**Annual Report**

# 2005

Innovative ideas giving flight to new technologies.

**HEICO®**

CORPORATION

## Financial Highlights

| For the year ended October 31, (In thousands, except per share data) | 2003 | 2004 | 2005 |
|---|---|---|---|
| **Operating Data:** | | | |
| Net sales | $ 176,453 | $ 215,744 | **$ 269,647** |
| Operating income | 23,205 | 32,619[2] | **44,649** |
| Interest expense | 1,189 | 1,090 | **1,136** |
| Interest and other income | 93 | 26 | **528** |
| Life insurance proceeds | – | 5,000[3] | **–** |
| Net income | $ 12,222 | $ 20,630[2][3] | **$ 22,812** |
| Weighted average number of common shares outstanding:[1] | | | |
| Basic | 23,237 | 24,037 | **24,460** |
| Diluted | 24,531 | 25,755 | **26,323** |
| **Per Share Data:[1]** | | | |
| Net income per share: | | | |
| Basic | $ .53 | $ .86[2][3] | **$ .93** |
| Diluted | .50 | .80[2][3] | **.87** |
| Cash dividends | .045 | .050 | **.050** |
| **Balance Sheet Data (as of October 31):** | | | |
| Total assets | $ 333,244 | $ 364,255 | **$ 435,624** |
| Total debt (including current portion) | 32,013 | 18,129 | **34,124** |
| Minority interests in consolidated subsidiaries | 40,577 | 44,644 | **49,035** |
| Shareholders' equity | 221,518 | 247,402 | **273,503** |

(1) Information has been adjusted retroactively to give effect to a 10% stock dividend paid in shares of Class A Common Stock in January 2004.

(2) Operating income was reduced by an aggregate of $850 in restructuring expenses, which decreased net income by $427, or $.02 per basic and diluted share.

(3) Represents proceeds from a $5,000 key-person life insurance policy. The minority interest's share of this income totaled $1,000, which is reported as a component of minority interests' share of income. Accordingly, the life insurance proceeds increased net income by $4,000, or $.17 per basic and $.16 per diluted share.

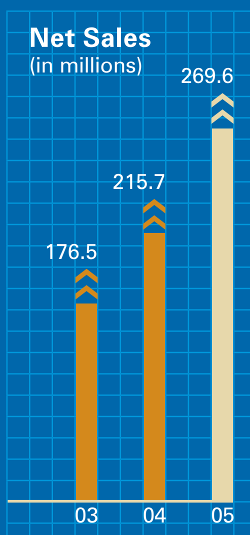
## Corporate Profile

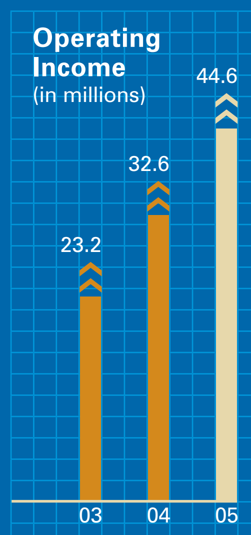
**HEICO Corporation is a rapidly-growing and highly successful technology-driven aerospace, defense and electronics company which has, for more than 40 years, thrived by serving niche segments of these industries.**

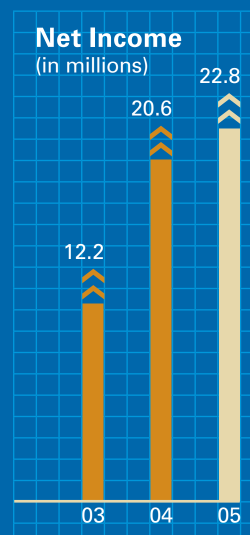
**Our Flight Support Group is renowned worldwide as the pioneering and leading designer and manufacturer of FAA-approved, non-OEM aircraft replacement parts found in jet engines and other aircraft. The Flight Support Group has innovative partnerships with several of the world's largest airlines and is also one of the leading repair and overhaul sources for commercial aircraft accessory components in the United States. The products we manufacture and repair are found on most large commercial aircraft produced today, as well as many regional, commuter and business aircraft.**

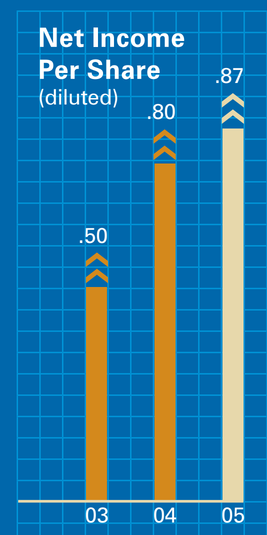
**Our Electronic Technologies Group's products are also integral subcomponents of many advanced defense systems and are used in developing critical defense equipment. Additionally, HEICO's products are utilized in satellites, medical equipment, homeland security equipment, computers, telecommunication equipment and other industrial applications.**

**HEICO focuses on underserved niche markets where it believes it can either be a market leader or have the significant potential of becoming a market leader. We stress our unique problem solving and cost savings abilities to our customers worldwide.**



## Chairman's Message

**Dear Fellow Shareholder:**

I am very proud to report that 2005 was another excellent year for HEICO. Our Company reported record revenue of $269.6 million, a 25% increase above the $215.7 million reported in fiscal 2004. Our operating income increased 37% to a record $44.6 million in fiscal 2005 from $32.6 million in fiscal 2004. In fiscal 2005, net income increased 11% to $22.8 million, or $.87 per diluted share, from $20.6 million, or $.80 per diluted share, for fiscal 2004. We note that fiscal 2004 included tax-free income of $4.0 million ($.16 per diluted share) in life insurance proceeds, which was a special, unusual item which, if one were to exclude this item, one would see net income in fiscal 2005 as 37% higher than in fiscal 2004.

You have frequently heard me say that HEICO's strategy remains constant and we follow it in both good and bad times. Fortunately, our resolution to stay with that strategy during the more difficult years following the 9/11 attacks, the SARS epidemic and Iraq war, yielded strong results in 2005, after also delivering strong results in 2004.

This strategy is to continue to develop new products, market them assertively, treat our Team Members fairly, maintain a conservative balance sheet, place our customers first and continue to make and pursue strategic acquisitions.

During fiscal 2005, we completed three acquisitions and, in the first quarter of fiscal 2006 we completed two additional acquisitions.

As our Company was prospering, it is gratifying to note that both our Class A Common Stock and Common Stock generally outperformed the broader U.S. equity markets.

Effective January 2006, we increased our semi-annual cash dividend by 60%. This resulted in a $.04 semi-annual dividend, which was our 55th consecutive semi-annual dividend payment since 1979.

As of the date of this letter, we believe that 2006 offers HEICO continued growth and we believe that our long-term outlook remains excellent. We have become a critical part of our customers' development and cost-containment plans, which we believe renders us in a perfect position to grow. This, coupled with our acquisition programs, we believe should allow us to continue to yield superior results.

Since 1994, I am pleased to note that our net income has increased from $1.9 million to $22.8 million in fiscal 2005, which represents an 1,100% increase, while our revenues have increased from $32.4 million in fiscal 1994 to $269.6 million in fiscal 2005, a 732% increase. A $100,000 investment in HEICO shares in 1990 (which is when present management took over operation of the business) became worth $1,822,000 as of December 31, 2005 (adjusted for stock splits and stock dividends). This represents a 21% Compound Annual Growth Rate.

As has been our tradition over the past 12 years, we are including a Question and Answer section to tell you more about HEICO. This year, however, we have changed the format so that it is interwoven with the rest of the report.

Finally, as I always do, I thank each and every HEICO Team Member for his and her support and hard work on our Company's behalf during the year. I also thank our talented Board of Directors for their ongoing guidance and support. My deepest thanks also go to my fellow shareholders for your steadfastness and friendship.

Sincerely,

Laurans A. Mendelson
Chairman, President and
Chief Executive Officer

Q:

## **Question:** What is the largest part of HEICO's business and what is that operation's outlook?

*HEICO's Flight Support Group maintains partnerships with major airlines. Some of the relationships include substantial investments in HEICO, like the one made by the Lufthansa Technik subsidiary of Deutsche Lufthansa AG.*

*A Team Member at the Flight Support Group's Component Repair operations conducts a sophisticated repair of a critical aircraft accessory used on a large jetliner.*

A: The largest part of HEICO's business is the design, manufacture and sale of FAA-approved genuine aircraft replacement parts (mostly jet engine-related) which we design and select in cooperation with our airline and other partners in order to provide them with significant cost savings. We employ a proprietary and very sophisticated engineering process at numerous locations in the United States and have become the undisputed world leader in this market. Sixteen of the world's twenty largest airlines use HEICO Genuine Parts, and all twenty are HEICO customers. In addition, our Flight Support Group is believed to be one of the largest independent accessory component repair and overhaul operations in the United States offering repairs of accessories used onboard large commercial, regional, business, and commuter aircraft, and general aviation. We conduct these operations at multiple locations around the United States.

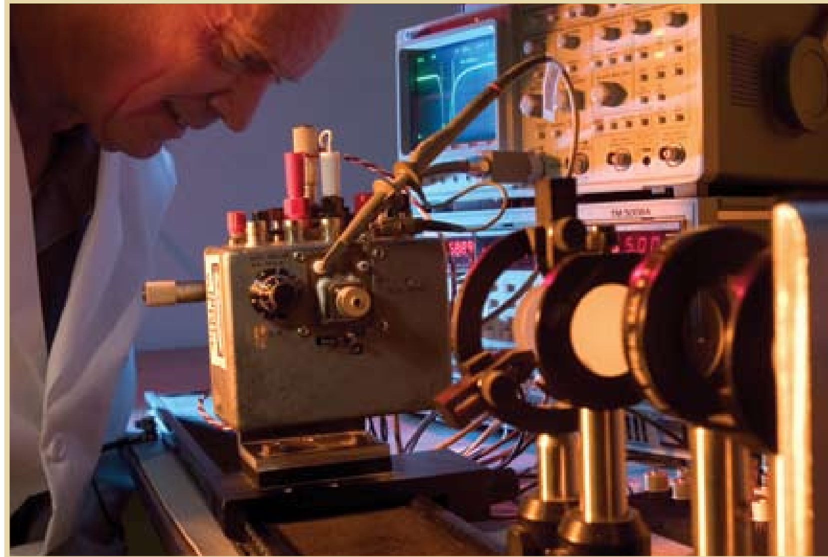
*The HEICO Flight Support Group's Parts business ships more than 2 million parts annually, such as the one shown above, to airlines and other aircraft operators worldwide.*

Q:

## Question: What role do acquisitions play in HEICO's growth and how will they effect the Company in the future?

*Different HEICO operations produce critical components for commercial and military satellites, such as the satellite shown below. We are a leading producer of certain critical microwave components used in satellites and we produce items such as the complex and custom-designed interconnection device shown on the left.*

*An engineer at an Electronic Technologies Group facility in Florida inspects and tests a complex laser rangefinder receiver photo-diode product prior to shipment to a defense customer.*



**A:** Acquisitions have been an important part of HEICO's growth. Since 1996, we have completed 25 acquisitions, all of which have been in the aerospace, defense and electronics industries. All of the companies we acquired have been small, entrepreneurially-managed businesses which focus on niche-markets. In our Flight Support Group, we have followed a tightly-centered program of buying companies or product lines that design, manufacture and sell FAA-approved aircraft replacement parts which are critical to aircraft operators' cost savings programs or companies that repair and overhaul accessory components that are utilized on aircraft. In our Electronic Technologies Group, our acquisitions have been focused on designers and manufacturers of niche subcomponents utilized in substantially larger systems for defense, space, medical and other industrial applications. These companies are more loosely aligned than our Flight Support Group companies.

*Interconnection devices designed and produced by an Electronic Technologies Group facility are used in a variety of fighter aircraft "heads-up" display helmets.*

We intend to continue to aggressively pursue acquisitions, as they have helped HEICO grow substantially and our returns on the investments have typically been very good.

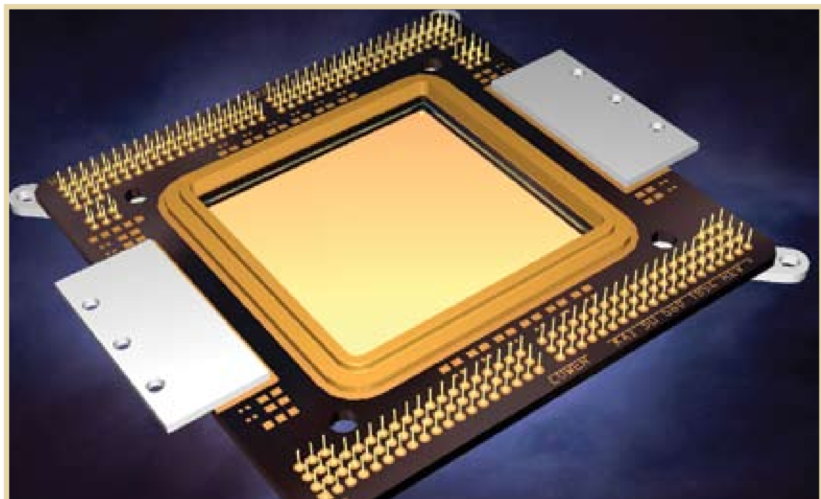
A key component of our acquisition strategy is to ensure breadth of product lines across multiple platforms and multiple industries.

Q:

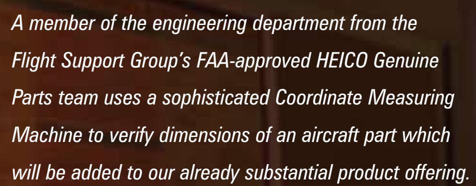
## **Question:** *What was HEICO's strategic focus in fiscal 2005 and what do you expect it to be in fiscal 2006 and beyond?*

A: Our strategic focus has remained constant for approximately 15 years and it has paid handsome dividends to HEICO and its shareholders. That focus is to maintain consistent new product development efforts geared toward producing products which our customers request and which save our customers money or other resources. We believe this gives us strong customer relationships which leads to another strategic focus: market penetration and investment in sales activities. All HEICO companies are required to maintain constant product development and sales/marketing growth plans. We fully intend to continue this in the years to come.

*In the past few years, HEICO has greatly expanded its offering of sophisticated products used in medical applications, such as Computed Tomography (CT) systems.*



*Pictured above is the world's largest infrared projection array, a million pixel two inch-by-two inch custom MEMS array, produced by an Electronic Technologies Group company. The array is used in simulation laboratories at government facilities and aerospace companies to develop next generation infrared missiles.*



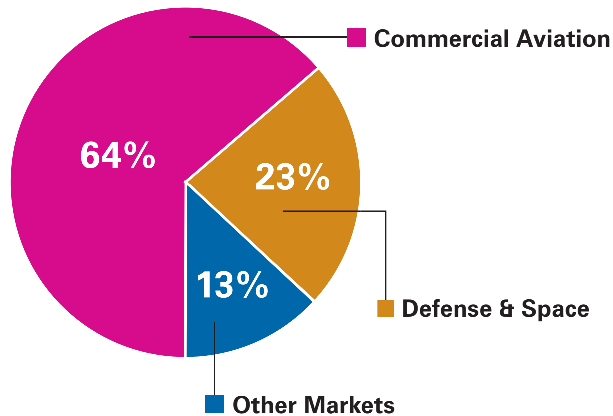
*A member of the engineering department from the Flight Support Group's FAA-approved HEICO Genuine Parts team uses a sophisticated Coordinate Measuring Machine to verify dimensions of an aircraft part which will be added to our already substantial product offering.*

Q:

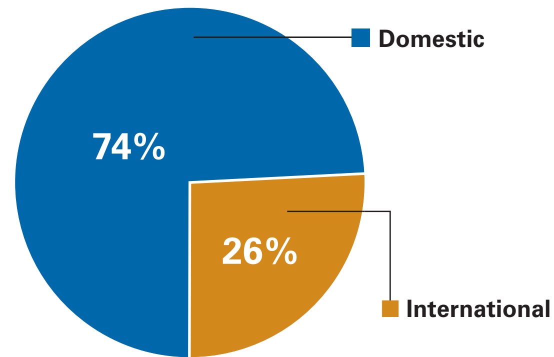
## ***Question:*** ***How has HEICO's global footprint and sales breakdown strategy evolved and how do you see it evolving?***

*HEICO operates worldwide. The stars in this map show our current locations.*

*The chart below depicts the HEICO Sales breakdown between commercial aviation, defense & space and other markets sales.*




*The chart below depicts the HEICO Sales breakdown between our international and domestic sales.*



A: While we originally focused almost exclusively on the United States markets, our Company has increasingly expanded its international sales and, this year, production efforts. For the first time in our history, HEICO now operates a manufacturing facility in the United Kingdom, which facility is in addition to sales and service centers located in Germany, India, Singapore and an additional location in the United Kingdom. Otherwise, our engineering and production locations have generally evolved around the United States as a result of our acquisition programs and we have concluded that having multiple, smaller facilities is more efficient and effective than combining and consolidating operations into giant work centers. We find that this results in far greater creativity, entrepreneurship and efficiency.

Meanwhile, approximately 26% of our consolidated revenues are derived from international sales and 74% comes from within the United States. We expect our foreign sales component to increase in 2006 and beyond.

