HEICO CORP
Form 10-K
December 20, 2018

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is a Federal Aviation Administration ("FAA")-authorized Part 145 Repair Station focusing on the repair of LCD screens and display modules for aviation displays used in civilian and military aircraft. ODE also holds FAA-Parts Manufacturer Approval authority to supply products that it repairs.designs and manufactures underwater locator beacons used to locate aircraft cockpit voice recorders, flight data recorders, marine ship voyage recorders and other devices which have been submerged under
water2017-04-302017-06-302018-08-312015-12-312018-04-302017-11-302018-09-302018-02-282015-10-312015-10-312012
Display Engineering
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended October 31, 2018 or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________________to___________________

Commission file number 001-04604

HEICO CORPORATION

(Exact name of registrant as specified in its charter)

Florida	**65-0341002**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
3000 Taft Street, Hollywood, Florida	**33021**
(Address of principal executive offices)	*(Zip Code)*

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value per share	**New York Stock Exchange**
Class A Common Stock, $.01 par value per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer ý Accelerated filer o Non-accelerated filer o Smaller reporting company o Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was $7,696,256,000 based on the closing price of HEICO Common Stock and Class A Common Stock as of April 30, 2018 as reported by the New York Stock Exchange.

The number of shares outstanding of each of the registrant's classes of common stock as of December 18, 2018

Common Stock, $.01 par value	53,355,169 shares
Class A Common Stock, $.01 par value	79,575,592 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2019 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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HEICO CORPORATION
INDEX TO ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2018

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PART I

Item 1. *BUSINESS*

The Company

HEICO Corporation through its subsidiaries (collectively, "HEICO," "we," "us," "our" or the "Company") believes it is the world's largest manufacturer of Federal Aviation Administration ("FAA")-approved jet engine and aircraft component replacement parts, other than the original equipment manufacturers ("OEMs") and their subcontractors. HEICO also believes it is a leading manufacturer of various types of electronic equipment for the aviation, defense, space, medical, telecommunications and electronics industries.

The Company was originally organized in 1957 as a holding company known as HEICO Corporation. As part of a reorganization completed in 1993, the original holding company (formerly known as HEICO Corporation) was renamed as HEICO Aerospace Corporation and a new holding corporation known as HEICO Corporation was created. The reorganization did not result in any change in the business of the Company, its consolidated assets or liabilities or the relative interests of its shareholders.

Our business is comprised of two operating segments:

The Flight Support Group. Our Flight Support Group ("FSG"), consisting of HEICO Aerospace Holdings Corp. and HEICO Flight Support Corp. and their collective subsidiaries, accounted for 62%, 63% and 64% of our net sales in fiscal 2018, 2017 and 2016, respectively. The Flight Support Group uses proprietary technology to design and manufacture jet engine and aircraft component replacement parts for sale at lower prices than those manufactured by OEMs. These parts are approved by the FAA and are the functional equivalent of parts sold by OEMs. In addition, the Flight Support Group repairs, overhauls and distributes jet engine and aircraft components, avionics and instruments for domestic and foreign commercial air carriers and aircraft repair companies as well as military and business aircraft operators; and manufactures thermal insulation products, complex composite assemblies and other component parts primarily for aerospace, defense, industrial and commercial applications.

The Electronic Technologies Group. Our Electronic Technologies Group ("ETG"), consisting of HEICO Electronic Technologies Corp. and its subsidiaries, accounted for 38%, 37% and 36% of our net sales in fiscal 2018, 2017 and 2016, respectively. Through our Electronic

Technologies Group, which derived approximately 65%, 64% and 65% of its net sales in fiscal 2018, 2017 and 2016, respectively, from the sale of products and services to United States ("U.S.") and foreign military agencies, prime defense contractors and both commercial and defense satellite and spacecraft manufacturers, we design, manufacture and sell various types of electronic, microwave and electro-optical products, including infrared simulation and test equipment, laser rangefinder receivers, electrical power supplies, back-up power supplies, power conversion products, underwater locator beacons, emergency locator transmission beacons, electromagnetic interference and radio frequency interference shielding, high power capacitor

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charging power supplies, amplifiers, traveling wave tube amplifiers, photodetectors, amplifier modules, microwave power modules, flash lamp drivers, laser diode drivers, arc lamp power supplies, custom power supply designs, cable assemblies, high voltage power supplies, high voltage interconnection devices and wire, high voltage energy generators, high frequency power delivery systems, three-dimensional microelectronic and stacked memory products, harsh environment electronic connectors and other interconnect products, radio frequency ("RF") and microwave amplifiers, transmitters and receivers, wireless cabin control systems, solid state power distribution and management systems, crashworthy and ballistically self-sealing auxiliary fuel systems, nuclear radiation detectors, communications and electronic intercept receivers and tuners, fuel level sensing systems, 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 and high performance active antenna systems for commercial aircraft, precision guided munitions, other defense applications and commercial uses.

HEICO has continuously operated in the aerospace industry for over 60 years. Since assuming control in 1990, our current management has achieved significant sales and profit growth through a broadened line of product offerings, an expanded customer base, increased research and development expenditures and the completion of a number of acquisitions. As a result of internal growth and acquisitions, our net sales from continuing operations have grown from $26.2 million in fiscal 1990 to $1,777.7 million in fiscal 2018, representing a compound annual growth rate of approximately 16%. During the same period, we improved our net income from $2.0 million to $259.2 million, representing a compound annual growth rate of approximately 19%.

Disciplined Acquisition Strategy

Acquisitions have been an important element of our growth strategy over the past twenty-eight years, supplementing our organic growth. Since 1990, we have completed approximately 71 acquisitions complementing the niche segments of the aviation, defense, space, medical, telecommunications and electronics industries in which we operate. We typically target acquisition opportunities that allow us to broaden our product offerings, services and technologies while expanding our customer base and geographic presence. Even though we have historically pursued an active acquisition policy, our disciplined acquisition strategy involves limiting acquisition candidates to businesses that we believe will continue to grow, offer strong cash flow and earnings potential, and are available at fair prices. See Note 2, Acquisitions, and Note 17, Subsequent Events, of the Notes to Consolidated Financial Statements for further information regarding our recent acquisitions.

Flight Support Group

The Flight Support Group, headquartered in Hollywood, Florida, serves a broad spectrum of the aviation industry, including (i) commercial airlines and air cargo carriers; (ii) repair and overhaul facilities; (iii) OEMs; and (iv) U.S. and foreign governments.

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The Flight Support Group competes with the leading industry OEMs and, to a lesser extent, with a number of smaller, independent parts distributors. Historically, the three principal jet engine OEMs, General Electric (including CFM International), Pratt & Whitney and Rolls Royce, have been the sole source of substantially all jet engine replacement parts for their jet engines. Other OEMs have been the sole source of replacement parts for their aircraft component parts. While we believe that we currently supply approximately 2% of the market for jet engine and aircraft component replacement parts, we have in recent years been adding new products to our line at a rate of approximately 300 to 500 Parts Manufacturer Approvals ("PMA" or "PMAs") per year. We have developed for our customers approximately 11,000 parts for which PMAs have been received from the FAA.

Jet engine and aircraft component replacement parts can be categorized by their ongoing ability to be repaired and returned to service. The general categories in which we participate are as follows: (i) rotable; (ii) repairable; and (iii) expendable. A rotable is a part which is removed periodically as dictated by an operator's maintenance procedures or on an as needed basis and is typically repaired or overhauled and re-used an indefinite number of times. An important subset of rotables is "life limited" parts. A life limited rotable has a designated number of allowable flight hours and/or cycles (one take-off and landing generally constitutes one cycle) after which it is rendered unusable. A repairable is similar to a rotable except that it can only be repaired a limited number of times before it must be discarded. An expendable is generally a part which is used and not thereafter repaired for further use.

Jet engine and aircraft component replacement parts are classified within the industry as (i) factory-new; (ii) new surplus; (iii) overhauled; (iv) repairable; and (v) as removed. A factory-new or new surplus part is one that has never been installed or used. Factory-new parts are purchased from FAA-approved manufacturers (such as HEICO or OEMs) or their authorized distributors. New surplus parts are purchased from excess stock of airlines, repair facilities or other redistributors. An overhauled part is one that has been completely repaired and inspected by a licensed repair facility such as ours. An aircraft spare part is classified as "repairable" if it can be repaired by a licensed repair facility under applicable regulations. A part may also be classified as "repairable" if it can be removed by the operator from an aircraft or jet engine while operating under an approved maintenance program and is airworthy and meets any manufacturer or time and cycle restrictions applicable to the part. A "factory-new," "new surplus" or "overhauled" part designation indicates that the part can be immediately utilized on an aircraft. A part in "as removed" or "repairable" condition requires inspection and possibly functional testing, repair or overhaul by a licensed facility prior to being returned to service in an aircraft.

Factory-New Jet Engine and Aircraft Component Replacement Parts. The Flight Support Group engages in the research and development, design, manufacture and sale of FAA-approved replacement parts that are sold to domestic and foreign commercial air carriers and aircraft repair and overhaul companies. Our principal competitors are aircraft engine and aircraft component manufacturers. The Flight Support Group's factory-new replacement parts include various jet engine and aircraft component replacement parts. A key element of our growth strategy is the continued design and development of an increasing number of PMA replacement parts in order

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to further penetrate our existing customer base and obtain new customers. We select the jet engine and aircraft component replacement parts to design and manufacture through a selection process which analyzes industry information to determine which replacement parts are suitable candidates.

Repair and Overhaul Services. The Flight Support Group provides repair and overhaul services on selected jet engine and aircraft component parts, as well as on avionics, instruments, composites and flight surfaces of commercial aircraft operated by domestic and foreign commercial airlines. The Flight Support Group also provides repair and overhaul services including avionics and navigation systems as well as subcomponents and other instruments utilized on military aircraft operated by the U.S. government and foreign military agencies and for aircraft repair and overhaul companies. Our repair and overhaul operations require a high level of expertise, advanced technology and sophisticated equipment. Services include the repair, refurbishment and overhaul of numerous accessories and parts mounted on gas turbine engines and airframes. Components overhauled include fuel pumps, generators, fuel controls, pneumatic valves, starters and actuators, turbo compressors and constant speed drives, hydraulic pumps, valves and actuators, wheels and brakes, composite flight controls, electro-mechanical equipment, auxiliary power unit accessories and thrust reverse actuation systems. Some of the repair and overhaul services provided by the Flight Support Group are proprietary repairs approved by an FAA-qualified designated engineering representative (“DER”). Such FAA-approved repairs (DER-approved repairs) typically create cost savings or provide engineering flexibility. The Flight Support Group also provides commercial airlines, regional operators, asset management companies and Maintenance, Repair and Overhaul (“MRO”) providers with high quality and cost effective niche accessory component exchange services as an alternative to OEMs’ spares services.

Distribution. The Flight Support Group distributes FAA-approved parts including hydraulic, pneumatic, structural, interconnect, mechanical and electro-mechanical components for the commercial, regional and general aviation markets. The Flight Support Group also is a leading supplier, distributor, and integrator of military aircraft parts and support services primarily to foreign military organizations allied with the U.S. Further, we believe the Flight Support Group is a leading provider of products and services necessary to maintain up-to-date F-16 fighter aircraft operational capabilities.

Manufacture of Specialty Aircraft/Defense Related Parts and Subcontracting for OEMs. The Flight Support Group engineers, designs and manufactures thermal insulation blankets and parts as well as renewable/reusable insulation systems primarily for aerospace, defense, commercial and industrial applications. The Flight Support Group also manufactures specialty components for sale as a subcontractor for aerospace and industrial original equipment manufacturers and the U.S. government. Additionally, the Flight Support Group manufactures advanced niche components and complex composite assemblies for commercial aviation, defense and space applications and manufactures expanded foil mesh, which is integrated into composite aerospace structures for lightning strike protection in fixed and rotary wing aircraft.

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FAA Approvals and Product Design. Non-OEM manufacturers of jet engine and aircraft component replacement parts must receive a PMA from the FAA to sell the replacement part. The PMA approval process includes the submission of sample parts, drawings and testing data to one of the FAA's Aircraft Certification Offices where the submitted data are analyzed. We believe that an applicant's ability to successfully complete the PMA process is limited by several factors, including (i) the agency's confidence level in the applicant; (ii) the complexity of the part; (iii) the volume of PMAs being filed; and (iv) the resources available to the FAA. We also believe that companies such as HEICO that have demonstrated their advanced design engineering and manufacturing capabilities, including an established favorable track record with the FAA, generally receive a faster turnaround time in the processing of PMA applications. Finally, we believe that the PMA process creates a significant barrier to entry in this market niche through both its technical demands and its limits on the rate at which competitors can bring products to market.

As part of our growth strategy, we have continued to increase our research and development activities. Research and development expenditures by the Flight Support Group, which were approximately $.3 million in fiscal 1991, increased to approximately $21.3 million in fiscal 2018, $17.9 million in fiscal 2017 and $17.4 million in fiscal 2016. We believe that our Flight Support Group's research and development capabilities are a significant component of our historical success and an integral part of our growth strategy. In recent years, the FAA granted us PMAs for approximately 300 to 500 new parts and approximately 300 to 400 new DER-approved repairs per year; however, no assurance can be given that the FAA will continue to grant PMAs or DER-approved repairs or that we will achieve acceptable levels of net sales and gross profits on such parts or repairs in the future.

We benefit from our proprietary rights relating to certain design, engineering and manufacturing processes and repair and overhaul procedures. Customers often rely on us to provide initial and additional components, as well as to redesign, re-engineer, replace or repair and provide overhaul services on such aircraft components at every stage of their useful lives. In addition, for some products, our unique manufacturing capabilities are required by the customer's specifications or designs, thereby necessitating reliance on us for production of such designed products.

