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HEICO CORP
Form 10-K/A
August 13, 2001

As filed with the Securities and Exchange Commission on August 13, 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K/A
Amendment No. 1

(Mark One)

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

For the fiscal year ended October 31, 2000 or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934 (no fee required)

For the transition period from _____ to _____

Commission file number 1-4604

HEICO CORPORATION
(Exact name of registrant as specified in its charter)

FLORIDA
(State or other jurisdiction of
Incorporation or organization)
3000 Taft Street, Hollywood, Florida
(Address of principal executive offices)

65-0341002
(I.R.S. Employer Identification No.)
33021
(Zip Code)

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

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

Common Stock, par value \$.01 per share
Class A Common Stock, par value \$.01 per share
(Title of Each Class)

New York Stock Exchange
(Name of Each Exchange On Which Registered)

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

Preferred Stock Purchase Rights
(Title of Class)

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, and (2) has been subject to such filing
requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to the
best of the registrant's knowledge, in definitive proxy or information

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statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting and non-voting stock held by nonaffiliates of the registrant as of December 31, 2000 was \$191,000,000 based on the closing price of Common Stock of \$15.625 and Class A Common Stock of \$11.625 on December 31, 2000 as reported by the New York Stock Exchange and after subtracting from the number of shares outstanding on that date the number of shares held by affiliates of the registrant.

The number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

| | |
|--|--|
| Common Stock, \$.01 par value | 8,514,386 shares |
| Class A Common Stock, \$.01 par value (Class) | 8,985,045 shares (Outstanding at December 31, 2000) |

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the 2000 Annual Meeting of Shareholders are incorporated by reference into Part III. See Item 14(a)(3) on page 53 for a listing of exhibits.

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This is an amendment to Form 10-K previously filed with the Securities and Exchange Commission on January 25, 2001, which amendment is being filed solely to expand certain disclosure as requested by the Securities and Exchange Commission. Previously reported financial results have not changed. The changes are on pages 15, 34, 35, 38 and 49, although the entire document (excluding exhibits except Exhibit 23) is being refiled for ease of use.

Certain statements in this Report constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties, and assumptions about HEICO Corporation, including, among other things:

- . Lower commercial air travel;
- . Our intention to introduce new products;
- . Our ability to make acquisitions and achieve operating synergies from acquired businesses;
- . Product pricing levels;
- . Product specification costs and requirements;
- . Governmental and regulatory demands;
- . Competition on military programs;
- . Anticipated trends in our businesses, including trends in the markets for aircraft engine parts, aircraft engine overhaul and electronics equipment;
- . Economic conditions within and outside of the aerospace, defense and electronics industries; and
- . Our ability to continue to control costs and maintain quality.

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

PART I

Item 1. Business

The Company

HEICO Corporation (HEICO or the Company) believes it is the world's largest manufacturer of Federal Aviation Administration (FAA) approved jet engine replacement parts, other than the original equipment manufacturers (OEMs) and their subcontractors. It is also a leading manufacturer of certain electronic equipment to the aerospace, defense and electronics industries. The Company's operations are divided into two segments, the Flight Support Group (FSG) and the Electronic Technologies Group (ETG), formerly the Electronics and Ground Support Group. Through our FSG we use proprietary technology to design, manufacture and sell jet engine 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, our FSG repairs, refurbishes and overhauls engine and aircraft components for domestic and foreign commercial air carriers and aircraft repair companies, and manufactures thermal insulation products and related components primarily for aerospace, defense and commercial applications. In fiscal 2000, the FSG accounted for 59% of our revenues. Through our ETG, we manufacture various types of electrical equipment, including electrical power supplies, back-up power supplies, electromagnetic interference and radio frequency interference shielding and infrared simulation and test equipment. In fiscal 2000, the ETG accounted for 41% of our revenues. In September 2000, the Company sold Trilectron Industries, Inc. (Trilectron) and its associated product line, which included ground support equipment for commercial airlines and military agencies. See "Management's Discussion of Financial Condition and Results of Operations" for details of the Company's disposition. Adjusted to exclude the sales of Trilectron, the FSG accounted for 78% of our fiscal 2000 revenues and the ETG accounted for the remaining 22%.

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We have continuously operated in the aerospace industry for approximately 40 years. Since assuming control in 1990, current management has achieved significant sales and profit growth through expanded product offerings, an expanded customer base, increased research and development expenditures, and the completion of acquisitions. As a result of internal growth and acquisitions, our revenues have grown from \$25.6 million in fiscal 1995 to \$202.9 million in fiscal 2000, a compound annual growth rate of 51% over the five-year period.

In October 1997, we formed a strategic alliance with Lufthansa Technik AG (Lufthansa), the technical services subsidiary of Lufthansa German Airlines AG. Lufthansa is the world's largest independent provider of engineering and maintenance services for aircraft and aircraft engines and supports over 200 airlines, governments and other customers. As part of the transaction, Lufthansa acquired a 20% minority interest in our FSG, investing approximately \$50 million to date. This includes direct equity investments and the funding of specific research and development projects. In connection with acquisitions by our FSG since 1997, Lufthansa invested additional amounts pursuant to its option to maintain a 20% equity interest. This strategic alliance should continue to enable us to expand domestically and internationally by enhancing our ability to (i) identify key jet engine and component replacement parts with significant profit potential by utilizing Lufthansa's extensive operating data on engine and component parts, (ii) introduce those parts throughout the world in an efficient manner due to Lufthansa's testing and diagnostic resources, and (iii) broaden our customer base by capitalizing on Lufthansa's established relationships and

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alliances within the airline industry.

Beginning in fiscal 1998, the Company, through acquisitions, has added seven subsidiaries to its FSG and three subsidiaries to its ETG. See "Management's Discussion of Financial Condition and Results of Operations" for details of the Company's acquisitions.

Flight Support Group

Our FSG designs, engineers, manufactures, repairs and/or overhauls engine parts and components such as combustion chambers, gas flow transition ducts, airfoils and various other engine and airframe parts. We also manufacture specialty aviation and defense components as a subcontractor. We serve a broad spectrum of the aviation industry, including (i) commercial airlines and air cargo couriers, (ii) repair and overhaul facilities, (iii) OEMs, and (iv) the U.S. government. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a listing of operating subsidiaries included in the FSG.

Aircraft engine replacement parts can be categorized by their ongoing ability to be repaired and returned to service. The general categories (in all of which we participate) are as follows: (i) rotatable; (ii) repairable; and (iii) expendable. A rotatable 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 rotatables is "life limited" parts. A life limited rotatable 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 rotatable 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.

Engine replacement parts are classified within the industry as (i) factory-new, (ii) new surplus, (iii) overhauled, (iv) serviceable, 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 has been completely repaired and inspected by a licensed repair facility (such as ours). An aircraft spare part is classified repairable if it can be repaired by a licensed repair facility under applicable regulations. A part may also be classified repairable if it can be removed by the operator from an aircraft or 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, overhauled or serviceable part

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designation indicates that the part can be immediately utilized on an aircraft. A part in "as removed" 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 Replacement Parts. The principal business of the FSG is 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 Pratt & Whitney, a division of United Technologies Corporation (UTC) and General Electric Company (General Electric), including its CFM International joint venture. The FSG's factory-new replacement parts include various jet engine and

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component replacement parts. A key element of our growth strategy is the continued design and development of an increasing number of Parts Manufacturer Approval (PMA) replacement parts in order to further penetrate our existing customer base and obtain new customers. We select the jet engine and component replacement parts to design and manufacture through a selection process which analyzes industry information to determine which replacement parts are expected to generate the greatest profitability. As part of Lufthansa's investment in the FSG, Lufthansa has the right to select 50% of the parts for which we will seek PMAs, provided that such parts are technologically and economically feasible and substantially comparable with the profitability of our other PMA parts.