## 2005 Financial Statements and Other Information


**13** Selected Financial Data

**14** Management's Discussion and Analysis of Financial Condition and Results of Operations

**26** Consolidated Balance Sheets

**27** Consolidated Statements of Operations

**28** Consolidated Statements of Shareholders' Equity and Comprehensive Income

**30** Consolidated Statements of Cash Flows

**31** Notes to Consolidated Financial Statements

**52** Management's Report on Internal Control Over Financial Reporting

**53** Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

**54** Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements

**55** Market for the Company's Common Stock and Related Stockholder Matters

## Selected Financial Data

| For the year ended October 31, [1] | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| | (In thousands, except per share data) | | | | |
| Net sales | $ 171,259 | $ 172,112 | $ 176,453 | $ 215,744 | **$ 269,647** |
| Gross profit | 71,146 | 61,502 | 58,104 | 75,812 | **100,996** |
| Selling, general and administrative expenses | 40,155 | 39,102 | 34,899 | 43,193 | **56,347** |
| Operating income | 30,991 | 22,400 | 23,205 | 32,619[5] | **44,649** |
| Interest expense | 2,486 | 2,248 | 1,189 | 1,090 | **1,136** |
| Interest and other income | 1,598 | 97 | 93 | 26 | **528** |
| Life insurance proceeds | – | – | – | 5,000[5] | **–** |
| Gain on sale of product line | – | 1,230[3] | – | – | **–** |
| Net income | $ 15,833 | $ 15,226[4] | $ 12,222 | $ 20,630[5][6] | **$ 22,812** |
| | | | | | |
| Weighted average number of common shares outstanding:[2] | | | | | |
| Basic | 21,917 | 23,004 | 23,237 | 24,037 | **24,460** |
| Diluted | 24,536 | 24,733 | 24,531 | 25,755 | **26,323** |
| **Per Share Data:**[2] | | | | | |
| Net income: | | | | | |
| Basic | $ .72 | $ .66[4] | $ .53 | $ .86[5][6] | **$ .93** |
| Diluted | .65 | .62[4] | .50 | .80[5][6] | **.87** |
| Cash dividends | .041 | .045 | .045 | .05 | **.05** |
| | | | | | |
| **Balance Sheet Data (as of October 31):** | | | | | |
| Total assets | $ 325,640 | $ 336,332 | $ 333,244 | $ 364,255 | **$ 435,624** |
| Total debt (including current portion) | 67,014 | 55,986 | 32,013 | 18,129 | **34,124** |
| Minority interests in consolidated subsidiaries | 36,845 | 38,313 | 40,577 | 44,644 | **49,035** |
| Shareholders' equity | 188,769 | 207,064 | 221,518 | 247,402 | **273,503** |

(1) Results include the results of acquisitions from each respective effective date.

(2) Information has been adjusted retroactively to give effect to 10% stock dividends paid in shares of Class A Common Stock in August 2001 and January 2004.

(3) Represents an increase in the gain on sale of Trilectron Industries, Inc., a product line sold in September 2000, of $1,230 ($765, or $.03 per basic and diluted share, net of tax) resulting from the elimination of certain reserves upon expiration of indemnification provisions of the sale.

(4) Includes the recovery of a portion of taxes paid in prior years resulting from an income tax audit, which increased net income by $2,107, or $.09 per basic and diluted share, net of related expenses. The aggregate increase in net income from the gain on sale of a product line (see Note 3 above) and the recovery of taxes was $2,872, or $.12 per basic and diluted share.

(5) Operating income was reduced by an aggregate of $850 in restructuring expenses recorded by certain subsidiaries of the Flight Support Group that provide repair and overhaul services including $350 recorded in cost of sales and $500 recorded in selling, general and administrative expenses. The restructuring expenses decreased net income by $427, or $.02 per basic and diluted share.

(6) Represents proceeds from a $5,000 key-person life insurance policy maintained by a subsidiary of the Flight Support Group. The minority interest's share of this income totaled $1,000, which is reported as a component of minority interests' share of income. Accordingly, the life insurance proceeds increased net income by $4,000, or $.17 per basic and $.16 per diluted share.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

The Company's operations are comprised of two operating segments, the Flight Support Group (FSG) and the Electronic Technologies Group (ETG).

The Flight Support Group consists of HEICO Aerospace Holdings Corp. (HEICO Aerospace) and its subsidiaries, which primarily:

- *Manufactures Jet Engine and Aircraft Component Replacement Parts.* The Flight Support Group designs and manufactures jet engine and aircraft component replacement parts for sale at lower prices than those manufactured by original equipment manufacturers. The parts are approved by the Federal Aviation Administration (FAA) and they are the functional equivalent of parts sold by original equipment manufacturers. The Flight Support Group also manufactures and sells specialty parts as a subcontractor for original equipment manufacturers and the United States government.
- *Repairs and Overhauls Jet Engine and Aircraft Components.* The Flight Support Group repairs and overhauls jet engine and aircraft components for domestic and foreign commercial air carriers, military aircraft operators and aircraft repair and overhaul companies.

The Electronic Technologies Group consists of HEICO Electronic Technologies Corp. (HEICO Electronic) and its subsidiaries, which primarily:

- *Manufactures Electronic and Electro-Optical Equipment.* The Electronic Technologies Group designs, manufactures and sells various types of electronic, microwave and electro-optical equipment and components, including power supplies, laser rangefinder receivers, infra-red simulation, calibration and testing equipment and electromagnetic interference shielding for commercial and military aircraft operators, electronics companies and telecommunications equipment suppliers.
- *Repairs and Overhauls Aircraft Electronic Equipment.* The Electronic Technologies Group repairs and overhauls inertial navigation systems and other avionics, instruments, and components for commercial, military and business aircraft operators.
- *Designs and Manufactures High Voltage Interconnection Devices.* The Electronic Technologies Group designs and manufactures high voltage interconnection devices, cable assemblies and wire for the medical equipment, defense and other industrial markets.

The Company's results of operations during each of the past three fiscal years have been affected by a number of transactions. This discussion of the Company's financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and Notes thereto included herein. For further information regarding the acquisitions and strategic alliances discussed below, see Note 2, Acquisitions, of the Notes to Consolidated Financial Statements. The acquisitions have been accounted for using the purchase method of accounting and are included in the Company's results of operations from the effective dates of acquisition.

During fiscal 2003, the Company acquired Niacc Technology, Inc. The purchase price of the acquisition was paid primarily by using proceeds from the Company's revolving credit facility and was not significant to the Company's consolidated financial statements. Had the acquisition been made at the beginning of the fiscal year, the pro forma consolidated operating results would not have been materially different from the reported results.

In December 2003, the Company acquired an 80% interest in Sierra Microwave Technology, Inc., (Sierra) through its Electronic Technologies Group. Under the transaction, the Company formed a new subsidiary, Sierra Microwave Technology, LLC (Sierra LLC), which acquired substantially all of the assets and assumed certain liabilities of Sierra. The new subsidiary is owned 80% by the Company and 20% by certain members of Sierra's management group. The purchase price was principally paid in cash using proceeds from the Company's revolving credit facility and with shares of HEICO's Class A Common Stock. The purchase price of the acquisition was not significant to the Company's consolidated financial statements and the pro forma consolidated operating results assuming Sierra had been acquired as of the beginning of fiscal 2004 would not have been materially different from the reported results. However, the operating results of Sierra LLC had a positive impact on the Electronic Technologies Group in fiscal 2004, as further explained under the caption "Comparison of Fiscal 2004 to Fiscal 2003".

During fiscal 2005, the Company, through its HEICO Electronic Technologies Corp. subsidiary, acquired Connectronics, Corp. and its affiliate, Wiremax, Ltd. (collectively "Connectronics") in December 2004, Lumina Power, Inc. (Lumina) in February 2005, and an 85% interest in HVT Group, Inc. (HVT) in September 2005. The remaining 15% interest is held by certain members of HVT's management group. The operating results of each

# Management's Discussion and Analysis of Financial Condition and Results of Operations

acquired company were included in the Company's results from their effective acquisition date. The purchase price of each acquisition was principally paid in cash using proceeds from the Company's revolving credit facility and was not significant to the Company's consolidated financial statements individually or in aggregate. Had each acquisition been made at the beginning of the fiscal year, the pro forma consolidated operating results would not have been materially different from the reported results.

**Critical Accounting Policies**

The Company believes that the following are its most critical accounting policies, some of which require management to make judgments about matters that are inherently uncertain.

*Revenue Recognition*

Revenue is recognized on an accrual basis, primarily upon the shipment of products and the rendering of services. Revenue from certain fixed price contracts for which costs can be dependably estimated is recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract. Variations in actual labor performance, changes to estimated profitability and final contract settlements may result in revisions to cost estimates. Revisions in cost estimates as contracts progress have the effect of increasing or decreasing profits in the period of revision. For fixed price contracts in which costs cannot be dependably estimated, revenue is recognized on the completed-contract method. A contract is considered complete when all significant costs have been incurred or the item has been accepted by the customer. The aggregate effects of changes in estimates relating to inventories and/or long-term contracts did not have a significant effect on net income or diluted net income per share in fiscal 2005, 2004 or 2003.

*Valuation of Accounts Receivable*

The valuation of accounts receivable requires that the Company set up an allowance for estimated uncollectible accounts and record a corresponding charge to bad debt expense. The Company estimates uncollectible receivables based on such factors as its prior experience, its appraisal of a customer's ability to pay, and economic conditions within and outside of the aviation, defense, space, and electronics industries. Actual bad debt expense could differ from estimates made.

*Valuation of Inventory*

Inventory is stated at the lower of cost or market, with cost being determined on the first-in, first-out or the average cost basis. Losses, if any, are recognized fully in the period when identified.

The Company periodically evaluates the carrying value of inventory, giving consideration to factors such as its physical condition, sales patterns, and expected future demand and estimates the amount necessary to write-down its slow moving, obsolete or damaged inventory. These estimates could vary significantly from actual requirements based upon future economic conditions, customer inventory levels or competitive factors that were not foreseen or did not exist when the estimated write-downs were made.

*Valuation of Goodwill*

The Company tests goodwill for impairment annually as of October 31 or more frequently if events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable. The test requires the Company to compare the fair value of each of its reporting units to its carrying value to determine potential impairment. If the carrying value of a reporting unit exceeds its fair value, the implied fair value of that reporting unit's goodwill is to be calculated and an impairment loss shall be recognized in the amount by which the carrying value of a reporting unit's goodwill exceeds its implied fair value, if any. The determination of fair value requires the Company to make a number of estimates, assumptions and judgments of such factors as earnings multiples, projected revenues and operating expenses and the Company's weighted average cost of capital. If there is a material change in such assumptions used by the Company in determining fair value or if there is a material change in the conditions or circumstances influencing fair value, the Company could be required to recognize a material impairment charge. Based on the annual goodwill test for impairment as of October 31, 2005, the Company determined there is no impairment of its goodwill.

One of the Company's reporting units has experienced a decline in sales to foreign military customers over the past three fiscal years. The reporting unit is actively developing various expanded capabilities, but experienced

# Management's Discussion and Analysis of Financial Condition and Results of Operations

some delays in fiscal 2004 and 2005. Based on progress to date, the Company continues to expect that the various expanded capabilities will result in significant sales and earnings for the reporting unit beginning in fiscal 2006 and beyond. The timing of such sales and earnings are primarily based upon certain regulatory and sales matters. Using management's best estimates of these assumptions, the Company determined that there is no impairment of the reporting unit's goodwill as of October 31, 2005. Should the reporting unit incur significant delays in further developing the expanded capabilities and successfully selling and marketing them, the Company could be required to recognize an impairment of all or a portion of the reporting unit's goodwill, which had a carrying value of $17.3 million as of October 31, 2005.

**Results of Operations**

The following table sets forth the results of the Company's operations, net sales and operating income by operating segment, and the percentage of net sales represented by the respective items in the Company's Consolidated Statements of Operations:

| **For the year ended October 31,** | **2003** | **2004** | **2005** |
|---|---|---|---|
| Net sales | $ 176,453,000 | $ 215,744,000 | **$ 269,647,000** |
| Cost of sales | 118,349,000 | 139,932,000 | **168,651,000** |
| Selling, general and administrative expenses | 34,899,000 | 43,193,000 | **56,347,000** |
| Total operating costs and expenses | 153,248,000 | 183,125,000 | **224,998,000** |
| Operating income | $ 23,205,000 | $ 32,619,000 | **$ 44,649,000** |
| Net sales by segment: | | | |
| Flight Support Group | $ 128,277,000 | $ 153,238,000 | **$ 185,716,000** |
| Electronic Technologies Group | 48,597,000 | 62,648,000 | **84,094,000** |
| Intersegment sales | (421,000) | (142,000) | **(163,000)** |
| | $ 176,453,000 | $ 215,744,000 | **$ 269,647,000** |
| Operating income by segment: | | | |
| Flight Support Group | $ 19,187,000 | $ 24,251,000 | **$ 35,142,000** |
| Electronic Technologies Group | 8,497,000 | 15,259,000 | **18,631,000** |
| Other, primarily Corporate | (4,479,000) | (6,891,000) | **(9,124,000)** |
| | $ 23,205,000 | $ 32,619,000 | **$ 44,649,000** |
| Net sales | 100.0% | 100.0% | **100.0%** |
| Gross profit | 32.9% | 35.1% | **37.5%** |
| Selling, general and administrative expenses | 19.8% | 20.0% | **20.9%** |
| Operating income | 13.2% | 15.1% | **16.6%** |
| Interest expense | 0.7% | 0.5% | **0.4%** |
| Interest and other income | 0.1% | – | **0.2%** |
| Life insurance proceeds | – | 2.3% | **–** |
| Income tax expense | 4.5% | 5.1% | **6.0%** |
| Minority interests' share of income | 1.1% | 2.3% | **1.9%** |
| Net income | 6.9% | 9.6% | **8.5%** |

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Comparison of Fiscal 2005 to Fiscal 2004

*Net Sales*

Net sales in fiscal 2005 increased by 25.0% to $269.6 million, as compared to net sales of $215.7 million in fiscal 2004. The increase in net sales reflects an increase of $32.5 million (a 21.2% increase) to $185.7 million in net sales within the FSG, and an increase of $21.4 million (a 34.2% increase) to $84.1 million in net sales within the ETG. The FSG's net sales increase primarily reflects improved demand for its aftermarket replacement parts and repair and overhaul services, which reflects continuing recovery within the commercial airline industry, as well as increased sales of new products. The increase in net sales within the ETG primarily resulted from the acquisition of Connectronics in December 2004, Lumina in February 2005 and HVT Group in September 2005 as well as improved demand for the Company's defense and industrial electronics components.

The Company's net sales in fiscal 2005 by market approximated 64% from the commercial aviation industry, 23% from the defense and space industries and 13% from other industrial markets including medical, electronics and telecommunications. Net sales in fiscal 2004 by market approximated 63% from the commercial aviation industry, 24% from the defense and space industries and 13% from other markets.

*Gross Profit and Operating Expenses*

The Company's gross profit margin improved to 37.5% in fiscal 2005 as compared to 35.1% in fiscal 2004, reflecting higher margins within the FSG offset by a slight decrease in the ETG margin. The FSG's gross profit margin increase was due principally to improved operating efficiencies resulting from the higher sales volumes within the FSG, lower new product research and development expenses as a percentage of net sales and lower charges related to excess or slow-moving inventory. The ETG's gross profit margin decrease was primarily due to softness in the commercial satellite market. Consolidated cost of sales in fiscal 2005 and fiscal 2004 included approximately $11.3 million and $10.4 million, respectively, of new product research and development expenses.

SG&A expenses were $56.3 million and $43.2 million in fiscal 2005 and fiscal 2004, respectively. The increase in SG&A expenses was mainly due to higher operating costs, principally personnel related, associated with the increase in net sales discussed above, the acquisitions of Connectronics, Lumina and HVT Group and an increase in Corporate expenses. Corporate expenses are up due to increased costs to comply with the Sarbanes-Oxley Act of 2002 and higher accrued performance awards. As a percentage of net sales, SG&A expenses increased slightly to 20.9% in fiscal 2005 compared to 20.0% in fiscal 2004, primarily due to increased costs to comply with the Sarbanes-Oxley Act of 2002.

*Operating Income*

Operating income in fiscal 2005 increased by 36.9% to $44.6 million, compared to operating income of $32.6 million in fiscal 2004. The increase in operating income reflects an increase of $3.3 million (a 22.1% increase) in operating income of the ETG from $15.3 million in fiscal 2004 to $18.6 million in fiscal 2005 reflecting the acquisitions of Connectronics, Lumina and HVT Group and an increase of $10.8 million (a 44.9% increase) in operating income of the FSG from $24.3 million in fiscal 2004 to $35.1 million in fiscal 2005 reflecting the higher net sales. These increases were partially offset by the increase in Corporate expenses. As a percentage of net sales, operating income increased from 15.1% in fiscal 2004 to 16.6% in fiscal 2005. The improvement in operating income as a percentage of net sales reflects an increase in the FSG's operating income as a percentage of net sales from 15.8% in fiscal 2004 to 18.9% in fiscal 2005 and a decrease in the ETG's operating income as a percentage of net sales from 24.4% in fiscal 2004 to 22.2% in fiscal 2005. The increase in the FSG's operating income as a percentage of net sales reflects the improved gross margins discussed previously. The decrease in the ETG's operating income as a percentage of net sales reflects the decreased gross margins discussed previously.

*Interest Expense*

Interest expense in fiscal 2005 and fiscal 2004 was comparable as the lower weighted average balance outstanding under the revolving credit facility in fiscal 2005 was offset by higher interest rates. Additional information about the Company's revolving credit facility may be found within "Financing Activities", which follows.

*Interest and Other Income*

Interest and other income increased to $528,000 in fiscal 2005 from $26,000 in fiscal 2004. The increase was primarily due to the gain on the sale of a 50%-owned joint venture in the third quarter of fiscal 2005 (see Note 11, Sale of Investment in Joint Venture, of the Notes to Consolidated Financial Statements).

# Management's Discussion and Analysis of Financial Condition and Results of Operations

*Life Insurance Proceeds*

In fiscal 2004, the Company received $5.0 million in proceeds from a key-person life insurance policy maintained by a subsidiary of the FSG. The life insurance proceeds, which are non-taxable, increased net income (after the minority interest's share of the income) in fiscal 2004 by $4.0 million, or $.16 per diluted share.

*Income Tax Expense*

The Company's effective tax rate increased from 29.9% in fiscal 2004 to 36.6% in fiscal 2005. The increase is principally due to the aforementioned $5.0 million in life insurance proceeds received in fiscal 2004 that were excluded from the Company's income that was subject to federal income taxes as well as higher state taxes principally related to recent acquisitions and a reduction in the tax benefit on export sales under the federal Extraterritorial Income Exclusion provisions that began phasing out in fiscal 2005. For a detailed analysis of the provision for income taxes see Note 6, Income Taxes, of the Notes to Consolidated Financial Statements.