We have no material patents for the proprietary techniques, including software and manufacturing expertise, we have developed to manufacture jet engine and aircraft component replacement parts and instead, we primarily rely on trade secret protection. Although our proprietary techniques and software and manufacturing expertise are subject to misappropriation or obsolescence, we believe that we take appropriate measures to prevent misappropriation or obsolescence from occurring by developing new techniques and improving existing methods and processes, which we will continue on an ongoing basis as dictated by the technological needs of our business.

We believe that, based on our competitive pricing, reputation for high quality, short lead time requirements, strong relationships with domestic and foreign commercial air carriers and repair stations (companies that overhaul aircraft engines and/or components), and successful track record of receiving PMAs and DER-approved repairs from the FAA, we are uniquely positioned to continue to increase the products and services offered and gain market share.

Electronic Technologies Group

Our Electronic Technologies Group's strategy is to design and manufacture highly-engineered, mission-critical subcomponents that must successfully operate in the harshest environments, for smaller, niche markets, but which are utilized in larger systems – systems like power, targeting, tracking, identification, simulation, testing, communications, lighting, surgical, medical imaging, baggage scanning, telecom and computer systems. These systems are, in turn, often located on another platform, such as aircraft, rotorcraft, satellites, ships, spacecraft, land vehicles, handheld devices and other platforms.

Electro-Optical Infrared Simulation and Test Equipment. The Electronic Technologies Group believes it is a leading international designer and manufacturer of niche state-of-the-art simulation, testing and calibration equipment used in the development of missile seeking technology, airborne targeting and reconnaissance systems, shipboard targeting and reconnaissance systems, space-based sensors as well as ground vehicle-based systems. These products include infrared scene projector equipment, such as our MIRAGE IR Scene Simulator, high precision blackbody sources, software and integrated calibration systems.

Simulation equipment allows the U.S. government and allied foreign military to save money on missile testing as it allows infrared-based missiles to be tested on a multi-axis, rotating table instead of requiring the launch of a complete missile. In addition, several large military prime contractors have elected to purchase such equipment from us instead of maintaining internal staff to do so because we can offer a more cost-effective solution. Our customers include major U.S. Department of Defense weapons laboratories and defense prime contractors.

Electro-Optical Laser Products. The Electronic Technologies Group believes it is a leading designer and maker of Laser Rangefinder Receivers and other photodetectors used in airborne, vehicular and handheld targeting systems manufactured by major prime military contractors. Most of our Rangefinder Receiver product offering consists of complex and patented products which detect reflected light from laser targeting systems and allow the systems to confirm target accuracy and calculate target distances prior to discharging a weapon system. Some of these products are also used in laser eye surgery systems for tracking ocular movement.

Electro-Optical, Microwave and Other Power Equipment. The Electronic Technologies Group produces power supplies, amplifiers and flash lamp drivers used in laser systems for military, medical and other applications that are sometimes utilized with our rangefinder receivers. We also produce emergency back-up power supplies and batteries used on commercial aircraft and business jets for services such as emergency exit lighting, emergency fuel shut-off, power door assists, cockpit voice recorders and flight computers. We also design and manufacture next generation wireless cabin control systems, solid state power distribution and management systems and fuel level sensing systems for business jets and for general aviation, as

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well as for the military/defense market. We offer custom or standard designs that solve challenging OEM requirements and meet stringent safety and emissions requirements. Our power electronics products include capacitor charger power supplies, laser diode drivers, arc lamp power supplies and custom power supply designs.

Our microwave products are used in both commercial and military satellites, spacecraft and in electronic warfare systems. These products, which include isolators, bias tees, circulators, latching ferrite switches and waveguide adapters are used in satellites and spacecraft to control or direct energy according to operator needs. As satellites are frequently used as sensors for stand-off warfare, we believe this product line further supports our goal of increasing our activity in the stand-off market. Additionally, our microwave products include converters, receivers, transmitters, amplifiers, frequency sources and related sub-systems that address the majority of major satellite frequencies. We believe we are a leading supplier of the niche products which we design and manufacture for this market, a market that includes commercial satellites. Our customers for these products include satellite and spacecraft manufacturers.

Electromagnetic and Radio Interference Shielding. The Electronic Technologies Group designs and manufactures shielding used to prevent electromagnetic energy and radio frequencies from interfering with other devices, such as computers, telecommunication devices, avionics, weapons systems and other electronic equipment. Our products include a patented line of shielding applied directly to circuit boards and a line of gasket-type shielding applied to computers and other electronic equipment. Our customers consist essentially of medical, electronics, telecommunications and defense equipment producers.

High-Speed Interface Products. The Electronic Technologies Group designs and manufactures advanced high-technology, high-speed interface products utilized in homeland security, defense, medical research, astronomical and other applications across numerous industries.

High Voltage Interconnection Devices. The Electronic Technologies Group designs and manufactures high and very high voltage interconnection devices, cable assemblies and wire for the medical equipment, defense and other industrial markets. Among others, our products are utilized in aircraft missile defense, fighter pilot helmet displays, avionic systems, medical applications, wireless communications, and industrial applications including high voltage test equipment and underwater monitoring systems.

High Voltage Advanced Power Electronics. The Electronic Technologies Group designs and manufactures a patented line of high voltage energy generators for medical, baggage inspection and industrial imaging systems. We also produce high voltage power supplies found in satellite communications, CT scanners and in medical and industrial x-ray systems.

Power Conversion Products. The Electronic Technologies Group designs and provides innovative power conversion products principally serving the high-reliability military, space and commercial avionics end-markets. These high density, low profile and lightweight DC-to-DC converters and electromagnetic interference filters, which include thick film hermetically sealed

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hybrids, military commercial-off-the-shelf and custom designed and assembled products, have become the primary specified components of their kind on a generation of complex military, space and avionics equipment.

Underwater Locator Beacons and Emergency Locator Transmission Beacons. The Electronic Technologies Group designs and manufactures Underwater Locator Beacons ("ULBs") used to locate aircraft Cockpit Voice Recorders and Flight Data Recorders, marine ship Voyage Recorders and various other devices which have been submerged under water. ULBs are required equipment on all U.S. FAA and European Aviation Safety Agency ("EASA") approved Flight Data and Cockpit Voice Recorders used in aircraft and on similar systems utilized on large marine shipping vessels. The Electronic Technologies Group also design and manufactures Emergency Locator Transmission Beacons for the commercial aviation and defense markets. Upon activation, these safety-critical devices transmit a distress signal to alert search and rescue operations of the the aircraft's location.

Traveling Wave Tube Amplifiers ("TWTAs") and Microwave Power Modules ("MPMs"). The Electronic Technologies Group designs and manufactures TWTAs and MPMs predominately used in radar, electronic warfare, on-board jamming and countermeasure systems in aircraft, ships and detection platforms deployed by U.S. and allied non-U.S. military forces.

Three-Dimensional Microelectronic and Stacked Memory Products. The Electronic Technologies Group designs, manufactures and markets three-dimensional microelectronic and stacked memory products including memories, Point of Load ("POL") voltage converters and peripherals, industrial memories, and complex System-in-Package ("SiP") solutions. The products' patented designs provide high reliability memory and circuitry in a unique and stacked form which saves space and weight. These products are principally integrated into larger subsystems equipping satellites and spacecraft and are also utilized in medical equipment.

Harsh Environment Connectivity Products and Custom Molded Cable Assemblies. The Electronic Technologies Group designs and manufactures high performance, high reliability and harsh environment electronic connectors and other interconnect products. These products include connectors, jacks and plugs, cables, patch panels and switches utilized in aviation, broadcast/audio, defense, industrial, medical and other equipment.

RF and Microwave Amplifiers, Transmitters and Receivers. The Electronic Technologies Group designs and manufactures RF and microwave amplifiers, transmitters and receivers to support military communications on unmanned aerial systems, other aircraft, helicopters and ground-based data/communications systems.

High Performance Communications and Electronic Intercept Receivers and Tuners. The Electronic Technologies Group designs and manufactures innovative, high performance receiver and radio frequency digitizer products for military and intelligence applications.

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Crashworthy and Ballistically Self-Sealing Auxiliary Fuel Systems. The Electronic Technologies Group designs and manufactures mission-extending, crashworthy and ballistically self-sealing auxiliary fuel systems for military rotorcraft.

High Performance Active Antenna Systems. The Electronic Technologies Group designs and produces high performance active antenna systems for commercial aircraft, precision guided munitions, other defense applications and commercial uses.

Nuclear Radiation Detectors. The Electronic Technologies Group designs and manufactures highly sensitive, reliable and easy-to-use nuclear radiation detectors for law enforcement, homeland security and military applications.

As part of our growth strategy, we have continued to invest in our research and development activities. Research and development expenditures by the Electronic Technologies Group were $36.2 million in fiscal 2018, $28.6 million in fiscal 2017 and $27.3 million in fiscal 2016. We believe that our Electronic Technologies Group's research and development capabilities are a significant component of our historical success and an integral part of our growth strategy.

Financial Information About Operating Segments and Geographic Areas

See Note 14, Operating Segments, of the Notes to Consolidated Financial Statements for financial information by operating segment and by geographic areas.

Distribution, Sales, Marketing and Customers

Each of our operating segments independently conducts distribution, sales and marketing efforts directed at their respective customers and industries and, in some cases, collaborates with other operating divisions and subsidiaries within its group for cross-marketing efforts. Sales and marketing efforts are conducted primarily by in-house personnel and, to a lesser extent, by independent manufacturers' representatives. Generally, the in-house sales personnel receive a base salary plus commission and manufacturers' representatives receive a commission on sales.

We believe that direct relationships are crucial to establishing and maintaining a strong customer base and, accordingly, our senior management is actively involved in our marketing activities, particularly with established customers. We are also a member of various trade and business organizations related to the commercial aviation industry, such as the Aerospace Industries Association, which we refer to as AIA, the leading trade association representing the nation's manufacturers of commercial, military and business aircraft, aircraft engines and related components and equipment. Due in large part to our established industry presence, we enjoy strong customer relations, name recognition and repeat business.

We sell our products to a broad customer base consisting of domestic and foreign commercial and cargo airlines, repair and overhaul facilities, other aftermarket suppliers of aircraft engine and airframe materials, OEMs, domestic and foreign military units, electronic

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manufacturing services companies, manufacturers for the defense industry as well as medical, telecommunications, scientific, and industrial companies. No one customer accounted for sales of 10% or more of total consolidated sales from continuing operations during any of the last three fiscal years. Net sales to our five largest customers accounted for approximately 20%, 18% and 21% of total net sales in fiscal 2018, 2017 and 2016, respectively.

Competition

The aerospace product and service industry is characterized by intense competition. Some of our competitors have substantially greater name recognition, inventories, complementary product and service offerings, financial, marketing and other resources than we do. As a result, such competitors may be able to respond more quickly to customer requirements than we can. Moreover, smaller competitors may be in a position to offer more attractive pricing as a result of lower labor costs and other factors.

Our jet engine and aircraft component replacement parts business competes primarily with aircraft engine and aircraft component manufacturers. The competition is principally based on price and service to the extent that our parts are interchangeable. With respect to other aerospace products and services sold by the Flight Support Group, we compete with both the leading jet engine and aircraft component OEMs and a large number of machining, fabrication, distribution and repair companies, some of which have greater financial and other resources than we do. Competition is based mainly on price, product performance, service and technical capability.

Competition for the repair and overhaul of jet engine and aircraft components comes from three principal sources: OEMs, major commercial airlines and other independent service companies. Some of these competitors have greater financial and other resources than we do. Some major commercial airlines own and operate their own service centers and sell repair and overhaul services to other aircraft operators. Foreign airlines that provide repair and overhaul services typically provide these services for their own aircraft components and for third parties. OEMs also maintain service centers that provide repair and overhaul services for the components they manufacture. Other independent service organizations also compete for the repair and overhaul business of other users of aircraft components. We believe that the principal competitive factors in the repair and overhaul market are quality, turnaround time, overall customer service and price.

Our Electronic Technologies Group competes with several large and small domestic and foreign competitors, some of which have greater financial and other resources than we do. The markets for our electronic products are niche markets with several competitors where competition is based mainly on design, technology, quality, price, service and customer satisfaction.

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Raw Materials

We purchase a variety of raw materials, primarily consisting of high temperature alloy sheet metal and castings, forgings, pre-plated metals and electrical components from various vendors. The materials used by our operations are generally available from a number of sources and in sufficient quantities to meet current requirements subject to normal lead times. We are subject to rules promulgated by the Securities Exchange Commission pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act regarding the use of certain materials (tantalum, tin, gold and tungsten), known as conflict minerals, which are mined from the Democratic Republic of the Congo and adjoining countries. These rules may impose additional costs and may introduce new risks related to our ability to verify the origin of any conflict minerals used in our products.

Backlog

Our total backlog of unshipped orders was $783 million as of October 31, 2018 as compared to $654 million as of October 31, 2017. The majority of our backlog of orders as of October 31, 2018 is expected to be delivered during fiscal 2019. The Electronic Technologies Group’s backlog of unshipped orders was $472 million as of October 31, 2018 as compared to $418 million as of October 31, 2017. The increase in the Electronic Technologies Group's backlog reflects increased orders at one of our businesses that designs and produces high performance active antenna systems for commercial aircraft, precision guided munitions, other defense applications and commercial uses and at a business that designs and produces mission-extending, crashworthy and ballistically self-sealing auxiliary fuel systems for military rotorcraft as well as the backlogs of businesses acquired during fiscal 2018. The Flight Support Group’s backlog of unshipped orders was $311 million as of October 31, 2018 as compared to $236 million as of October 31, 2017. This backlog excludes forecasted shipments for certain contracts of the Flight Support Group pursuant to which customers provide only estimated annual usage and not firm purchase orders. Our backlogs within the Flight Support Group are typically short-lead in nature with many product orders being received within the month of shipment. The increase in the Flight Support Group's backlog principally reflects increased orders at one of our businesses that manufactures advanced niche components and complex composite assemblies for commercial aviation, defense and space applications and at a business that is a distributor and designer of FAA-approved hydraulic, pneumatic, mechanical and electro-mechanical components for the commercial, regional and general aviation markets. Additionally, the Flight Support Group’s increase reflects increased orders at one of our businesses that is a supplier, distributor, and integrator of military aircraft parts and support services primarily to foreign military organizations allied with the U.S. and at one of our businesses that is a provider of products and services necessary to maintain up-to-date F-16 fighter aircraft operational capabilities.

