or net realizable value. Previously, inventories were measured at the lower of cost or market. The Company adopted ASU 2015-11 in the first quarter of fiscal 2018, resulting in no material effect on the Company's consolidated results of operations, financial position or cash flows.

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

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which clarifies how certain cash receipts and cash payments are to be

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presented and classified in the statement of cash flows. ASU 2016-15 provides guidance on eight specific cash flow classification issues including contingent consideration payments made after a business combination, proceeds from corporate-owned life insurance policies and distributions received from equity method investees. ASU 2016-15 is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2017, or in fiscal 2019 for HEICO. Early adoption is permitted. ASU 2016-15 requires a retrospective transition approach for all periods presented. The Company is currently evaluating the effect the adoption of this guidance will have on its consolidated statement of cash flows.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment," which is intended to simplify the current test for goodwill impairment by eliminating the second step in which the implied value of a reporting unit is calculated when the carrying value of the reporting unit exceeds its fair value. Under ASU 2017-04, goodwill impairment should be recognized for the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 must be applied prospectively and is effective for any annual or interim goodwill impairment test in fiscal years beginning after December 15, 2019, or in fiscal 2021 for HEICO. Early adoption is permitted. The Company is currently evaluating the effect the adoption of this guidance will have on its consolidated results of operations, financial position and cash flows.

2. ACQUISITIONS

In April 2018, the Company, through a subsidiary of HEICO Electronic, acquired all of the assets and business of the Emergency Locator Transmitter Beacon product line ("ELT Product Line") of Instrumar Limited. The ELT Product Line designs and manufactures Emergency Locator Transmitter Beacons for the commercial aviation and defense markets, that upon activation, transmit a distress signal to alert search and rescue operations of the aircraft's location. The purchase price of this acquisition was paid using cash provided by operating activities.

In February 2018, the Company, through a subsidiary of HEICO Electronic, acquired 85% of the assets and business of Sensor Technology Engineering, Inc. ("Sensor Technology"). Sensor Technology designs and manufactures sophisticated nuclear radiation detectors for law enforcement, homeland security and military applications. The remaining 15% continues to be owned by certain members of Sensory Technology's management team. The purchase price of this acquisition was paid in cash, principally using proceeds from the Company's revolving credit facility.

In November 2017, the Company, through a subsidiary of HEICO Electronic, acquired all of the stock of Interface Displays & Controls, Inc. ("IDC"). IDC designs and manufactures electronic products for aviation, marine, military fighting vehicles, and embedded computing markets. The purchase price of this acquisition was paid using cash provided by operating activities.

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The total consideration for the fiscal 2018 acquisitions is not material or significant to the Company's condensed consolidated financial statements and the related allocation to the tangible and identifiable intangible assets acquired and liabilities and noncontrolling interests assumed is preliminary until the Company obtains final information regarding their fair values. The operating results of the fiscal 2018 acquisitions were included in the Company's results of operations from each of the effective acquisition dates. The amount of net sales and earnings of the fiscal 2018 acquisitions included in the Condensed Consolidated Statement of Operations for the six and three months ended April 30, 2018 is not material. Had the fiscal 2018 acquisitions been consummated as of November 1, 2016, 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, 2018 and 2017 would not have been materially different than the reported amounts.

3. SELECTED FINANCIAL STATEMENT INFORMATION

Accounts Receivable

(in thousands)	April 30, 2018	October 31, 2017
Accounts receivable	$241,665	$225,462
Less: Allowance for doubtful accounts	(3,432)	(3,006)
Accounts receivable, net	$238,233	$222,456

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

(in thousands)	April 30, 2018	October 31, 2017
Costs incurred on uncompleted contracts	$36,965	$29,491
Estimated earnings	20,980	19,902
	57,945	49,393
Less: Billings to date	(44,621)	(41,262)
	$13,324	$8,131
Included in the accompanying Condensed Consolidated Balance Sheets under the following captions:		
Accounts receivable, net (costs and estimated earnings in excess of billings)	$15,238	$9,377
Accrued expenses and other current liabilities (billings in excess of costs and estimated earnings)	(1,914)	(1,246)
	$13,324	$8,131

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, 2018 and 2017.

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Inventories

(in thousands)	April 30, 2018	October 31, 2017
Finished products	$185,987	$173,559
Work in process	45,077	39,986
Materials, parts, assemblies and supplies	149,840	128,031
Contracts in process	2,037	2,415
Less: Billings to date	(272)	(363)
Inventories, net of valuation reserves	$382,669	$343,628

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, 2018	October 31, 2017
Land	$5,887	$5,435
Buildings and improvements	94,262	91,916
Machinery, equipment and tooling	218,644	191,298
Construction in progress	4,775	5,553
	323,568	294,202
Less: Accumulated depreciation and amortization	(175,454)	(164,319)
Property, plant and equipment, net	$148,114	$129,883

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 $13.4 million as of April 30, 2018 and $12.9 million as of October 31, 2017. The total customer rebates and credits deducted within net sales for the six months ended April 30, 2018 and 2017 was $5.2 million and $5.4 million, respectively. The total customer rebates and credits deducted within net sales for the three months ended April 30, 2018 and 2017 was $2.7 million and $3.0 million, respectively.