*Minority Interests' Share of Income*

Minority interests' share of income of consolidated subsidiaries principally relates to the minority interests held in HEICO Aerospace and the 20% minority interest held in Sierra LLC. Minority interests' share of income in fiscal 2005 approximated that of fiscal 2004 as higher operating income of the FSG was offset by the minority interests' share of life insurance proceeds received in fiscal 2004.

*Net Income*

The Company's net income was $22.8 million, or $.87 per diluted share, in fiscal 2005 compared to $20.6 million, or $.80 per diluted share, in fiscal 2004. The net impact of the life insurance proceeds reduced by the restructuring expenses increased net income by $3.6 million, or $.14 per diluted share in fiscal 2004.

*Outlook*

Both the FSG and the ETG reported significantly improved sales and operating income in fiscal 2005 compared to fiscal 2004. Operating margins within the FSG continued to show year-over-year improvement and operating margins within the ETG continued at a strong level.

As the Company looks forward to fiscal 2006 and beyond, HEICO will continue to focus on new products, further market penetration, additional acquisition opportunities and maintaining its financial strength. Based on current market conditions and including the results of the Company's recent acquisitions, the Company is targeting fiscal 2006 net sales and earnings growth over fiscal 2005 results with some operating margin improvement.

**Comparison of Fiscal 2004 to Fiscal 2003**

*Net Sales*

Net sales in fiscal 2004 increased by 22.3% to $215.7 million, as compared to net sales of $176.5 million in fiscal 2003. The increase in net sales reflects an increase of $25.0 million (a 19.5% increase) to $153.2 million in net sales within the FSG, and an increase of $14.1 million (a 28.9% increase) to $62.6 million in net sales within the ETG. The FSG's net sales increase primarily reflects improved demand for its aftermarket replacement parts and repair and overhaul services, which reflects continuing recovery within the commercial airline industry, as well as increased sales of new products. The increase in net sales within the ETG primarily resulted from the acquisition of Sierra in December 2003 and improved demand for the Company's defense and industrial electronics components.

The Company's net sales in fiscal 2004 by market approximated 63% from the commercial aviation industry, 24% from the defense and space industries and 13% from other industrial markets including medical, electronics and telecommunications. Net sales in fiscal 2003 by market approximated 68% from the commercial aviation industry, 22% from the defense and space industries and 10% from other markets.

*Gross Profit and Operating Expenses*

The Company's gross profit margin improved to 35.1% in fiscal 2004 as compared to 32.9% in fiscal 2003, reflecting higher margins within the ETG. The ETG's gross profit margin increase was primarily due to the acquisition of Sierra. The FSG's gross profit margin in fiscal 2004 approximated 2003 margins principally due to higher

## Management's Discussion and Analysis of Financial Condition and Results of Operations

costs from write-offs of excess inventory in the first quarter of fiscal 2004 and the restructuring expenses referred to below, partially offset by a reduction of the product warranty reserve and lower research and development expenses as a percentage of net sales. Consolidated cost of sales in fiscal 2004 and fiscal 2003 included approximately $10.4 million and $9.2 million, respectively, of new product research and development expenses.

During the third and fourth quarters of fiscal 2004, the Company incurred an aggregate of $850,000 of restructuring expenses within certain subsidiaries of the FSG that provide repair and overhaul services ("repair and overhaul subsidiaries"). The unexpected death of an executive of certain of the repair and overhaul subsidiaries (see "Life Insurance Proceeds" below) was the impetus for the commencement of the restructuring activities, which the Company believes will allow it to better service its customers and improve operating margins. The restructuring expenses include $350,000 of inventory write-downs, which were recorded within cost of sales, and $261,000 of management hiring/relocation related expenses, $168,000 of moving costs and other associated expenses and $71,000 of contract termination costs that were all recorded within selling, general and administrative (SG&A) expenses. The inventory written down is related to older generation aircraft for which repair and overhaul services are being discontinued by the Company. The management hiring/relocation related expenses include one-time employee termination/hiring benefits and relocation costs. The moving costs and other associated expenses consist of moving costs related to the consolidation of two repair and overhaul facilities. Contract termination costs include the lease termination on a facility.

SG&A expenses were $43.2 million and $34.9 million in fiscal 2004 and fiscal 2003, respectively. The increase in SG&A expenses reflects higher sales within the FSG, the acquisition of Sierra, an increase in Corporate expenses, the aforementioned restructuring expenses, and litigation-related expenses referred to below. The increase in Corporate expenses from $4.5 million in fiscal 2003 to $6.9 million in fiscal 2004 reflects accrued performance awards of $1.4 million in fiscal 2004 and a reversal of approximately $400,000 of professional fees in fiscal 2003 that were accrued at the end of fiscal 2002 pursuant to a contractual arrangement that was renegotiated in the first quarter of fiscal 2003.

The Company also incurred $410,000 of legal and other costs related to litigation brought by a subsidiary of the ETG against two former employees for breach of contract and other possible causes of action against the former employees and others, which were recorded within SG&A expenses.

The restructuring expenses and litigation-related expenses decreased net income by $684,000, or $.03 per diluted share in fiscal 2004. For more information on the restructuring activities, see Note 13, Restructuring Expenses, of the Notes to Consolidated Financial Statements.

As a percentage of net sales, SG&A expenses remained stable at 20.0% in fiscal 2004 compared to 19.8% in fiscal 2003 despite a .4% increase attributable to the aforementioned restructuring expenses and litigation-related expenses, which reflects efforts to control costs while increasing revenues.

*Operating Income*

Operating income in fiscal 2004 increased by 40.6% to $32.6 million, compared to operating income of $23.2 million in fiscal 2003. The increase in operating income reflects an increase of $6.8 million (a 79.6% increase) in operating income of the ETG from $8.5 million in fiscal 2003 to $15.3 million in fiscal 2004 reflecting the acquisition of Sierra and an increase of $5.1 million (a 26.4% increase) in operating income of the FSG from $19.2 million in fiscal 2003 to $24.3 million in fiscal 2004 reflecting the higher net sales. These increases were partially offset by the increase in Corporate expenses. As a percentage of net sales, operating income increased from 13.2% in fiscal 2003 to 15.1% in fiscal 2004. The improvement in operating income as a percentage of net sales reflects an increase in the ETG's operating income as a percentage of net sales from 17.5% in fiscal 2003 to 24.4% in fiscal 2004 and an increase in the FSG's operating income as a percentage of net sales from 15.0% in fiscal 2003 to 15.8% in fiscal 2004 despite a .4% decrease attributable to the aforementioned restructuring expenses and litigation-related expenses. The improvement in the ETG's operating income and operating income as a percentage of net sales reflects the purchase of Sierra and the increased sales, discussed previously. The increase in the FSG's operating income and operating income as a percentage of net sales reflects the increased sales previously discussed and lower SG&A expenses as a percentage of net sales.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

*Interest Expense*

Interest expense in fiscal 2004 and fiscal 2003 was comparable as average borrowings outstanding and associated interest rates remained at approximately the same levels. Additional information about the Company's revolving credit facility may be found within "Financing Activities", which follows.

*Interest and Other Income*

Interest and other income in fiscal 2004 and fiscal 2003 were not material.

*Life Insurance Proceeds*

In the third quarter of fiscal 2004, the Company received $5.0 million in proceeds from a key-person life insurance policy maintained by a subsidiary of the FSG. The life insurance proceeds, which are non-taxable, increased net income (after the minority interest's share of the income) in fiscal 2004 by $4.0 million, or $.16 per diluted share.

*Income Tax Expense*

The Company's effective tax rate decreased from 35.6% in fiscal 2003 to 29.9% in fiscal 2004 as the aforementioned $5.0 million in life insurance proceeds and the minority interest's share of the income of Sierra LLC are excluded from the Company's income that is subject to federal income taxes. For a detailed analysis of the provision for income taxes see Note 6, Income Taxes, of the Notes to Consolidated Financial Statements.

*Minority Interests' Share of Income*

Minority interests' share of income of consolidated subsidiaries relates to the minority interests held in HEICO Aerospace and the 20% minority interest held in Sierra LLC. The increase from fiscal 2003 to fiscal 2004 was attributable to higher earnings of the FSG and income of Sierra LLC.

*Net Income*

The Company's net income was $20.6 million, or $.80 per diluted share, in fiscal 2004 compared to $12.2 million, or $.50 per diluted share, in fiscal 2003. The net impact of the life insurance proceeds reduced by the restructuring expenses and litigation-related expenses increased net income by $3.3 million, or $.13 per diluted share in fiscal 2004.

**Inflation**

The Company has generally experienced increases in its costs of labor, materials and services consistent with overall rates of inflation. The impact of such increases on the Company's net income has been generally minimized by efforts to lower costs through manufacturing efficiencies and cost reductions.

**Liquidity and Capital Resources**

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

Principal uses of cash by the Company include acquisitions, payments of principal and interest on debt, capital expenditures, cash dividends and increases in working capital.

The Company believes that its net cash provided by operating activities and available borrowings under its revolving credit facility will be sufficient to fund cash requirements for the foreseeable future.

*Operating Activities*

Net cash provided by operating activities was $35.8 million for fiscal 2005, principally reflecting net income of $22.8 million, depreciation and amortization of $7.4 million, minority interests' share of income of $5.1 million, a deferred income tax provision of $3.0 million and a tax benefit related to stock option exercises of $2.8 million, partially offset by an increase in net operating assets of $5.3 million. The increase in net operating assets (current assets used in operating activities net of current liabilities) primarily reflects a higher investment in inventories required to meet increased sales demand associated with new product offerings, sales growth, and increased lead times on certain raw materials; and an increase in accounts receivable due to sales growth, partially offset by higher current liabilities associated with increased sales and purchases and higher accrued employee compensation and related payroll taxes. (See Note 3, Selected Financial Statement Information, of the Notes to Consolidated Financial Statements.)

## Management's Discussion and Analysis of Financial Condition and Results of Operations

Net cash provided by operating activities was $44.1 million for fiscal 2004, consisting primarily of net income of $20.6 million, including $4.0 million of cash proceeds from life insurance net of the minority interest's share, depreciation and amortization of $6.8 million, minority interests' share of income of consolidated subsidiaries of $5.0 million, a deferred income tax provision of $4.1 million, a tax benefit on stock option exercises of $1.3 million, and a decrease in net operating assets of $6.5 million. The decrease in net operating assets (current assets used in operating activities net of current liabilities) primarily reflects lower inventories resulting from efforts to improve inventory turnover by reducing the level of finished goods maintained on hand, higher accounts receivable and current liabilities associated with increased sales levels and higher income taxes payable resulting from the timing of required income tax payments.

Net cash provided by operating activities was $28.9 million for fiscal 2003, principally reflecting net income of $12.2 million, depreciation and amortization of $6.7 million, deferred income tax provision of $3.5 million, minority interests' share of income of consolidated subsidiaries of $2.0 million, and a decrease in net operating assets of $4.0 million. The decrease in net operating assets (current assets used in operating activities net of current liabilities) primarily reflects lower inventories resulting from efforts to improve inventory turnover by reducing the level of finished goods maintained on hand.

*Investing Activities*

Net cash used in investing activities during the three fiscal year period ended October 31, 2005 primarily relates to several acquisitions, including contingent payments, totaling $71.2 million, including $41.5 million in fiscal 2005 and $28.1 million in fiscal 2004. Further details on acquisitions may be found under the caption "Overview". Capital expenditures aggregated $18.7 million over the last three fiscal years, primarily reflecting the expansion of existing production facilities and capabilities, which were generally funded using cash provided by operating activities. In fiscal 2005, the Company received proceeds of $3.5 million from the sale of a building held for sale (see Note 3, Selected Financial Statement Information – Property, Plant and Equipment, of the Notes to Consolidated Financial Statements).

*Financing Activities*

The Company borrowed a net $16.0 million under its revolving credit facility in fiscal 2005 and used cash provided by operating activities to make net payments on its revolving credit facility of $14.0 million in fiscal 2004 and $24.0 million in fiscal 2003. The net borrowings made in fiscal 2005 reflect $37.0 million borrowed to fund the aforementioned acquisitions, net of repayments of $21.0 million. The net payments made in fiscal 2004 reflect $27.0 million borrowed to fund an aforementioned acquisition, net of repayments of $41.0 million. For the three fiscal year period ended October 31, 2005, the Company paid cash dividends aggregating $3.5 million and received proceeds from stock option exercises of $3.7 million.

In August 2005, the Company amended its revolving credit facility by entering into a $130 million Amended and Restated Revolving Credit Agreement ("Credit Facility") with a bank syndicate, which expires in August 2010. The Credit Facility includes a feature that will allow the Company to increase the Credit Facility, at its option, up to an aggregate amount of $175 million through increased commitments from existing lenders or the addition of new lenders. The Credit Facility may be used for working capital and general corporate needs of the Company, including letters of credit, capital expenditures and to finance acquisitions (generally not in excess of an aggregate total of $50 million over any trailing twelve-month period without the requisite approval of the bank syndicate). Advances under the Credit Facility accrue interest at the Company's choice of the "Base Rate" or the London Interbank Offered Rate (LIBOR) plus applicable margins (based on the Company's ratio of total funded debt to earnings before interest, taxes, depreciation and amortization, minority interest, and non-cash charges or "leverage ratio"). The Base Rate is the higher of (i) the Prime Rate or (ii) the Federal Funds rate plus .50%. The applicable margins range from .75% to 2.00% for LIBOR based borrowings and from .00% to .50% for Base Rate based borrowings. A fee is charged on the amount of the unused commitment ranging from .20% to .50% (depending on the Company's leverage ratio). The Credit Facility also includes a $10 million swingline sublimit and a $15 million sublimit for letters of credit. The Credit Facility is secured by substantially all assets other than real property of the Company and its subsidiaries and contains covenants that require, among other things, the maintenance of the leverage ratio and a fixed charge coverage ratio as well as minimum net worth requirements. See Note 5, Long-Term Debt, of the Notes to Consolidated Financial Statements for further information regarding the revolving credit facility.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

### Contractual Obligations

The following table summarizes the Company's contractual obligations as of October 31, 2005:

| | Payments due by fiscal period | | | | |
|---|---|---|---|---|---|
| | Total | 2006 | 2007-2008 | 2009-2010 | Thereafter |
| Long-term debt obligations[1] | $ 33,980,000 | $ – | $ 1,980,000 | $ 32,000,000 | $ – |
| Capital lease obligations and equipment loans[1] | 144,000 | 63,000 | 54,000 | 27,000 | – |
| Operating lease obligations[2] | 11,660,000 | 2,519,000 | 4,116,000 | 1,843,000 | 3,182,000 |
| Purchase obligations[3] | 3,171,000 | 3,171,000 | – | – | – |
| Other long-term liabilities[4] | 843,000 | 274,000 | 303,000 | 119,000 | 147,000 |
| Total contractual obligations | $ 49,798,000 | $ 6,027,000 | $ 6,453,000 | $ 33,989,000 | $ 3,329,000 |

(1) Excludes interest charges on borrowings and the fee on the amount of any unused commitment that the Company may be obligated to pay under its revolving credit facility as such amounts vary. Also excludes interest charges associated with capital lease obligations and equipment loans as such amounts are not material. See Note 5, Long-Term Debt, of the Notes to Consolidated Financial Statements and *Financing Activities* above for additional information regarding the Company's long-term debt and capital lease obligations and equipment loans.

(2) See Note 17, Commitments and Contingencies – Lease Commitments, of the Notes to Consolidated Financial Statements for additional information regarding the Company's operating lease obligations.

(3) Includes additional purchase consideration aggregating $3.0 million relating to the Connectronics and HVT acquisitions. See Note 2, Acquisitions, of the Notes to Consolidated Financial Statements. Also includes commitments for capitalized expenditures and excludes all purchase obligations for inventory and supplies in the ordinary course of business.

(4) Includes projected payments aggregating $488,000 under our Directors Retirement Plan, which is explained further in Note 9, Retirement Plans, of the Notes to Consolidated Financial Statements. The plan is unfunded and we pay benefits directly. The amounts in the table do not include amounts related to the Company's deferred compensation arrangement for which there is an offsetting asset included in the Company's Consolidated Balance Sheets. Also includes $355,000 of guaranteed minimum royalty payments as part of an agreement for exclusive license rights to intellectual property.

### Off-Balance Sheet Arrangements

The Company has arranged for standby letters of credit aggregating $1.8 million to meet the security requirement of its insurance company for potential workers' compensation claims. As of October 31, 2005, one of the Company's subsidiaries had guaranteed its performance related to a customer contract through two letters of credit, aggregating $.3 million, both expiring December 2005. In November 2005, the letters of credit were extended to April 2006 and increased to an aggregate of $1.2 million. All of these letters of credit are supported by the Company's revolving credit facility. In addition, the Company's industrial development revenue bonds are secured by a $2.0 million letter of credit expiring April 2008 and a mortgage on the related properties pledged as collateral.

As part of the agreement to acquire an 80% interest in Sierra Microwave Technology, Inc., the Company has the right to purchase the minority interests beginning at approximately the tenth anniversary of the acquisition, or sooner under certain conditions, and the minority holders have the right to cause the Company to purchase their interests commencing at approximately the fifth anniversary of the acquisition, or sooner under certain conditions.

As part of the agreement to purchase Connectronics Corporation, the Company may be obligated to pay additional purchase consideration of up to $3.8 million in aggregate should Connectronics meet certain earnings objectives

# Management's Discussion and Analysis of Financial Condition and Results of Operations

during the first four years following the acquisition. The Company accrued $2.2 million of such additional purchase consideration as of October 31, 2005 based on the year-to-date earnings of Connectronics relative to its target, which it expects to pay in fiscal 2006.

As part of the agreement to purchase Lumina Power, Inc., the Company may be obligated to pay additional purchase consideration in fiscal 2010 currently estimated to total up to $2.3 million should Lumina meet certain product line-related earnings objectives during the fourth and fifth years following the acquisition. The additional purchase consideration will be accrued when the earnings objectives are met.