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Government Regulation

The FAA regulates the manufacture, repair and operation of all aircraft and aircraft parts operated in the United States. Its regulations are designed to ensure that all aircraft and aviation equipment are continuously maintained in proper condition to ensure safe operation of the aircraft. Similar rules apply in other countries. All aircraft must be maintained under a continuous condition monitoring program and must periodically undergo thorough inspection and maintenance. The inspection, maintenance and repair procedures for the various types of aircraft and equipment are prescribed by regulatory authorities and can be performed only by certified repair facilities utilizing certified technicians. Certification and conformance is required prior to installation of a part on an aircraft. Aircraft operators must maintain logs concerning the utilization and condition of aircraft engines, life-limited engine parts and airframes. In addition, the FAA requires that various maintenance routines be performed on aircraft engines, some engine parts, and airframes at regular intervals based on cycles or flight time. Engine maintenance must also be performed upon the occurrence of certain events, such as foreign object damage in an aircraft engine or the replacement of life-limited engine parts. Such maintenance usually requires that an aircraft engine be taken out of service. Our operations may in the future be subject to new and more stringent regulatory requirements. In that regard, we closely monitor the FAA and industry trade groups in an attempt to understand how possible future regulations might impact us. Our businesses which sell defense products directly to the U.S. Government or for use in systems delivered to the U.S. Government can be subject to various laws and regulations governing pricing and other factors.

There has been no material adverse effect to our consolidated financial statements as a result of these government regulations.

Environmental Regulation

Our operations are subject to extensive, and frequently changing, federal, state and local environmental laws and substantial related regulation by government agencies, including the Environmental Protection Agency. Among other matters, these regulatory authorities impose requirements that regulate the operation, handling, transportation and disposal of hazardous materials; protect the health and safety of workers; and require us to obtain and maintain licenses and permits in connection with our operations. This extensive regulatory framework imposes significant compliance burdens and risks on us. Notwithstanding these burdens, we believe that we are in material compliance with all federal, state and local environmental laws and regulations governing our operations.

There has been no material adverse effect to our consolidated financial statements as a result of these environmental regulations.

Other Regulation

We are also subject to a variety of other regulations including work-related and community safety laws. The Occupational Safety and Health Act of 1970 mandates general requirements for safe workplaces for all employees and established the Occupational Safety and Health Administration ("OSHA") in the Department of Labor. In particular, OSHA provides special procedures and measures for the handling of certain hazardous and toxic substances. In addition, specific safety standards have been promulgated for workplaces engaged in the treatment, disposal or storage of hazardous waste. Requirements under state law, in some circumstances, may mandate additional measures for facilities handling materials specified as extremely dangerous. We believe that our operations are in material compliance with OSHA's health and safety requirements.

Insurance

We are a named insured under policies which include the following coverage: (i) product liability, including grounding; (ii) personal property, inventory and business interruption at our facilities; (iii) general liability coverage; (iv) employee benefit liability; (v) international liability and automobile liability; (vi) umbrella liability coverage; and (vii) various other activities or items, each subject to certain limits and deductibles. We believe that our insurance coverage is adequate to insure against the various liability risks of our business.

Employees

As of October 31, 2018, we had approximately 5,400 full-time and part-time employees including approximately 3,200 in the Flight Support Group and approximately 2,200 in the Electronic Technologies Group. None of our employees are represented by a U.S. domestic union. Our management believes that we have good relations with our employees.

Available Information

Our Internet website address is http://www.heico.com. We make available free of charge, through the Investors section of our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, specialized disclosure reports on Form SD and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). These materials are also available free of charge on the SEC's website at http://www.sec.gov. The information on or obtainable through our website is not incorporated into this annual report on Form 10-K.

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller and other persons performing similar functions. Our Code of Ethics for Senior Financial Officers and Other Officers is part of our Code of Business Conduct, which is located on our website at http://www.heico.com. Any amendments to or waivers from a provision of this code of ethics will be posted on the website. Also located on the website are our Corporate Governance Guidelines, Finance/Audit Committee Charter, Nominating & Corporate Governance Committee Charter, and Compensation Committee Charter.

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Copies of the above referenced materials will be made available, free of charge, upon written request to the Corporate Secretary at HEICO Corporation, 3000 Taft Street, Hollywood, Florida 33021.

Executive Officers of the Registrant

Our executive officers are appointed by the Board of Directors and serve at the discretion of the Board. The following table sets forth the names, ages of, and positions and offices held by our executive officers as of December 18, 2018:

Name	Age	Position(s)	Director Since
Laurans A. Mendelson	80	Chairman of the Board; Chief Executive Officer; and Director	1989
Eric A. Mendelson	53	Co-President and Director; President and Chief Executive Officer of the HEICO Flight Support Group	1992
Victor H. Mendelson	51	Co-President and Director; President and Chief Executive Officer of the HEICO Electronic Technologies Group	1996
Thomas S. Irwin	72	Senior Executive Vice President	—
Carlos L. Macau, Jr.	51	Executive Vice President - Chief Financial Officer and Treasurer	—
Steven M. Walker	54	Chief Accounting Officer and Assistant Treasurer	—

Laurans A. Mendelson has served as our Chairman of the Board since December 1990. He has also served as our Chief Executive Officer since February 1990 and served as our President from September 1991 through September 2009. Mr. Mendelson is a member of the Board of Governors of the Aerospace Industries Association ("AIA") in Washington, D.C., of which HEICO is a member. He is the former Chairman of the Board of Trustees, former Chairman of the Executive Committee and a current member of the Society of Mount Sinai Founders of Mount Sinai Medical Center in Miami Beach, Florida. In addition, Mr. Mendelson is a Trustee Emeritus of Columbia University in The City of New York, where he previously served as Trustee and Chairman of the Trustees' Audit Committee. Laurans Mendelson is the father of Eric Mendelson and Victor Mendelson.

Eric A. Mendelson has served as our Co-President since October 2009 and served as our Executive Vice President from 2001 through September 2009. Mr. Mendelson has also served as President and Chief Executive Officer of the HEICO Flight Support Group since its formation in 1993, as well as President of various Flight Support Group subsidiaries. Mr. Mendelson is a co-founder, and, since 1987, has been Managing Director of Mendelson International Corporation, a private investment company, which is a shareholder of HEICO. In addition, Mr. Mendelson is a member of the Advisory Board of Trustees of Mount Sinai Medical Center in Miami Beach, Florida, and a Member of the Board of

Trustees and a Past Chairman of Ransom Everglades School in Coconut Grove, Florida, as well as a member of the Board of Visitors of Columbia College in New York City. Eric Mendelson is the son of Laurans Mendelson and the brother of Victor Mendelson.

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Victor H. Mendelson has served as our Co-President since October 2009 and served as our Executive Vice President from 2001 through September 2009. Mr. Mendelson has also served as President and Chief Executive Officer of the HEICO Electronic Technologies Group since its formation in September 1996. He served as our General Counsel from 1993 to 2008 and our Vice President from 1996 to 2001. In addition, Mr. Mendelson was the Chief Operating Officer of our former MediTek Health Corporation subsidiary from 1995 until its profitable sale in 1996. Mr. Mendelson is a co-founder, and, since 1987, has been President of Mendelson International Corporation, a private investment company, which is a shareholder of HEICO. Mr. Mendelson is a former Director and Audit Committee member of NASDAQ-listed Terrapin 3 Acquisition Corp. Mr. Mendelson is a Trustee of Columbia University in the City of New York, a Trustee of St. Thomas University in Miami Gardens, Florida, a Director of Boys & Girls Clubs of Miami-Dade and is a Director and Past President of the Board of Directors of the Florida Grand Opera. Victor Mendelson is the son of Laurans Mendelson and the brother of Eric Mendelson.

Thomas S. Irwin has served as our Senior Executive Vice President since June 2012; our Executive Vice President, Chief Financial Officer and Treasurer from September 1991 through May 2012; Senior Vice President and Treasurer from 1986 to 1991; and our Vice President and Treasurer from 1982 to 1986. Mr. Irwin is a Certified Public Accountant. He is a member of the American and North Carolina Institutes of Certified Public Accountants and a member of Financial Executives International.

Carlos L. Macau, Jr. has served as our Executive Vice President - Chief Financial Officer and Treasurer since June 2012. Mr. Macau joined HEICO from the international public accounting firm of Deloitte & Touche LLP where he worked from 2000 to 2012 as an Audit Partner. Prior to joining HEICO, Mr. Macau accumulated 22 years of financial and accounting experience serving a number of public and private manufacturing and service clients in a broad range of industries. His client responsibilities included serving as HEICO's lead client services partner for five years (2006 to 2010). Mr. Macau is a current member of the Mount Sinai Founders of Mount Sinai Medical Center in Miami Beach, Florida. Mr. Macau is a Certified Public Accountant, a Chartered Global Management Accountant, and a member of the American and Florida Institutes of Certified Public Accountants.

Steven M. Walker has served as our Chief Accounting Officer since June 2012 and served as our Corporate Controller from 2002 through May 2012. He has also served as our Assistant Treasurer since 2002. Mr. Walker is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants.

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Item 1A. *RISK FACTORS*

Our business, financial condition, operating results and cash flows may be impacted by a number of factors, many of which are beyond our control, including those set forth below and elsewhere in this Annual Report on Form 10-K, any one of which may cause our actual results to differ materially from anticipated results:

Our success is highly dependent on the performance of the aviation industry, which could be impacted by lower demand for commercial air travel or airline fleet changes causing lower demand for our goods and services.

General global industry and economic conditions that affect the aviation industry also affect our business. We are subject to macroeconomic cycles and when recessions occur, we may experience reduced orders, payment delays, supply chain disruptions or other factors as a result of the economic challenges faced by our customers, prospective customers and suppliers. Further, the aviation industry has historically been subject to downward cycles from time to time which reduce the overall demand for jet engine and aircraft component replacement parts and repair and overhaul services, and such downward cycles result in lower sales and greater credit risk. Demand for commercial air travel can be influenced by airline industry profitability, world trade policies, government-to-government relations, terrorism, disease outbreaks, environmental constraints imposed upon aircraft operations, technological changes, price and other competitive factors. These global industry and economic conditions may have a material adverse effect on our business, financial condition and results of operations.

We are subject to governmental regulation and our failure to comply with these regulations could cause the government to withdraw or revoke our authorizations and approvals to do business and could subject us to penalties and sanctions that could harm our business.

Governmental agencies throughout the world, including the FAA, highly regulate the manufacture, repair and overhaul of aircraft parts and accessories. We include, with the replacement parts that we sell to our customers, documentation certifying that each part complies with applicable regulatory requirements and meets applicable standards of airworthiness established by the FAA or the equivalent regulatory agencies in other countries. In addition, our repair and overhaul operations are subject to certification pursuant to regulations established by the FAA. Specific regulations vary from country to country, although compliance with FAA requirements generally satisfies regulatory requirements in other countries. The revocation or suspension of any of our material authorizations or approvals would have an adverse effect on our business, financial condition and results of operations. New and more stringent government regulations, if adopted and enacted, could have an adverse effect on our business, financial condition and results of operations. In addition, certain product sales to foreign countries of our Electronic Technologies Group and Flight Support Group require approval or licensing from the United States ("U.S.") government. Denial of export licenses could reduce our sales to those countries and could have a material adverse effect on our business.

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Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Securities and Exchange Commission promulgated disclosure requirements regarding the use of certain minerals (tantalum, tin, gold and tungsten), known as conflict minerals, which are mined from the Democratic Republic of the Congo or one of its adjoining countries. There are costs associated with complying with the disclosure requirements, such as costs related to determining the source of certain minerals used in our products, as well as costs of possible changes to products, processes, or sources of supply as a consequence of such verification activities. Given the complexity of our supply chain, we may not be able to ascertain the origin of these minerals used in our products in a timely manner, which could cause some of our customers to disqualify us as a supplier to the extent we are unable to certify our products are conflict mineral free. Additionally, the rule could affect sourcing at competitive prices and availability in sufficient quantities of such minerals used in our manufacturing processes for certain products.

The retirement of commercial aircraft could reduce our revenues.

Our Flight Support Group designs and manufactures jet engine and aircraft component replacement parts and also repairs, overhauls and distributes jet engine and aircraft components. If aircraft or engines for which we offer replacement parts or supply repair and overhaul services are retired and there are fewer aircraft that require these parts or services, our revenues may decline.

Reductions in defense, space or homeland security spending by U.S. and/or foreign customers could reduce our revenues.

In fiscal 2018, approximately 65% of the net sales of our Electronic Technologies Group were derived from the sale of defense, commercial and defense satellite and spacecraft components, and homeland security products. A decline in defense, space or homeland security budgets or additional restrictions imposed by the U.S. government on sales of products or services to foreign military agencies could lower sales of our products and services.

We are subject to the risks associated with sales to foreign customers, which could harm our business.

We market our products and services to approximately 115 countries, with approximately 37% of our consolidated net sales in fiscal 2018 derived from sales to foreign customers. We expect that sales to foreign customers will continue to account for a significant portion of our revenues in the foreseeable future. As a result, we are subject to risks of doing business internationally, including the following:

- Fluctuations in currency exchange rates;
- Volatility in foreign political, regulatory, and economic environments;
- Ability to obtain required export licenses or approvals;
- Uncertainty of the ability of foreign customers to finance purchases;
- Uncertainties and restrictions concerning the availability of funding credit or guarantees;
- Imposition of taxes, export controls, tariffs, embargoes and other trade restrictions; and

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- Compliance with a variety of international laws, as well as U.S. laws affecting the activities of U.S. companies abroad such as the U.S. Foreign Corrupt Practices Act.