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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, 2018 and 2017 is as follows (in thousands):

	Six months ended April 30,		Three months ended April 30,	
	2018	2017	2018	2017
R&D expenses	$26,660	$22,469	$13,953	$11,223

Redeemable Noncontrolling Interests

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

	April 30, 2018	October 31, 2017
Redeemable at fair value	$85,039	$82,128
Redeemable based on a multiple of future earnings	48,995	48,995
Redeemable noncontrolling interests	$134,034	$131,123

As discussed in Note 2, Acquisitions, the Company, through a subsidiary of HEICO Electronic, acquired 85% of the assets and business of Sensor Technology in February 2018. As part of the Sensor Technology purchase agreement, the Company has the right to purchase the noncontrolling interest in fiscal 2021, or sooner under certain conditions, and the noncontrolling interest holders have the right to cause the Company to purchase the same equity interest at the same point in time.

Accumulated Other Comprehensive Loss

Changes in the components of accumulated other comprehensive loss for the six months ended April 30, 2018 are as follows (in thousands):

	Foreign Currency Translation	Pension Benefit Obligation	Accumulated Other Comprehensive Loss
Balances as of October 31, 2017	($9,533)	($1,023)	($10,556)
Unrealized gain	8,813	221	9,034
Amortization of unrealized loss	—	6	6
Balances as of April 30, 2018	($720)	($796)	($1,516)

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4. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill by operating segment for the six months ended April 30, 2018 are as follows (in thousands):

	Segment FSG	ETG	Consolidated Totals
Balances as of October 31, 2017	$388,606	$692,700	$1,081,306
Goodwill acquired	—	21,535	21,535
Foreign currency translation adjustments	1,628	1,547	3,175
Adjustments to goodwill	972	(2,433)	(1,461)
Balances as of April 30, 2018	$391,206	$713,349	$1,104,555

The goodwill acquired pertains to the fiscal 2018 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 nearly all of the goodwill acquired in fiscal 2018 will be deductible for income tax purposes. Foreign currency translation adjustments are included in other comprehensive income (loss) in the Company's Condensed Consolidated Statements of Comprehensive Income. The adjustments to goodwill represent immaterial measurement period adjustments to the purchase price allocation of certain fiscal 2017 acquisitions.

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

	As of April 30, 2018			As of October 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizing Assets:						
Customer relationships	$385,776	($130,386)	$255,390	$379,966	($117,069)	$262,897
Intellectual property	185,188	(49,573)	135,615	181,811	(44,861)	136,950
Licenses	6,559	(3,227)	3,332	6,559	(2,928)	3,631
Patents	921	(592)	329	870	(551)	319
Non-compete agreements	817	(817)	—	817	(817)	—
Trade names	466	(138)	328	466	(118)	348
	579,727	(184,733)	394,994	570,489	(166,344)	404,145
Non-Amortizing Assets:						
Trade names	137,269	—	137,269	133,936	—	133,936
	$716,996	($184,733)	$532,263	$704,425	($166,344)	$538,081

The increase in the gross carrying amount of customer relationships, intellectual property and non-amortizing trade names as of April 30, 2018 compared to October 31, 2017 principally relates to such intangible assets recognized in connection with the fiscal 2018 acquisitions (see Note 2, Acquisitions). The weighted-average amortization period of the customer relationships and intellectual property acquired during fiscal 2018 is 7 and 11 years, respectively.

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Amortization expense related to intangible assets for the six months ended April 30, 2018 and 2017 was $24.8 million and $18.3 million, respectively. Amortization expense related to intangible assets for the three months ended April 30, 2018 and 2017 was $12.4 million and $9.1 million, respectively. Amortization expense related to intangible assets for the remainder of fiscal 2018 is estimated to be $25.2 million. Amortization expense for each of the next five fiscal years and thereafter is estimated to be $48.6 million in fiscal 2019, $45.7 million in fiscal 2020, $43.0 million in fiscal 2021, $36.8 million in fiscal 2022, $31.8 million in fiscal 2023, and $163.9 million thereafter.

5. LONG-TERM DEBT

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

	April 30, 2018	October 31, 2017
Borrowings under revolving credit facility	$681,000	$671,000
Capital leases and note payable	2,842	2,979
	683,842	673,979
Less: Current maturities of long-term debt	(480)	(451)
	$683,362	$673,528

The Company's borrowings under its revolving credit facility mature in fiscal 2023. As of April 30, 2018 and October 31, 2017, the weighted average interest rate on borrowings under the Company’s revolving credit facility was 3.0% and 2.4%, respectively. The revolving credit facility contains both financial and non-financial covenants. As of April 30, 2018, the Company was in compliance with all such covenants.

6. INCOME TAXES

On December 22, 2017, the United States (U.S.) government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act contains significant changes to existing tax law including, among other things, a reduction in the U.S. federal statutory tax rate from 35% to 21% and the implementation of a territorial tax system resulting in a one-time transition tax on the unremitted earnings of the Company’s foreign subsidiaries. The Tax Act also contains additional provisions that will become effective for HEICO in fiscal 2019 including a new tax on Global Intangible Low-Taxed Income (“GILTI”), a new deduction for Foreign-Derived Intangible Income (“FDII”), the repeal of the domestic production activity deduction and increased limitations on the deductibility of certain executive compensation. The Company has not yet determined the impact of the provisions of the Tax Act which do not become effective for HEICO until fiscal 2019.

The Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides guidance on the accounting for the tax effects of the Tax Act. This guidance provides companies with a measurement period not to exceed one year from the

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enactment of the Tax Act to complete their accounting for the related tax effects. SAB 118 further states that during the measurement period, companies who are able to make reasonable estimates of the tax effects of the Tax Act should include those amounts in their financial statements as provisional amounts and reflect any adjustments in subsequent periods as they refine their estimates or complete their accounting of such tax effects.