As part of the agreement to acquire an 85% interest in HVT Group, Inc., the minority holders have the right to cause the Company to purchase their interests over a four-year period starting around the second anniversary of the acquisition, or sooner under certain conditions.

The Company also accrued additional purchase consideration aggregating $.8 million as of October 31, 2005 in accordance with the agreements related to the Connectronics and HVT acquisitions based principally on the actual value of the net assets acquired. The Company expects to pay this amount in fiscal 2006.

For additional information on the aforementioned acquisitions, see Note 2, Acquisitions, of the Notes to Consolidated Financial Statements.

As part of an agreement for exclusive license rights to intellectual property, one of the Company's subsidiaries has guaranteed minimum royalty payments aggregating $355,000 through fiscal 2007.

**New Accounting Pronouncements**

In November 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4". SFAS No. 151 requires the allocation of fixed production overhead costs be based on the normal capacity of the production facilities and unallocated overhead costs recognized as an expense in the period incurred. The Statement also clarifies that abnormal inventory costs such as costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage) are required to be recognized as current period charges. The provisions of SFAS No. 151 are effective for fiscal years beginning after June 15, 2005. The Company does not expect the adoption of the Statement will have a material effect on its results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment". This Statement revises SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ("SAB 107") to provide public companies with its interpretive guidance in applying the provisions of SFAS No. 123(R). SFAS No. 123(R) focuses primarily on the accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) requires companies to recognize in the statement of operations the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions). This Statement is effective for fiscal years beginning after June 15, 2005; therefore, the Company plans to adopt the new requirements in its first quarter of fiscal 2006. Based on the number of stock options outstanding as of October 31, 2005 and the insignificant number of stock options granted during the last two fiscal years, the Company expects the net income effect in fiscal 2006 from the adoption of SFAS No. 123(R) and SAB 107 to be less than the fiscal 2005 pro forma effect included in the table under the Stock Based Compensation section of Note 1, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements.

In December 2004, the FASB issued Staff Position No. FAS 109-1 ("FSP FAS No. 109-1"), "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004". FSP FAS No. 109-1 states that qualified production activities should be accounted for as a special deduction under SFAS No. 109 and not be treated as a rate reduction. Accordingly, the special deduction has no effect on the Company's deferred tax assets and liabilities existing as of the enactment date. The Company is currently evaluating the impact of the American Jobs Creation Act of 2004, which will allow the Company to claim a deduction from taxable income attributable to qualified domestic production activities beginning in fiscal 2006.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29". SFAS No. 153 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The Statement eliminates the exception of nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance (i.e. the future cash flows of the entity are not expected to change significantly as a result of the exchange). The provisions of SFAS No. 153 are effective as of the first reporting period beginning after June 15, 2005. The adoption of SFAS No. 153 did not have a material effect on the Company's results of operations or financial position.

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

In September 2005, the Emerging Issues Task Force ("EITF") reached a consensus on issue EITF 05-6, "Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination". EITF 05-6 resolves that leasehold improvements that are placed in service significantly after and not contemplated at or near the beginning of the lease term or that are acquired in a business combination should be amortized over the shorter of the useful life of the assets or a term that includes the required lease periods and renewals that are deemed to be reasonably assured as of the date the leasehold improvements are purchased or the date of acquisition, as applicable. EITF 05-6 is effective the first reporting period beginning after June 29, 2005. The adoption of EITF 05-6 did not have a material effect on the Company's results of operations or financial position.

**Forward Looking Statements**

Certain statements in this Report constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained herein that are not clearly historical in nature may be forward-looking and the words "believe," "expect," "estimate" and similar expressions are generally intended to identify forward-looking statements. Any forward-looking statements contained herein, in press releases, written statements or other documents filed with the Securities and Exchange Commission or in communications and discussions with investors and analysts in the normal course of business through meetings, phone calls and conference calls, concerning our operations, economic performance and financial condition are subject to known and unknown risks, uncertainties and contingencies. We have based these forward-looking statements on our current expectations and projections about future events. All forward-looking statements involve risks and uncertainties, many of which are beyond our control, which may cause actual results, performance or achievements to differ materially from anticipated results, performance or achievements. Also, forward-looking statements are based upon management's estimates of fair values and of future costs, using currently available information.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

Therefore, actual results may differ materially from those expressed or implied in those statements. Factors that could cause such differences include, but are not limited to:

- Lower demand for commercial air travel or airline fleet changes, which could cause lower demand for our goods and services;
- Product specification costs and requirements, which could cause an increase to our costs to complete contracts;
- Governmental and regulatory demands, export policies and restrictions, reductions in defense or space spending by U.S. and/or foreign customers, or competition from existing and new competitors, which could reduce our sales;
- HEICO's ability to introduce new products and product pricing levels, which could reduce our sales or sales growth;
- HEICO's ability to make acquisitions and achieve operating synergies from acquired businesses, customer credit risk, interest rates and economic conditions within and outside of the aviation, defense, space and electronics industries, which could negatively impact our costs and revenues; and
- HEICO's ability to maintain effective internal controls, which could adversely affect our business and the market price of our common stock.

We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

**Quantitative and Qualitative Disclosures About Market Risk**

The primary market risk to which the Company has exposure is interest rate risk, mainly related to its revolving credit facility and industrial revenue bonds, which have variable interest rates. Interest rate risk associated with the Company's variable rate debt is the potential increase in interest expense from an increase in interest rates. Periodically, the Company enters into interest rate swap agreements to manage its interest expense. The Company did not have any interest rate swap agreements in effect as of October 31, 2005. Based on the Company's aggregate outstanding variable rate debt balance of $34 million as of October 31, 2005, a hypothetical 10% increase in interest rates would increase the Company's interest expense by approximately $156,000 in fiscal 2006.

The Company maintains a portion of its cash and cash equivalents in financial instruments with original maturities of three months or less. These financial instruments are subject to interest rate risk and will decline in value if interest rates increase. Due to the short duration of these financial instruments, a hypothetical 10% increase in interest rates as of October 31, 2005 would not have a material effect on the Company's results of operations or financial position.

The Company is also exposed to foreign currency exchange rate fluctuations on the United States dollar value of its foreign currency denominated transactions, which are principally in British pound sterling. A hypothetical 10% weakening in the exchange rate of the British pound sterling to the United States dollar as of October 31, 2005 would not have a material effect on the Company's results of operations or financial position.

# Consolidated Balance Sheets

| As of October 31, | 2005 | 2004 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 5,330,000** | $ 214,000 |
| Accounts receivable, net | **47,668,000** | 36,798,000 |
| Inventories, net | **62,758,000** | 48,020,000 |
| Prepaid expenses and other current assets | **3,159,000** | 3,208,000 |
| Deferred income taxes | **7,218,000** | 5,672,000 |
| Total current assets | **126,133,000** | 93,912,000 |
| Property, plant and equipment, net | **46,663,000** | 40,558,000 |
| Goodwill | **248,229,000** | 216,674,000 |
| Other assets | **14,599,000** | 13,111,000 |
| Total assets | **$ 435,624,000** | $ 364,255,000 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Current maturities of long-term debt | **$ 63,000** | $ 58,000 |
| Trade accounts payable | **11,129,000** | 7,969,000 |
| Accrued expenses and other current liabilities | **32,473,000** | 20,244,000 |
| Income taxes payable | **6,285,000** | 3,771,000 |
| Total current liabilities | **49,950,000** | 32,042,000 |
| Long-term debt, net of current maturities | **34,061,000** | 18,071,000 |
| Deferred income taxes | **22,431,000** | 16,262,000 |
| Other non-current liabilities | **6,644,000** | 5,834,000 |
| Total liabilities | **113,086,000** | 72,209,000 |
| Minority interests in consolidated subsidiaries | **49,035,000** | 44,644,000 |
| Commitments and contingencies (Notes 2 and 17) | | |
| Shareholders' equity: | | |
| Preferred Stock, $.01 par value per share; 10,000,000 shares authorized; 300,000 shares designated as Series B Junior Participating Preferred Stock and 300,000 shares designated as Series C Junior Participating Preferred Stock; none issued | **–** | – |
| Common Stock, $.01 par value per share; 30,000,000 shares authorized; 10,057,690 and 9,898,451 shares issued and outstanding, respectively | **101,000** | 99,000 |
| Class A Common Stock, $.01 par value per share; 30,000,000 shares authorized; 14,517,669 and 14,325,304 shares issued and outstanding, respectively | **145,000** | 143,000 |
| Capital in excess of par value | **192,523,000** | 187,950,000 |
| Accumulated other comprehensive loss | **(65,000)** | – |
| Retained earnings | **80,799,000** | 59,210,000 |
| Total shareholders' equity | **273,503,000** | 247,402,000 |
| Total liabilities and shareholders' equity | **$ 435,624,000** | $ 364,255,000 |

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

## Consolidated Statements of Operations

| For the year ended October 31, | 2005 | 2004 | 2003 |
|---|---|---|---|
| Net sales | **$ 269,647,000** | $ 215,744,000 | $ 176,453,000 |
| Operating costs and expenses: | | | |
| Cost of sales | **168,651,000** | 139,932,000 | 118,349,000 |
| Selling, general and administrative expenses | **56,347,000** | 43,193,000 | 34,899,000 |
| Total operating costs and expenses | **224,998,000** | 183,125,000 | 153,248,000 |
| Operating income | **44,649,000** | 32,619,000 | 23,205,000 |
| Interest expense | **(1,136,000)** | (1,090,000) | (1,189,000) |
| Interest and other income | **528,000** | 26,000 | 93,000 |
| Life insurance proceeds | **–** | 5,000,000 | – |
| Income before income taxes and minority interests | **44,041,000** | 36,555,000 | 22,109,000 |
| Income tax expense | **16,100,000** | 10,948,000 | 7,872,000 |
| Income before minority interests | **27,941,000** | 25,607,000 | 14,237,000 |
| Minority interests' share of income | **5,129,000** | 4,977,000 | 2,015,000 |
| Net income | **$ 22,812,000** | $ 20,630,000 | $ 12,222,000 |
| Net income per share: | | | |
| Basic | **$ .93** | $ .86 | $ .53 |
| Diluted | **$ .87** | $ .80 | $ .50 |
| Weighted average number of common shares outstanding: | | | |
| Basic | **24,460,185** | 24,036,980 | 23,236,841 |
| Diluted | **26,323,302** | 25,754,598 | 24,531,280 |

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

## Consolidated Statements of Shareholders' Equity and Comprehensive Income

| | Common Stock | Class A Common Stock |
|---|---|---|
| Balances as of October 31, 2002 | $ 94,000 | $ 116,000 |
| Net income | | |
| Comprehensive income | | |
| Proceeds from shares of common stock sold in connection with business acquisition (Note 17) | | |
| Cash dividends ($.045 per share) | | |
| Tax benefit from stock options exercises | | |
| Proceeds from stock option exercises | 3,000 | 1,000 |
| Repurchase of common stock | | |
| Other | | |
| Balances as of October 31, 2003 | 97,000 | 117,000 |
| 10% stock dividend on Common Stock and Class A Common Stock paid in shares of Class A Common Stock (Note 7) | | 22,000 |
| Net income | | |
| Comprehensive income | | |
| Shares issued in connection with business acquisition (Note 2) | | 3,000 |
| Proceeds from shares of common stock sold in connection with business acquisition (Note 17) | | |
| Adjustment to guaranteed resale value of common stock issued in connection with business acquisition (Note 17) | | |
| Cash dividends ($.05 per share) | | |
| Tax benefit from stock options exercises | | |
| Proceeds from stock option exercises | 2,000 | 2,000 |
| Other | | (1,000) |
| Balances as of October 31, 2004 | 99,000 | 143,000 |
| Net income | | |
| Foreign currency translation adjustment (Note 1) | | |
| Comprehensive income | | |
| Cash dividends ($.05 per share) | | |
| Tax benefit from stock options exercises | | |
| Proceeds from stock option exercises | 2,000 | 2,000 |
| Other | | |
| Balances as of October 31, 2005 | $ 101,000 | $ 145,000 |

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

| Capital in Excess of Par Value | Accumulated Other Comprehensive Loss | Retained Earnings | Note Receivable | Comprehensive Income |
|---|---|---|---|---|
| $ 153,847,000 | $ – | $ 58,007,000 | $ (5,000,000) | |
| | | 12,222,000 | | $ 12,222,000 |
| | | | | $ 12,222,000 |
| | | | 2,068,000 | |
| | | (1,055,000) | | |
| 348,000 | | | | |
| 985,000 | | | | |
| (120,000) | | | | |
| 4,000 | | (2,000) | | |
| 155,064,000 | – | 69,172,000 | (2,932,000) | |
| 29,342,000 | | (29,393,000) | | |
| | | 20,630,000 | | $ 20,630,000 |
| | | | | $ 20,630,000 |
| 2,997,000 | | | | |
| | | | 1,259,000 | |
| (1,673,000) | | | 1,673,000 | |
| | | (1,201,000) | | |
| 1,258,000 | | | | |
| 959,000 | | | | |
| 3,000 | | 2,000 | | |
| 187,950,000 | – | 59,210,000 | – | |
| | | 22,812,000 | | $ 22,812,000 |
| | (65,000) | | | (65,000) |
| | | | | $ 22,747,000 |
| | | (1,224,000) | | |
| 2,830,000 | | | | |
| 1,742,000 | | | | |
| 1,000 | | 1,000 | | |
| $ 192,523,000 | $ (65,000) | $ 80,799,000 | $ – | |

# Consolidated Statements of Cash Flows

| For the year ended October 31, | 2005 | 2004 | 2003 |
|---|---|---|---|
| Operating Activities: | | | |
| Net income | **$ 22,812,000** | $ 20,630,000 | $ 12,222,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | **7,409,000** | 6,779,000 | 6,720,000 |
| Deferred income tax provision | **3,031,000** | 4,125,000 | 3,520,000 |
| Minority interests' share of income | **5,129,000** | 4,977,000 | 2,015,000 |
| Tax benefit from stock option exercises | **2,830,000** | 1,258,000 | 348,000 |
| Change in estimate of product warranty liability | **–** | (535,000) | – |
| Restructuring expense related to inventory write-downs | **–** | 350,000 | – |
| Changes in assets and liabilities, net of acquisitions: | | | |
| Increase in amounts receivable | **(6,852,000)** | (6,193,000) | (101,000) |
| (Increase) decrease in inventories | **(10,113,000)** | 3,576,000 | 3,705,000 |
| (Increase) decrease in prepaid expenses and other current assets | **(119,000)** | 263,000 | 999,000 |
| Increase (decrease) in trade account payables, accrued expenses and other current liabilities | **9,548,000** | 6,036,000 | (1,390,000) |
| Increase in income taxes payable | **2,163,000** | 2,951,000 | 820,000 |
| Other | **(30,000)** | (167,000) | 6,000 |
| Net cash provided by operating activities | **35,808,000** | 44,050,000 | 28,864,000 |
| Investing Activities: | | | |
| Acquisitions and related costs, net of cash acquired | **(41,500,000)** | (28,099,000) | (1,554,000) |
| Capital expenditures | **(8,273,000)** | (5,737,000) | (4,723,000) |
| Proceeds from sale of building held for sale | **3,520,000** | – | – |
| Other | **357,000** | (335,000) | 85,000 |
| Net cash used in investing activities | **(45,896,000)** | (34,171,000) | (6,192,000) |
| Financing Activities: | | | |
| Borrowings on revolving credit facility | **37,000,000** | 27,000,000 | – |
| Payments on revolving credit facility | **(21,000,000)** | (41,000,000) | (24,000,000) |
| Cash dividends paid | **(1,224,000)** | (1,201,000) | (1,055,000) |
| Proceeds from stock option exercises | **1,746,000** | 963,000 | 989,000 |
| Proceeds from shares of common stock in connection with business acquisition | **–** | 1,259,000 | 2,068,000 |
| Repurchases of common stock | **–** | – | (120,000) |
| Other | **(1,300,000)** | (1,007,000) | (772,000) |
| Net cash provided by (used in) financing activities | **15,222,000** | (13,986,000) | (22,890,000) |
| Effect of exchange rate changes on cash | **(18,000)** | – | – |
| Net increase (decrease) in cash and cash equivalents | **5,116,000** | (4,107,000) | (218,000) |
| Cash and cash equivalents at beginning of year | **214,000** | 4,321,000 | 4,539,000 |
| Cash and cash equivalents at end of year | **$ 5,330,000** | $ 214,000 | $ 4,321,000 |

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

# Notes to Consolidated Financial Statements

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Nature of Business

HEICO Corporation, through its principal subsidiaries HEICO Aerospace Holdings Corp. (HEICO Aerospace) and HEICO Electronic Technologies Corp. (HEICO Electronic) and their subsidiaries (collectively, the Company), is principally engaged in the design, manufacture and sale of aerospace, defense, and electronics related products and services throughout the United States and internationally. HEICO Aerospace's principal subsidiaries include HEICO Aerospace Corporation, Jet Avion Corporation, LPI Industries Corporation, Aircraft Technology, Inc., Northwings Accessories Corporation, McClain International, Inc., Rogers-Dierks, Inc., Turbine Kinetics, Inc., Thermal Structures, Inc., Future Aviation, Inc., Aero Design, Inc., HEICO Aerospace Parts Corp., Aviation Facilities, Inc., Jetseal, Inc. and Niacc-Avitech Technologies Inc. HEICO Electronic's principal subsidiaries include Radiant Power Corp., Leader Tech, Inc., Santa Barbara Infrared, Inc., Analog Modules, Inc., Inertial Airline Services, Inc., Sierra Microwave Technology, LLC, Connectronics Corporation, Lumina Power, Inc. and HVT Group, Inc. The Company's customer base is primarily the commercial airline, defense, space and electronics industries. As of October 31, 2005, the Company's principal operations are located in Glastonbury, Connecticut; Atlanta, Georgia; Chelmsford and Peabody, Massachusetts; Cleveland and Toledo, Ohio; Georgetown, Texas; Mt. Juliet, Tennessee; Anacortes and Spokane, Washington; Corona, Fresno, and Santa Barbara, California; Fort Myers, Hollywood, Miami, Orlando, Sarasota, Tampa and Titusville, Florida; and Great Dunmow, U.K.