The following table sets forth (i) the lines of engines for which we provide jet engine replacement parts and (ii) the approximate number of such engines currently in service as estimated by us. Most of our current sales of PMA parts are for Pratt & Whitney engines, with a majority for the JT8D, however, we are focusing efforts to increase our line of non-JT8D parts. Currently over half of the PMA parts offered for sale are non-JT8D parts and our strategy is to increase our market penetration for our non-JT8D parts.

| OEM | Lines | Number In Service | Principal Engine |
|--|--------|----------------------|---|
| Pratt & Whitney | JT8D | 9,000 | Boeing 727 and 737 (series) |
| | JT9D | 1,900 | McDonnell Douglas Boeing 747 (100, series) and 737 |
| | PW2000 | 800 | Airbus A300 and McDonnell Douglas Boeing 757 |
| | PW4000 | 2,200 | Boeing 747-400, Airbus A300, A310, McDonnell Douglas |
| CFM International (a joint venture of General Electric and SNECMA) | CFM56 | 8,500 | Boeing 737 (300, 800 and 900 series) |
| General Electric | CF6 | 3,400 | Airbus A320 and Boeing 747 and 737 |
| IAE (a joint venture of Pratt & Whitney and Rolls Royce) | V2500 | 1,300 | Airbus A300, A310, McDonnell Douglas Airbus A320, McDonnell Douglas |

Repair and Overhaul Services. We provide repair and overhaul services on selected aircraft engine parts, as well as for avionics, instruments, components, composites and flight surfaces for commercial aircraft. 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, electro-mechanical

equipment and auxiliary power unit accessories. In June 2000, the Company acquired the assets of Future Aviation, Inc., which expanded our repair and overhaul services into the fast-growing regional aircraft market.

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Manufacture of Specialty Aircraft/Defense Related Parts and Subcontracting for OEMs. We also manufacture thermal insulation blankets primarily for aerospace, defense and commercial applications. We also derive revenue from the sale of specialty components as a subcontractor for OEMs and the U.S. government.

FAA Approvals and Product Design

Non-OEM manufacturers of jet engine replacement parts must receive a PMA from the FAA. The PMA 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 manufacturing capabilities and established favorable track records 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 FSG increased from approximately \$300,000 in 1991 to approximately \$7.5 million in fiscal 2000 including \$5.2 million reimbursed in 2000 under our strategic alliance with Lufthansa. We believe that our FSG's research and development capabilities are a significant component of our historical success and an integral part of our growth strategy. As of October 31, 2000 an aggregate of \$700,000 remained available under Lufthansa's commitment to reimburse research and development expenditures.

The Company's expanded research and development activities have included development of more complex jet engine replacement parts. In October 1999, the Company received its first PMA for a compressor blade from the FAA and is continuing research and development of other complex parts. The Company believes the development and sale of complex parts represents a significant long-term market opportunity; however, no assurance can be given that the FAA will continue to grant PMAs or that the Company will achieve acceptable levels of net sales and gross profits on such parts in the future.

We benefit from our proprietary rights relating to certain designs, engineering, 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 product.

While we have developed proprietary techniques, software and manufacturing expertise for the manufacture of jet replacement parts, we have no patents for these proprietary techniques and choose to rely on trade secret protection. We believe that although our proprietary techniques, software and expertise are subject to misappropriation or obsolescence, development of improved methods and processes and new techniques by us will continue on an ongoing basis as dictated by the technological needs of our business.

Electronic Technologies Group

Our ETG manufactures various types of electrically engineered products, such

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as power supplies, shielding for communications, computer and aerospace applications, infrared simulation and test equipment. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a listing of operating subsidiaries included in the ETG.

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Until the September 2000 sale of Trilectron, we also served the commercial and military ground support equipment markets through the manufacture of electrical ground power units, air start units, and air conditioning and heating units that were sold to both domestic and foreign commercial and military customers. This entire product line was sold in the sale discussed in Note 3 to the Consolidated Financial Statements.

Products of the ETG include:

- . On-board Aircraft Power Supplies. Our ETG manufactures power supply and current control products and replacement components used in aircraft. Our products include battery and charger units to support emergency lighting, emergency fuel shut-off devices, emergency exit door power assists, static inverters for emergency lighting and cockpit lighting dimmers. These products enhanced the ETG's existing power supply product line. While periodically entire units may require replacement, there is an ongoing replacement market for batteries which have an estimated service life of approximately 3 to 5 years. These products are mainly sold to OEM customers and customers in the retrofit and modification market.
- . Infrared Simulation and Test Equipment. ETG is also a leading international designer and manufacturer of state-of-the-art aerospace and defense infrared simulation and test equipment. Our products include high precision blackbody sources, optical systems and fully integrated test calibration systems. In addition, the new MIRAGE IR Scene Simulator is used to project infrared scenes to assist with product development and training for complex infrared targeting and imaging systems and other items.
- . Circuit Board Shielding. ETG also manufactures electromagnetic interference and radio frequency interference shielding for circuit boards and other items utilized in telecommunications, aerospace, and microwave applications. The circuit board shielding technology reduces electronic noise and protects sensitive components. We have a line of patented products and the ability to fabricate in a wide variety of shapes and applications, which we believe is a manufacturing advantage.

Financial information about operating segments, foreign and domestic operations and export sales

See Note 15 to the Consolidated Financial Statements for financial information by operating segment and information about foreign and domestic operations as well as export sales.

Sales, Marketing and Customers

Each of our operating segments and their subsidiaries independently conducts 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 manufacturer's representatives. Generally, the in-house sales personnel receive a base salary plus commission and manufacturer's

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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 (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.

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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, military units, electronic manufacturing services companies, manufacturers for the defense industry and telecommunications 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 22% of total net sales during the year ended October 31, 2000.

Competition

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

Our jet engine replacement parts business competes primarily with Pratt & Whitney and General Electric. The competition is principally based on price and service inasmuch as our parts are interchangeable. With respect to other aerospace products and services sold by the FSG, we compete with both the leading jet engine OEMs and a large number of machining, fabrication and repair companies, some of which have greater financial and other resources than us. Competition is based mainly on price, product performance, service and technical capability.

Competition for the repair and overhaul of airframe and engine components comes from three principal sources: OEMs, major commercial airlines and other independent service companies. Some of these companies have greater financial and other resources than us. 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 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 airmotive market are quality, turnaround time, overall customer service and price.

Our ETG competes with several large and small domestic and foreign competitors, some of which have greater financial resources than us. The market for our electronic products are niche markets with several competitors with competition based mainly on design, technology, quality, price and customer

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satisfaction.

Raw Materials

We purchase a variety of raw materials, primarily consisting of high temperature alloy sheet metal and castings, forgings, pre-plated steel, pre-plated phosphor bronze 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.