As a result of the Tax Act, the Company has revised its estimated annual effective federal statutory income tax rate to reflect a reduction in the rate from 35% to 21% effective January 1, 2018, which results in a blended rate of 23.3% for HEICO in fiscal 2018. Additionally, the Company remeasured its U.S. federal net deferred tax liabilities and recorded a provisional discrete tax benefit of $16.6 million in the first quarter of fiscal 2018. Further, the Company recorded a provisional discrete tax expense of $4.7 million in the first quarter of fiscal 2018 related to a one-time transition tax on the unremitted earnings of the Company's foreign subsidiaries. The Company intends to pay this tax over the eight-year period allowed for in the Tax Act.

The Company’s effective tax rate in the first six months of fiscal 2018 decreased to 14.8% from 29.5% in the first six months of fiscal 2017. The decrease principally reflects the previously mentioned discrete tax benefit from the remeasurement of the Company’s U.S. federal net deferred tax liabilities and the benefit of a lower federal statutory income tax rate, which were partially offset by the aforementioned one-time transition tax expense.

The Company's effective tax rate in the second quarter of fiscal 2018 decreased to 23.6% from 32.0% in the second quarter of fiscal 2017. The decrease principally reflects the previously mentioned benefit of a lower federal statutory income tax rate.

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7. FAIR VALUE MEASUREMENTS

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

	As of April 30, 2018			
	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	$—	$126,979	$—	$126,979
Money market funds	439	—	—	439
Equity securities	3,108	—	—	3,108
Mutual funds	1,624	—	—	1,624
Other	1,289	—	—	1,289
Total assets	$6,460	$126,979	$—	$133,439
Liabilities:				
Contingent consideration	$—	$—	$24,428	$24,428

	As of October 31, 2017			
	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	$—	$113,220	$—	$113,220
Money market funds	3,972	—	—	3,972
Equity securities	2,895	—	—	2,895
Mutual funds	1,541	—	—	1,541
Other	1,246	—	—	1,246
Total assets	$9,654	$113,220	$—	$122,874
Liabilities:				
Contingent consideration	$—	$—	$27,573	$27,573

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 $133.4 million as of April 30, 2018 and $122.9 million as of October 31, 2017, of which the LCP related assets were $127.4 million and $117.2 million as of April 30, 2018 and October 31, 2017, 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 $132.3 million as of April 30, 2018 and $121.7 million as of October 31, 2017, of which the LCP related liability was $126.3 million and $116.0 million as of April 30, 2018 and October 31, 2017, respectively.

As part of the agreement to acquire a subsidiary by the ETG in fiscal 2017, the Company may be obligated to pay contingent consideration of $20.0 million in fiscal 2023 should the acquired entity meet certain earnings objectives during the first six years following the acquisition. As of April 30, 2018, the estimated fair value of the contingent consideration was $13.4 million.

As part of the agreement to acquire certain assets of a company by the ETG in fiscal 2016, the Company may be obligated to pay contingent consideration of up to $1.7 million in aggregate during the first four years following the first anniversary of the acquisition. As of October 31, 2017, the estimated fair value of the contingent consideration was $1.4 million. During fiscal 2018, the Company paid $.3 million of contingent consideration based on the actual financial performance of the acquired entity during the second year following the acquisition. As of April 30, 2018, the estimated fair value of the remaining contingent consideration was $1.1 million.

As part of the agreement to acquire a subsidiary by the FSG in fiscal 2015, the Company may be obligated to pay contingent consideration of up to €6.1 million per year, or €12.2 million in aggregate, should the acquired entity meet certain earnings objectives during each of the first two years following the second anniversary of the acquisition. As of April 30, 2018, the estimated fair value of the contingent consideration was €8.2 million, or $9.9 million, as compared to €10.8 million, or $12.6 million, as of October 31, 2017. The decrease in the fair value of the contingent consideration is principally attributed to revised earnings estimates for the final year of the earnout period that reflect less favorable projected market conditions.

The estimated fair value of the contingent consideration arrangements described above are classified within Level 3 and were determined using a probability-based scenario analysis approach. Under this method, a set of discrete potential future subsidiary earnings was determined using internal estimates based on various revenue growth rate assumptions for each scenario. A probability of likelihood was assigned to each discrete potential future earnings estimate and the resultant contingent consideration was calculated. The resulting probability-weighted contingent consideration amounts were discounted using a weighted average discount rate reflecting the credit risk of HEICO. 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.

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The Level 3 inputs used to derive the estimated fair value of the Company's contingent consideration liability as of April 30, 2018 were as follows:

	Fiscal 2017 Acquisition	Fiscal 2016 Acquisition	Fiscal 2015 Acquisition
Compound annual revenue growth rate range	(4 %) - 7%	4 % - 12%	8 % - 11%
Weighted average discount rate	6.4%	5.6%	.8%

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, 2018 are as follows (in thousands):

Balance as of October 31, 2017	$27,573
Decrease in accrued contingent consideration, net	(3,412)
Payment of contingent consideration	(300)
Foreign currency transaction adjustments	567
Balance as of April 30, 2018	$24,428
Included in the accompanying Condensed Consolidated Balance Sheet under the following captions:	
Accrued expenses and other current liabilities	$6,516
Other long-term liabilities	17,912
	$24,428

The Company recorded the decrease in accrued contingent consideration and foreign currency transaction adjustments set forth in the table above within selling, general and administrative expenses in the Company's Condensed Consolidated Statement of Operations.