### Basis of Presentation

The consolidated financial statements include the accounts of HEICO Corporation and its subsidiaries, all of which are wholly-owned except for HEICO Aerospace, which is 20%-owned by Lufthansa Technik AG, the technical services subsidiary of Lufthansa German Airlines, and two subsidiaries within HEICO Electronic, which are 80% and 85% owned, respectively. In addition, HEICO Aerospace consolidates a joint venture formed in March 2001, which is 16%-owned by American Airlines' parent company, AMR Corporation, and an 80%-owned subsidiary. (See Note 2, Acquisitions, of the Notes to Consolidated Financial Statements.) All significant intercompany balances and transactions are eliminated.

### Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Cash and Cash Equivalents

For purposes of the consolidated financial statements, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

### Inventory

Inventory is stated at the lower of cost or market, with cost being determined on the first-in, first-out or the average cost basis. Losses, if any, are recognized fully in the period when identified.

### Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation and amortization is provided mainly on the straight-line method over the estimated useful lives of the various assets. Property, plant and equipment useful lives are as follows:

| | |
|---|---|
| Buildings and improvements | 20 to 55 years |
| Leasehold improvements | 2 to 20 years |
| Machinery and equipment | 3 to 10 years |
| Tooling | 2 to 5 years |

The costs of major additions and improvements are capitalized. Leasehold improvements are amortized over the shorter of the leasehold improvement's useful life or the lease term. Repairs and maintenance are charged to operations as incurred. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and any related gain or loss is reflected in earnings.

## Notes to Consolidated Financial Statements

**Goodwill and Other Intangible Assets**

The Company tests goodwill for impairment annually as of October 31 or more frequently if events or changes in circumstances indicate that the carrying amount of goodwill may not be fully recoverable. The test requires the Company to compare the fair value of each of its reporting units to its carrying value to determine potential impairment. If the carrying value of a reporting unit exceeds its fair value, the implied fair value of that reporting unit's goodwill is to be calculated and an impairment loss shall be recognized in the amount by which the carrying value of a reporting unit's goodwill exceeds its implied fair value, if any.

The Company's intangible assets subject to amortization consist primarily of licenses, patents and non-compete agreements and are amortized on the straight-line method over the following estimated useful lives:

| | |
|---|---|
| Licenses | 12 to 17 years |
| Patents | 10 to 17 years |
| Non-compete agreements | 2 to 7 years |

The Company's intangible assets not subject to amortization consist of trade names. The Company tests each non-amortizing asset for impairment annually as of October 31, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The test consists of a comparison of the fair value of each intangible asset to its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess.

**Financial Instruments**

The carrying amounts of cash and cash equivalents, accounts receivable, trade accounts payable and accrued expenses and other current liabilities approximate fair value due to the relatively short maturity of the respective instruments. The carrying value of long-term debt approximates fair market value due to its floating interest rates.

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and trade receivables. The Company places its temporary cash investments with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base, and their dispersion across many different geographical regions.

Long-term investments (included within other assets in the Company's Consolidated Balance Sheets) are stated at fair value based on quoted market prices.

**Interest Rate Swap Agreements**

Periodically, the Company enters into interest rate swap agreements to manage interest expense related to its revolving credit facility. Interest rate risk associated with the Company's variable rate revolving credit facility is the potential increase in interest expense from an increase in interest rates. A derivative instrument (e.g. interest rate swap agreement) that hedges the variability of cash flows related to a recognized liability is designated as a cash flow hedge.

On an ongoing basis, the Company assesses whether derivative instruments used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items and therefore qualify as cash flow hedges. For a derivative instrument that qualifies as a cash flow hedge, the effective portion of changes in fair value of the derivative is deferred and recorded as a component of other comprehensive income until the hedged transaction occurs and is recognized in earnings. All other portions of changes in the fair value of a cash flow hedge are recognized in earnings immediately.

The Company did not enter into any interest rate swap agreements in fiscal 2005, 2004 or 2003.

**Product Warranties**

Product warranty liabilities are estimated at the time of shipment and recorded as a component of accrued expenses and other current liabilities in the Company's Consolidated Balance Sheets. The amount recognized is based on historical claims cost experience.

**Revenue Recognition**

Revenue is recognized on an accrual basis, primarily upon the shipment of products and the rendering of services. Revenue from certain fixed price contracts for which costs can be dependably estimated is recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs

## Notes to Consolidated Financial Statements

for each contract. Revisions in cost estimates as contracts progress have the effect of increasing or decreasing profits in the period of revision. For fixed price contracts in which costs cannot be dependably estimated, revenue is recognized on the completed-contract method. A contract is considered complete when all costs except insignificant items have been incurred or the item has been accepted by the customer. The aggregate effects of changes in estimates relating to inventories and/or long-term contracts did not have a significant effect on net income or diluted net income per share in fiscal 2005, 2004 or 2003. Revenues earned from rendering services represented less than 10% of consolidated net sales for all periods presented.

**Long-term Contracts**

Accounts receivable and accrued expenses and other current liabilities include amounts related to the production of products under fixed-price contracts exceeding terms of one year. Revenues are recognized on the percentage-of-completion method for certain of these contracts, measured by the percentage of costs incurred to date to estimated total costs for each contract. This method is used because management considers costs incurred to be the best available measure of progress on these contracts. Revenues are recognized on the completed-contract method for certain other contracts. This method is used when the Company does not have adequate historical data to ensure that estimates are reasonably dependable.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation costs. Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Variations in actual labor performance, changes to estimated profitability and final contract settlements may result in revisions to cost estimates and are recognized in income in the period in which the revisions are determined.

The asset, “costs and estimated earnings in excess of billings” on uncompleted percentage-of-completion contracts, included in accounts receivable, represents revenues recognized in excess of amounts billed. The liability, “billings in excess of costs and estimated earnings,” included in accrued expenses and other current liabilities, represents billings in excess of revenues recognized on contracts accounted for under either the percentage-of-completion method or the completed-contract method. Billings are made based on the completion of certain milestones as provided for in the contracts.

**Income Taxes**

Deferred income taxes are provided on elements of income that are recognized for financial accounting purposes in periods different from periods recognized for income tax purposes.

**Net Income Per Share**

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period plus potentially dilutive common shares arising from the assumed exercise of stock options, if dilutive. The dilutive impact of potentially dilutive common shares is determined by applying the treasury stock method.

**Foreign Currency Translation**

All assets and liabilities of foreign subsidiaries that do not utilize the United States dollar as its functional currency are translated at year-end rates of exchange, while revenues and expenses are translated at monthly weighted average rates of exchange for the year. Unrealized translation gains or losses are reported as foreign currency translation adjustments through other comprehensive income (loss) in shareholders’ equity.

**Stock Based Compensation**

The Company accounts for stock-based employee compensation using the intrinsic value method. Accordingly, compensation expense has been recorded in the accompanying consolidated financial statements for any stock options granted below fair market value of the underlying stock as of the date of grant. The following table illustrates the pro forma effects on net income and net income per share as if the Company had applied the fair-value recognition provisions (an alternative method) to stock-based employee compensation. The fair value of each option grant is estimated as of the date of grant using the Black-Scholes option-pricing model.

## Notes to Consolidated Financial Statements

| For the year ended October 31, | 2005 | 2004 | 2003 |
|---|---|---|---|
| Net income, as reported | **$ 22,812,000** | $ 20,630,000 | $ 12,222,000 |
| Add: Stock-based employee compensation expense included in reported net income, net of tax | **2,000** | 2,000 | 3,000 |
| Deduct: Stock-based employee compensation expense determined under a fair value method, net of tax | **(1,162,000)** | (1,481,000) | (1,724,000) |
| Pro forma net income | **$ 21,652,000** | $ 19,151,000 | $ 10,501,000 |
| Net income per share: | | | |
| Basic – as reported | **$ .93** | $ .86 | $ .53 |
| Basic – pro forma | **$ .89** | $ .80 | $ .45 |
| Diluted – as reported | **$ .87** | $ .80 | $ .50 |
| Diluted – pro forma | **$ .82** | $ .74 | $ .43 |

**Contingencies**

Losses for contingencies such as product warranties, litigation and environmental matters are recognized in income when they are probable and can be reasonably estimated. Gain contingencies are not recognized in income until they have been realized.

**New Accounting Pronouncements**

In November 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4". SFAS No. 151 requires the allocation of fixed production overhead costs be based on the normal capacity of the production facilities and unallocated overhead costs recognized as an expense in the period incurred. The Statement also clarifies that abnormal inventory costs such as costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage) are required to be recognized as current period charges. The provisions of SFAS No. 151 are effective for fiscal years beginning after June 15, 2005. The Company does not expect the adoption of the Statement will have a material effect on its results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment". This Statement revises SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ("SAB 107") to provide public companies with its interpretive guidance in applying the provisions of SFAS No. 123(R). SFAS No. 123(R) focuses primarily on the accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) requires companies to recognize in the statement of operations the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions). This Statement is effective for fiscal years beginning after June 15, 2005; therefore, the Company plans to adopt the new requirements in its first quarter of fiscal 2006. Based on the number of stock options outstanding as of October 31, 2005 and the insignificant number of stock options granted during the last two fiscal years, the Company expects the net income effect in fiscal 2006 from the adoption of SFAS No. 123(R) and SAB 107 to be less than the fiscal 2005 pro forma effect included in the table under the Stock Based Compensation section of this Note 1.

In December 2004, the FASB issued Staff Position No. FAS 109-1 ("FSP FAS No. 109-1"), "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004". FSP FAS No. 109-1 states that qualified production activities should be accounted for as a special deduction under SFAS No. 109 and not be treated as a rate reduction. Accordingly, the special deduction has no effect on the Company's deferred tax assets and liabilities existing as of the enactment date. The Company is currently evaluating the impact of the American Jobs Creation Act of 2004, which will allow the Company to claim a deduction from taxable income attributable to qualified domestic production activities beginning in fiscal 2006.

## Notes to Consolidated Financial Statements

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29". SFAS No. 153 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The Statement eliminates the exception of nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance (i.e. the future cash flows of the entity are not expected to change significantly as a result of the exchange). The provisions of SFAS No. 153 are effective as of the first reporting period beginning after June 15, 2005. The adoption of SFAS No. 153 did not have a material effect on the Company's results of operations or financial position.

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

In September 2005, the Emerging Issues Task Force ("EITF") reached a consensus on issue EITF 05-6, "Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination". EITF 05-6 resolves that leasehold improvements that are placed in service significantly after and not contemplated at or near the beginning of the lease term or that are acquired in a business combination should be amortized over the shorter of the useful life of the assets or a term that includes the required lease periods and renewals that are deemed to be reasonably assured as of the date the leasehold improvements are purchased or the date of acquisition, as applicable. EITF 05-6 is effective the first reporting period beginning after June 29, 2005. The adoption of EITF 05-6 did not have a material effect on the Company's results of operations or financial position.

### NOTE 2. ACQUISITIONS

In May 2003, the Company, through a subsidiary, acquired substantially all of the assets and liabilities of Niacc Technology, Inc. (Niacc). Niacc is engaged in the repair and overhaul of aircraft components and accessories principally serving the regional commuter and business aircraft market. The Company paid the purchase price of this acquisition primarily by using proceeds from its revolving credit facility.

In December 2003, the Company, through its HEICO Electronic Technologies Corp. subsidiary, acquired an 80% interest in the assets and business of Sierra Microwave Technology, Inc., (Sierra). Under the transaction, the Company formed a new subsidiary, Sierra Microwave Technology, LLC (Sierra LLC), which acquired substantially all of the assets and assumed certain liabilities of Sierra. The new subsidiary is owned 80% by the Company and 20% by certain members of Sierra's management group. The purchase price was principally paid in cash using proceeds from the Company's revolving credit facility and with shares of HEICO's Class A Common Stock. Sierra LLC is engaged in the design and manufacture of certain niche microwave components used in satellites and military products. As part of the agreement to acquire an 80% interest in Sierra, the Company has the right to purchase the minority interests beginning at approximately the tenth anniversary of the acquisition, or sooner under certain conditions, and the minority holders have the right to cause the Company to purchase their interests commencing at approximately the fifth anniversary of the acquisition, or sooner under certain conditions.

In December 2004, the Company, through its HEICO Electronic Technologies Corp. subsidiary, acquired substantially all of the assets and assumed certain liabilities of Connectronics, Corp. and its affiliate, Wiremax, Ltd. (collectively "Connectronics"). The purchase price was principally paid in cash using proceeds from the Company's revolving credit facility. Subject to meeting certain earnings objectives during the first four years following the acquisition, the Company may be obligated to pay additional purchase consideration of up to $3.8 million in aggregate. The Company accrued $2.2 million of such additional purchase consideration as of October 31, 2005 based on the year-to-date earnings of Connectronics relative to its target, which it expects to pay in fiscal 2006. Connectronics is engaged in the production of specialty high voltage interconnection devices and wire primarily for defense applications and other markets.

# Notes to Consolidated Financial Statements

In February 2005, the Company, through its HEICO Electronic Technologies Corp. subsidiary, acquired substantially all of the assets and assumed certain liabilities of Lumina Power, Inc. (Lumina). The purchase price was principally paid in cash using proceeds from the Company's revolving credit facility. Subject to meeting certain product line-related earnings objectives during the fourth and fifth years following the acquisition, the Company may be obligated to pay additional purchase consideration after the fifth year, which is currently estimated to total up to $2.3 million. The additional purchase consideration will be accrued when the earnings objectives are met. Lumina is engaged in the design and manufacture of power supplies for the laser industry.

In September 2005, the Company, through its HEICO Electronic Technologies Corp. subsidiary, acquired an 85% interest in the stock of HVT Group, Inc., (HVT). The remaining 15% interest is held by certain members of HVT's management group. The purchase price was principally paid in cash using proceeds from the Company's revolving credit facility. As part of the agreement to acquire an 85% interest in HVT, the minority holders have the right to cause the Company to purchase their interests over a four-year period starting around the second anniversary of the acquisition, or sooner under certain conditions. HVT is a leading provider of very high voltage interconnection devices and cable assemblies for the medical equipment, defense and industrial markets.

In September 2005, the Company, through its HEICO Aerospace Holdings Corp. subsidiary, acquired certain assets and assumed certain liabilities in an aerospace and defense product line acquisition, which will be used in the operations of one of its existing subsidiaries. The purchase price was paid in cash provided by operating activities.

The Company also accrued additional purchase consideration aggregating $.8 million as of October 31, 2005 in accordance with the agreements related to the Connectronics and HVT acquisitions based principally on the actual value of net assets acquired. The Company expects to pay this amount in fiscal 2006.

All of the acquisitions described above were accounted for using the purchase method of accounting and the results of each company were included in the Company's results from their effective purchase dates. The purchase price of each acquisition was not significant to the Company's consolidated financial statements individually or in aggregate and the pro forma consolidated operating results assuming each acquisition had been consummated as of the beginning of its respective fiscal year would not have been materially different from the reported results. The costs of each acquisition have been allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the date of acquisition as determined by management. The allocation of the purchase price of HVT to the tangible and identifiable intangible assets acquired and liabilities assumed in these consolidated financial statements is preliminary until the Company obtains final information regarding their fair values. The excess of the purchase price over the net of the amounts assigned to assets acquired and liabilities assumed has been recorded as goodwill (See Note 18, Supplemental Disclosures of Cash Flow Information, of the Notes to Consolidated Financial Statements). The aggregate cost of acquisitions, including payments made in cash and with shares of the Company's common stock and contingent payments, was $41.5 million, $31.1 million and $1.6 million in fiscal 2005, 2004 and 2003, respectively.

## NOTE 3. SELECTED FINANCIAL STATEMENT INFORMATION

**Accounts Receivable**

| **As of October 31,** | **2005** | **2004** |
|---|---|---|
| Accounts receivable | **$ 49,816,000** | $ 37,380,000 |
| Less: Allowance for doubtful accounts | **(2,148,000)** | (582,000) |
| Accounts receivable, net | **$ 47,668,000** | $ 36,798,000 |

The $1.6 million net increase in the Company's allowance for doubtful accounts in fiscal 2005 is principally as a result of bankruptcy filings in the fourth quarter by certain customers in the aviation industry. The associated charge is included in selling, general and administrative expenses in the Company's Consolidated Statements of Operations. (See Note 15, Quarterly Financial Information, of the Notes to Consolidated Financial Statements). The 30% increase in accounts receivable from $36.8 million as of October 31, 2004 to $47.7 million as of October 31, 2005 exceeds the 25% increase the Company experienced in net sales during fiscal 2005 as accounts receivable as of October 31, 2005 reflects the full impact of the fiscal 2005 acquisitions, which only affected net sales since their respective acquisition dates.

## Notes to Consolidated Financial Statements

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

| As of October 31, | 2005 | 2004 |
|---|---|---|
| Costs incurred on uncompleted contracts | $ 18,344,000 | $ 14,798,000 |
| Estimated earnings | 11,252,000 | 8,686,000 |
| | 29,596,000 | 23,484,000 |
| Less: Billing to date | (21,747,000) | (19,663,000) |
| | $ 7,849,000 | $ 3,821,000 |
| Included in accompanying consolidated balance sheets under the following captions: | | |
| Accounts receivable, net (costs and estimated earnings in excess of billings) | $ 7,889,000 | $ 4,612,000 |
| Accrued expenses and other current liabilities (billings in excess of costs and estimated earnings) | (40,000) | (791,000) |
| | $ 7,849,000 | $ 3,821,000 |

Changes in estimates did not have a material effect on net income or diluted net income per share in fiscal 2005, 2004, or 2003.