While the impact of these factors is difficult to predict, any one or more of these factors may have a material adverse effect on our business, financial condition and results of operations.

Intense competition from existing and new competitors may harm our business.

We face significant competition in each of our businesses.

Flight Support Group

- For jet engine and aircraft component replacement parts, we compete with the industry's leading jet engine and aircraft component OEMs.

- For the distribution, overhaul and repair of jet engine and aircraft components as well as avionics and navigation systems, we compete with:
  - major commercial airlines, many of which operate their own maintenance and overhaul units;
  - OEMs, which manufacture, distribute, repair and overhaul their own and other OEM parts; and
  - other independent service companies.

Electronic Technologies Group

- For the design and manufacture of various types of electronic and electro-optical equipment as well as high voltage interconnection devices and high speed interface products, we compete in a fragmented marketplace with a number of companies, some of which are well capitalized.

The aviation aftermarket supply industry is highly fragmented, has several highly visible leading companies, and is characterized by intense competition. Some of our OEM competitors have greater name recognition than HEICO, as well as complementary lines of business and financial, marketing and other resources that HEICO does not have. In addition, OEMs, aircraft maintenance providers, leasing companies and FAA-certificated repair facilities may attempt to bundle their services and product offerings in the supply industry, thereby significantly increasing industry competition. Moreover, our smaller competitors may be able to offer more attractive pricing of parts as a result of lower labor costs or other factors. A variety of potential actions by any of our competitors, including a reduction of product prices or the establishment by competitors of long-term relationships with new or existing customers, could have a material adverse effect on our business, financial condition and results of operations. Competition typically intensifies during cyclical downturns in the aviation industry, when supply may exceed demand. We may not be able to continue to compete effectively against present or future competitors, and competitive pressures may have a material adverse effect on our business, financial condition and results of operations.

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Our success is dependent on the development and manufacture of new products, equipment and services. Our inability to develop, manufacture and introduce new products and services at profitable pricing levels could reduce our sales or sales growth.

The aviation, defense, space, medical, telecommunications and electronics industries are constantly undergoing development and change and, accordingly, new products, equipment and methods of repair and overhaul service are likely to be introduced in the future. In addition to manufacturing electronic and electro-optical equipment and selected aerospace and defense components for OEMs and the U.S. government and repairing jet engine and aircraft components, we re-design sophisticated aircraft replacement parts originally developed by OEMs so that we can offer the replacement parts for sale at substantially lower prices than those manufactured by the OEMs. Consequently, we devote substantial resources to research and product development. Technological development poses a number of challenges and risks, including the following:

- We may not be able to successfully protect the proprietary interests we have in various aircraft parts, electronic and electro-optical equipment and our repair processes;

- As OEMs continue to develop and improve jet engines and aircraft components, we may not be able to re-design and manufacture replacement parts that perform as well as those offered by OEMs or we may not be able to profitably sell our replacement parts at lower prices than the OEMs;

- We may need to expend significant capital to:
  - purchase new equipment and machines,
  - train employees in new methods of production and service, and
  - fund the research and development of new products; and

- Development by our competitors of patents or methodologies that preclude us from the design and manufacture of aircraft replacement parts or electrical and electro-optical equipment could adversely affect our business, financial condition and results of operations.

In addition, we may not be able to successfully develop new products, equipment or methods of repair and overhaul service, and the failure to do so could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to effectively execute our acquisition strategy, which could slow

our growth.

A key element of our strategy is growth through the acquisition of additional companies. Our acquisition strategy is affected by and poses a number of challenges and risks, including the following:

- Availability of suitable acquisition candidates;

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- Availability of capital;
- Diversion of management's attention;
- Effective integration of the operations and personnel of acquired companies;
- Potential write downs of acquired intangible assets;
- Potential loss of key employees of acquired companies;
- Use of a significant portion of our available cash;
- Significant dilution to our shareholders for acquisitions made utilizing our securities; and
- Consummation of acquisitions on satisfactory terms.

We may not be able to successfully execute our acquisition strategy, and the failure to do so could have a material adverse effect on our business, financial condition and results of operations.

Goodwill and other intangible assets represent a significant portion of our total assets, and we may never realize the full value of our intangible assets.

As a result of our acquisitions, goodwill and intangible assets represent a significant portion of our total assets. As of October 31, 2018 and 2017, goodwill and intangible assets, net of amortization, accounted for approximately 61% and 64% of our total assets, respectively. We test our goodwill and intangible assets for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. We may not realize the full value of our goodwill and intangible assets, and to the extent that impairment has occurred, we would be required to recognize the impaired portion of such assets in our earnings. An impairment of a significant portion of such assets could have a material adverse effect on our business, financial condition and results of operations.

The inability to obtain certain components and raw materials from suppliers could harm our business.

Our business is affected by the availability and price of the raw materials and component parts that we use to manufacture our products. Our ability to manage inventory and meet delivery requirements may be constrained by our suppliers' ability to adjust delivery of long-lead time products during times of volatile demand. The supply chains for our business could also be disrupted by external events such as natural disasters, extreme weather events, labor disputes, governmental actions and legislative or regulatory changes. As a result, our suppliers may fail to perform according to specifications when required and we may be unable to identify alternate suppliers or to otherwise mitigate the consequences of their non-performance. Transitions to new suppliers may result in significant costs and delays, including those related to the required recertification of parts obtained from new suppliers with our customers and/or regulatory agencies. Our inability to fill our supply needs could jeopardize our ability to fulfill obligations under customer contracts, which could result in reduced revenues and profits, contract penalties or terminations, and damage to customer relationships. Further, increased costs of such raw materials or components could reduce our profits if we were unable to pass along such price increases to our customers.

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Product specification costs and requirements could cause an increase to our costs to complete contracts.

The costs to meet customer specifications and requirements could result in us having to spend more to design or manufacture products and this could reduce our profit margins on current contracts or those we obtain in the future.

We may incur product liability claims that are not fully insured and such insurance may not be available at commercially reasonable rates.

Our jet engine and aircraft component replacement parts and repair and overhaul services expose our business to potential liabilities for personal injury or death as a result of the failure of an aircraft component that we have designed, manufactured or serviced. While we maintain liability insurance to protect us from future product liability claims, an uninsured or partially insured claim, or a claim for which third-party indemnification is not available, could have a material adverse effect on our business, financial condition and results of operations. Additionally, our customers typically require us to maintain substantial insurance coverage at commercially reasonable rates and our inability to obtain insurance coverage at commercially reasonable rates could have a material adverse effect on our business.

We may incur environmental liabilities and these liabilities may not be covered by insurance.

Our operations and facilities are subject to a number of federal, state and local environmental laws and regulations, which govern, among other things, the discharge of hazardous materials into the air and water as well as the handling, storage and disposal of hazardous materials. Pursuant to various environmental laws, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous materials. Environmental laws typically impose liability whether or not the owner or operator knew of, or was responsible for, the presence of hazardous materials. Although management believes that our operations and facilities are in material compliance with environmental laws and regulations, future changes in them or interpretations thereof or the nature of our operations may require us to make significant additional capital expenditures to ensure compliance in the future.

We carry limited specific environmental insurance, thus, losses could occur for uninsurable or uninsured risks or in amounts in excess of existing insurance coverage. The occurrence of an event that is not covered in full or in part by insurance could have a material adverse effect on our business, financial condition and results of operations.

We may incur damages or disruption to our business caused by natural disasters and other factors that may not be covered by insurance.

Several of our facilities, as a result of their locations, could be subject to a catastrophic loss caused by hurricanes, tornadoes, earthquakes, floods, fire, power loss, telecommunication and information systems failure, political unrest or similar events. Our corporate headquarters

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and facilities located in Florida are particularly susceptible to hurricanes, storms, tornadoes or other natural disasters that could disrupt our operations, delay production and shipments, and result in large expenses to repair or replace the facility or facilities. Should insurance or other risk transfer mechanisms, such as our existing disaster recovery and business continuity plans, be insufficient to recover all costs, we could experience a material adverse effect on our business, financial condition and results of operations.

Cyber security events or other disruptions of our information technology systems could adversely affect our business.

We rely on information technology systems, some of which are managed by third parties, to process, transmit and store electronic information, and to manage or support a variety of critical business processes and activities. We also collect and store sensitive data, including confidential business information and personal data. These systems may be susceptible to damage, disruptions or shutdowns due to attacks by computer hackers, computer viruses, employee error or malfeasance, power outages, hardware failures, telecommunication or utility failures, catastrophes or other unforeseen events. In addition, security breaches of our systems could result in the misappropriation or unauthorized disclosure of confidential information or personal data belonging to us or to our employees, partners, customers or suppliers. Any such events could disrupt our operations, delay production and shipments, result in defective products or services, damage customer relationships and our reputation and result in legal claims or proceedings that could have a material adverse effect on our business, financial condition and results of operations.

Tax changes could affect our effective tax rate and future profitability.

We file income tax returns in the U.S. federal jurisdiction, multiple state jurisdictions and certain jurisdictions outside the U.S. In fiscal 2018, our effective tax rate was 19.8%. Our future effective tax rate may be adversely affected by a number of factors, including the following:

- Changes in available tax credits or tax deductions;
- Changes in tax laws or the interpretation of such tax laws and changes in generally accepted accounting principles;
- The amount of net income attributable to noncontrolling interests in our subsidiaries structured as partnerships;
- Changes in the mix of earnings in jurisdictions with differing statutory tax rates;
- Adjustments to estimated taxes upon finalization of various tax returns;

- Resolution of issues arising from tax audits with various tax authorities;
- Changes in statutory tax rates in any of the various jurisdictions where we file tax returns; and
- The reversal of any previously experienced tax-exempt unrealized gains in the cash surrender values of life insurance policies related to the HEICO Corporation Leadership Compensation Plan, a nonqualified deferred compensation plan.

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Any significant increase in our future effective tax rates could have a material adverse effect on net income for future periods.

Federal income tax reform could materially affect the tax aspects of our business and the industries in which we compete.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act contains significant changes to existing tax law including, among other things, a reduction in the U.S. federal statutory tax rate from 35% to 21% and the implementation of a territorial tax system resulting in a one-time transition tax on the unremitted earnings of the Company's foreign subsidiaries. The Tax Act also contains additional provisions that will become effective for HEICO in fiscal 2019 including a new tax on Global Intangible Low-Taxed Income, a new deduction for Foreign-Derived Intangible Income, the repeal of the domestic production activity deduction and additional limitations on the deductibility of certain executive compensation.

The Tax Act is unclear in many respects and could be subject to potential amendments and technical corrections, as well as interpretations and implementation of regulations by the U.S. Treasury Department and Internal Revenue Service ("IRS"), any of which could lessen or increase certain adverse impacts of the legislation. In addition, it is unclear how these U.S. federal income tax changes will affect state and local taxation, which often uses federal taxable income as a starting point for computing state and local tax liabilities, or how the changes will be viewed by foreign governments.

Our analysis and interpretation of the Tax Act is preliminary and ongoing, and our implementation may include judgments and estimates that differ from the final IRS regulations. As such, to the extent that tax reforms, if any, have a negative effect on us or the industries we serve, these changes may have a material adverse effect on our business, financial condition and results of operations.

We may not have the administrative, operational or financial resources to continue to grow the company.

We have experienced rapid growth in recent periods and intend to continue to pursue an aggressive growth strategy, both through acquisitions and internal expansion of products and services. Our growth to date has placed, and could continue to place, significant demands on our administrative, operational and financial resources. We may not be able to grow effectively or manage our growth successfully, and the failure to do so could have a material adverse effect on our business, financial condition and results of operations.

We are dependent on key personnel and the loss of these key personnel could have a material adverse effect on our success.

Our success substantially depends on the performance, contributions and expertise of our senior management team led by Laurans A. Mendelson, our Chairman and Chief Executive

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Officer, and Eric A. Mendelson and Victor H. Mendelson, our Co-Presidents. Technical employees are also critical to our research and product development, as well as our ability to continue to re-design sophisticated products of OEMs in order to sell competing replacement parts at substantially lower prices than those manufactured by the OEMs. The loss of the services of any of our executive officers or other key employees or our inability to continue to attract or retain the necessary personnel could have a material adverse effect on our business, financial condition and results of operations.

Our executive officers and directors have significant influence over our management and direction.

As of December 18, 2018, collectively our executive officers and entities controlled by them, the HEICO Savings and Investment Plan (our 401(k) Plan) and members of the Board of Directors beneficially owned approximately 20% of our outstanding Common Stock and approximately 5% of our outstanding Class A Common Stock. Accordingly, they will be able to substantially influence the election of the Board of Directors and control our business, policies and affairs, including our position with respect to proposed business combinations and attempted takeovers.

Item 1B. *UNRESOLVED STAFF COMMENTS*

None.

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Item 2. *PROPERTIES*

We own or lease a number of facilities, which are utilized by our Flight Support Group ("FSG"), Electronic Technologies Group ("ETG") and corporate offices. As of October 31, 2018, all of the facilities listed below were in good operating condition, well maintained and in regular use. We believe that our existing facilities are sufficient to meet our operational needs for the foreseeable future. Summary information on the facilities utilized within the FSG, ETG and our corporate offices to support their principal operating activities is as follows:

Flight Support Group

	Square Footage		
Location	**Leased**	**Owned**	**Description**
United States facilities (13 states)	755,000	260,000	Manufacturing, engineering and distribution facilities, and corporate headquarters
United States facilities (6 states)	204,000	127,000	Repair and overhaul facilities
International facilities (11 countries) - China, France, Germany, India, Laos, Netherlands, Singapore, Spain, Thailand, United Arab Emirates and United Kingdom	124,000	173,000	Manufacturing, engineering and distribution facilities, and sales offices

Electronic Technologies Group

	Square Footage		
Location	**Leased**	**Owned**	**Description**
United States facilities (12 states)	678,000	309,000	Manufacturing and engineering facilities
International facilities (4 countries) - Canada, France, South Korea and United Kingdom	70,000	51,000	Manufacturing and engineering facilities

Corporate

	Square Footage		
Location	**Leased**	**Owned (1)**	**Description**
United States facilities (1 state)	—	7,000	Administrative offices

(1) Represents the square footage of our corporate offices in Miami, Florida. The square footage of our corporate headquarters in Hollywood, Florida is included within the square footage under the caption "United States facilities (13 states)" under Flight Support Group.