The Company did not have any transfers between Level 1 and Level 2 fair value measurements during the six months ended April 30, 2018.

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, 2018 due to the relatively short maturity of the respective instruments. The carrying amount of long-term debt approximates fair value due to its variable interest rates.

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8. NET INCOME PER SHARE ATTRIBUTABLE TO HEICO SHAREHOLDERS

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

	Six months ended April 30,		Three months ended April 30,	
	2018	2017	2018	2017
Numerator:				
Net income attributable to HEICO	$124,770	$86,613	$59,618	$45,686
Denominator:				
Weighted average common shares outstanding - basic	105,789	105,227	105,940	105,276
Effect of dilutive stock options	3,402	2,923	3,331	3,020
Weighted average common shares outstanding - diluted	109,191	108,150	109,271	108,296
Net income per share attributable to HEICO shareholders:				
Basic	$1.18	$.82	$.56	$.43
Diluted	$1.14	$.80	$.55	$.42
Anti-dilutive stock options excluded	492	395	369	577

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9. OPERATING SEGMENTS

Information on the Company's two operating segments, the FSG and the ETG, for the six and three months ended April 30, 2018 and 2017, respectively, is as follows (in thousands):

	Segment		Other, Primarily Corporate and Intersegment (1)	Consolidated Totals
	FSG	ETG		
Six months ended April 30, 2018:				
Net sales	$522,557	$324,380	($11,925)	$835,012
Depreciation	6,582	4,584	186	11,352
Amortization	9,879	16,267	591	26,737
Operating income	97,357	91,350	(17,582)	171,125
Capital expenditures	6,206	3,985	19,266	29,457
Six months ended April 30, 2017:				
Net sales	$452,710	$267,334	($7,955)	$712,089
Depreciation	6,276	4,136	106	10,518
Amortization	8,203	11,436	344	19,983
Operating income	86,107	67,910	(12,925)	141,092
Capital expenditures	8,560	4,834	144	13,538
Three months ended April 30, 2018:				
Net sales	$267,836	$168,722	($5,956)	$430,602
Depreciation	3,290	2,310	124	5,724
Amortization	4,932	8,163	246	13,341
Operating income	51,488	48,130	(8,053)	91,565
Capital expenditures	3,909	2,242	15,729	21,880
Three months ended April 30, 2017:				
Net sales	$231,809	$141,169	($4,321)	$368,657
Depreciation	3,128	2,093	53	5,274
Amortization	4,099	5,701	179	9,979
Operating income	44,744	38,826	(7,028)	76,542
Capital expenditures	4,688	2,330	98	7,116

(1) Intersegment activity principally consists of net sales from the ETG to the FSG.

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Total assets by operating segment as of April 30, 2018 and October 31, 2017 are as follows (in thousands):

	Segment FSG	ETG	Other, Primarily Corporate	Consolidated Totals
Total assets as of April 30, 2018	$1,061,310	$1,391,902	$174,669	$2,627,881
Total assets as of October 31, 2017	1,042,925	1,339,363	130,143	2,512,431

10. COMMITMENTS AND CONTINGENCIES

Guarantees

As of April 30, 2018, the Company has arranged for standby letters of credit aggregating $4.3 million, which are supported by its revolving credit facility and pertain to payment guarantees related to potential workers' compensation claims and a facility lease as well as 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, 2018 and 2017, respectively, are as follows (in thousands):

	Six months ended April 30, 2018	2017
Balances as of beginning of fiscal year	$2,921	$3,351
Accruals for warranties	1,466	1,107
Acquired warranty liabilities	300	—
Warranty claims settled	(1,431)	(1,250)
Balances as of April 30	$3,256	$3,208

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, 2017. There have been no material changes to our critical accounting policies during the six months ended April 30, 2018.

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

Our results of operations for the six months ended April 30, 2018 have been affected by the Tax Cuts and Jobs Act as further detailed within Income Tax Expense of Management's Discussion and Analysis of Financial Condition and Results of Operations of this quarterly report for the period ended April 30, 2018. Further, our results of operation for the six and three months ended April 30, 2018 have been effected by the fiscal 2017 acquisitions as further detailed in Note 2, Acquisitions, of the Notes to Consolidated Financial Statements of our Annual Report on Form 10-K for the year ended October 31, 2017 and by the fiscal 2018 acquisitions as further detailed in Note 2, acquisitions, of the Notes to Condensed Consolidated Financial Statements of this quarterly report.

All share and per share information has been adjusted retrospectively to reflect a 5-for-4 stock split effected in January 2018. See Note 1, Summary of Significant Accounting Policies – Stock Split, of the Notes to Condensed Consolidated Financial Statements for additional information regarding the stock split.