**Inventories**

| As of October 31, | 2005 | 2004 |
|---|---|---|
| Finished products | $ 26,136,000 | $ 19,838,000 |
| Work in process | 12,634,000 | 9,597,000 |
| Materials, parts, assemblies and supplies | 23,988,000 | 18,585,000 |
| Inventories, net | $ 62,758,000 | $ 48,020,000 |

Inventories related to long-term contracts were not significant as of October 31, 2005 and 2004.

During the second quarter of fiscal 2005, the Company reclassified certain inventory (with a carrying value of $4.5 million) within one of its repair and overhaul subsidiaries from finished products to materials, parts, assemblies and supplies based on a review of how the inventory is utilized in its operations. Inventory balances as of October 31, 2004 (also with a carrying value of $4.5 million) have been reclassified to conform to the current year presentation.

**Property, Plant and Equipment**

| As of October 31, | 2005 | 2004 |
|---|---|---|
| Land | $ 3,155,000 | $ 2,157,000 |
| Buildings and improvements | 25,344,000 | 20,007,000 |
| Machinery, equipment and tooling | 53,460,000 | 55,869,000 |
| Construction in progress | 3,128,000 | 2,239,000 |
| | 85,087,000 | 80,272,000 |
| Less: Accumulated depreciation and amortization | (38,424,000) | (39,714,000) |
| Property, plant and equipment, net | $ 46,663,000 | $ 40,558,000 |

The amounts set forth above include tooling costs having a net book value of $3,441,000 and $3,652,000 as of October 31, 2005 and 2004, respectively. Amortization expense on capitalized tooling was $1,346,000, $1,484,000 and $1,639,000 for the fiscal years ended October 31, 2005, 2004 and 2003, respectively. Expenditures for capitalized tooling costs were $885,000, $955,000 and $952,000 in fiscal 2005, 2004 and 2003, respectively.

Depreciation and amortization expense, exclusive of tooling, on property, plant and equipment, amounted to approximately $5,574,000, $4,841,000 and $4,659,000 for the fiscal years ended October 31, 2005, 2004 and 2003, respectively.

# Notes to Consolidated Financial Statements

Included in the Company's property, plant and equipment is rotable equipment located at various customer locations in connection with certain repair and maintenance agreements. The rotables are stated at a net book value of $3,256,000 and $3,781,000 as of October 31, 2005 and 2004, respectively. Under the terms of the agreements, the customers may purchase the equipment at specified prices, which are no less than net book value, upon termination of the agreements. The equipment is currently being depreciated over its estimated life.

In January 2005, the Company received proceeds of $3,520,000 from the sale of vacated building and associated land previously classified as held for sale. The $3,468,000 carrying value of the property was included within other assets in the Company's Consolidated Balance Sheet as of October 31, 2004.

**Accrued Expenses and Other Current Liabilities**

| As of October 31, | 2005 | 2004 |
|---|---|---|
| Accrued employee compensation and related payroll taxes | **$ 13,794,000** | $ 9,105,000 |
| Accrued customer rebates and credits | **8,222,000** | 5,961,000 |
| Accrued additional purchase consideration | **3,045,000** | – |
| Other | **7,412,000** | 5,178,000 |
| Total accrued expenses and other current liabilities | **$ 32,473,000** | $ 20,244,000 |

**Other Non-Current Liabilities**

Other non-current liabilities include deferred compensation of $5,847,000 and $5,216,000 as of October 31, 2005 and 2004, respectively, principally related to elective deferrals of salary and bonuses under a Company sponsored non-qualified deferred compensation plan available to selected employees. The Company makes no contributions to this plan. The assets of this plan related to this deferred compensation liability are held within an irrevocable trust and classified within other assets (long-term) in the accompanying Consolidated Balance Sheets.

## NOTE 4. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company has two operating segments: the Flight Support Group (FSG) and the Electronic Technologies Group (ETG). Changes in the carrying amount of goodwill during fiscal 2005 and 2004 by operating segment are as follows:

| | Segment | | Consolidated |
|---|---|---|---|
| | FSG | ETG | Totals |
| Balances as of October 31, 2003 | $ 119,729,000 | $ 68,971,000 | $ 188,700,000 |
| Goodwill acquired | – | 27,349,000 | 27,349,000 |
| Adjustments to goodwill | 559,000 | 66,000 | 625,000 |
| Balances as of October 31, 2004 | 120,288,000 | 96,386,000 | 216,674,000 |
| Goodwill acquired | 1,092,000 | 26,757,000 | 27,849,000 |
| Accrued additional purchase consideration | – | 3,045,000 | 3,045,000 |
| Adjustments to goodwill | 661,000 | – | 661,000 |
| Balances as of October 31, 2005 | $ 122,041,000 | $ 126,188,000 | $ 248,229,000 |

The goodwill acquired and accrued additional purchase consideration during fiscal 2005 are a result of the Company's acquisitions described in Note 2, Acquisitions, of the Notes to Consolidated Financial Statements. Adjustments to goodwill consist primarily of additional purchase price payments and contingent purchase price payments to previous owners of acquired businesses.

## Notes to Consolidated Financial Statements

Identifiable intangible assets, which are recorded within other assets in the Company's Consolidated Balance Sheets, consist of:

| As of October 31, | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| Amortizing Assets | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Licenses | $ 1,000,000 | $ (252,000) | $ 748,000 | $ 1,000,000 | $ (178,000) | $ 822,000 |
| Patents | 477,000 | (60,000) | 417,000 | 338,000 | (32,000) | 306,000 |
| Non-compete agreements | 660,000 | (129,000) | 531,000 | 110,000 | (49,000) | 61,000 |
| | 2,137,000 | (441,000) | 1,696,000 | 1,448,000 | (259,000) | 1,189,000 |
| Non-Amortizing Assets | | | | | | |
| Trade names | 3,650,000 | – | 3,650,000 | – | – | – |
| | $ 5,787,000 | $ (441,000) | $ 5,346,000 | $ 1,448,000 | $ (259,000) | $ 1,189,000 |

The increase in the gross carrying amount of non-compete agreements and trade names as of October 31, 2005 compared to October 31, 2004 principally relates to such intangible assets recognized in connection with fiscal 2005 acquisitions. (See Note 2, Acquisitions, and Note 18, Supplemental Disclosures of Cash Flow Information, of the Notes to Consolidated Financial Statements.) The weighted average amortization period of the non-compete agreements acquired in fiscal 2005 is approximately six years. Acquisitions of intangible assets were not significant in fiscal 2004.

Amortization expense of other intangible assets was $193,000, $112,000 and $98,000 for the fiscal years ended October 31, 2005, 2004 and 2003, respectively. Amortization expense for each of the next five fiscal years is expected to be $259,000 in fiscal 2006, $196,000 in fiscal 2007, $180,000 in fiscal 2008, $166,000 in fiscal 2009, and $166,000 in fiscal 2010.

### NOTE 5. LONG-TERM DEBT

Long-term debt consists of:

| As of October 31, | 2005 | 2004 |
|---|---|---|
| Borrowings under revolving credit facility | **$ 32,000,000** | $ 16,000,000 |
| Industrial Development Revenue Refunding Bonds – Series 1988 | **1,980,000** | 1,980,000 |
| Capital leases and equipment loans | **144,000** | 149,000 |
| | **34,124,000** | 18,129,000 |
| Less: Current maturities of long-term debt | **(63,000)** | (58,000) |
| | **$ 34,061,000** | $ 18,071,000 |

The aggregate amount of long-term debt maturing by fiscal year is $63,000 in fiscal 2006, $39,000 in fiscal 2007, $1,995,000 in fiscal 2008, $18,000 in fiscal 2009, and $32,009,000 in fiscal 2010.

**Revolving Credit Facility**

In August 2005, the Company amended its revolving credit facility by entering into a $130 million Amended and Restated Revolving Credit Agreement ("Credit Facility") with a bank syndicate, which expires in August 2010. The Credit Facility includes a feature that will allow the Company to increase the Credit Facility, at its option, up to an aggregate amount of $175 million through increased commitments from existing lenders or the addition of new lenders. The Credit Facility may be used for working capital and general corporate needs of the Company, including letters of credit, capital expenditures and to finance acquisitions (generally not in excess of an aggregate total of $50 million over any trailing twelve-month period without the requisite approval of the bank syndicate). Advances under the Credit Facility accrue interest at the Company's choice of the "Base Rate" or the London Interbank

## Notes to Consolidated Financial Statements

Offered Rate (LIBOR) plus applicable margins (based on the Company's ratio of total funded debt to earnings before interest, taxes, depreciation and amortization, minority interest, and non-cash charges or "leverage ratio"). The Base Rate is the higher of (i) the Prime Rate or (ii) the Federal Funds rate plus .50%. The applicable margins range from .75% to 2.00% for LIBOR based borrowings and from .00% to .50% for Base Rate based borrowings. A fee is charged on the amount of the unused commitment ranging from .20% to .50% (depending on the Company's leverage ratio). The Credit Facility also includes a $10 million swingline sublimit and a $15 million sublimit for letters of credit. The Credit Facility is secured by substantially all assets other than real property of the Company and its subsidiaries and contains covenants that require, among other things, the maintenance of the leverage ratio and a fixed charge coverage ratio as well as minimum net worth requirements.

As of October 31, 2005 and 2004, the Company had a total of $32 million and $16 million, respectively, borrowed under its revolving credit facility at weighted average interest rates of 4.7% and 2.9%, respectively. The amounts were primarily borrowed to partially fund acquisitions (see Note 2, Acquisitions, of the Notes to Consolidated Financial Statements).

**Industrial Development Revenue Bonds**

The industrial development revenue bonds outstanding as of October 31, 2005 represent bonds issued by Broward County, Florida in 1988 (the 1988 bonds). The 1988 bonds are due April 2008 and bear interest at a variable rate calculated weekly (2.8% and 1.8% as of October 31, 2005 and 2004, respectively). The 1988 bonds as amended are secured by a $2.0 million letter of credit expiring April 2008 and a mortgage on the related properties pledged as collateral.

### NOTE 6. INCOME TAXES

The provision for income taxes on income before income taxes and minority interests for each of the three fiscal years ended October 31 is as follows:

| For the year ended October 31, | 2005 | 2004 | 2003 |
|---|---|---|---|
| Current: | | | |
| Federal | **$ 11,346,000** | $ 6,088,000 | $ 3,908,000 |
| State | **1,667,000** | 735,000 | 444,000 |
| Foreign | **56,000** | – | – |
| | **13,069,000** | 6,823,000 | 4,352,000 |
| Deferred | **3,031,000** | 4,125,000 | 3,520,000 |
| Total income tax expense | **$ 16,100,000** | $ 10,948,000 | $ 7,872,000 |

The following table reconciles the federal statutory tax rate to the Company's effective tax rate for each of the three fiscal years ended October 31:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Federal statutory tax rate | **35.0%** | 35.0% | 35.0% |
| State taxes, less applicable federal income tax reduction | **3.2** | 2.2 | 2.5 |
| Net tax benefit related to non-taxable life insurance proceeds | **–** | (4.8) | – |
| Net tax benefit on export sales | **(1.8)** | (2.3) | (2.3) |
| Net tax benefit (liability) on minority interest's share of income | **(.5)** | (.9) | .4 |
| Other, net | **.7** | .7 | – |
| Effective tax rate | **36.6%** | 29.9% | 35.6% |

## Notes to Consolidated Financial Statements

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company believes that it is more likely than not that it will generate sufficient future taxable income to utilize all of its deferred tax assets and has therefore not recorded a valuation allowance on any such asset. Significant components of the Company's deferred tax assets and liabilities are as follows:

| As of October 31, | 2005 | 2004 |
|---|---|---|
| Deferred tax assets: | | |
| Inventories | $ 4,268,000 | $ 3,744,000 |
| Deferred compensation liability | 2,286,000 | 2,096,000 |
| Allowance for doubtful accounts receivable | 810,000 | 187,000 |
| Customer rebates accrual | 739,000 | 623,000 |
| Capitalized research and development expenses | 502,000 | 709,000 |
| Other | 1,535,000 | 1,640,000 |
| Total deferred tax assets | $ 10,140,000 | $ 8,999,000 |
| Deferred tax liabilities: | | |
| Intangible asset amortization | 20,722,000 | 15,545,000 |
| Accelerated depreciation | 4,504,000 | 3,966,000 |
| Other | 127,000 | 78,000 |
| Total deferred tax liabilities | 25,353,000 | 19,589,000 |
| Net deferred tax liability | $ (15,213,000) | $ (10,590,000) |

The net deferred tax liability is classified on the balance sheet as follows:

| As of October 31, | 2005 | 2004 |
|---|---|---|
| Current asset | $ 7,218,000 | $ 5,672,000 |
| Long-term liability | (22,431,000) | (16,262,000) |
| Net deferred tax liability | $ (15,213,000) | $ (10,590,000) |

The increase in the net deferred tax liability from $10.6 million as of October 31, 2004 to $15.2 million as of October 31, 2005 is due to the $3.0 million deferred income tax expense for fiscal 2005 and $1.6 million in net deferred tax liabilities recognized in connection with an acquisition in fiscal 2005. The net deferred tax liabilities recognized principally relate to differences between the assigned values and the tax bases of identifiable intangible assets and property, plant and equipment acquired. No deferred tax assets or liabilities were recognized in connection with the Company's acquisitions in fiscal 2004 or 2003.

Certain individual holders of non-qualified stock options issued by the Company exchanged certain stock options for annuity contracts in 1999 – 2002. As a result, the recognition of compensation income otherwise reportable upon the exercise of stock options was deferred. Accordingly, the Company has reported the compensation income to the individuals for income tax purposes and taken the corresponding tax deduction on the Company's income tax returns beginning in fiscal 2004 on an installment basis over the lives of the annuity contracts. The individuals and the Company each are in discussions with the Internal Revenue Service, which could accelerate the income reportable by the individuals and accelerate the Company's corresponding compensation deduction benefit allowable on its income tax returns. If the income is accelerated, the Company would receive a tax refund of approximately $5 million, which would be recorded as a tax benefit from stock option exercises by increasing Capital in Excess of Par Value, a component of Shareholders' Equity in the Company's Consolidated Balance Sheets. Absent a resolution, the Company expects to continue to report the compensation income to the individuals and record the corresponding tax credit and increase in Capital in Excess of Par Value over the lives of the annuity contracts through fiscal 2016.

# Notes to Consolidated Financial Statements

## NOTE 7. SHAREHOLDERS' EQUITY

**Preferred Stock Purchase Rights Plan**

The Company's Board of Directors adopted, as of November 2, 2003, a new Shareholder Rights Agreement (the "2003 Plan") to replace the expiring one (the "1993 Plan"). Pursuant to the 2003 Plan, the Board declared a dividend of one preferred share purchase right for each outstanding share of Common Stock and Class A Common Stock (with the preferred share purchase rights collectively as "the Rights"). The Rights trade with the common stock and are not exercisable or transferable apart from the Common Stock and Class A Common Stock until after a person or group either acquires 15% or more of the outstanding common stock or commences or announces an intention to commence a tender offer for 15% or more of the outstanding common stock. Absent either of the aforementioned events transpiring, the Rights will expire as of the close of business on November 2, 2013.

The Rights have certain anti-takeover effects and, therefore, will cause substantial dilution to a person or group who attempts to acquire the Company on terms not approved by the Company's Board of Directors or who acquires 15% or more of the outstanding common stock without approval of the Company's Board of Directors. The Rights should not interfere with any merger or other business combination approved by the Board since they may be redeemed by the Company at $.01 per Right at any time until the close of business on the tenth day after a person or group has obtained beneficial ownership of 15% or more of the outstanding common stock or until a person commences or announces an intention to commence a tender offer for 15% or more of the outstanding common stock. The 2003 Plan also contains a provision to help ensure a potential acquiror pays all shareholders a fair price for the Company.

**Common Stock and Class A Common Stock**

Each share of Common Stock is entitled to one vote per share. Each share of Class A Common Stock is entitled to a 1/10 vote per share. Holders of the Company's Common Stock and Class A Common Stock are entitled to receive when, as and if declared by the Board of Directors, dividends and other distributions payable in cash, property, stock, or otherwise. In the event of liquidation, after payment of debts and other liabilities of the Company, and after making provision for the holders of preferred stock, if any, the remaining assets of the Company will be distributable ratably among the holders of all classes of common stock.

**Share Repurchases**

In accordance with the Company's share repurchase program, 22,000 shares of Class A Common Stock were repurchased at a total cost of $120,000 in fiscal 2003. No shares were repurchased in fiscal 2005 or 2004.

**Stock Dividend**

In January 2004, the Company paid a 10% stock dividend on both classes of common stock outstanding with shares of Class A Common Stock. The 10% dividend was valued based on the closing market price of the Company's Class A Common Stock as of the day prior to the declaration date. All net income per share, dividend per share, price and other data per share, exercise price, stock option, and common share data has been adjusted retroactively to give effect to the stock dividend.

## NOTE 8. STOCK OPTIONS

The Company currently has two stock option plans, the 2002 Stock Option Plan (2002 Plan) and the Non-Qualified Stock Option Plan under which stock options may be granted. The Company's 1993 Stock Option Plan (1993 Plan) terminated in March 2003 on the tenth anniversary of its effective date. No options may be granted under the 1993 Plan after such termination date; however, options outstanding as of the termination date may be exercised pursuant to their terms. In addition, the Company granted stock options to two former shareholders of an acquired business pursuant to employment agreements entered into in connection with the acquisition in fiscal 1999. A total of

## Notes to Consolidated Financial Statements

3,744,983 shares of the Company's stock are reserved for issuance to employees, directors, officers, and consultants as of October 31, 2005, including 3,588,680 shares currently under option and 156,303 shares available for future grants. Options issued under the 2002 Plan may be designated as incentive stock options or non-qualified stock options. Incentive stock options are granted with an exercise price of not less than 100% of the fair market value of the Company's common stock as of date of grant (110% thereof in certain cases) and are exercisable in percentages specified as of the date of grant over a period up to ten years. Only employees are eligible to receive incentive stock options. Non-qualified stock options under the 2002 Plan may be granted at less than fair market value and may be immediately exercisable. Options granted under the Non-Qualified Stock Option Plan may be granted with an exercise price of no less than the fair market value of the Company's common stock as of the date of grant and are generally exercisable in four equal annual installments commencing one year from the date of grant. The options granted pursuant to the 2002 Plan may be with respect to Common Stock and/or Class A Common Stock, in such proportions as shall be determined by the Board of Directors or the Stock Option Plan Committee in its sole discretion. The stock options granted to two former shareholders of an acquired business were fully vested and transferable as of the grant date and expire ten years from the date of grant. The exercise price of such options was the fair market value as of the date of grant. Options under all stock option plans expire not later than ten years after the date of grant, unless extended by the Stock Option Plan Committee or the Board of Directors.