Backlogs

Our total backlog of unshipped orders was \$30.5 million on October 31, 2000 versus \$35.5 million, excluding Trilectron, on October 31, 1999. Our FSG operations had a backlog of unshipped orders as of October 31, 2000 of \$13.9 million as compared to \$17.3 million as of October 31, 1999. This backlog excludes forecasted shipments for certain contracts of the FSG pursuant to which customers provide only estimated annual usage and not firm purchase orders. Our ETG operations had a backlog of \$16.6 million as of October 31, 2000 and \$18.2 million, excluding Trilectron, as of October 31, 1999. Substantially all of the backlog of orders as of October 31, 2000 are expected to

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be delivered during fiscal 2001. Our backlogs are typically short-lead in nature with many product orders being received by the Company within the month of shipment.

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.

Because our jet engine replacement parts sales largely consist of JT8D aircraft engines, we are substantially impacted by the FAA's noise regulations. The ability of aircraft operators to utilize such JT8D aircraft engines in domestic flight operations is significantly influenced by regulations promulgated by the FAA governing, among other things, noise emission standards. Pursuant to the Aircraft Noise and Capacity Act, the FAA has required all aircraft operating in the United States with a maximum weight of more than

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75,000 pounds to have met Stage 3 noise restriction levels by December 31, 1999, unless waived by the FAA. Aircraft which require hush-kits or other modifications to be in compliance with Stage 3 include the Boeing 727-200s, Boeing 737-200s and McDonnell Douglas DC-9-30/40/50s. This ban on operation in the United States of non-Stage 3 compliant aircraft applies to both domestic and foreign aircraft operators. The European Union (EU) established regulation effective May 1, 2000 which would bar the operation in EU countries of both hushkitted and certain re-engined U.S. aircraft that have not been operated in those countries previously. The EU's ban results from efforts of environmental lobbyists in the EU and implementation of the ban has been delayed. U.S. and EU officials are in discussion to reach a compromise. Various communities surrounding the larger European cities also have adopted more stringent local regulations which restrict the operation of non-hush-kitted aircraft in such jurisdictions. Approximately 19% of our net sales in fiscal 2000 consisted of sales of factory-new FAA-approved replacement parts for the JT8D aircraft engine down from 31% in fiscal 1999.

There has been no material adverse effect to the Company's 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 (the EPA). Among other matters, these regulatory authorities impose requirements that regulate the operation, handling, transportation, and disposal of hazardous materials, 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 laws and regulations governing our operations.

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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 (OSHA) mandates general requirements for safe workplaces for all employees. In particular, OSHA provides special procedures and measures for the handling of some 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 income 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 subject to certain limits and deductibles. We believe that coverages are adequate to insure against the various liability risks of our business.

Employees

As of December 31, 2000, the Company had 960 full-time employees, of which 737 were in the FSG, 211 were in the ETG, and 12 were corporate. None of our

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employees are represented by a union. We believe that our employee relations are good.

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Item 2. Properties

We own or lease the following facilities:

Flight Support Group

| Location | Description | Square Footage | Owned/ Expir |
|--------------------------|---|----------------|-----------------|
| ----- | ----- | ----- | ----- |
| Hollywood, Florida | Manufacturing and engineering facility and corporate headquarters | 140,000 | Owned |
| Hollywood, Florida | Overhaul and repair facility | 45,000 | Owned |
| Atlanta, Georgia | Manufacturing and engineering facility | 40,000 | Owned |
| Miami, Florida | Overhaul and repair facility | 56,000 | Owned |
| Miami, Florida | Overhaul and repair facility | 12,000 | July 2001 |
| Miami, Florida | Warehouse facility | 9,000 | September |
| Anacortes, Washington | Engineering and manufacturing facility | 10,000 | June 2003 |
| Glastonbury, Connecticut | Engineering facility | 5,000 | June 2002 |
| Corona, California | Manufacturing and engineering facility | 91,000 | August 20 |
| Roswell, New Mexico | Manufacturing and engineering facility | 45,000 | Month to |
| Naples, Florida | Overhaul and repair facility | 15,000 | May 2005 |

Electronic Technologies Group

| Location | Description | Square Footage | Owned/Leas Expiratio |
|---------------------------|--|----------------|-------------------------|
| ----- | ----- | ----- | ----- |
| Palmetto, Florida | Manufacturing and engineering facility and offices | 10,000 | April 200 |
| Tampa, Florida | Manufacturing and engineering facility and offices | 41,000 | August 20 |
| Santa Barbara, California | Manufacturing and engineering facility and offices | 10,000 | August 20 |

Corporate

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| Location | Description | Square Footage | Owned/Le Expirati |
|--------------------|------------------------|-------------------|----------------------|
| Hollywood, Florida | Corporate headquarters | Included above | Owned |
| Miami, Florida | Administrative offices | 3,000 | Month to |

 (1) This facility is expected to be purchased in fiscal 2001.

For additional information with respect to our leases, see Note 7 of Notes to our Consolidated Financial Statements.

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We believe that our current capacity, coupled with our plans for facilities expansion, is sufficient to handle our anticipated needs for the foreseeable future.

Item 3. Legal Proceedings

In November 1989, HEICO Aerospace Corporation and Jet Avion were named defendants in a complaint filed by United Technologies Corporation (UTC) in the United States District Court for the Southern District of Florida. The complaint, as amended in fiscal 1995, alleged infringement of a patent, misappropriation of trade secrets and unfair competition relating to certain jet engine parts and coatings sold by Jet Avion in competition with Pratt & Whitney, a division of UTC. The Company filed counterclaims against UTC. UTC filed an answer denying the counterclaims. All counts of UTC's complaint that were not previously withdrawn by UTC were dismissed by the court and UTC appealed the dismissal.

In March 2000, the Company settled the litigation with UTC. As part of the settlement, the Company received a permanent license to make and sell parts which were the subject of the litigation, and UTC was paid a prepaid sum for such license by the Company's insurer (see below). The settlement is not expected to materially affect the Company's earnings or financial condition.

In May 1998, the Company and its HEICO Aerospace Corporation and Jet Avion Corporation subsidiaries were served with a lawsuit by Travelers Casualty & Surety Co., f/k/a the Aetna Casualty and Surety Co. (Travelers). In June 1999, the Travelers lawsuit was dismissed by the federal court based on a lack of jurisdiction. Travelers is challenging the dismissal. The complaint sought reimbursement of legal fees and costs totaling in excess of \$15 million paid by Travelers in defending the Company in the above referenced litigation with UTC. In addition, Travelers sought a declaratory judgment that the Company did not and does not have insurance coverage under certain insurance policies with Travelers and, accordingly, that Travelers did not have and does not have a duty to defend or indemnify the Company under such policies. Also named as defendants in Travelers' lawsuit are UTC and one of the law firms representing the Company in the UTC litigation.

The Company believes that it has significant counterclaims against Travelers for damages. After taking into consideration legal counsel's evaluation of Travelers' claim, management is of the opinion that the outcome of the Travelers litigation will not have a significant adverse effect on the Company's consolidated financial statements. No provision for gain or loss, if any, has been made in the consolidated financial statements.

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The Company is involved in various other legal actions arising in the normal course of business. Based upon the amounts sought by the plaintiffs in these actions, management is of the opinion that the outcome of these other matters will not have a significant effect on the Company's consolidated financial statements.