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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,	
	2018	2017	2018	2017
Net sales	$835,012	$712,089	$430,602	$368,657
Cost of sales	512,364	446,290	262,745	228,275
Selling, general and administrative expenses	151,523	124,707	76,292	63,840
Total operating costs and expenses	663,887	570,997	339,037	292,115
Operating income	$171,125	$141,092	$91,565	$76,542
Net sales by segment:				
Flight Support Group	$522,557	$452,710	$267,836	$231,809
Electronic Technologies Group	324,380	267,334	168,722	141,169
Intersegment sales	(11,925)	(7,955)	(5,956)	(4,321)
	$835,012	$712,089	$430,602	$368,657
Operating income by segment:				
Flight Support Group	$97,357	$86,107	$51,488	$44,744
Electronic Technologies Group	91,350	67,910	48,130	38,826
Other, primarily corporate	(17,582)	(12,925)	(8,053)	(7,028)
	$171,125	$141,092	$91,565	$76,542
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Gross profit	38.6 %	37.3 %	39.0 %	38.1 %
Selling, general and administrative expenses	18.1 %	17.5 %	17.7 %	17.3 %
Operating income	20.5 %	19.8 %	21.3 %	20.8 %
Interest expense	1.2 %	.6 %	1.1 %	.5 %
Other income (expense)	— %	.1 %	(.1 %)	— %
Income tax expense	2.9 %	5.7 %	4.7 %	6.5 %
Net income attributable to noncontrolling interests	1.5 %	1.5 %	1.5 %	1.4 %
Net income attributable to HEICO	14.9 %	12.2 %	13.8 %	12.4 %

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Comparison of First Six Months of Fiscal 2018 to First Six Months of Fiscal 2017

Net Sales

Our consolidated net sales in the first six months of fiscal 2018 increased by 17% to a record $835.0 million, up from net sales of $712.1 million in the first six months of fiscal 2017. The increase in consolidated net sales principally reflects an increase of $69.8 million (a 15% increase) to a record $522.6 million in net sales within the FSG as well as an increase of $57.0 million (a 21% increase) to a record $324.4 million in net sales within the ETG. The net sales increase in the FSG reflects net sales of $50.6 million contributed by our fiscal 2017 acquisitions as well as organic growth of 4%. The FSG's organic growth is attributable to increased demand and new product offerings within our aftermarket replacement parts and repair and overhaul parts and services product lines, resulting in net sales increases of $12.1 million and $8.1 million, respectively. These increases were partially offset by lower net sales of $1.0 million within our specialty products product line. Excluding the net sales decrease in our specialty products product line, the FSG experienced organic growth of 6%. The net sales increase in the ETG reflects net sales of $45.1 million contributed by our fiscal 2017 and 2018 acquisitions as well as organic growth of 3%. The ETG's organic growth is mainly attributable to increased demand for certain defense and space products resulting in net sales increases of $7.0 million and $4.9 million, respectively. Sales price changes were not a significant contributing factor to the FSG and ETG net sales growth in the first six months of fiscal 2018.

Gross Profit and Operating Expenses

Our consolidated gross profit margin increased to 38.6% in the first six months of fiscal 2018, up from 37.3% in the first six months of fiscal 2017, principally reflecting an increase of 2.7% and .2% in the ETG's and FSG's gross profit margins, respectively. The increase in the ETG’s gross profit margin is principally attributable to increased net sales and a more favorable product mix for certain of our defense products partially offset by a less favorable product mix for certain of our space and other electronics products. Total new product research and development expenses included within our consolidated cost of sales were $26.7 million in the first six months of fiscal 2018 compared to $22.5 million in the first six months of fiscal 2017.

Our consolidated selling, general and administrative (“SG&A”) expenses were $151.5 million and $124.7 million in the first six months of fiscal 2018 and 2017, respectively. The increase in consolidated SG&A expenses principally reflects $17.4 million attributable to fiscal 2017 and 2018 acquisitions and $4.8 million of higher performance-based compensation expense.

Our consolidated SG&A expenses as a percentage of net sales were 18.1% and 17.5% in the first six months of fiscal 2018 and 2017, respectively. The increase in consolidated SG&A expenses as a percentage of net sales principally reflects a .4% impact from higher performance-based compensation expense and a .3% impact from an increase in intangible asset amortization expense mainly resulting from our fiscal 2017 acquisitions.

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Operating Income

Our consolidated operating income increased by 21% to a record $171.1 million in the first six months of fiscal 2018, up from $141.1 million in the first six months of fiscal 2017. The increase in consolidated operating income principally reflects a $23.4 million increase (a 35% increase) to a record $91.4 million in operating income of the ETG as well as an $11.3 million increase (a 13% increase) to a record $97.4 million in operating income of the FSG. The increase in operating income of the ETG is principally attributable to the previously mentioned net sales growth and improved gross profit margin, partially offset by a $4.9 million increase in intangible asset amortization expense mainly from the fiscal 2017 and 2018 acquisitions. The increase in operating income of the FSG is principally attributable to the previously mentioned net sales growth and improved gross profit margin, partially offset by a $3.8 million increase in performance-based compensation expense and a $1.6 million increase in intangible asset amortization expense mainly resulting from the fiscal 2017 acquisitions. Additionally, our corporate expenses increased by $3.8 million principally due to a $2.2 million increase in performance-based compensation expense and higher operating costs in support of the overall growth of our business.

As a percentage of net sales, our consolidated operating income increased to 20.5% in the first six months of fiscal 2018, up from 19.8% in the first six months of fiscal 2017. The increase principally reflects an increase in the ETG’s operating income as a percentage of net sales to 28.2% in the first six months of fiscal 2018, up from 25.4% in the first six months of fiscal 2017, partially offset by a decrease in the FSG’s operating income as a percentage of net sales to 18.6% in the first six months of fiscal 2018 compared to 19.0% in the first six months of fiscal 2017. The increase in the ETG's operating income as a percentage of net sales principally reflects the previously mentioned improved gross profit margin partially offset by a .8% impact from the previously mentioned increase in intangible asset amortization expense. The decrease in the FSG’s operating income as a percentage of net sales principally reflects an aggregate .5% impact from the previously mentioned increases in performance-based compensation expense and intangible asset amortization expense, partially offset by the previously mentioned improved gross profit margin.