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Item 3. *LEGAL PROCEEDINGS*

We are involved in various legal actions arising in the normal course of business. Based upon the Company's and our 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 effect on our results of operations, financial position or cash flows.

Item 4. *MINE SAFETY DISCLOSURES*

Not applicable.

PART II

Item 5. *MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

Market Information

Our 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.

As of December 18, 2018, there were 321 holders of record of our Class A Common Stock and 317 holders of record of our Common Stock.

Performance Graphs

The following graph and table compare the total return on $100 invested in HEICO Common Stock and HEICO Class A Common Stock with the total return on $100 invested in the NYSE Composite Index and the Dow Jones U.S. Aerospace Index for the five-year period from October 31, 2013 through October 31, 2018. The NYSE Composite Index measures the performance of all common stocks listed on the NYSE. The Dow Jones U.S. Aerospace Index is comprised of large companies which make aircraft, major weapons, radar and other defense equipment and systems as well as providers of satellites and spacecraft used for defense purposes. The total returns include the reinvestment of cash dividends.

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	Cumulative Total Return as of October 31,					
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
HEICO Common Stock	$100.00	$102.06	$95.14	$127.78	$214.86	$310.87
HEICO Class A Common Stock	100.00	118.71	113.67	156.66	249.02	341.51
NYSE Composite Index	100.00	108.35	104.51	104.72	123.29	121.96
Dow Jones U.S. Aerospace Index	100.00	102.56	107.40	114.15	170.64	205.05

The following graph and table compare the total return on $100 invested in HEICO Common Stock since October 31, 1990 using the same indices shown on the five-year performance graph above. October 31, 1990 was the end of the first fiscal year following the date the current executive management team assumed leadership of the Company. No Class A Common Stock was outstanding as of October 31, 1990. As with the five-year performance graph, the total returns include the reinvestment of cash dividends.

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	Cumulative Total Return as of October 31,					
	1990	**1991**	**1992**	**1993**	**1994**	**1995**
HEICO Common Stock	$100.00	$141.49	$158.35	$173.88	$123.41	$263.25
NYSE Composite Index	100.00	130.31	138.76	156.09	155.68	186.32
Dow Jones U.S. Aerospace Index	100.00	130.67	122.00	158.36	176.11	252.00
	1996	**1997**	**1998**	**1999**	**2000**	**2001**
HEICO Common Stock	$430.02	$1,008.31	$1,448.99	$1,051.61	$809.50	$1,045.86
NYSE Composite Index	225.37	289.55	326.98	376.40	400.81	328.78
Dow Jones U.S. Aerospace Index	341.65	376.36	378.66	295.99	418.32	333.32
	2002	**2003**	**2004**	**2005**	**2006**	**2007**
HEICO Common Stock	$670.39	$1,067.42	$1,366.57	$1,674.40	$2,846.48	$4,208.54
NYSE Composite Index	284.59	339.15	380.91	423.05	499.42	586.87
Dow Jones U.S. Aerospace Index	343.88	393.19	478.49	579.77	757.97	1,000.84
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
HEICO Common Stock	$2,872.01	$2,984.13	$4,722.20	$6,557.88	$5,900.20	$10,457.14
NYSE Composite Index	344.96	383.57	427.61	430.46	467.91	569.69
Dow Jones U.S. Aerospace Index	602.66	678.00	926.75	995.11	1,070.15	1,645.24
	2014	**2015**	**2016**	**2017**	**2018**	
HEICO Common Stock	$11,416.51	$10,776.88	$14,652.37	$23,994.03	$33,876.95	
NYSE Composite Index	617.23	595.37	596.57	702.38	694.81	
Dow Jones U.S. Aerospace Index	1,687.41	1,766.94	1,878.10	2,807.42	3,373.52	

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Issuer Purchases of Equity Securities

There were no purchases of our equity securities during the fourth quarter of fiscal 2018.

Recent Sales of Unregistered Securities

There were no unregistered sales of our equity securities during fiscal 2018.

Dividend Policy

We have historically paid semi-annual cash dividends on both our Class A Common Stock and Common Stock. In July 2018, we paid our 80th consecutive semi-annual cash dividend since 1979 of $.06 per share, which represented a 7% increase over the prior semi-annual cash dividend of $.056 per share paid in January 2018. Additionally, our 79th consecutive semi-annual cash dividend paid in January 2018 represented a 9% increase over the $.051 per share semi-annual cash dividend paid in July 2017. In December 2018, our Board of Directors declared a regular semi-annual cash dividend of $.07 per share payable in January 2019. This cash dividend represents a 17% increase over the prior semi-annual per share amount of $.06.

Our Board of Directors will continue to review our dividend policy and will regularly evaluate whether dividends should be paid in cash or stock, as well as what amounts should be paid. Our ability to pay dividends could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and loan covenants under our revolving credit facility.

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Item 6. *SELECTED FINANCIAL DATA*

	Year ended October 31, [1]				
	2018	2017	2016	2015	2014
	(in thousands, except per share data)				
Operating Data:					
Net sales	$1,777,721	$1,524,813	$1,376,258	$1,188,648	$1,132,311
Gross profit	690,715	574,725	515,492	434,179	398,312
Selling, general and administrative expenses	314,470	268,067	250,147	204,523	194,924
Operating income	376,245	306,658	265,345 (5)	229,656	203,388 (6)
Interest expense	19,901	9,790	8,272	4,626	5,441
Other (expense) income	(58)	1,092	(23)	(66)	625
Net income attributable to HEICO	259,233 (3)	185,985 (4)	156,192 (5)	133,364	121,293 (6)
Weighted average number of common shares outstanding: [2]					
Basic	132,543	131,703	130,948	130,351	129,811
Diluted	136,696	135,588	133,145	132,444	131,744
Per Share Data: [2]					
Net income per share attributable to HEICO shareholders:					
Basic	$1.96 (3)	$1.41 (4)	$1.19 (5)	$1.02	$0.93 (6)
Diluted	1.90 (3)	1.37 (4)	1.17 (5)	1.01	0.92 (6)
Cash dividends per share	.116	.097	.082	.072	.241
Balance Sheet Data (as of October 31):					
Cash and cash equivalents	$59,599	$52,066	$42,955	$33,603	$20,229
Total assets	2,653,396	2,512,431	1,998,412	1,700,857	1,454,729
Total debt (including current portion)	532,470	673,979	458,225	367,598	329,109
Redeemable noncontrolling interests	132,046	131,123	99,512	91,282	39,966
Total shareholders' equity	1,503,008	1,248,292	1,047,705	893,271	774,619

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(1) Results include the results of acquisitions from each respective effective date. See Note 2, Acquisitions, of the Notes to Consolidated Financial Statements for more information.

(2) All share and per share information has been adjusted retrospectively to reflect the 5-for-4 stock splits effected in June 2018, January 2018 and April 2017.

(3) During fiscal 2018, the United States ("U.S.") government enacted significant changes to existing tax law resulting in HEICO recording a discrete tax benefit from remeasuring its U.S. federal net deferred tax liabilities that was partially offset by a provisional discrete tax expense related to a one-time transition tax on the unremitted earnings of HEICO's foreign subsidiaries. The net impact of these amounts increased net income attributable to HEICO by $12.1 million, or $.09 per basic and diluted share. See Note 6, Income Taxes, of the Notes to Consolidated Financial Statements for more information.

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(4) During fiscal 2017, we adopted Accounting Standards Update ("ASU") 2016-09, "Improvements to Employee Share-Based Payment Accounting," resulting in the recognition of a $3.1 million discrete income tax benefit and a 1,220,000 increase in our weighted average number of diluted common shares outstanding, which, net of noncontrolling interests, increased net income attributable to HEICO by $2.6 million, or $.02 per basic and $.01 per diluted share.

(5) Includes $3.1 million of acquisition costs incurred in connection with a fiscal 2016 acquisition within the Electronic Technologies Group ("ETG"). These expenses, net of tax, decreased net income attributable to HEICO by $2.0 million, or $.02 per basic and $.01 per diluted share.

(6) Operating income was increased by a $28.1 million reduction in accrued contingent consideration related to a fiscal 2013 and a fiscal 2012 acquisition within the ETG, partially offset by $15.0 million in impairment losses related to the write-down of certain intangible assets of the fiscal 2013 and fiscal 2012 acquisitions to their estimated fair values as well as lower than expected operating income at the fiscal 2013 acquired business, which in aggregate increased net income attributable to HEICO by $10.2 million, or $.08 per basic and diluted share. The reduction in accrued contingent consideration and $13.1 million of the impairment losses were recorded as a component of selling, general and administrative expenses, while the remaining impairment losses of $1.9 million were recorded as a component of cost of sales.

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Item 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

Overview

Our business is 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"), which is 80% owned, and HEICO Flight Support Corp., which is wholly owned, and their collective subsidiaries, which primarily:

- *Designs, Manufactures, Repairs, Overhauls and Distributes Jet Engine and Aircraft Component Replacement Parts.* The Flight Support Group designs, manufactures, repairs, overhauls and distributes jet engine and aircraft component replacement parts. The parts and services are approved by the Federal Aviation Administration ("FAA"). The Flight Support Group also manufactures and sells specialty parts as a subcontractor for aerospace and industrial original equipment manufacturers and the United States ("U.S.") government. Additionally, the Flight Support Group is a leading supplier, distributor, and integrator of military aircraft parts and support services primarily to foreign military organizations allied with the U.S. and a leading manufacturer of advanced niche components and complex composite assemblies for commercial aviation, defense and space applications. Further, the Flight Support Group engineers, designs and manufactures thermal insulation blankets and parts as well as removable/reusable insulation systems for aerospace, defense, commercial and industrial applications, manufactures expanded foil mesh for lightning strike protection in fixed and rotary wing aircraft and is a leading distributor of aviation electrical interconnect products and electromechanical parts.

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

- *Designs and Manufactures Electronic, Microwave and Electro-Optical Equipment, High-Speed Interface Products, High Voltage Interconnection Devices and High Voltage Advanced Power Electronics.* 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, infrared simulation, calibration and testing equipment; power conversion products serving the high-reliability military, space and commercial avionics end-markets; underwater locator beacons used to locate data and voice recorders utilized on aircraft and marine vessels; emergency locator beacons utilized on commercial and military aircraft; electromagnetic interference shielding for commercial and military aircraft operators, electronics companies and telecommunication equipment suppliers; traveling wave tube amplifiers and microwave power modules used in radar, electronic warfare and on-board jamming and countermeasure systems; advanced high-technology interface products that link devices such as telemetry receivers, digital cameras, high resolution scanners, simulation systems

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and test systems to computers; high voltage energy generators, high voltage interconnection devices, cable assemblies and wire for the medical equipment, defense and other industrial markets; high voltage power supplies found in satellite communications, CT scanners and in medical and industrial x-ray systems; three-dimensional microelectronic and stacked memory products that are principally integrated into larger subsystems equipping satellites and spacecraft; harsh environment connectivity products and custom molded cable assemblies; radio frequency (RF) and microwave amplifiers, transmitters and receivers used to support military communications on unmanned aerial systems, other aircraft, helicopters and ground-based data/communications systems; communications and electronic intercept receivers and tuners for military and intelligence applications; wireless cabin control systems, solid state power distribution and management systems and fuel level sensing systems for business jets and for general aviation, as well as for the military/defense market; microwave modules, units and integrated sub-systems for commercial and military satellites; crashworthy and ballistically self-sealing auxiliary fuel systems for military rotorcraft; nuclear radiation detectors for law enforcement, homeland security and military applications; and high performance active antenna systems for commercial aircraft, precision guided munitions, other defense applications and commercial uses.

Our results of operations during each of the past three fiscal years have been affected by a number of transactions. This discussion of our financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and Notes thereto included herein. All applicable share and per share information has been adjusted retrospectively to reflect the 5-for-4 stock splits effected in June 2018, January 2018 and April 2017. See Note 1, Summary of Significant Accounting Policies - Stock Splits, of the Notes to Consolidated Financial Statements for additional information regarding these stock splits. For further information regarding the acquisitions discussed below, see Note 2, Acquisitions, of the Notes to Consolidated Financial Statements. Each acquisition was included in our results of operations from the effective acquisition date. Additionally, our results of operations in fiscal 2018 have been affected by the Tax Cuts and Jobs Acts as further detailed in "Comparison of Fiscal 2018 to Fiscal 2017 - Income Tax Expense, " which follows within this Item 7.

In September 2018, we, through a subsidiary of HEICO Electronic, obtained control over 53.1% of the equity interests of SST Components, Inc. (“SST”). SST manufactures discrete semiconductor components, tests electronic components, and custom assembles a wide variety of prototype and off the shelf components into desired package styles for military, space and commercial uses. The purchase price of this acquisition was paid using cash provided by operating activities.

In August 2018, we acquired, through a subsidiary of HEICO Flight Support Corp., all of the business and assets of Optical Display Engineering ("ODE"). ODE is a Federal Aviation Administration ("FAA")-authorized Part 145 Repair Station focusing on the repair of LCD screens and display modules for aviation displays used in civilian and military aircraft. ODE also holds FAA-Parts Manufacturer Approval authority to supply products that it repairs. The purchase price of this acquisition was paid in cash, principally using cash provided by operating activities.