Other contingencies

In January 1999, the Company received notice of a proposed adjustment pursuant to an examination by the Internal Revenue Service of the Company's fiscal 1995 and 1996 tax returns, disallowing the utilization of a \$4.6 million capital loss carryforward to partially offset the gain recognized by the Company in connection with the sale of its health care operations in July 1996. In the fourth quarter of fiscal 2000, the Company settled the claim as described in Note 4 to the Consolidated Financial Statements.

Item 4. Submission of Matters to a Vote of Securities Holders

There were no matters submitted to a vote of securities holders during the fourth quarter of fiscal 2000.

Executive Officers of the Registrant

The Executive Officers are elected by the Board of Directors at the first meeting following the annual meeting of shareholders and serve at the discretion of the Board. The names and ages of, and offices held by, the executive officers of the Company are as follows:

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| Name | Age | Position(s) |
|----------------------|------|---|
| ---- | ---- | ----- |
| Laurans A. Mendelson | 62 | Chairman of the Board, President and Chief Executive Officer |
| Thomas S. Irwin | 54 | Executive Vice President and Chief Financial Officer |
| Eric A. Mendelson | 35 | Vice President and Director, President of HEICO Aerospace Holdings Corp. |
| Victor H. Mendelson | 33 | Vice President, General Counsel and Director, President of HEICO Electronics Technologies Corp. |
| James L. Reum | 69 | Executive Vice President of HEICO Aerospace Holdings Corp. |

Laurans A. Mendelson has served as Chairman of the Board of the Company since December 1990. Mr. Mendelson has also served as Chief Executive Officer of the Company since February 1990, President of the Company since September 1991 and served as President of MediTek Health Corporation from May 1994 until its sale in July 1996. He has been Chairman of the Board of Ambassador Square, Inc. (a Miami, Florida real estate development and management company) since 1980 and President of that company since 1988. He has been Chairman of Columbia Ventures, Inc. (a private investment company) since 1985 and President of that company since 1988. Mr. Mendelson serves on the board of governors of the AIA and on the Board of Directors of Hawker Pacific Aerospace, which provides overhaul and repair services to the aviation industry. Mr. Mendelson is also a member of the Board of Trustees of Columbia University and the Board of Trustees of Mount

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Sinai Medical Center in Miami Beach, Florida. Mr. Mendelson is a Certified Public Accountant.

Thomas S. Irwin has served as Executive Vice President and Chief Financial Officer of the Company since September 1991 and served as Senior Vice President of the Company from 1986 to 1991 and Vice President and Treasurer from 1982 to 1986. Mr. Irwin is a Certified Public Accountant.

Eric A. Mendelson has served as Vice President of the Company since 1992, and has been President of HEICO Aerospace Holdings Corp. (HEICO Aerospace), a subsidiary of HEICO, since its formation in 1997 and President of HEICO Aerospace Corporation since 1993. He also served as President of HEICO's Jet Avion Corporation, a wholly owned subsidiary of HEICO Aerospace, from 1993 to 1996 and served as Jet Avion's Executive Vice President and Chief Operating Officer from 1991 to 1993. From 1990 to 1991, Mr. Mendelson was Director of Planning and Operations of the Company. Mr. Mendelson is a co-founder, and, since 1987, has been Managing Director of Mendelson International Corporation (MIC), a private investment company which is a shareholder of HEICO. Eric Mendelson is the son of Laurans Mendelson and the brother of Victor Mendelson.

Victor H. Mendelson has served as Vice President of the Company since 1996, as President of HEICO Electronic Technologies Corp., formerly HEICO Aviation Products Corp., a subsidiary of HEICO, since September 1996 and as General Counsel of the Company since 1993. He served as Executive Vice President of MediTek Health Corporation from 1994 and its Chief Operating Officer from 1995 until its sale in July 1996. He was the Company's Associate General Counsel from 1992 until 1993. From 1990 until 1992, he worked on a consulting basis with the Company, developing and analyzing various strategic opportunities. 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). He is a Trustee of St. Thomas University, Miami, Florida. Victor Mendelson is the son of Laurans Mendelson and the brother of Eric Mendelson.

James L. Reum has served as Executive Vice President of HEICO Aerospace since April 1993 and Chief Operating Officer of HEICO Aerospace from May 1995 until September 1999. He also served as President of LPI

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Industries Corporation from 1991 to 1998 and President of Jet Avion Corporation from 1996 to 1998. From January 1990 to August 1991, he served as Director of Research and Development for Jet Avion Corporation. From 1986 to 1989, Mr. Reum was self-employed as a management and engineering consultant to companies primarily within the aerospace industry. From 1957 to 1986, he was employed in various management positions with Chromalloy Gas Turbine Corp., Cooper Airmotive (later named Aviall, Inc.), United Airlines, Inc. and General Electric Company.

Compliance with Section 16(a) of the Securities and Exchange Act of 1934

Section 16(a) of the Securities and Exchange Act of 1934 requires the Company's Directors, Executive Officers and 10% shareholders to file initial reports of ownership and changes in ownership of Common Stock with the Securities and Exchange Commission and the New York Stock Exchange. Directors, Executive Officers and 10% shareholders are required to furnish the Company with copies of all Section 16(a) forms they file. Based on the review of such reports furnished to the Company, the Company believes that during 2000, the Company's Directors, Executive Officers and 10% shareholders complied with all Section 16(a) filing requirements applicable to them.

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PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters

On January 29, 1999, the Class A Common Stock and the Common Stock commenced trading on the New York Stock Exchange (NYSE) under the symbols "HEI.A" and "HEI," respectively, and both classes of stock ceased trading on the American Stock Exchange (AMEX). The following table sets forth, for the periods indicated, the high and low sales prices for the Class A Common Stock and the Common Stock as reported on AMEX and NYSE, as applicable, as well as the amount of cash dividends paid per share during such periods. Lufthansa Technik, as a 20% shareholder of our FSG, will be entitled to 20% of any dividends paid by our FSG.

In July 2000, the Company paid a 10% stock dividend on both classes of common stock in Class A Common Stock. The quarterly sales prices and cash dividend amounts have been retroactively adjusted for the 10% stock dividend.

Class A Common Stock

| | High ---- | Low --- |
|---------------------|--------------|------------|
| Fiscal 1999 | | |
| First Quarter..... | \$ 21.94 | \$ 17.73 |
| Second Quarter..... | 22.39 | 17.22 |
| Third Quarter..... | 22.16 | 19.04 |
| Fourth Quarter..... | 20.28 | 13.64 |
| Fiscal 2000: | | |
| First Quarter..... | \$ 19.32 | \$ 11.36 |
| Second Quarter..... | 16.14 | 10.00 |
| Third Quarter..... | 16.00 | 10.17 |
| Fourth Quarter..... | 16.44 | 10.88 |

On December 31, 2000 there were 1,141 holders of record of the Class A Common Stock.

Common Stock

| | High ---- | Low --- |
|---------------------|--------------|------------|
| Fiscal 1999: | | |
| First Quarter..... | \$ 29.32 | \$ 21.14 |
| Second Quarter..... | 24.89 | 18.24 |
| Third Quarter..... | 23.30 | 20.57 |
| Fourth Quarter..... | 21.71 | 15.40 |
| Fiscal 2000: | | |
| First Quarter..... | \$ 20.34 | \$ 13.13 |
| Second Quarter..... | 16.42 | 12.05 |
| Third Quarter..... | 20.25 | 11.19 |
| Fourth Quarter..... | 20.13 | 11.75 |

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On December 31, 2000, there were 1,146 holders of record of the Common Stock.