Interest Expense

Interest expense increased to $9.6 million in the first six months of fiscal 2018, up from $3.9 million in the first six months of fiscal 2017. The increase was principally due to higher interest rates as well as a higher weighted average balance outstanding under our revolving credit facility associated with our fiscal 2017 acquisitions.

Other Income

Other income in the first six months of fiscal 2018 and 2017 was not material.

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Income Tax Expense

On December 22, 2017, the United States (U.S.) government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act contains significant changes to existing tax law including, among other things, a reduction in the U.S. federal statutory tax rate from 35% to 21% and the implementation of a territorial tax system resulting in a one-time transition tax on the unremitted earnings of our foreign subsidiaries. The Tax Act also contains additional provisions that will become effective for HEICO in fiscal 2019 including a new tax on Global Intangible Low-Taxed Income ("GILTI"), a new deduction for Foreign-Derived Intangible Income ("FDII"), the repeal of the domestic production activity deduction and increased limitations on the deductibility of certain executive compensation. We have not yet determined the impact of the provisions of the Tax Act which do not become effective for HEICO until fiscal 2019.

The Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on the accounting for the tax effects of the Tax Act. This guidance provides companies with a measurement period not to exceed one year from the enactment of the Tax Act to complete their accounting for the related tax effects. SAB 118 further states that during the measurement period, companies who are able to make reasonable estimates of the tax effects of the Tax Act should include those amounts in their financial statements as provisional amounts and reflect any adjustments in subsequent periods as they refine their estimates or complete their accounting of such tax effects.

As a result of the Tax Act, we have revised our estimated annual effective federal statutory income tax rate to reflect a reduction in the rate from 35% to 21% effective January 1, 2018, which results in a blended rate of 23.3% for HEICO in fiscal 2018. Additionally, we remeasured our U.S. federal net deferred tax liabilities and recorded a provisional discrete tax benefit of $16.6 million in the first quarter of fiscal 2018. Further, we recorded a provisional discrete tax expense of $4.7 million in the first quarter of fiscal 2018 related to a one-time transition tax on the unremitted earnings of our foreign subsidiaries. We intend to pay this tax over the eight-year period allowed for in the Tax Act.

Our effective tax rate in the first six months of fiscal 2018 decreased to 14.8% from 29.5% in the first six months of fiscal 2017. The decrease principally reflects the previously mentioned discrete tax benefit from the remeasurement of our U.S. federal net deferred tax liabilities and the benefit of a lower federal statutory income tax rate, which were partially offset by the aforementioned one-time transition tax expense.

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 Holdings Corp. and the noncontrolling interests held by others in certain subsidiaries of the FSG and ETG. Net income attributable to noncontrolling interests was $12.9 million in the first six months of fiscal 2018 as compared to $10.5 million in the first six months of fiscal 2017. The increase in the first six months of fiscal 2018 principally reflects the impact of the Tax Act as well as improved

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operating results of certain subsidiaries of the FSG and ETG in which noncontrolling interests are held.

Net Income Attributable to HEICO

Net income attributable to HEICO increased to a record $124.8 million, or $1.14 per diluted share, in the first six months of fiscal 2018, up from $86.6 million, or $.80 per diluted share, in the first six months of fiscal 2017 principally reflecting the previously mentioned decrease in our effective tax rate and increased net sales and operating income.

Comparison of Second Quarter of Fiscal 2018 to Second Quarter of Fiscal 2017

Net Sales

Our consolidated net sales in the second quarter of fiscal 2018 increased by 17% to a record $430.6 million, as compared to net sales of $368.7 million in the second quarter of fiscal 2017. The increase in consolidated net sales principally reflects an increase of $36.0 million (a 16% increase) to a record $267.8 million in net sales within the FSG as well as an increase of $27.6 million (a 20% increase) to $168.7 million in net sales within the ETG. The net sales increase in the FSG reflects net sales of $25.1 million contributed by our fiscal 2017 acquisitions as well as organic growth of 5%. The FSG's organic growth is mainly attributable to increased demand and new product offerings within our repair and overhaul parts and services and aftermarket replacement parts product lines, resulting in net sales increases of $5.1 million and $4.8 million, respectively. The net sales increase in the ETG reflects net sales of $25.3 million contributed by our fiscal 2017 and 2018 acquisitions. Sales price changes were not a significant contributing factor to the ETG and FSG net sales growth in the second quarter of fiscal 2018.

Gross Profit and Operating Expenses

Our consolidated gross profit margin increased to 39.0% in the second quarter of fiscal 2018, up from 38.1% in the second quarter of fiscal 2017, principally reflecting an increase of 1.5% and .3% in the ETG's and FSG's gross profit margin, respectively. The increase in the ETG’s gross profit margin is principally attributable to increased net sales and a more favorable product mix for certain of our defense products, partially offset by a less favorable product mix for certain of our space and other electronics products. Total new product research and development expenses included within our consolidated cost of sales were $14.0 million in the second quarter of fiscal 2018 compared to $11.2 million in the second quarter of fiscal 2017.