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

In February 2018, we acquired, through a subsidiary of HEICO Electronic, 85% of the assets and business of Sensor Technology Engineering, Inc. ("Sensor Technology"). Sensor Technology designs and manufactures sophisticated nuclear radiation detectors for law enforcement, homeland security and military applications. The remaining 15% continues to be owned by certain members of Sensor Technology's management team.

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

In September 2017, we acquired, through HEICO Electronic, all of the outstanding stock of AeroAntenna Technology, Inc. ("AAT"). AAT designs and produces high performance active antenna systems for commercial aircraft, precision guided munitions, other defense applications and commercial uses.

In June 2017, we acquired, through a subsidiary of the HEICO Flight Support Corp., all of the ownership interests of Carbon by Design ("CBD"). CBD is a manufacturer of composite components for UAVs, rockets, spacecraft and other specialized applications. The purchase price of CBD was paid using cash provided by operating activities.

In April 2017, we acquired, through a subsidiary of HEICO Flight Support Corp., 80.1% of the equity interests of LLP Enterprises, LLC, which owns all of the outstanding equity interests of the operating units of Air Cost Control ("A2C"). A2C is a leading aviation electrical interconnect product distributor of items such as connectors, wire, cable, protection and fastening systems, in addition to distributing a wide range of electromechanical parts. The remaining 19.9% interest continues to be owned by certain members of A2C's management team.

In January 2016, we acquired, through HEICO Electronic, all of the limited liability company interests of Robertson Fuel Systems, LLC ("Robertson"). Robertson designs and produces mission-extending, crashworthy and ballistically self-sealing auxiliary fuel systems for military rotorcraft.

In December 2015, we acquired, through a subsidiary of HEICO Electronic, certain assets of a company that designs and manufactures underwater locator beacons used to locate

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aircraft cockpit voice recorders, flight data recorders, marine ship voyage recorders and other devices which have been submerged under water. The purchase price of this acquisition was paid using cash provided by operating activities.

Unless otherwise noted, the purchase price of each of the above referenced acquisitions was paid in cash, principally using proceeds from our revolving credit facility. The aggregate amount paid in cash for acquisitions was $59.8 million, $418.3 million and $263.8 million in fiscal 2018, 2017 and 2016, respectively.

Critical Accounting Policies

We believe that the following are our most critical accounting policies, which require management to make judgments about matters that are inherently uncertain.

Assumptions utilized to determine fair value in connection with business combinations, contingent consideration arrangements and in goodwill and intangible assets impairment tests are highly judgmental. If there is a material change in such assumptions or if there is a material change in the conditions or circumstances influencing fair value, we could be required to recognize a material impairment charge. See Item 1A., *Risk Factors*, for a list of factors which may cause our actual results to differ materially from anticipated results.

Revenue Recognition

Revenue from the sale of products and the rendering of services is recognized when title and risk of loss passes to the customer, which is generally at the time of shipment. 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. This method is used because management considers costs incurred to be the best available measure of progress on these contracts. Revisions in cost estimates as contracts progress have the effect of increasing or decreasing profits in the period of revision. Revisions in cost estimates may be caused by factors such as the price or availability of raw materials and component parts or variations in the amount of labor required and/or the materials necessary to meet customer specifications and requirements. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. The percentage of our net sales recognized under the percentage-of-completion method was approximately 2%, 3% and 3% in fiscal 2018, 2017 and 2016, respectively. Changes in estimates pertaining to percentage-of-completion contracts did not have a material or significant effect on net income or net income per share in fiscal 2018, 2017 and 2016.

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. Progress billings and customer advances received on fixed price contracts accounted for under the completed-contract method are classified as a reduction to contract costs that are included in inventories, if any, and any remaining amount is included in accrued expenses and other current liabilities.

Effective as of the beginning of the first quarter of fiscal 2019, we will adopt Accounting Standards Update ("ASU") 2014-09, “Revenue from Contracts with Customers,” which will impact the timing of revenue recognition for two types of our customer contracts. See “New Accounting Pronouncements,” which follows within this Item 7, for additional information.

Valuation of Accounts Receivable

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

Valuation of Inventory

Inventory is stated at the lower of cost or net realizable value, 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.

We periodically evaluate the carrying value of inventory, giving consideration to factors such as its physical condition, sales patterns and expected future demand in order to estimate the amount necessary to write down any slow moving, obsolete or damaged inventory. These estimates could vary significantly from actual amounts 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.

In accordance with industry practice, all inventories are classified as a current asset including portions with long production cycles, some of which may not be realized within one year.

Business Combinations

We allocate the purchase price of acquired entities to the underlying tangible and identifiable intangible assets acquired and liabilities and any noncontrolling interests assumed based on their estimated fair values, with any excess recorded as goodwill. Determining the fair value of assets acquired and liabilities and noncontrolling interests assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives and market multiples, among other items. We determine the fair values of intangible assets acquired generally in consultation with third-party valuation advisors.

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As part of the agreement to acquire certain subsidiaries, we may be obligated to pay contingent consideration should the acquired entity meet certain earnings objectives subsequent to the date of acquisition. As of the acquisition date, contingent consideration is recorded at fair value as determined through the use of a probability-based scenario analysis approach. Under this method, a set of discrete potential future subsidiary earnings is determined using internal estimates based on various revenue growth rate assumptions for each scenario. A probability of likelihood is then assigned to each discrete potential future earnings estimate and the resultant contingent consideration is calculated and discounted using a weighted average discount rate reflecting the credit risk of HEICO. Subsequent to the acquisition date, the fair value of such contingent consideration is measured each reporting period and any changes are recorded to selling, general and administrative ("SG&A") expenses within our Consolidated Statements of Operations. Changes in either the revenue growth rates, related earnings or the discount rate could result in a material change to the amount of contingent consideration accrued. As of October 31, 2018, 2017 and 2016, $20.9 million, $27.6 million and $18.9 million of contingent consideration was accrued within our Consolidated Balance Sheets, respectively. During fiscal 2018, 2017 and 2016, such fair value measurement adjustments resulted in net (decreases) increases to SG&A expenses of ($1.4) million, $1.1 million and $3.1 million, respectively. For further information regarding our contingent consideration arrangements, see Note 7, Fair Value Measurements, of the Notes to Consolidated Financial Statements.

Valuation of Goodwill and Other Intangible Assets

We test 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. In evaluating the recoverability of goodwill, we compare the fair value of each of our 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 is recognized in the amount by which the carrying value of the reporting unit's goodwill exceeds its implied fair value, if any. The fair values of our reporting units were determined using a weighted average of a market approach and an income approach. Under the market approach, fair values are estimated using published market multiples for comparable companies. We calculate fair values under the income approach by taking estimated future cash flows that are based on internal projections and other assumptions deemed reasonable by management and discounting them using an estimated weighted average cost of capital. Based on the annual goodwill impairment test as of October 31, 2018, 2017 and 2016, we determined there was no impairment of our goodwill. The fair value of each of our reporting units as of October 31, 2018 significantly exceeded its carrying value.

We test each non-amortizing intangible asset (principally trade names) for impairment annually as of October 31, or more frequently if events or changes in circumstances indicate that the asset might be impaired. To derive the fair value of our trade names, we utilize an income approach, which relies upon management's assumptions of royalty rates, projected revenues and discount rates. We also test each amortizing intangible asset for impairment if events or circumstances indicate that the asset might be impaired. The test consists of determining whether the carrying value of such assets will be recovered through undiscounted expected

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future cash flows. If the total of the undiscounted future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. The determination of fair value requires us to make a number of estimates, assumptions and judgments of underlying factors such as projected revenues and related earnings as well as discount rates. Based on the intangible asset impairment tests conducted, we did not recognize any impairment losses in fiscal 2018, 2017 and 2016.

Results of Operations

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

	Year ended October 31,		
	2018	**2017**	**2016**
Net sales	$1,777,721	$1,524,813	$1,376,258
Cost of sales	1,087,006	950,088	860,766
Selling, general and administrative expenses	314,470	268,067	250,147
Total operating costs and expenses	1,401,476	1,218,155	1,110,913
Operating income	$376,245	$306,658	$265,345
Net sales by segment:			
Flight Support Group	$1,097,937	$967,540	$875,870
Electronic Technologies Group	701,827	574,261	511,272
Intersegment sales	(22,043)	(16,988)	(10,884)
	$1,777,721	$1,524,813	$1,376,258
Operating income by segment:			
Flight Support Group	$206,623	$179,278	$163,427
Electronic Technologies Group	204,508	157,451	126,031
Other, primarily corporate	(34,886)	(30,071)	(24,113)
	$376,245	$306,658	$265,345
Net sales	100.0 %	100.0 %	100.0 %
Gross profit	38.9 %	37.7 %	37.5 %
Selling, general and administrative expenses	17.7 %	17.6 %	18.2 %
Operating income	21.2 %	20.1 %	19.3 %
Interest expense	1.1 %	.6 %	.6 %
Other (expense) income	— %	.1 %	— %
Income tax expense	4.0 %	5.9 %	5.9 %
Net income attributable to noncontrolling interests	1.5 %	1.4 %	1.5 %
Net income attributable to HEICO	14.6 %	12.2 %	11.3 %

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Comparison of Fiscal 2018 to Fiscal 2017

Net Sales

Our consolidated net sales in fiscal 2018 increased by 17% to a record $1,777.7 million, up from net sales of $1,524.8 million in fiscal 2017. The increase in consolidated net sales principally reflects an increase of $127.6 million (a 22% increase) to a record $701.8 million in net sales within the ETG as well as an increase of $130.4 million (a 13% increase) to a record $1,097.9 million in net sales within the FSG. The net sales increase in the ETG reflects net sales of $88.3 million contributed by our fiscal 2017 and 2018 acquisitions as well as organic growth of 6%. The ETG's organic growth principally reflects increased demand for certain defense products resulting in a net sales increase of $30.9 million. The net sales increase in the FSG reflects organic growth of 8% as well as net sales of $53.1 million contributed by our fiscal 2017 and 2018 acquisitions. The FSG's organic growth reflects increased demand and new product offerings within our aftermarket replacement parts and repair and overhaul parts and services product lines as well as within our specialty products product line resulting in net sales increases of $48.0 million, $15.1 million and $14.2 million, respectively. Sales price changes were not a significant contributing factor to the ETG and FSG net sales growth in fiscal 2018.

Our net sales in fiscal 2018 and 2017 by market consisted of approximately 53% in both periods from the commercial aviation industry, 35% and 34% from the defense and space industries, respectively, and 12% and 13%, respectively, from other industrial markets including electronics, medical and telecommunications.

Gross Profit and Operating Expenses

Our consolidated gross profit margin increased to 38.9% in fiscal 2018 as compared to 37.7% in fiscal 2017, principally reflecting an increase of 1.8% and .4% in the ETG's and FSG's gross profit margin, respectively. The increase in the ETG’s gross profit margin is principally attributable to increased net sales and a more favorable product mix for certain of our defense products partially offset by a less favorable product mix for certain of our space products. The increase in the FSG's gross profit margin is principally attributable to the previously mentioned increase in net sales within our aftermarket replacement parts product line. Total new product research and development ("R&D") expenses included within our consolidated cost of sales increased to $57.5 million in fiscal 2018 compared to $46.5 million in fiscal 2017.

Our consolidated SG&A expenses were $314.5 million and $268.1 million in fiscal 2018 and 2017, respectively. Our consolidated SG&A expenses as a percentage of net sales were 17.7% in fiscal 2018 compared to 17.6% in fiscal 2017. The increase in consolidated SG&A expenses principally reflects $26.1 million attributable to the fiscal 2017 and fiscal 2018 acquisitions and $11.3 million of higher performance-based compensation expense.

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Operating Income

Our consolidated operating income increased by 23% to a record $376.2 million in fiscal 2018, up from $306.7 million in fiscal 2017. The increase in consolidated operating income principally reflects a $47.1 million increase (a 30% increase) to a record $204.5 million in operating income of the ETG as well as a $27.3 million increase (a 15% increase) to a record $206.6 million in operating income of the FSG. The increase in operating income of the ETG and FSG is principally attributable to the previously mentioned net sales growth and improved gross profit margins. Additionally, our corporate expenses increased by $3.9 million due mainly to a $2.8 million increase in performance-based compensation expense.

As a percentage of net sales, our consolidated operating income increased to 21.2% in fiscal 2018, up from 20.1% in fiscal 2017. The increase in consolidated operating income as a percentage of net sales principally reflects an increase in the ETG’s operating income as a percentage of net sales to 29.1% in fiscal 2018, up from 27.4% in fiscal 2017 as well as an increase in the FSG’s operating income as a percentage of net sales to 18.8% in fiscal 2018, up from 18.5% in fiscal 2017. The increase in the ETG's and FSG’s operating income as a percentage of net sales principally reflects the previously mentioned improved gross profit margins.

Interest Expense

Interest expense increased to $19.9 million in fiscal 2018 from $9.8 million in fiscal 2017. The increase in interest expense was principally due to higher interest rates as well as a higher weighted average balance outstanding under our revolving credit facility primarily associated with a late fiscal 2017 acquisition.

Other (Expense) Income

Other (expense) income in fiscal 2018 and 2017 was not material.

Income Tax Expense

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

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

As a result of the Tax Act, our effective federal statutory income tax rate in fiscal 2018 is a blended rate of 23.3%, which reflects the reduction in the U.S. federal statutory tax rate from 35% to 21% effective January 1, 2018. Additionally, we remeasured our U.S. federal net deferred tax liabilities and recorded a discrete tax benefit of $16.5 million in fiscal 2018. Further, we recorded a provisional discrete tax expense of $4.4 million in fiscal 2018 related to a one-time transition tax on the unremitted earnings of our foreign subsidiaries. We intend to pay this tax over the eight-year period allowed for in the Tax Act.