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Item 6. Selected Financial Data

| | Year Ended October | | |
|---|-----------------------|-----------|-----------|
| | 1996 | 1997 | 1998 (5) |
| | (In thousands, except | | |
| Operating Data: | | | |
| Net sales..... | \$ 34,565 | \$ 63,674 | \$ 95,351 |
| Gross profit..... | 12,169 | 20,629 | 36,104 |
| Selling, general and administrative expenses..... | 7,657 | 11,515 | 17,140 |
| Write-off of receivables(1)..... | -- | -- | -- |
| Operating income..... | 4,512 | 9,114 | 18,964 |
| Interest expense..... | 185 | 477 | 984 |
| Gain on sale of product line(2)..... | -- | -- | -- |
| Income (loss): | | | |
| From continuing operations | 3,665 | 7,019 | 10,509 |
| From discontinued operations..... | 963 | -- | -- |
| From gain on sale of discontinued operations..... | 5,264 | -- | -- |
| Net income..... | \$ 9,892 | \$ 7,019 | \$ 10,509 |
| Weighted average number of common shares | | | |
| outstanding: (4) | | | |
| Basic..... | 12,848 | 13,244 | 13,749 |
| Diluted..... | 14,610 | 15,860 | 17,095 |
| Per Share Data: (4) | | | |
| Income from continuing operations: | | | |
| Basic..... | \$.29 | \$.53 | \$.76 |
| Diluted..... | .25 | .44 | .61 |
| Net income: | | | |
| Basic..... | .77 | .53 | .76 |
| Diluted..... | .68 | .44 | .61 |
| Cash dividends(4)..... | .035 | .041 | .045 |
| Balance Sheet Data (at year end): | | | |
| Working capital..... | \$ 25,248 | \$ 45,131 | \$ 40,587 |
| Total assets..... | 61,836 | 88,639 | 133,061 |
| Total debt (including current portion)..... | 6,516 | 10,800 | 30,520 |
| Minority interest in consolidated subsidiary..... | -- | 3,273 | 14,892 |
| Shareholders' equity..... | 41,488 | 59,446 | 67,607 |

(1) Represents write-off of receivables as a result of bankruptcy filings by certain customers.

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- (2) Represents the gain on sale of Trilectron Industries, Inc. (Trilectron) in September 2000.
- (3) Represents adjustment to gain from the sale of the discontinued health care operations that were sold in fiscal 1996.
- (4) Information has been adjusted to reflect three-for-two stock splits distributed in April 1996 and December 1997, 10% stock dividends paid in February 1996, July 1996 and January 1997, a 50% stock distribution paid in shares of Class A Common Stock in April 1998 and a 10% stock dividend paid in shares of Class A Common Stock in July 2000.
- (5) Results include the results of acquisitions and disposition of a product line from each respective effective date as explained in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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- (6) The gain on sale of Trilectron referenced above increased basic and diluted income per share from continuing operations by \$0.61 and \$0.53, respectively, which was partially offset by the write-off of receivables which reduced basic and diluted income per share from continuing operations by \$0.04 and \$0.03, respectively.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Our Flight Support Group (FSG) consists of HEICO Aerospace Holdings Corp. and the following operating subsidiaries:

| Name ----- | Description of Principal Oper ----- |
|---|---|
| Jet Avion Corporation..... | Design and manufacture of FAA-approved replacement parts |
| McClain International, Inc. (McClain)..... | Design, manufacture and overhaul of FAA-replacement parts |
| Rogers-Dierks, Inc. (Rogers-Dierks)..... | Design and manufacture of FAA-approved replacement parts |
| Turbine Kinetics, Inc. (Turbine)..... | Design and manufacture of FAA-approved replacement parts |
| LPI Industries Corporation..... | Original equipment manufacturer subcontractor |
| Aircraft Technology, Inc..... | Repair and overhaul of jet engine parts |
| Northwings Accessories Corporation (Northwings).... | Repair and overhaul of jet engine and aircraft components and accessories |
| Associated Composite, Inc. (ACI)..... | Repair and overhaul of aircraft composite flight surfaces |
| Air Radio & Instruments Corp. (Air Radio)..... | Repair and overhaul of avionics, instrument and electronic equipment for aircraft |

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| | |
|--|--|
| Future Aviation, Inc. (Future)..... | Repair and overhaul of regional and commercial aircraft accessory components |
| Thermal Structures, Inc. (Thermal) | Manufacture of thermal insulation products and components |

Our Electronic Technologies Group (ETG) consists of HEICO Electronic Technologies Corp. and the following operating subsidiaries:

| Name ----- | Description of Principal Operations ----- |
|--|---|
| Radiant Power Corp. (Radiant)..... | Manufacture of electrical back-up power supplies and battery packs for commercial aircraft applications |
| Leader Tech, Inc. (Leader Tech)..... | Manufacture of electromagnetic interference and radio frequency interference shielding for private aircraft communications, computer and aerospace applications |
| Santa Barbara Infrared, Inc. (SBIR)..... | Design and manufacture of aerospace and defense electronically controlled infrared simulation test equipment |

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Trilectron Industries, Inc., formerly a part of the ETG which designed and manufactured electronically controlled ground support equipment for aircraft, was sold in September 2000. The sale of this product line is further discussed below and in Note 3 to our Consolidated Financial Statements.

Our results of operations during the current and prior fiscal years have been affected by a number of significant transactions. This discussion of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and Notes thereto included or incorporated by reference herein. For further information regarding the acquisitions and strategic alliance discussed below, see Note 2 to our Consolidated Financial Statements. These acquisitions have been accounted for using the purchase method of accounting and are included in the Company's results of operations from the effective date of acquisition.

In October 1997, the Company entered into a strategic alliance with Lufthansa, the technical services subsidiary of Lufthansa German Airlines, whereby Lufthansa agreed to invest approximately \$26 million in HEICO Aerospace, including \$10 million paid at closing pursuant to a stock purchase agreement and approximately \$16 million to be paid to HEICO Aerospace pursuant to a research and development cooperation agreement, which has partially funded the accelerated development of additional Federal Aviation Administration (FAA)-approved replacement parts for jet engines. The funds received as a result of the research and development cooperation agreement reduce research and development expenses in the period such expenses are incurred. In addition, Lufthansa and HEICO Aerospace have agreed to cooperate regarding technical services and marketing support for replacement parts on a worldwide basis. In connection with subsequent acquisitions by HEICO Aerospace, Lufthansa invested additional amounts aggregating \$21 million pursuant to its option to maintain a 20% equity interest.

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In July 1998, the Company completed the acquisition of McClain for approximately \$43.5 million in cash. In October 1998, the Company acquired ACI for cash consideration. The purchase price was not significant. Between December 1998 and September 1999, the Company acquired Rogers-Dierks, Radiant, Air Radio, Leader Tech, Turbine and SBIR for an aggregate purchase price of approximately \$73 million. In June 1999, the Company acquired Thermal for approximately \$28.9 million in cash, and assumed approximately \$4 million in debt.