Information concerning stock option activity for each of the three fiscal years ended October 31 is as follows:

| | | Shares Under Option | |
|---|---|---|---|
| | Shares Available For Grant | Shares | Weighted Average Exercise Price |
| Outstanding as of October 31, 2002 | 338,591 | 4,866,501 | $ 8.31 |
| Granted | (503,250) | 503,250 | $ 7.20 |
| Cancelled | 331,082 | (334,749) | $ 13.10 |
| Exercised | – | (586,327) | $ 2.30 |
| Outstanding as of October 31, 2003 | 166,423 | 4,448,675 | $ 8.62 |
| Granted | (10,000) | 10,000 | $ 13.19 |
| Cancelled | 880 | (20,332) | $ 12.26 |
| Exercised | – | (403,076) | $ 2.75 |
| Outstanding as of October 31, 2004 | 157,303 | 4,035,267 | $ 9.20 |
| Granted | (1,000) | 1,000 | $ 19.08 |
| Cancelled | – | (82,637) | $ 13.38 |
| Exercised | – | (364,950) | $ 5.36 |
| Outstanding as of October 31, 2005 | 156,303 | 3,588,680 | $ 9.50 |

## Notes to Consolidated Financial Statements

Information concerning stock options outstanding and stock options exercisable by class of common stock as of October 31, 2005 is as follows:

**Common Stock**

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Number Exercisable | Weighted Average Exercise Price |
| $ 1.16 – $ 2.90 | 111,182 | $ 1.84 | 0.9 | 111,182 | $ 1.84 |
| $ 2.91 – $ 7.00 | 308,017 | $ 4.75 | 0.7 | 308,017 | $ 4.75 |
| $ 7.01 – $ 12.00 | 642,250 | $ 8.99 | 5.6 | 459,249 | $ 9.32 |
| $ 12.01 – $ 21.92 | 479,501 | $ 14.43 | 5.2 | 403,501 | $ 14.50 |
| | 1,540,950 | $ 9.32 | 4.1 | 1,281,949 | $ 9.20 |

**Class A Common Stock**

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Number Exercisable | Weighted Average Exercise Price |
| $ 1.16 – $ 2.90 | 110,795 | $ 1.84 | 0.9 | 110,795 | $ 1.84 |
| $ 2.91 – $ 7.00 | 436,278 | $ 4.97 | 2.5 | 355,428 | $ 4.85 |
| $ 7.01 – $ 12.00 | 848,244 | $ 8.60 | 5.2 | 733,942 | $ 8.55 |
| $ 12.01 – $ 21.92 | 652,413 | $ 15.40 | 4.3 | 598,775 | $ 15.60 |
| | 2,047,730 | $ 9.63 | 4.1 | 1,798,940 | $ 9.75 |

If there were a change in control of the Company, options outstanding for an additional 183,560 shares of Common Stock and 225,530 shares of Class A Common Stock would become immediately exercisable.

The estimated weighted average fair value of the Class A Common Stock options granted was $9.16, $6.16 and $3.55 per share, respectively in fiscal years 2005, 2004 and 2003. The estimated weighted average fair value of the Common Stock options granted was $4.64 per share in fiscal 2003. There were no grants of Common Stock options in fiscal 2005 and 2004.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model based on the following weighted average assumptions for each of the three fiscal years ended October 31:

| | 2005 | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| | Common Stock | Class A Common Stock | Common Stock | Class A Common Stock | Common Stock | Class A Common Stock |
| Expected stock price volatility | – | **43.84%** | – | 46.87% | 52.65% | 52.24% |
| Risk free interest rate | – | **4.09%** | – | 3.28% | 3.37% | 3.43% |
| Dividend yield | – | **.38%** | – | .38% | .26% | .33% |
| Expected option life (years) | – | **6** | – | 6 | 8 | 8 |

## Notes to Consolidated Financial Statements

### NOTE 9. RETIREMENT PLANS

The Company has a qualified defined contribution retirement plan (the Plan) under which eligible employees of the Company and its participating subsidiaries may make elective deferral contributions, effective January 1, 2005, up to the limitations set forth in Section 402(g) of the Internal Revenue Code. Prior to calendar 2005, deferrals were permitted up to 15% of an eligible employee's annual compensation as defined by the Plan. The Company generally makes a 25% or 50% employer matching contribution, as determined by the Board of Directors, based on a participant's Elective Deferral Contribution up to 6% of the Participant's compensation for the Elective Deferral Contribution period. The match is made in the Company's common stock or cash, as determined by the Company. The Company's match of employee contributions paid in common stock is based on the fair market value of the shares as of the date of contribution. The Plan also provides that the Company may contribute additional amounts in its common stock or cash at the discretion of the Board of Directors. Employee contributions can not be invested in Company stock.

Participants receive 100% vesting in employee contributions. Vesting in Company contributions is based on a participant's number of years of vesting service. Contributions to the Plan charged to income in fiscal 2005, 2004 and 2003 totaled $148,000, $189,000 and $403,000, respectively. The decline in charges to income results principally from the use of forfeited shares within the Plan to make Company contributions. As of October 31, 2005, the Plan held approximately 230,000 forfeited shares of Common Stock and 231,000 forfeited shares of Class A Common Stock, which are available to make future Company contributions.

In 1991, the Company established a Directors Retirement Plan covering its then current directors. The net assets of this plan as of October 31, 2005, 2004 and 2003 are not material to the financial position of the Company. During fiscal 2005, 2004 and 2003, $59,000, $88,000, and $34,000, respectively, were expensed for this plan.

### NOTE 10. RESEARCH AND DEVELOPMENT EXPENSES

Cost of sales amounts in fiscal 2005, 2004 and 2003 include approximately $11,311,000, $10,446,000 and $9,224,000 respectively, of new product research and development expenses. The expenses are net of reimbursements pursuant to research and development cooperation and joint venture agreements. Such reimbursements were not significant in fiscal 2005, 2004 and 2003.

### NOTE 11. SALE OF INVESTMENT IN JOINT VENTURE

During the third quarter of fiscal 2005, the Company's HEICO Aerospace Holdings Corp. subsidiary sold its investment in a 50%-owned joint venture that was accounted for under the equity method and recognized a gain on the sale of $276,000, which is included in interest and other income in the Company's Consolidated Statements of Operations. The Company's investment in the 50%-owned joint venture and its share of the operating results were not significant to the Company's consolidated financial statements.

### NOTE 12. LIFE INSURANCE PROCEEDS

In fiscal 2004, the Company received $5.0 million in proceeds from the death benefit of a key-person life insurance policy maintained by a subsidiary of the Flight Support Group that provides repair and overhaul services. The life insurance proceeds, which are non-taxable, increased fiscal 2004 net income (after the minority interest's share of the income) by $4.0 million, or $.16 per diluted share.

### NOTE 13. RESTRUCTURING EXPENSES

During the first quarter of fiscal 2005, the Company completed restructuring activities initiated in fiscal 2004 within certain subsidiaries of the Flight Support Group that provide repair and overhaul services. The unexpected death of an executive of certain of the repair and overhaul subsidiaries (see Note 12, Life Insurance Proceeds, of the Notes to Consolidated Financial Statements) was the impetus for the commencement of the restructuring activities, which the Company believes will allow it to better service its customers and improve operating margins. The Company incurred $22,000 of restructuring expenses in fiscal 2005 and $850,000 in fiscal 2004. The fiscal 2004 restructuring expenses include $350,000 of inventory write-downs, which were recorded within cost of sales in the accompanying Consolidated Statements of Operations, and $261,000 of management hiring/relocation related expenses, $168,000 of moving costs and other associated expenses and $71,000 of contract termination costs

## Notes to Consolidated Financial Statements

that were all recorded within selling, general and administrative expenses. The inventory written down is related to older generation aircraft for which repair and overhaul services are being discontinued by the Company. The management hiring/relocation related expenses include one-time employee termination/hiring benefits and relocation costs. The moving costs and other associated expenses consist of moving costs related to the consolidation of two repair and overhaul facilities. Contract termination costs include the lease termination on a facility. The repair and overhaul subsidiaries' restructuring expenses decreased net income (after income taxes and the minority interest's share of the expenses) in fiscal 2004 by $427,000.

The following table details the restructuring activity that occurred in fiscal 2005 and 2004:

| | Inventory Write-downs | Management Hiring/ Relocation Related Expenses | Moving Costs and Other Associated Expenses | Contract Termination Costs | Totals |
|---|---|---|---|---|---|
| Balances as of November 1, 2003 | $ – | $ – | $ – | $ – | $ – |
| Restructuring expenses | 350,000 | 261,000 | 168,000 | 71,000 | 850,000 |
| Cash payments | – | (197,000) | (57,000) | – | (254,000) |
| Non-cash amount | (350,000) | – | – | – | (350,000) |
| Balances as of October 31, 2004 | – | 64,000 | 111,000 | 71,000 | 246,000 |
| Additional charges and reversals | – | 69,000 | (47,000) | – | 22,000 |
| Cash payments | – | (133,000) | (64,000) | (71,000) | (268,000) |
| Balances as of October 31, 2005 | $ – | $ – | $ – | $ – | $ – |

### NOTE 14. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share for each of the three fiscal years ended October 31:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Numerator: | | | |
| Net income | **$ 22,812,000** | $ 20,630,000 | $ 12,222,000 |
| Denominator: | | | |
| Weighted average common shares outstanding – basic | **24,460,185** | 24,036,980 | 23,236,841 |
| Effect of dilutive stock options | **1,863,117** | 1,717,618 | 1,294,439 |
| Weighted average common shares outstanding – diluted | **26,323,302** | 25,754,598 | 24,531,280 |
| Net income per share – basic | **$ .93** | $ .86 | $ .53 |
| Net income per share – diluted | **$ .87** | $ .80 | $ .50 |
| Anti-dilutive stock options excluded | **181,760** | 579,837 | 2,144,694 |

## Notes to Consolidated Financial Statements

### NOTE 15. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| Net sales: | | | | |
| 2005 | $ 56,981,000 | $ 66,973,000 | $ 69,169,000 | $ 76,524,000 |
| 2004 | 46,151,000 | 52,793,000 | 55,820,000 | 60,980,000 |
| Gross profit: | | | | |
| 2005 | 20,280,000 | 25,045,000 | 25,999,000 | 29,672,000 |
| 2004 | 15,536,000 | 18,714,000 | 19,616,000 | 21,946,000 |
| Net income: | | | | |
| 2005 | 4,428,000 | 5,713,000 | 6,046,000 | 6,625,000 |
| 2004 | 3,241,000 | 4,108,000 | 8,115,000 | 5,166,000 |
| Net income per share: | | | | |
| Basic | | | | |
| 2005 | $ .18 | $ .23 | $ .25 | $ .27 |
| 2004 | .14 | .17 | .34 | .21 |
| Diluted | | | | |
| 2005 | .17 | .22 | .23 | .25 |
| 2004 | .13 | .16 | .32 | .20 |

During the third quarter of fiscal 2004, the Company received $5.0 million in life insurance proceeds as referenced in Note 12, Life Insurance Proceeds, of the Notes to Consolidated Financial Statements, which increased net income (after the minority interest's share of the income) by $4.0 million, or $.16 per diluted share.

During the third and fourth quarters of fiscal 2004 and the first quarter of fiscal 2005, the Company incurred restructuring expenses within certain subsidiaries of its Flight Support Group as referenced in Note 13, Restructuring Expenses, of the Notes to Consolidated Financial Statements. In the third quarter of fiscal 2004, restructuring expenses decreased gross profit by $350,000 and net income by $301,000, or $.01 per diluted share. The net impact of the restructuring expenses in the fourth quarter of fiscal 2004 and first quarter of fiscal 2005 was not significant.

During the fourth quarter of fiscal 2005, the Company increased its allowance for doubtful accounts by $1.6 million as a result of bankruptcy filings by certain customers in the aviation industry as referenced in Note 3, Selected Financial Statement Information, of the Notes to Consolidated Financial Statements. The associated charge decreased net income by $829,000, or $.03 per diluted share.

Due to changes in the average number of common shares outstanding, net income per share for the full fiscal year may not equal the sum of the four individual quarters.

### NOTE 16. OPERATING SEGMENTS

The Company has two operating segments: the Flight Support Group (FSG) consisting of HEICO Aerospace and its subsidiaries and the Electronic Technologies Group (ETG), consisting of HEICO Electronic and its subsidiaries. See Note 1, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements for a list of operating subsidiaries aggregated in each reportable operating segment. The Flight Support Group designs and manufactures FAA-approved jet engine and aircraft component replacement parts, provides FAA-authorized repair and overhaul services and provides subcontracting services to original equipment manufacturers in the aviation industry and the U.S. Government. The Electronic Technologies Group designs and manufactures commercial and military power supplies, circuit board shielding, laser and electro-optical products, infrared simulation and test equipment, and high voltage interconnection devices and cable assemblies and repairs and overhauls aircraft electronic equipment primarily for the aviation, defense, space, and electronics industries.

The Company's reportable business divisions offer distinctive products and services that are marketed through different channels. They are managed separately because of their unique technology and service requirements.

# Notes to Consolidated Financial Statements

**Segment Profit or Loss**

The accounting policies of the Company's operating segments are the same as those described in Note 1, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements. Management evaluates segment performance based on segment operating income.

| | Segment | | Other, Primarily Corporate and Intersegment | Consolidated Totals |
|---|---|---|---|---|
| | FSG | ETG | | |
| For the year ended October 31, 2005: | | | | |
| Net sales | $ 185,716,000 | $ 84,094,000 | $ (163,000) | $ 269,647,000 |
| Depreciation and amortization | 4,522,000 | 2,470,000 | 417,000 | 7,409,000 |
| Operating income | 35,142,000 | 18,631,000 | (9,124,000) | 44,649,000 |
| Capital expenditures | 7,059,000 | 1,163,000 | 51,000 | 8,273,000 |
| Total assets | 230,229,000 | 188,851,000 | 16,544,000 | 435,624,000 |
| For the year ended October 31, 2004: | | | | |
| Net sales | $ 153,238,000 | $ 62,648,000 | $ (142,000) | $ 215,744,000 |
| Depreciation and amortization | 4,580,000 | 1,762,000 | 437,000 | 6,779,000 |
| Operating income | 24,251,000 | 15,259,000 | (6,891,000) | 32,619,000 |
| Capital expenditures | 3,964,000 | 1,767,000 | 6,000 | 5,737,000 |
| Total assets | 212,615,000 | 136,860,000 | 14,780,000 | 364,255,000 |
| For the year ended October 31, 2003: | | | | |
| Net sales | $ 128,277,000 | $ 48,597,000 | $ (421,000) | $ 176,453,000 |
| Depreciation and amortization | 4,895,000 | 1,399,000 | 426,000 | 6,720,000 |
| Operating income | 19,187,000 | 8,497,000 | (4,479,000) | 23,205,000 |
| Capital expenditures | 2,102,000 | 2,617,000 | 4,000 | 4,723,000 |
| Total assets | 214,292,000 | 103,798,000 | 15,154,000 | 333,244,000 |

**Major Customer and Geographic Information**

No one customer accounted for 10 percent or more of the Company's consolidated net sales during the last three fiscal years. The Company's net sales originating and long-lived assets held outside of the United States during each of the last three fiscal years were not material.

Export sales were $69,792,000 in fiscal 2005, $55,695,000 in fiscal 2004 and $47,013,000 in fiscal 2003.

## NOTE 17. COMMITMENTS AND CONTINGENCIES

**Lease Commitments**

The Company leases certain property and equipment, including manufacturing facilities and office equipment under operating leases. Some of these leases provide the Company with the option after the initial lease term either to purchase the property at the then fair market value or renew the lease at the then fair rental value. Generally, management expects that leases will be renewed or replaced by other leases in the normal course of business.

Minimum payments for operating leases having initial or remaining non-cancelable terms in excess of one year are as follows:

| Year ending October 31, | |
|---|---|
| 2006 | $ 2,519,000 |
| 2007 | 2,201,000 |
| 2008 | 1,915,000 |
| 2009 | 949,000 |
| 2010 | 894,000 |
| Thereafter | 3,182,000 |
| Total minimum lease commitments | $11,660,000 |

## Notes to Consolidated Financial Statements

Total rent expense charged to operations for operating leases in fiscal 2005, fiscal 2004 and fiscal 2003 amounted to $2,679,000, $2,737,000 and $2,768,000, respectively.

**Guarantees**

The Company has arranged for standby letters of credit aggregating to $1.8 million to meet the security requirement of its insurance company for potential workers' compensation claims. As of October 31, 2005, one of the Company's subsidiaries had guaranteed its performance related to a customer contract through two letters of credit aggregating $.3 million, both expiring December 2005. In November 2005, the letters of credit were extended to April 2006 and increased to an aggregate of $1.2 million. All of these letters of credit are supported by the Company's revolving credit facility. In addition, the Company's industrial development revenue bonds are secured by a $2.0 million letter of credit expiring April 2008 and a mortgage on the related properties pledged as collateral.

Changes in the Company's product warranty liability for fiscal 2005 and 2004 are as follows:

| | |
|---|---|
| Balance as of October 31, 2003 | $ 633,000 |
| Change in estimate of warranty liability | (535,000) |
| Accruals for warranties | 345,000 |
| Warranty claims settled | (314,000) |
| Balance as of October 31, 2004 | 129,000 |
| Acquired warranty liabilities | 89,000 |
| Accruals for warranties | 488,000 |
| Warranty claims settled | (311,000) |
| Balance as of October 31, 2005 | $ 395,000 |

The acquired warranty liabilities in fiscal 2005 pertain to the acquisitions made as further discussed in Note 2, Acquisitions, of the Notes to Consolidated Financial Statements. Based on an analysis of its historical claims cost experience, the Company reduced its estimated warranty liability in fiscal 2004.