Our effective tax rate in fiscal 2018 decreased to 19.8% from 30.3% in fiscal 2017. The decrease in our effective tax rate principally reflects the previously mentioned discrete tax benefit from the remeasurement of our U.S. federal net deferred tax liabilities and the net benefit of a lower federal statutory income tax rate, which were partially offset by the aforementioned one-time transition tax expense. Further, the decrease in our effective tax rate in fiscal 2018 was slightly moderated by an unfavorable impact from lower tax-exempt unrealized gains in the cash surrender values of life insurance policies related to the HEICO Corporation Leadership Compensation Plan ("HEICO LCP").

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests relates to the 20% noncontrolling interest held by Lufthansa Technik AG in HEICO Aerospace Holdings Corp. and the noncontrolling interests held by others in certain subsidiaries of the FSG and ETG. Net income attributable to noncontrolling interests was $26.5 million in fiscal 2018 as compared to $21.7 million in fiscal 2017. The increase in net income attributable to noncontrolling interests in fiscal 2018 principally reflects the impact of the Tax Act as well as improved operating results of certain subsidiaries of the FSG and ETG in which noncontrolling interests are held.

Net Income Attributable to HEICO

Net income attributable to HEICO increased by 39% to a record $259.2 million, or $1.90 per diluted share, in fiscal 2018, up from $186.0 million, or $1.37 per diluted share, in fiscal 2017, principally reflecting the previously mentioned increased net sales and operating income as well as the favorable impact of the Tax Act.

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Outlook

As we look ahead to fiscal 2019, we anticipate net sales growth within the FSG's commercial aviation and defense product lines. We also expect growth within the ETG, principally driven by demand for the majority of our products. During fiscal 2019, we will continue our commitments to developing new products and services, further market penetration, and an aggressive acquisition strategy while maintaining our financial strength and flexibility. Overall, we are targeting growth in fiscal 2019 full year net sales and net income over fiscal 2018 levels. This outlook excludes the impact of additional acquired businesses, if any.

Comparison of Fiscal 2017 to Fiscal 2016

Net Sales

Our net sales in fiscal 2017 increased by 11% to a record $1,524.8 million, as compared to net sales of $1,376.3 million in fiscal 2016. The increase in consolidated net sales reflects an increase of $63.0 million (a 12% increase) to a record $574.3 million in net sales within the ETG as well as an increase of $91.7 million (a 10% increase) to a record $967.5 million in net sales within the FSG. The net sales increase in the ETG resulted from organic growth of 7% as well as net sales of $23.3 million contributed by our fiscal 2017 and 2016 acquisitions. The ETG's organic growth is mainly attributed to increased demand for our space, aerospace and other electronics products resulting in net sales increases of $14.7 million, $12.6 million and $9.3 million, respectively. The net sales increase in the FSG reflects net sales of $49.0 million contributed by our fiscal 2017 acquisitions as well as organic growth of 5%. The FSG's organic growth is principally attributed to increased demand and new product offerings within our aftermarket replacement parts and repair and overhaul parts and services product lines, resulting in net sales increases of $39.8 million and $19.1 million, respectively. These increases in the FSG were partially offset by $16.2 million of lower organic net sales from our specialty products product line principally related to certain aerospace, industrial and defense products. Sales price changes were not a significant contributing factor to the FSG and ETG net sales growth in fiscal 2017.

Our net sales in fiscal 2017 and 2016 by market consisted of approximately 53% and 52%, respectively, from the commercial aviation industry, 34% in both periods from the defense and space industries, and 13% and 14%, respectively, from other industrial markets including medical, electronics and telecommunications.

Gross Profit and Operating Expenses

Our consolidated gross profit margin increased to 37.7% in fiscal 2017 as compared to 37.5% in fiscal 2016, principally reflecting an increase of .9% in the ETG's gross profit margin, partially offset by a .3% decrease in the FSG's gross profit margin. The increase in the ETG's gross profit margin is principally attributed to increased net sales and a more favorable product mix for certain aerospace products. The decrease in the FSG's gross profit margin is attributed to the previously mentioned decrease in net sales and a less favorable product mix within our specialty products product line partially offset by increased net sales and a more favorable product mix within our aftermarket replacement parts and repair and overhaul parts and services product lines. Total new product R&D expenses included within our consolidated cost of sales increased to $46.5 million in fiscal 2017 compared to $44.7 million in fiscal 2016.

Our consolidated SG&A expenses were $268.1 million and $250.1 million in fiscal 2017 and 2016, respectively. The increase in consolidated SG&A expenses principally reflects $13.6 million attributable to the fiscal 2017 acquisitions, $4.3 million of higher performance-based compensation expense and a $2.9 million impact from foreign currency transaction adjustments on borrowings denominated in Euros under our revolving credit facility, partially offset by $3.1 million of acquisition costs recorded in fiscal 2016 associated with a fiscal 2016 acquisition.

Our consolidated SG&A expenses as a percentage of net sales decreased to 17.6% in fiscal 2017, down from 18.2% in fiscal 2016. The decrease in consolidated SG&A expenses as a percentage of net sales principally reflects an aggregate .8% impact from efficiencies realized from the benefit of our net sales growth on relatively consistent period-over-period SG&A expenses and the aforementioned decrease in acquisition costs, partially offset by a .2% impact from the previously mentioned foreign currency transaction adjustments.

Operating Income

Our consolidated operating income increased by 16% to a record $306.7 million in fiscal 2017, up from $265.3 million in fiscal 2016. The increase in consolidated operating income principally reflects a $31.4 million increase (a 25% increase) to a record $157.5 million in operating income of the ETG as well as a $15.9 million increase (a 10% increase) to a record $179.3 million in operating income of the FSG. Additionally, our consolidated operating income was unfavorably impacted by a $5.3 million increase in corporate expenses principally due to the previously mentioned foreign currency transaction adjustments as well as higher operating costs in line with and to support the growth of our overall business. The increase in operating income of the ETG is principally attributed to the previously mentioned net sales growth and improved gross profit margin as well as the aforementioned favorable impact of SG&A efficiencies and decrease in acquisition costs. The increase in operating income of the FSG is principally attributed to the previously mentioned net sales growth partially offset by an increase in performance-based compensation expense and the less favorable gross profit margin.

Our consolidated operating income as a percentage of net sales increased to 20.1% in fiscal 2017, up from 19.3% in fiscal 2016. The increase in consolidated operating income as a percentage of net sales principally reflects an increase in the ETG’s operating income as a percentage of net sales to 27.4% in fiscal 2017, up from 24.7% in fiscal 2016, partially offset by a slight decrease in the FSG’s operating income as a percentage of net sales to 18.5% in fiscal 2017, down from 18.7% in fiscal 2016. Additionally, our consolidated operating income as a percentage of net sales was unfavorably impacted by a .2% impact from the previously mentioned foreign currency transaction adjustments. The increase in the ETG’s operating income as a percentage of net sales is principally attributed to the previously mentioned, SG&A efficiencies, improved gross profit margin, and decrease in acquisition costs.

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Interest Expense

Interest expense increased to $9.8 million in fiscal 2017 from $8.3 million in fiscal 2016. The increase in interest expense was principally due to higher interest rates partially offset by a lower weighted average balance outstanding under our revolving credit facility.

Other Income (Expense)

Other income (expense) in fiscal 2017 and 2016 was not material.

Income Tax Expense

Our effective tax rate in fiscal 2017 decreased to 30.3% from 31.5% in fiscal 2016. The decrease in our effective tax rate principally reflects the favorable impact of higher tax-exempt unrealized gains in the cash surrender values of life insurance policies related to the HEICO LCP and a $3.1 million discrete income tax benefit related to stock option exercises resulting from the adoption of Accounting Standards Update 2016-09, "Improvements to Employee Share-Based Payment Accounting," in the first quarter of fiscal 2017. These decreases in our effective tax rate were partially offset by the benefit recognized in fiscal 2016 from the retroactive and permanent extension of the U.S. federal R&D tax credit that resulted in the recognition of additional income tax credits for qualified R&D activities related to the last ten months of fiscal 2015 and a less favorable benefit in fiscal 2017 from the foreign tax rate differential associated with the undistributed earnings of a fiscal 2015 acquisition.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests relates to the 20% noncontrolling interest held by Lufthansa Technik AG in HEICO Aerospace and the noncontrolling interests held by others in certain subsidiaries of the FSG and ETG. Net income attributable to noncontrolling interests was $21.7 million in fiscal 2017 compared to $20.0 million in fiscal 2016. The increase in net income attributable to noncontrolling interests in fiscal 2017 reflects higher net income of certain subsidiaries of the FSG and ETG in which noncontrolling interests are held, inclusive of a fiscal 2017 acquisition.

Net Income Attributable to HEICO

Net income attributable to HEICO increased by 19% to a record $186.0 million, or $1.37 per diluted share, in fiscal 2017, up from $156.2 million, or $1.17 per diluted share, in fiscal 2016, principally reflecting the previously mentioned increased net sales and operating income.

Inflation

We have generally experienced increases in our costs of labor, materials and services consistent with overall rates of inflation. The impact of such increases on net income attributable

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to HEICO has been generally minimized by efforts to lower costs through manufacturing efficiencies and cost reductions.

Liquidity and Capital Resources

Our capitalization was as follows (in thousands):

	As of October 31,	
	2018	**2017**
Total debt (including current portion)	$532,470	$673,979
Less: Cash and cash equivalents	(59,599)	(52,066)
Net debt (total debt less cash and cash equivalents)	472,871	621,913
Shareholders' equity	1,503,008	1,248,292
Total capitalization (debt plus equity)	2,035,478	1,922,271
Net debt to shareholders' equity	31 %	50 %
Total debt to total capitalization	26 %	35 %

Our principal uses of cash include acquisitions, capital expenditures, cash dividends, distributions to noncontrolling interests and working capital needs. Capital expenditures in fiscal 2019 are anticipated to approximate $48 million. We finance our activities primarily from our operating and financing activities, including borrowings under our revolving credit facility.

As of December 18, 2018, we had approximately $680 million of unused committed availability under the terms of our revolving credit facility. Based on our current outlook, we believe that net cash provided by operating activities and available borrowings under our revolving credit facility will be sufficient to fund our cash requirements for at least the next twelve months.

Operating Activities

Net cash provided by operating activities was $328.5 million in fiscal 2018 and consisted primarily of net income from consolidated operations of $285.7 million, depreciation and amortization expense of $77.2 million (a non-cash item) and net changes in other long-term liabilities and assets related to the HEICO LCP of $11.6 million (principally participant deferrals and employer contributions), partially offset by a $50.6 million increase in working capital. Net cash provided by operating activities increased by $40.2 million in fiscal 2018 from $288.3 million in fiscal 2017 (as adjusted for the adoption of Accounting Standard Update ("ASU") 2016-15, "Classification of Certain Cash Receipts and Cash Payments," see New Accounting Pronouncements below for additional information). The increase in net cash provided by operating activities in fiscal 2018 is principally due to a $78.0 million increase in net income from consolidated operations and a $12.4 million increase in depreciation and amortization expense (a non-cash item), partially offset by a $46.7 million increase in working capital. The $46.7 million increase in working capital is inclusive of a $31.4 million increase in accounts receivable reflecting the organic net sales growth in each of our operating segments as well as timing in the collections of accounts receivable, a $28.3 million increase in inventories to support the growth of our businesses and anticipated higher demand during fiscal 2019 and an $18.6 million decrease in income taxes payable principally reflecting a change in the timing of certain estimated tax payments due to Hurricane Irma, partially offset by an increase in accrued expenses and trade accounts payable of $31.3 million principally from a higher level of accrued performance based-compensation due to the improved operating results and the timing of payments and accruals for certain other items.

Net cash provided by operating activities was $288.3 million in fiscal 2017 and consisted primarily of net income from consolidated operations of $207.7 million, depreciation and amortization expense of $64.8 million (a non-cash item), and net changes in other long-term liabilities and assets related to the HEICO LCP of $12.8 million (principally participant deferrals and employer contributions). Net cash provided by operating activities increased by $28.6 million in fiscal 2017 from $259.7 million in fiscal 2016. The increase in net cash provided by operating activities in fiscal 2017 is principally due to a $31.5 million increase in net income from consolidated operations and a $4.5 million increase in depreciation and amortization expense (a non-cash item), partially offset by a $12.0 million increase in working capital. The $12.0 million increase in working capital is principally attributed to a $33.5 million decrease in accrued expenses and other current liabilities, which mainly reflects a decrease in deferred revenue attributed to billings in excess of costs and estimated earnings on fixed price contracts for which revenue is being recognized on the percentage-of-completion method and customer deposits received in connection with both manufacturing and repair and overhaul services, partially offset by an $18.8 million decrease in accounts receivable.

Net cash provided by operating activities was $259.7 million in fiscal 2016 and consisted primarily of net income from consolidated operations of $176.2 million, depreciation and amortization expense of $60.3 million (a non-cash item), net changes in other long-term liabilities and assets related to the HEICO LCP of $10.8 million (principally participant deferrals and employer contributions) and a decrease in working capital of $8.1 million.

Investing Activities

Net cash used in investing activities during the three-year fiscal period ended October 31, 2018 primarily relates to several acquisitions aggregating $741.9 million, including $59.8 million in fiscal 2018, $418.3 million in fiscal 2017, and $263.8 million in fiscal 2016. Further details on acquisitions may be found at the beginning of this Item 7 under the caption “Overview” and Note 2, Acquisitions, of the Notes to Consolidated Financial

Statements. Capital expenditures aggregated $98.7 million over the last three fiscal years, primarily reflecting the expansion, replacement and betterment of existing production facilities and capabilities, which were generally funded using cash provided by operating activities. Upon adoption of ASU 2016-15, the Company now classifies investments related to the HEICO LCP as an investing activity (see New Accounting Pronouncements below). Such investments aggregated $35.4 million during the three-year fiscal period ended October 31, 2018 and were primarily invested in corporate-owned life insurance policies.