In February 2000, the Company, through a subsidiary, acquired selected assets of the former Air-A-Plane Corporation for cash. The purchase price was not significant to the Company's consolidated financial statements. The principal acquired assets of Air-A-Plane were subsequently sold as a part of the product line sold in September 2000.

Effective June 1, 2000, the Company, through a subsidiary, acquired substantially all of the assets and certain liabilities of Future for \$14.7 million in cash.

On September 14, 2000, the Company consummated the sale of all of the outstanding capital stock of Trilectron, to Hobart Brothers Company, a wholly-owned subsidiary of Illinois Tool Works Inc. (Hobart). In consideration of the sale of Trilectron's capital stock, the Company received \$52,500,000 in cash, an unsecured non-interest bearing promissory note for \$12.0 million payable in three equal installments over the next 90 days, a purchase price adjustment of \$4.5 million based on the net worth of Trilectron as of the closing date of the sale, and retained certain property having a book value of approximately \$1.5 million. The full amount of the promissory note and the purchase price adjustment were collected subsequent to year end. The proceeds from the sale were used to pay down the outstanding balance on the Company's Credit Facility. The sale of Trilectron resulted in a pretax gain in fiscal 2000 of \$17,296,000 (\$10,542,000 or \$.53 per diluted share, net of income tax).

All net income per share, dividends per share and common stock outstanding information has been adjusted for all years presented to give retroactive effect to stock distributions and stock dividends.

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Results of Operations

For the periods indicated, the following table sets forth net sales by operating segment and the percentage of net sales represented by the respective items in the Company's Consolidated Statements of Operations.

| | Year Ended October 31, | | |
|----------------|-------------------------------|------------|-----------|
| | 1998 | 1999 | 2000 |
| | (Dollar amounts in thousands) | | |
| Net sales | | | |
| FSG..... | \$ 65,412 | \$ 94,617 | \$119,000 |
| ETG..... | 29,939 | 46,652 | 83,000 |
| | \$ 95,351 | \$ 141,269 | \$202,000 |
| | 100.0% | 100.0% | 100.0% |
| Net sales..... | 100.0% | 100.0% | 100.0% |

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| | | |
|---|-------|-------|
| Gross profit..... | 37.9% | 40.7% |
| Selling, general and administrative expenses..... | 18.0% | 17.5% |
| Write-off of receivables..... | -- | -- |
| Operating income..... | 19.9% | 23.2% |
| Interest expense..... | 1.0% | 1.5% |
| Interest and other income..... | 2.2% | 0.6% |
| Gain on sale of product line..... | -- | -- |
| Income tax expense..... | 7.3% | 8.2% |
| Minority interest..... | 2.7% | 2.5% |
| Net income..... | 11.0% | 11.6% |

Comparison of Fiscal 2000 to Fiscal 1999

Net Sales

Net sales in fiscal 2000 totaled \$202.9 million, up 44% when compared to fiscal 1999 net sales of \$141.3 million.

The increase in sales for fiscal 2000 reflects an increase of \$24.7 million (a 26% increase) to \$119.3 million from the Company's FSG and an increase of \$37.0 million (a 79% increase) to \$83.6 million in revenues from the Company's ETG. Sales from the FSG reflect the addition of newly-acquired businesses and increases in sales of new products and services, including newly developed and acquired FAA-approved jet engine replacement parts, partially offset by softness within the aviation aftermarket in the second half of fiscal 2000. The FSG sales increase includes revenues of \$17.9 million from businesses acquired during fiscal 1999 (Air Radio and Thermal) and fiscal 2000 (Future). Sales from the ETG reflect revenues from new products and increased market penetration as well as \$12.7 million from businesses acquired during fiscal 1999 (Radiant, Leader Tech, and SBIR), net of the decrease in sales resulting from the product line sold in September 2000 (Trilectron). Excluding sales of Trilectron, consolidated sales were \$152.8 million for fiscal 2000 and \$104.7 million for fiscal 1999.

Gross Profits and Operating Expenses

The Company's gross profit margins averaged 37.4% for fiscal 2000 as compared to 40.7% for fiscal 1999. Excluding the results of operations of Trilectron, gross margins in fiscal 2000 were 43.7% compared to 48.0% in fiscal 1999. The lower gross margins in fiscal 2000 were primarily due to a decrease in FSG gross profit margins. The decrease in the FSG gross margins was primarily due to lower margins contributed by certain acquired businesses and higher new product research and development expense due to lower reimbursements from Lufthansa, softness in demand for our higher margin replacement parts, less favorable product pricing and the benefit realized in fiscal 1999 from favorable pricing under certain contracts. Fiscal 2000 and 1999 cost of sales amounts include approximately \$2.3 million and \$1.2 million of new product research and development expenses of the FSG, respectively. These amounts

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are net of \$5.2 million and \$6.7 million received from Lufthansa in 2000 and 1999, respectively, and spent by the Company pursuant to the research and development agreement with Lufthansa. As of October 31, 2000, the Company has future reimbursements for research and development expenses aggregating \$700,000 from Lufthansa which will be received through May 2001. New product research and development expense of the FSG for fiscal 2001 is expected to increase by \$3 million as a result of the lower reimbursements under the agreement with Lufthansa. The decrease in the gross margin of the FSG was offset by an increase in the gross margin of the ETG. The gross margin improvement in the ETG primarily reflects higher gross profit margins contributed by businesses

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acquired in fiscal 1999 and the addition of new products with higher profit margins.

Selling, general and administrative (SG&A) expenses were \$36.6 million for fiscal 2000 and \$24.7 million for fiscal 1999. The increase results from the inclusion of SG&A expenses of the newly acquired companies, including additional amortization of goodwill which totaled \$6.1 million in fiscal 2000 versus \$3.7 million in fiscal 1999, and higher marketing costs. As a percentage of net sales, SG&A expenses remained stable at 18.0% in fiscal 2000 versus 17.5% in fiscal 1999 reflecting continuing efforts to control costs while increasing revenues.

In fiscal 2000, the Company wrote-off receivables of \$1,312,000 as a result of bankruptcy filings by certain customers. These customers contributed sales of approximately \$2 million in the first half of fiscal year 2000, substantially all occurring prior to the bankruptcy filings. The charge reduced fiscal net income by \$651,000 or \$.03 per diluted share, net of income tax. There were no significant receivable write-offs resulting from bankruptcies during 1999 and 1998.

Operating Income

Operating income increased \$5.1 million to \$37.9 million (a 16% increase) for fiscal 2000 from \$32.8 million for fiscal 1999. The increase in operating income reflects an increase of \$6.5 million (a 110% increase) from \$5.9 million to \$12.5 million in the Company's ETG offset by a decrease of \$1.7 million (a 5% decrease) from \$31.3 million to \$29.6 million in the Company's FSG. The decrease in FSG operating income in fiscal 2000 was due primarily to the \$1.3 million write-off of receivables referenced above and higher new product research and development expense discussed above. The increase in ETG operating income was due primarily to increases in sales and gross profits in the ETG discussed above. Operating income for fiscal 2000 was also affected by softness in certain segments of the aviation aftermarket and the sale of Trilectron in September 2000.