As partial consideration in the acquisition of Inertial Airline Services, Inc. (IAS) in August 2001, the Company issued $5 million in HEICO Class A Common Stock (318,960 shares) and guaranteed that the resale value of such Class A Common Stock would be at least $5 million through August 31, 2004. Concurrent with the acquisition, the Company loaned the seller $5 million, which was due August 31, 2004 and secured by the 318,960 shares of HEICO Class A Common Stock. The loan was reflected as a reduction of shareholders' equity in the Company's Consolidated Balance Sheets under the caption, "Note Receivable Secured by Class A Common Stock." In fiscal 2003, the seller sold 220,000 shares of the HEICO Class A Common Stock and the Company received the net proceeds of $2.1 million to reduce the note receivable. In fiscal 2004, the Company received net proceeds of $1.2 million from the seller upon the sale of the remaining 98,960 shares of the HEICO Class A Common Stock. Pursuant to the Company's guarantee that the aggregate resale value of the 318,960 shares of Class A Common Stock would be at least $5 million, the $1.7 million difference between the guaranteed value and the $3.3 million of aggregate net proceeds ($2.1 million received in fiscal 2003 and $1.2 million received in fiscal 2004) from the sales of the Class A Common Stock was recorded in fiscal 2004 as a reduction of both capital in excess of par value and the note receivable.

As part of the agreement to acquire an 80% interest in Sierra Microwave Technology, Inc., in December 2003, the Company has the right to purchase the minority interests beginning at approximately the tenth anniversary of the acquisition, or sooner under certain conditions, and the minority holders have the right to cause the Company to purchase their interests commencing at approximately the fifth anniversary of the acquisition, or sooner under certain conditions.

As part of the agreement to purchase Connectronics Corporation in December 2004, the Company may be obligated to pay additional purchase consideration of up to $3.8 million in aggregate should Connectronics meet certain earnings objectives during the first four years following the acquisition. The Company accrued $2.2 million of such additional purchase consideration as of October 31, 2005 based on the year-to-date earnings of Connectronics relative to its target, which it expects to pay in fiscal 2006.

As part of the agreement to purchase Lumina Power, Inc. in February 2005, the Company may be obligated to pay additional purchase consideration currently estimated to total up to $2.3 million should Lumina meet certain product line-related earnings objectives during the fourth and fifth years following the acquisition. The additional purchase consideration will be accrued when the earnings objectives are met.

# Notes to Consolidated Financial Statements

As part of the agreement to acquire an 85% interest in HVT Group, Inc. in September 2005, the minority holders have the right to cause the Company to purchase their interests over a four-year period starting around the second anniversary of the acquisition, or sooner under certain conditions.

The Company also accrued additional purchase consideration aggregating $.8 million as of October 31, 2005 in accordance with the agreements related to the Connectronics and HVT acquisitions based principally on the actual value of the net assets acquired. The Company expects to pay this amount in fiscal 2006.

As part of an agreement for exclusive license rights to intellectual property, one of the Company's subsidiaries has guaranteed minimum royalty payments aggregating $355,000 through fiscal 2007.

**Litigation**

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

## NOTES 18. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest was $1,062,000, $1,099,000 and $1,291,000 in fiscal 2005, 2004 and 2003, respectively. Cash paid for income taxes was $8,176,000, $2,688,000 and $3,460,000 in fiscal 2005, 2004 and 2003, respectively. Cash received from income tax refunds in fiscal 2005, 2004 and 2003 was $101,000, $72,000 and $1,300,000, respectively.

Cash investing activities related to acquisitions, including contingent payments, for each of the three fiscal years ended October 31, is as follows:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Fair value of assets acquired: | | | |
| Liabilities assumed | **$ 5,202,000** | $ 684,000 | $ 698,000 |
| Less: | | | |
| Goodwill | **28,510,000** | 24,974,000 | 1,023,000 |
| Accounts receivable | **4,055,000** | 1,785,000 | 312,000 |
| Inventories | **4,645,000** | 707,000 | 431,000 |
| Property, plant and equipment | **4,904,000** | 1,311,000 | 408,000 |
| Trade names | **3,650,000** | – | – |
| Non-compete agreements | **560,000** | – | – |
| Other assets | **378,000** | 6,000 | 78,000 |
| Cash paid, including contingent payments | **$ (41,500,000)** | $ (28,099,000) | $ (1,554,000) |

## Notes to Consolidated Financial Statements

In connection with the purchase of Sierra in December 2003 (see Note 2, Acquisitions, of the Notes to Consolidated Financial Statements), the Company issued shares of HEICO's Class A Common Stock valued at $3 million, which was allocated to goodwill.

In connection with the acquisitions of Connectronics and HVT in fiscal 2005, the Company accrued additional purchase consideration aggregating $3.0 million, which was allocated to goodwill (see Note 2, Acquisitions, of the Notes to Consolidated Financial Statements).

Retained earnings were reduced by $29,393,000 in fiscal 2004 as a result of the 10% stock dividend described in Note 7, Shareholders' Equity – Stock Dividend, of the Notes to Consolidated Financial Statements.

There were no significant capital lease and/or other equipment financing activities during fiscal 2005, 2004, or 2003.

### NOTE 19. SUBSEQUENT EVENTS (UNAUDITED)

In November 2005, the Company, through its HEICO Aerospace Holdings Corp. subsidiary, acquired a 51% interest in the assets and business of Seal Dynamics LLC (SDI). SDI is a distributor and designer of FAA-Approved hydraulic, pneumatic, mechanical and electro-mechanical components for the commercial, regional and general aviation markets.

In November 2005, the Company, through its HEICO Electronic Technologies Corp. subsidiary, acquired all of the stock of Engineering Design Team, Inc. (EDT) and substantially all of the assets of an EDT affiliate. EDT specializes in the design, manufacture and sale of advanced high-technology, high-speed interface products that link devices such as telemetry receivers, digital cameras, high resolution scanners, simulation systems and test systems to almost any computer. EDT's products are utilized in homeland security, defense, medical, research, astronomical and other applications across numerous industries.

The purchase price of each acquisition was not significant to the Company's consolidated financial statements individually or in aggregate and was principally paid using proceeds from the Company's revolving credit facility.

## Management's Report on Internal Control Over Financial Reporting

Management of HEICO Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of October 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*.

Based on our assessment, management believes that, as of October 31, 2005, the Company's internal control over financial reporting is effective.

The Company's independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report on our assessment of the Company's internal control over financial reporting. Their report appears on the following page.

Date: January 17, 2006

/s/ LAURANS A. MENDELSON
Laurans A. Mendelson
Chief Executive Officer

/s/ THOMAS S. IRWIN
Thomas S. Irwin
Chief Financial Officer

# Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

To the Board of Directors and
Shareholders of HEICO Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that HEICO Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of October 31, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of October 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2005, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended October 31, 2005 of the Company and our report dated January 17, 2006 expressed an unqualified opinion on those financial statements.

DELOITTE & TOUCHE LLP
Certified Public Accountants

Fort Lauderdale, Florida
January 17, 2006

# Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements

To the Board of Directors and
Shareholders of HEICO Corporation:

We have audited the accompanying consolidated balance sheets of HEICO Corporation and subsidiaries (the "Company") as of October 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended October 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of HEICO Corporation and subsidiaries as of October 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of October 31, 2005, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 17, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

DELOITTE & TOUCHE LLP
Certified Public Accountants

Fort Lauderdale, Florida
January 17, 2006

# Market for Company's Common Stock and Related Stockholder Matters

The Company's Class A Common Stock and Common Stock are listed and traded on the New York Stock Exchange (NYSE) under the symbols "HEI.A" and "HEI," respectively. The following tables sets forth, for the periods indicated, the high and low share prices for the Class A Common Stock and the Common Stock as reported on the NYSE, as well as the amount of cash dividends paid per share during such periods.

**Class A Common Stock**

| | High | Low | Cash Dividends Per Share |
|---|---|---|---|
| **Fiscal 2004:** | | | |
| First Quarter | $ 14.40 | $ 10.77 | $ .025 |
| Second Quarter | 13.89 | 9.99 | – |
| Third Quarter | 14.00 | 11.55 | .025 |
| Fourth Quarter | 15.18 | 12.06 | – |
| **Fiscal 2005:** | | | |
| First Quarter | $ 17.80 | $ 13.70 | $ .025 |
| Second Quarter | 17.63 | 14.67 | – |
| Third Quarter | 19.10 | 14.52 | .025 |
| Fourth Quarter | 19.69 | 16.17 | – |

As of January 6, 2006, there were 966 holders of the Company's Class A Common Stock.

**Common Stock**

| | High | Low | Cash Dividends Per Share |
|---|---|---|---|
| **Fiscal 2004:** | | | |
| First Quarter | $ 18.45 | $ 13.71 | $ .025 |
| Second Quarter | 17.45 | 12.90 | – |
| Third Quarter | 18.45 | 14.45 | .025 |
| Fourth Quarter | 19.70 | 16.00 | – |
| **Fiscal 2005:** | | | |
| First Quarter | $ 23.41 | $ 17.86 | $ .025 |
| Second Quarter | 22.72 | 18.55 | – |
| Third Quarter | 25.08 | 18.32 | .025 |
| Fourth Quarter | 25.41 | 21.03 | – |

As of January 6, 2006, there were 910 holders of record of the the Company's Common Stock.

In addition, as of January 6, 2006, there were approximately 4,000 holders of the Company's Class A Common Stock and Common Stock who held their shares in brokerage or nominee accounts. The combined total of all record holders and brokerage or nominee holders is approximately 6,000 holders of both classes of common stock.

## HEICO Corporation

Corporate Offices
3000 Taft Street
Hollywood, Florida 33021
Telephone 954-987-4000
Facsimile 954-987-8228
http://www.heico.com

## Subsidiaries

HEICO Aerospace Holdings Corp.
Hollywood, Florida
- HEICO Parts Group
  - Aero Design, Inc.
  - Aircraft Technology, Inc.
  - Aviation Facilities, Inc.
  - HEICO Aerospace Parts Corp.
  - Jet Avion Corporation
  - LPI Corporation
  - McClain International, Inc.
  - Rogers-Dierks, Inc.
  - Turbine Kinetics, Inc.
- HEICO Aerospace Corporation
- HEICO Repair Group
  - Future Aviation, Inc.
  - Niacc/Avitech Technology, Inc.
  - Northwings Accessories Corp.
- HEICO Specialty Products Group
  - Jetseal, Inc.
  - Thermal Structures, Inc.
- HEICO Distribution Group
  - Seal Dynamics LLC

HEICO Electronic Technologies Corp.
Miami, Florida
- Analog Modules, Inc.
- Connectronics Corp. and Wiremax
- Engineering Design Team, Inc.
- HVT Group, Inc.
  - Dielectric Sciences, Inc.
  - Essex X-Ray & Medical Equipment LTD
- Inertial Airline Services, Inc.
- Leader Tech, Inc.
- Lumina Power, Inc.
- Radiant Power Corp.
- Santa Barbara Infrared, Inc.
- Sierra Microwave Technology, LLC

## Registrar & Transfer Agent

Mellon Investor Services
Atlanta, GA

New York Stock Exchange Symbols
Class A Common Stock – "HEI.A"
Common Stock – "HEI"

## Form 10-K

The Company's Annual Report on Form 10-K for 2005, as filed with the Securities and Exchange Commission, is available without charge upon written request to the Corporate Secretary at the Company's headquarters.

## Annual Meeting

The Annual Meeting of Shareholders will be held at JW Marriott Miami Hotel
1109 Brickell Avenue
Miami, Florida 33131
305-329-3500 on Monday,
March 27, 2006 at 10:00 a.m.

## Shareholder Information

**Elizabeth R. Letendre**
Corporate Secretary
HEICO Corporation
3000 Taft Street, Hollywood, FL 33021
954-987-4000, 954-987-8228 (fax)
eletendre@heico.com

## Officers & Key Team Members

**Laurans A. Mendelson**
Chairman of the Board of Directors, President and Chief Executive Officer, HEICO Corporation

**Joshua S. Abelson**
Executive Vice President and Chief Marketing Officer, HEICO Aerospace Holdings Corp.

**Jeff Andrews**
Vice President and General Manager, Niacc/Avitech Technology, Inc.

**Vaughn Barnes**
President, HEICO Specialty Products Group and Thermal Structures, Inc.

**Robb M. Baumann**
President, HEICO Parts Group

**Ian D. Crawford**
President and Founder, Analog Modules, Inc.

**James Davis**
Vice President and General Manager, Aero Design, Inc.

**John DeFries**
President, Essex X-Ray & Medical Equipment LTD

**Mike Garcia**
General Manager, Structures, HEICO Repair Group – Miami

**Jerry Goldlust**
President and Founder, HVT Group, Inc. and Dielectric Sciences, Inc.

**William S. Harlow**
Vice President, Corporate Development, HEICO Corporation

**John F. Hunter**
Executive Vice President and Chief Operating Officer, HEICO Aerospace Holdings Corp.

**Thomas S. Irwin**
Executive Vice President and Chief Financial Officer, HEICO Corporation

**Kevin Kelly**
President, Rogers-Dierks, Inc.

**Elizabeth R. Letendre**
Corporate Secretary, HEICO Corporation

**Jack Lewis**
President, Aviation Facilities, Inc.

**Omar Lloret**
General Manager, Accessories, HEICO Repair Group – Miami

**David A. Lowry**
President and Co-Founder, Engineering Design Team, Inc.

**Pat Markham**
Vice President and General Manager, HEICO Airfoils

**Steve McHugh**
President and Co-Founder, Santa Barbara Infrared, Inc.

**Bruce McQuerry**
Vice President and General Manager, McClain International, Inc.

**Eric A. Mendelson**
President, Flight Support Group, HEICO Corporation

**Victor H. Mendelson**
President, Electronic Technologies Group and General Counsel, HEICO Corporation

**Luis J. Morell**
President, HEICO Repair Group

**Dario Negrini**
President, Leader Tech, Inc.

**William O'Brien**
President & Co-Founder, Lumina Power, Inc.

**Bryan Peters**
Senior Vice President and General Manager, Turbine Kinetics, Inc.

**John Pollard**
Vice President and General Manager, Jet Avion Corp. and Aircraft Technology, Inc.

**James L. Reum**
Executive Vice President, HEICO Aerospace Holdings Corp.

**Michael B. Rezman**
Vice President, Product Strategy, HEICO Parts Group

**Thomas L. Ricketts**
President and Co-Founder, Connectronics Corp. and Wiremax

**Troy J. Rodriguez**
President & Co-Founder, Sierra Microwave Technology, LLC

**James E. Roubian**
President, LPI Corporation

**Alain Ruiz**
General Manager, Avionics & Instruments, HEICO Repair Group – Miami

**Kate Schaefer**
Vice President, Sales and Marketing, HEICO Parts Group

**Val Shelley**
Senior Vice President, Development, HEICO Parts Group

**Michael W. Siegel**
Senior Vice President, Finance & Administration, HEICO Aerospace Holdings Corp.

**Rick Stine**
Senior Vice President, Operations, HEICO Parts Group

**David Susser**
President, HEICO Distribution Group and Seal Dynamics LLC

**Stephen J. Szpunar**
Senior Vice President, Technical, HEICO Parts Group

**Gregg Tuttle**
General Manager, Future Aviation, Inc.

**Steven Walker**
Corporate Controller, HEICO Corporation

**Jeff Williams**
Vice President and General Manager, Flight Specialties and Inertial Airline Services, Inc.

## Board of Directors

Laurans A. Mendelson
Chairman, President and
Chief Executive Officer,
HEICO Corporation

Samuel L. Higginbottom
Former Chairman, President
and Chief Executive Officer,
Rolls-Royce, Inc.

Wolfgang Mayrhuber
Chairman of the Executive Board
and Chief Executive Officer,
Deutsche Lufthansa AG

Eric A. Mendelson
President, Flight Support Group,
HEICO Corporation

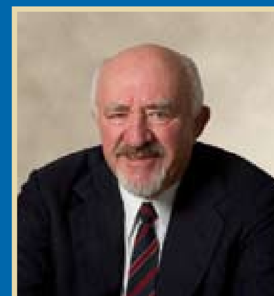
Victor H. Mendelson
President, Electronic Technologies
Group and General Counsel,
HEICO Corporation

Albert Morrison, Jr.
Chairman Emeritus, Morrison,
Brown, Argiz & Company,
Certified Public Accountants

Joseph W. Pallot
Partner, Devine Goodman
Pallot & Wells, P.A.

Dr. Alan Schriesheim
Former Director,
Argonne National Laboratory

Laurans A. Mendelson


Samuel L. Higginbottom

Wolfgang Mayrhuber

Eric A. Mendelson

Victor H. Mendelson

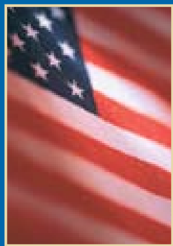
Albert Morrison, Jr.

Joseph W. Pallot

Dr. Alan Schriesheim

**Executive Officer Certifications**

**HEICO Corporation has filed with the U.S. Securities and Exchange Commission all required certifications of its Chief Executive Officer (CEO) and Chief Financial Officer regarding the quality of its public disclosures. HEICO Corporation's CEO also has submitted to the New York Stock Exchange (NYSE) the annual CEO certification stating that he is not aware of any violation by HEICO Corporation of the NYSE's corporate governance listing standards. All Board of Directors Committee Charters, Corporate Governance Guidelines as well as HEICO's Code of Ethics and Business Conduct are located on HEICO's web site at www.heico.com**



3000 Taft Street, Hollywood, Florida 33021
Telephone 954.987.4000 | Fax 954.987.8228
http://www.heico.com