Our consolidated SG&A expenses increased to $76.3 million in the second quarter of fiscal 2018, up from $63.8 million in the second quarter of fiscal 2017. The increase in consolidated SG&A expenses principally reflects $8.4 million attributable to fiscal 2017 and 2018 acquisitions and $2.6 million of higher performance-based compensation expense.

Our consolidated SG&A expenses as a percentage of net sales were 17.7% and 17.3% in the second quarter of fiscal 2018 and 2017, respectively. The increase in consolidated SG&A

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expenses as a percentage of net sales principally reflects a .6% impact from higher performance-based compensation expense.

Operating Income

Our consolidated operating income increased by 20% to a record $91.6 million in the second quarter of fiscal 2018, up from $76.5 million in the second quarter of fiscal 2017. The increase in consolidated operating income principally reflects a $9.3 million increase (a 24% increase) to $48.1 million in operating income of the ETG as well as a $6.7 million increase (a 15% increase) to a record $51.5 million in operating income of the FSG. The increase in operating income of the ETG is principally attributable to the previously mentioned net sales growth and improved gross profit margin, partially offset by a $2.5 million increase in intangible asset amortization expense mainly from the fiscal 2017 and 2018 acquisitions. The increase in operating income of the FSG is principally attributable to the previously mentioned net sales growth and improved gross profit margin, partially offset by a $2.8 million increase in performance-based compensation expense.

As a percentage of net sales, our consolidated operating income increased to 21.3% in the second quarter of fiscal 2018, up from 20.8% in the second quarter of fiscal 2017. The increase principally reflects an increase in the ETG’s operating income as a percentage of net sales to 28.5% in the second quarter of fiscal 2018, up from 27.5% in the second quarter of fiscal 2017. The increase in the ETG’s operating income as a percentage of net sales principally reflects the previously mentioned improved gross profit margin partially offset by a .8% impact from the previously mentioned increase in intangible asset amortization expense. The FSG's operating income as a percentage of net sales was 19.2% in the second quarter of fiscal 2018 compared to 19.3% in the second quarter of fiscal 2017.

Interest Expense

Interest expense increased to $4.9 million in the second quarter of fiscal 2018, up from $2.0 million in the second quarter of fiscal 2017. The increase was principally due to higher interest rates as well as a higher weighted average balance outstanding under our revolving credit facility associated with our fiscal 2017 acquisitions.

Other (Expense) Income

Other (expense) income in the second quarter of fiscal 2018 and 2017 was not material.

Income Tax Expense

Our effective tax rate in the second quarter of fiscal 2018 decreased to 23.6% from 32.0% in the second quarter of fiscal 2017. The decrease principally reflects the benefit of a lower federal statutory income tax rate as a result of the Tax Act.

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Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests relates to the 20% noncontrolling interest held by Lufthansa Technik AG in HEICO Aerospace Holdings Corp. and the noncontrolling interests held by others in certain subsidiaries of the FSG and ETG. Net income attributable to noncontrolling interests was $6.4 million in the second quarter of fiscal 2018 compared to $5.1 million in the second quarter of fiscal 2017. The increase in the second quarter of fiscal 2018 principally reflects the impact of the Tax Act as well as improved operating results of certain subsidiaries of the FSG and ETG in which noncontrolling interests are held.

Net Income Attributable to HEICO

Net income attributable to HEICO increased to a record $59.6 million, or $.55 per diluted share, in the second quarter of fiscal 2018 from $45.7 million, or $.42 per diluted share, in the second quarter of fiscal 2017 principally reflecting the previously mentioned increased net sales and operating income.

Outlook

As we look ahead to the remainder of fiscal 2018, we anticipate net sales growth within the FSG's commercial aviation and defense product lines. We also expect growth within the ETG, principally driven by demand for the majority of our products. Also, we will continue our commitments to developing new products and services, further market penetration, and an aggressive acquisition strategy while maintaining our financial strength and flexibility. Based on our current economic visibility, we now estimate our consolidated fiscal 2018 year-over-year growth in net sales to be 13% - 14% and in net income to be 33% - 35%, as compared to our prior growth estimates in net sales of 12% - 14% and in net income of 30% - 32%.

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 2018 are anticipated to be approximately $50 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, 2018, we were in compliance with all such covenants. As of April 30, 2018, our total debt to shareholders' equity ratio was 50.0%.

In November 2017, we entered into a new $1.3 billion revolving credit facility agreement, which matures in November 2022 and replaced our previous revolving credit agreement. Additional information about the new and previous revolving credit agreements may be found in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading, "Liquidity and Capital Resources" in our Annual Report on Form 10-K for the year ended October 31, 2017.

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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 was $95.0 million in the first six months of fiscal 2018 and consisted primarily of net income from consolidated operations of $137.7 million, depreciation and amortization expense of $38.1 million (a non-cash item), and share-based compensation expense of $4.5 million (a non-cash item), partially offset by a $73.8 million increase in working capital and a deferred income tax benefit of $13.2 million (a non-cash item). The increase in working capital is inclusive of a $29.8 million increase in inventory to support the growth of our businesses and anticipated higher demand during the remainder of fiscal 2018, a $14.7 million decrease in income taxes payable principally reflecting a change in the timing of certain estimated tax payments due to Hurricane Irma, a $14.5 million decrease in accrued expenses and other current liabilities reflecting the timing of accrued performance-based compensation for the first six months of fiscal 2018 and the payment of such compensation for the twelve months of fiscal 2017, and a $14.3 million increase related to the timing in collections of accounts receivable. The deferred income tax benefit principally reflects the impact from the remeasurement of our U.S. federal net deferred tax liabilities as a result of the Tax Act.