As a percentage of net sales, operating income decreased from 23.2% in fiscal 1999 to 18.7% in fiscal 2000 reflecting lower margins within the FSG discussed above. The FSG's operating income as a percentage of net sales declined from 33.1% in fiscal 1999 to 24.8% in fiscal 2000 due principally to the receivable write-off referenced above, lower margins contributed by certain acquired businesses and higher new product research and development expense. The operating margins in the FSG were partially offset by improvements in the operating margins of the ETG, as well as lower corporate costs. The ETG's operating income as a percentage of net sales improved from 12.7% in fiscal 1999 to 14.9% in fiscal 2000. This improvement reflects higher operating margins contributed by businesses acquired in fiscal 1999 and new products. Corporate costs as a percent of consolidated sales were down 1% in fiscal 2000 versus fiscal 1999.

Adjusted to exclude Trilectron's operations and the impact of the aforementioned accounts receivable write-off, operating margins were 23.4% in fiscal 2000.

Interest Expense

Interest expense increased \$3.4 million to \$5.6 million from fiscal 1999 to fiscal 2000. The increase was principally due to increased outstanding debt balances during the period related to borrowings on the Company's Credit Facility used principally to finance acquisitions.

Interest and Other Income

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Interest and other income increased slightly by \$35,000 to \$929,000 from fiscal 1999 to fiscal 2000 due to an increase in invested funds.

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Gain on sale of product line

The gain represents the pretax gain on the aforementioned sale of Trilectron.

Income Tax Expense

The Company's effective tax rate increased to 38.6% in fiscal 2000 from 36.8% in fiscal 1999, primarily due to lower tax benefit on export sales attributable to the inclusion of the gain on the sale of Trilectron and increased state taxes and non-deductible goodwill resulting from acquisitions. For a detailed analysis of the provisions for income taxes, see Note 8 to the Consolidated Financial Statements.

Minority Interest

Minority interest represents the 20% minority interest held by Lufthansa, which decreased \$304,000 from fiscal 1999 to fiscal 2000 due primarily to lower net income of the FSG and higher corporate expenses allocable to the minority interest.

Income from Continuing Operations

The Company's income from continuing operations totaled \$27.7 million, or \$1.39 per diluted share, in fiscal 2000 improving 70% from income from continuing operations of \$16.3 million, or \$.84 per diluted share, in fiscal 1999.

The increase in income from continuing operations is primarily due to the gain on the sale of product line and increased operating income partially offset by higher interest expense discussed above.

Excluding the gain on sale of product line and the write-off of receivables referenced above, income from continuing operations increased by \$1.5 million to \$17.8 million, or \$.90 per diluted share, from \$16.3 million, or \$.84 per diluted share, in fiscal 1999.

Cash earnings per share from continuing operations, or income from continuing operations per diluted share before goodwill amortization (adjusted for the after tax impact of goodwill), increased 66% to \$1.59 in fiscal 2000 from \$.96 in fiscal 1999.

Adjustment to Gain on Sale of Discontinued Operations

The adjustment to gain on sale of discontinued operations of \$1.4 million (\$0.07 per diluted share) represents the additional taxes and related interest incurred in connection with the Company's settlement of a tax adjustment whereby the IRS conceded one-third of the original tax adjustment proposed by the IRS. For further information, see Note 4 to Consolidated Financial Statements.

Net Income

The Company's net income totaled \$26.3 million, or \$1.32 per diluted share, in fiscal 2000, improving 61% from net income of \$16.3 million, or \$.84 per diluted share, in fiscal 1999.

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The improvement in net income for fiscal 2000 over fiscal 1999 reflects the increase in income from continuing operations partially offset by the adjustment to the gain on sale of the discontinued health care operations.

Comparison of Fiscal 1999 to Fiscal 1998

Net Sales

Net sales in fiscal 1999 totaled \$141.3 million, up 48% when compared to fiscal 1998 net sales of \$95.4 million.

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The increase in sales for fiscal 1999 reflects an increase of \$29.2 million (a 45% increase) to \$94.6 million from the Company's FSG and an increase of \$16.7 million (a 56% increase) to \$46.7 million in revenues from the Company's ETG. Sales from the FSG reflect increases in sales of new products and services, including newly developed and acquired FAA-approved jet engine replacement parts, and increased demand from engine component and accessory overhaul services. The FSG sales increase also includes revenues of \$11.1 million from newly acquired businesses (ACI, Air Radio and Thermal). Sales from the ETG reflect revenues of \$10.1 million from newly acquired businesses (Radiant, Leader Tech, and SBIR). The balance of the ETG sales increase reflects internal growth, primarily attributed to sales of new products and increased market penetration.

Gross Profits and Operating Expenses

The Company's gross profit margins averaged 40.7% for fiscal 1999 as compared to 37.9% for fiscal 1998 resulting from improved margins in both operating segments. The increase in the FSG operations was due to favorable sales price terms under certain contracts, continuing efforts to lower manufacturing costs, the reimbursement of research and development costs from Lufthansa and higher gross margins contributed by newly developed and acquired FAA-approved jet engine replacement parts as well as newly acquired businesses. Fiscal 1999 and 1998 cost of sales amounts include approximately \$1.2 million and \$900,000 of new product research and development expenses, respectively. These amounts are net of \$6.7 million and \$3.5 million received from Lufthansa in 1999 and 1998, respectively. The gross margin improvement in the ETG primarily reflects higher gross profit margins contributed by newly acquired businesses and the addition of new products with higher profit margins.

Selling, general and administrative (SG&A) expenses were \$24.7 million for fiscal 1999 and \$17.1 million for fiscal 1998. The increase results from the inclusion of SG&A expenses of the newly acquired companies, including additional amortization of goodwill which totaled \$3.7 million in fiscal 1999 and \$.8 million in fiscal 1998, increases in both segments related to internal sales growth, partially offset by a reduction in corporate expenses due to lower executive compensation expense. As a percentage of net sales, SG&A expenses remained stable at 17.5% for fiscal 1999 versus 18.0% for fiscal 1998 reflecting continuing efforts to control costs while increasing revenues.

Operating Income

Operating income increased \$13.8 million to \$32.8 million (a 73% increase) for fiscal 1999 from \$19.0 million for fiscal 1998. The increase in operating income reflects an increase of \$9.0 million (a 41% increase) from \$22.3 million to \$31.3 million in the Company's FSG and an increase of \$4.0 million (a 215% increase) from \$1.9 million to \$5.9 million in the Company's ETG. The increases in operating income were due primarily to increases in sales and gross profits in the FSG and ETG discussed above.

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As a percentage of net sales, operating income improved from 19.9% in fiscal 1998 to 23.2% in fiscal 1999 reflecting the increase in gross profit margins and the decline in SG&A expenses as a percentage of net sales discussed above. The FSG's operating income as a percentage of net sales declined slightly from 34.0% in fiscal 1998 to 33.1% in fiscal 1999 due principally to growth in the Company's repair and overhaul services, which generally have lower margins than sales of the Company's FAA-approved jet engine replacement parts. The ETG's operating income as a percentage of net sales improved significantly from 6.3% in fiscal 1998 to 12.7% in fiscal 1999. This improvement reflects higher operating margins contributed by newly acquired businesses and newly developed products as well as manufacturing cost improvements.

Interest Expense

Interest expense increased \$1.2 million to \$2.2 million from fiscal 1998 to fiscal 1999. The increase was principally due to increased outstanding debt balances during the period related to borrowings on the Company's Credit Facility used principally to finance acquisitions.