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Financing Activities

Net cash used in financing activities was $207.5 million in fiscal 2018 as compared to net cash provided by financing activities of $175.9 million in fiscal 2017 and $56.8 million in fiscal 2016. During the three-year fiscal period ended October 31, 2018, we borrowed an aggregate $720.0 million under our revolving credit facility including borrowings of $56.0 million in fiscal 2018, $404.0 million in fiscal 2017, and $260.0 million in fiscal 2016. The aforementioned borrowings were made principally to fund acquisitions. Further details on acquisitions may be found at the beginning of this Item 7 under the caption “Overview” and Note 2, Acquisitions, of the Notes to Consolidated Financial Statements. Payments on our revolving credit facility aggregated $564.9 million over the last three fiscal years, including $204.0 million in fiscal 2018, $190.9 million in fiscal 2017, and $170.0 million in fiscal 2016. For the three-year fiscal period ended October 31, 2018, we made distributions to noncontrolling interests aggregating $50.5 million, paid an aggregate $38.9 million in cash dividends, redeemed common stock related to stock option exercises aggregating $25.2 million and made contingent consideration payments aggregating $18.8 million.

In November 2017, we entered into a new $1.3 billion Revolving Credit Facility Agreement ("New Credit Facility") with a bank syndicate, which matures in November 2022. Under certain circumstances, the maturity of the New Credit Facility may be extended for two one-year periods. The New Credit Facility also includes a feature that will allow us to increase revolving commitments under the New Credit Facility by $350 million to become a $1.65 billion facility, through increased commitments from existing lenders or the addition of new lenders. Borrowings under the New Credit Facility may be used to finance acquisitions and for working capital and other general corporate purposes, including capital expenditures. The New Credit Facility replaced our prior $1.0 billion (as amended) Revolving Credit Agreement.

Borrowings under the New Credit Facility accrue interest at our election of the Base Rate or the Eurocurrency Rate, plus in each case, the Applicable Rate (based on our Total Leverage Ratio). The Base Rate for any day is a fluctuating rate per annum equal to the highest of (i) the Prime Rate; (ii) the Federal Funds Rate plus .50%; and (iii) the Eurocurrency Rate for an Interest Period of one month plus 100 basis points. The Eurocurrency Rate is the rate per annum obtained by dividing LIBOR for the applicable Interest Period by a percentage equal to 1.00 minus the daily average Eurocurrency Reserve Rate for such Interest Period, as such capitalized terms are defined in the New Credit Facility. The Applicable Rate for Eurocurrency Rate Loans ranges from 1.00% to 2.00%. The Applicable Rate for Base Rate Loans ranges from 0% to 1.00%. A fee is charged on the amount of the unused commitment ranging from .125% to .30% (depending on our Total Leverage Ratio). The New Credit Facility also includes $100 million sublimits for borrowings made in foreign currencies and for swingline borrowings, and a $50 million sublimit for letters of credit. Outstanding principal, accrued and unpaid interest and other amounts payable under the New Credit Facility may be accelerated upon an event of default, as such events are described in the New Credit Facility. The New Credit Facility is unsecured and contains covenants that require, among other things, the maintenance of a Total Leverage Ratio and an Interest Coverage Ratio, as such capitalized terms are defined in the New

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Credit Facility. We were in compliance with all financial and nonfinancial covenants of the New Credit Facility as of October 31, 2018.

Contractual Obligations

The following table summarizes our contractual obligations as of October 31, 2018 (in thousands):

	Payments due by fiscal period				
	Total	**2019**	**2020 - 2021**	**2022 - 2023**	**Thereafter**
Long-term debt obligations (1)	$523,113	$22	$66	$523,025	$—
Capital lease obligations (2)	12,075	1,240	2,375	2,048	6,412
Operating lease obligations (3)	81,986	14,961	29,138	19,880	18,007
Purchase obligations (4) (5) (6)	25,219	9,804	1,477	13,938	—
Other long-term liabilities (7)	3,299	3,237	62	—	—
Total contractual obligations	$645,692	$29,264	$33,118	$558,891	$24,419

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(1) Excludes interest charges on borrowings and the fee on the amount of any unused commitment that we may be obligated to pay under our revolving credit facility as such amounts vary. See Note 5, Long-Term Debt, of the Notes to Consolidated Financial Statements and "Liquidity and Capital Resources," above for additional information regarding our long-term debt obligations.

(2) Inclusive of $2.7 million in interest charges. See Note 5, Long-Term Debt, of the Notes to Consolidated Financial Statements for additional information regarding our capital lease obligations.

(3) See Note 15, Commitments and Contingencies – Lease Commitments, of the Notes to Consolidated Financial Statements for additional information regarding our operating lease obligations.

(4) Includes contingent consideration aggregating $20.9 million related to a fiscal 2015, 2016 and 2017 acquisition. See Note 7, Fair Value Measurements, of the Notes to Consolidated Financial Statements for additional information.

(5) Also includes an aggregate $4.3 million of commitments principally for capital expenditures and inventory. All purchase obligations of inventory and supplies in the ordinary course of business (i.e., with deliveries scheduled within the next year) are excluded from the table.

(6) The holders of equity interests in certain of our subsidiaries have rights ("Put Rights") that may be exercised on varying dates causing us to purchase their equity interests through fiscal 2025. The Put Rights provide that cash consideration be paid for their equity interests (the "Redemption Amount"). As of October 31, 2018, management's estimate of the aggregate Redemption Amount of all Put Rights that we could be required to pay is approximately $132.0 million, which is reflected within redeemable noncontrolling interests in our Consolidated Balance Sheet. The amounts in the table do not include Put Right obligations as none of the noncontrolling interest holders have exercised their Put Rights as of October 31, 2018. See Note 11, Redeemable Noncontrolling Interests, of the Notes to Consolidated Financial Statements for further information.

(7)

The amounts in the table do not include liabilities related to the HEICO LCP or our other deferred compensation arrangement as they are each fully supported by assets held within irrevocable trusts. See Note 3, Selected Financial Statement Information - Other Long-Term Assets and Liabilities, of the Notes to Consolidated Financial Statements for further information about these two deferred compensation plans.

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Off-Balance Sheet Arrangements

Guarantees

As of October 31, 2018, we have arranged for standby letters of credit aggregating $4.3 million, which are supported by our revolving credit facility and pertain to payment guarantees related to potential workers' compensation claims and a facility lease as well as performance guarantees related to customer contracts entered into by certain of our subsidiaries.

New Accounting Pronouncements

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

We have completed a review of our customer contracts and have evaluated the impact of ASU 2014-09 on each of our primary revenue streams. While we finalize our overall assessment of the amended guidance, the most significant impact relates to the timing of revenue recognition, presentation and disclosures. ASU 2014-09 will impact the timing of revenue recognition for two types of our customer contracts. For certain contracts under which we produce products with no alternative use and for which we have an enforceable right to payment during the production cycle and for certain other contracts under which we create or enhance customer-owned assets while performing repair and overhaul services, ASU 2014-09 will require us to recognize revenue using an over-time recognition model as opposed to our current policy of recognizing revenue at the time of shipment. For impacted customer contracts, the adoption of ASU 2014-09 will accelerate revenue recognition and the associated cost of sales.

Effective as of the beginning of the first quarter of fiscal 2019, we will adopt ASU 2014-09 using the modified retrospective method and recognize a cumulative effect adjustment to retained earnings based on any open contracts at that time for which revenue recognition has changed from a point-in-time recognition model to an over-time recognition model. While the ongoing impact to net sales and net income is not expected to be material to our consolidated results of operations, the future impact of ASU 2014-09 is dependent on the mix and nature of specific customer contracts. We are nearing completion of implementing changes to our business processes, systems and controls needed to support recognition and disclosure requirements under ASU 2014-09.

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

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

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which clarifies how certain cash receipts and cash payments are to be presented and classified in the statement of cash flows. We adopted ASU 2016-15 on a retrospective basis in the fourth quarter of fiscal 2018, which requires that proceeds from corporate-owned life insurance policies be classified as cash inflows from investing activities. Such proceeds aggregated $.1 million over the past three fiscal years and were all received in fiscal 2016. In addition, and as permitted by ASU 2016-15, we have elected to classify investments related to the HEICO LCP as cash outflows from investing activities as such investments primarily represent premium payments on corporate-owned life insurance policies. The adoption of ASU 2016-15 resulted in an $11.5 million, $13.4 million and $10.5 million increase in cash provided by operating activities and in cash used in investing activities in fiscal 2018, 2017 and fiscal 2016, respectively.

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

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Forward-Looking Statements

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

- Lower demand for commercial air travel or airline fleet changes or airline purchasing decisions, which could cause lower demand for our goods and services;

- Product specification costs and requirements, which could cause an increase to our costs to complete contracts;

- Governmental and regulatory demands, export policies and restrictions, reductions in defense, space or homeland security spending by U.S. and/or foreign customers or competition from existing and new competitors, which could reduce our sales;

- Our ability to introduce new products and services at profitable pricing levels, which could reduce our sales or sales growth;

- Product development or manufacturing difficulties, which could increase our product development costs and delay sales;

- Our ability to make acquisitions and achieve operating synergies from acquired businesses; customer credit risk; interest, foreign currency exchange and income tax rates; economic conditions within and outside of the aviation, defense, space, medical, telecommunications and electronics industries, which could negatively impact our costs and revenues; and

- Defense spending or budget cuts, which could reduce our defense-related revenue.

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For further information on these and other factors that potentially could materially affect our financial results, see Item 1A, *Risk Factors.* We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except to the extent required by applicable law.

Item 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Interest Rate Risk

We have exposure to interest rate risk, mainly related to our revolving credit facility, which has variable interest rates. Interest rate risk associated with our variable rate debt is the potential increase in interest expense from an increase in interest rates. Based on our aggregate outstanding variable rate debt balance of $523.0 million as of October 31, 2018, a hypothetical 10% increase in interest rates would not have a material effect on our results of operations, financial position or cash flows. We also maintain a portion of our 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, 2018 would not have a material effect on our results of operations, financial position or cash flows.

Foreign Currency Risk

We have a few foreign subsidiaries that conduct a portion of their operations in currencies other than the U.S. dollar, or principally in Euros. Accordingly, changes in exchange rates between such foreign currencies and the U.S. dollar will affect the translation of the financial results of our foreign subsidiaries into the U.S. dollar for purposes of reporting our consolidated financial results. A hypothetical 10% weakening in the exchange rate of the Euro to the U.S. dollar as of October 31, 2018 would not have a material effect on our results of operations, financial position or cash flows.

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Item 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

HEICO CORPORATION AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
HEICO Corporation
Hollywood, Florida

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of HEICO Corporation and subsidiaries (the "Company") as of October 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows, for each of the three years in the period ended October 31, 2018, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended October 31, 2018, 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) (PCAOB), the Company's internal control over financial reporting as of October 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 20, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

Miami, Florida
December 20, 2018
We have served as the Company's auditor since 1990.

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

	As of October 31,	
	2018	**2017**
ASSETS		
Current assets:		
Cash and cash equivalents	$59,599	$52,066
Accounts receivable, net	251,469	222,456
Inventories, net	401,553	343,628
Prepaid expenses and other current assets	21,187	13,742
Total current assets	733,808	631,892
Property, plant and equipment, net	154,739	129,883
Goodwill	1,114,832	1,081,306
Intangible assets, net	506,360	538,081
Other assets	143,657	131,269
Total assets	$2,653,396	$2,512,431
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	$859	$451
Trade accounts payable	107,219	89,724
Accrued expenses and other current liabilities	171,514	147,612
Income taxes payable	2,837	11,650
Total current liabilities	282,429	249,437
Long-term debt, net of current maturities	531,611	673,528
Deferred income taxes	46,644	59,026
Other long-term liabilities	157,658	151,025
Total liabilities	1,018,342	1,133,016
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interests (Note 11)	132,046	131,123
Shareholders' equity:		
Preferred Stock, $.01 par value per share; 10,000 shares authorized; none issued	—	—
Common Stock, $.01 par value per share; 150,000 and 75,000 shares authorized; 53,355 and 52,776 shares issued and outstanding	534	338
Class A Common Stock, $.01 par value per share; 150,000 and 75,000 shares authorized; 79,576 and 79,227 shares issued and outstanding	796	507
Capital in excess of par value	320,994	326,544
Deferred compensation obligation	3,928	3,118
HEICO stock held by irrevocable trust	(3,928)	(3,118)
Accumulated other comprehensive loss	(15,256)	(10,556)
Retained earnings	1,091,183	844,247
Total HEICO shareholders' equity	1,398,251	1,161,080

Noncontrolling interests	104,757	87,212
Total shareholders' equity	1,503,008	1,248,292
Total liabilities and equity	$2,653,396	$2,512,431

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

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

	Year ended October 31, 2018	2017	2016
Net sales	$1,777,721	$1,524,813	$1,376,258
Operating costs and expenses:			
Cost of sales	1,087,006	950,088	860,766
Selling, general and administrative expenses	314,470	268,067	250,147
Total operating costs and expenses	1,401,476	1,218,155	1,110,913
Operating income	376,245	306,658	265,345
Interest expense	(19,901)	(9,790)	(8,272)
Other (expense) income	(58)	1,092	(23)
Income before income taxes and noncontrolling interests	356,286	297,960	257,050
Income tax expense	70,600	90,300	80,900
Net income from consolidated operations	285,686	207,660	176,150
Less: Net income attributable to noncontrolling interests	26,453	21,675	19,958
Net income attributable to HEICO	$259,233	$185,985	$156,192
Net income per share attributable to HEICO shareholders:			
Basic	$1.96	$1.41	$1.19
Diluted	$1.90	$1.37	