Net cash provided by operating activities decreased by $2.7 million in the first six months of fiscal 2018 from $97.7 million in the first six months of fiscal 2017. The decrease is principally attributable to a $39.9 million increase in net working capital and a $10.2 million increase in deferred income tax benefits as a result of the Tax Act, partially offset by a $40.6 million increase in net income from consolidated operations and a $7.6 million increase in depreciation and amortization expense. The increase in net working capital primarily resulted from the aforementioned timing associated with the collection of accounts receivable and the payment of income taxes as well as the increase in inventories.

Investing Activities

Net cash used in investing activities totaled $71.6 million in the first six months of fiscal 2018 and related primarily to acquisitions of $39.4 million (net of cash acquired) as well as capital expenditures of $29.5 million. Further details regarding our fiscal 2018 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 2018 totaled $29.1 million. During the first six months of fiscal 2018, we made payments on our revolving credit facility aggregating $43.0 million, redeemed common stock related to stock option exercises aggregating $24.6 million, paid $7.4 million in cash dividends on our common stock, made distributions to noncontrolling interests aggregating $4.4 million and paid revolving credit facility issuance costs of $4.1 million. Additionally, we borrowed $53.0 million on our revolving

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credit facility principally to fund our fiscal 2018 acquisitions and for working capital needs and received $2.0 million in proceeds from stock option exercises in the first six months of fiscal 2018.

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, 2017.

Off-Balance Sheet Arrangements

Guarantees

As of April 30, 2018, we have arranged for standby letters of credit aggregating $4.3 million, which are supported by our revolving credit facility and pertain to payment guarantees related to potential workers' compensation claims and a facility lease as well as performance guarantees related to customer contracts entered into by certain of our subsidiaries.

New Accounting Pronouncements

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

We are in the process of reviewing a representative sample of customer contracts across our identified revenue streams. Based on the work completed to-date, we foresee two types of contracts for which ASU 2014-09 will impact the timing of revenue recognition. For certain contracts under which we produce products with no alternative use and for which we have an enforceable right to payment during the production cycle and for certain other contracts under which we create or enhance customer-owned assets while performing repair and overhaul services, ASU 2014-09 will require us to recognize revenue using an over time recognition model as opposed to our current policy of recognizing revenue at the time of shipment. We have

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not yet determined the effect the adoption of this guidance will have on our consolidated results of operations, financial position and cash flows.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory," which requires entities to measure inventories at the lower of cost or net realizable value. Previously, inventories were measured at the lower of cost or market. We adopted ASU 2015-11 in the first quarter of fiscal 2018, resulting in no material effect on our consolidated results of operations, financial position or cash flows.

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

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which clarifies how certain cash receipts and cash payments are to be presented and classified in the statement of cash flows. ASU 2016-15 provides guidance on eight specific cash flow classification issues including contingent consideration payments made after a business combination, proceeds from corporate-owned life insurance policies and distributions received from equity method investees. ASU 2016-15 is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2017, or in fiscal 2019 for HEICO. Early adoption is permitted. ASU 2016-15 requires a retrospective transition approach for all periods presented. We are currently evaluating the effect the adoption of this guidance will have on our consolidated statement of cash flows.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment," which is intended to simplify the current test for goodwill impairment by eliminating the second step in which the implied value of a reporting unit is calculated when the carrying value of the reporting unit exceeds its fair value. Under ASU 2017-04, goodwill impairment should be recognized for the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 must be applied prospectively and is effective for any annual or interim goodwill impairment test in fiscal years beginning after December 15, 2019, or in fiscal 2021 for HEICO. Early adoption is permitted. We are currently evaluating the effect the adoption of this guidance will have on our consolidated results of operations, financial position and 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 in or implied by those forward-looking statements. Factors that could cause such differences include: lower demand for commercial air travel or airline fleet changes or airline purchasing decisions, which could cause lower demand for our goods and services; product specification costs and requirements, which could cause an increase to our costs to complete contracts; governmental and regulatory demands, export policies and restrictions, reductions in defense, space or homeland security spending by U.S. and/or foreign customers or competition from existing and new competitors, which could reduce our sales; our ability to introduce new products and services at profitable pricing levels, which could reduce our sales or sales growth; product development or manufacturing difficulties, which could increase our product development costs and delay sales; our ability to make acquisitions and achieve operating synergies from acquired businesses; customer credit risk; interest, foreign currency exchange and income tax rates; economic conditions within and outside of the aviation, defense, space, medical, telecommunications and electronics industries, which could negatively impact our costs and revenues; and defense spending or budget cuts, which could reduce our defense-related revenue. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except to the extent required by applicable law.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have not been any material changes in our assessment of HEICO’s sensitivity to market risk that was disclosed in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in our Annual Report on Form 10-K for the year ended October 31, 2017.

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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, 2018 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
3.1	Articles of Amendment of the Articles of Incorporation of HEICO Corporation, dated March 16, 2018, are incorporated by reference to Exhibit 3.1 to the Form 8-K filed on March 20, 2018. *
10.1	HEICO Corporation 2018 Incentive Compensation Plan is incorporated by reference to Exhibit 10.1 to the Form 8-K filed on March 20, 2018. *
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. **

*Previously filed.
**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 31, 2018 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)