Interest and Other Income

Interest and other income decreased \$1.2 million to \$894,000 from fiscal 1998 to fiscal 1999 due principally to the decrease in invested funds used for acquisitions.

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Income Tax Expense

The Company's effective tax rate increased to 36.8% in fiscal 1999 from 34.5% in fiscal 1998, principally due to an increase in non-deductible goodwill, a decrease in tax-free investments, and an increase in other miscellaneous non-deductible items. For a detailed analysis of the provision for income taxes, see Note 8 to the Consolidated Financial Statements.

Minority Interest

Minority interest represents the 20% minority interest held by Lufthansa which increased \$974,000 from fiscal 1998 to fiscal 1999 due to higher net income of the FSG.

Net Income

The Company's net income totaled \$16.3 million, or \$.84 per diluted share, in fiscal 1999, improving 55% from net income of \$10.5 million, or \$.61 per diluted share, in fiscal 1998. The percentage increase in net income exceeded the earnings per share percentage increase due to an increase in common stock shares outstanding resulting from the offering of 3.0 million shares of Class A Common Stock during the second quarter of fiscal 1999.

The improvement in net income for fiscal 1999 over fiscal 1998 is primarily attributable to the increased sales and operating income discussed above. These increases were partially offset by the aforementioned higher interest costs and increase in minority interest as well as an increase in the Company's effective tax rate.

Inflation

The Company has generally experienced increases in its costs of labor, materials and services consistent with overall rates of inflation. The impact of

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such increases on the Company's net income has been generally minimized by efforts to lower costs through manufacturing efficiencies and cost reductions.

Liquidity and Capital Resources

The Company generates cash primarily from operating activities and financing activities, including borrowings under long-term credit agreements. In fiscal 2000, the Company also generated cash from the sale of a product line.

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

The Company believes that operating cash flow and available borrowings under the Company's Credit Facility will be sufficient to fund cash requirements for the foreseeable future.

Operating Activities

Cash flow from operations was \$12.1 million for fiscal 2000, principally reflecting net income of \$26.3 million, adjustments for gain on sale of product line, depreciation and amortization, minority interest, and tax benefits related to stock option exercises of \$17.3 million, \$9.8 million, \$3.3 million and \$1.7 million, respectively, offset by an increase in net operating assets of \$11.5 million. The increase in net operating assets primarily resulted from an increase in accounts receivable resulting from extended payment terms, and an increase in inventories to meet increased sales orders under certain ETG contracts, as well as increases in income taxes payable and accrued expenses of \$7.9 million and \$1.2 million, respectively, mainly due to the sale of Trilectron. Excluding cash flow used in the operations of Trilectron prior to its sale, cash flow from operations totaled approximately \$21 million in fiscal 2000.

Cash flow from operations was \$9.6 million in fiscal 1999 principally reflecting net income of \$16.3 million, adjustments for depreciation and amortization, minority interest, and tax benefits related to stock option exercises of \$6.3 million, \$3.6 million and \$1.6 million, respectively, offset by an increase in net operating assets of \$18.2 million. This increase in net operating assets primarily resulted from the net effect of an increase in inventories to meet increased sales orders and an increase in accounts receivable resulting from extended payment terms under

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certain ETG contracts, offset by an increase in trade payables and other current liabilities associated with higher levels of operations and deferred reimbursement of research and development costs from Lufthansa.

Cash flow from operations was \$10.0 million in fiscal 1998 principally reflecting net income of \$10.5 million, an adjustment for depreciation and amortization and minority interest of \$2.8 million and \$2.6 million, respectively, offset by an increase in net operating assets of \$5.0 million. The increase in net operating assets was primarily due to increases in inventories and accounts receivable associated with higher levels of operations and deferred reimbursement of research and development costs from Lufthansa.

Investing Activities

The principal cash provided by investing activities was \$48.4 million generated in fiscal 2000 as a result of the sale of Trilectron. Cash used in investing activities the last three years was cash used in acquisitions totaling

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\$175.3 million, including \$24.8 million in fiscal 2000. For further detail on acquisitions see Notes 2 and 16 to the Consolidated Financial Statements. Capital expenditures totaled \$29.1 million primarily representing the purchase of new facilities and expansion of existing production facilities and capabilities.

Financing Activities

The Company's principal financing activities over the last three years included net proceeds from the offering of 3.0 million shares of Class A Common Stock totaling \$56.3 million in fiscal 1999 and proceeds from long-term debt of \$155.5 million, including \$149.5 million from the Company's Credit Facility used primarily to fund acquisitions. In addition, the Company received \$20.5 million from Lufthansa during fiscal 1999 and 1998 representing minority interest investments to purchase and maintain its 20% equity position in the FSG. The Company repaid \$111.5 million of the outstanding balance on its Credit Facility and \$5.6 million in other long-term debt. The Company also used an aggregate of \$4.8 million to repurchase common stock primarily during fiscal 1999 and 1998.

In 1998, the Company entered into a \$120 million revolving credit facility with a bank syndicate, which contains both revolving credit and term loan features. The credit facility may be used for working capital and general corporate needs of the Company and to finance acquisitions (generally not in excess of \$25.0 million for any single acquisition nor in excess of an aggregate of \$25.0 million for acquisitions during any four fiscal quarter period without the requisite approval of the bank syndicate) on a revolving basis through July 2003. Advances under the credit facility accrue interest, at the Company's option, at a premium (based on the Company's ratio of total funded debt to earnings before interest, taxes, depreciation and amortization) over the LIBOR rate or the higher of the prime lending rate and the Federal Funds Rate. The Company is required to maintain certain financial covenants, including minimum net worth, limitations on capital expenditures (excluding expenditures for the acquisition of businesses) and limitations on additional indebtedness. See Note 6 to the Consolidated Financial Statements for further information regarding credit facilities.

New Accounting Standards

In June 1999, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" (SFAS 137). SFAS 137 amends FASB Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) by deferring the effective date of SFAS 133 to fiscal years beginning after June 15, 2000. SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS 133 was amended in June 2000 by Statement of Financial Accounting Standards No. 138 (SFAS 138) for certain derivative instruments and hedging activities as indicated by SFAS 138. The Company adopted SFAS 133 beginning November 1, 2000. Adoption of SFAS 133 is not significant to the Company's consolidated financial statements as of October 31, 2000.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101), which among other guidance, clarifies certain conditions to be met in

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order to recognize revenue. In October 2000, the staff deferred the implementation date of SAB 101 until no later than the fourth quarter of fiscal years beginning after December 15, 1999. The Company will adopt SAB 101 in fiscal 2001, however, such adoption would not be significant to the Company's consolidated financial statements as of October 31, 2000.

In July 2000, the Emerging Issues Task Force (EITF) issued "Classification in the Statement of Cash Flows of the Income Tax Benefit Realized by a Company upon Employee Exercise of a Non-qualified Stock Option" (EITF 00-15). This Issue addresses the cash flow statement presentation of the windfall tax benefit associated with nonqualified stock options. Companies receive an income tax deduction for the difference between the exercise price and the market price of a nonqualified stock option upon exercise by the employee. EITF 00-15 concludes that the income tax benefit realized by the Company upon employee exercise should be classified in the operating section of the cash flow statement. The EITF is effective for all quarters ending after July 20, 2000. The Company adopted EITF 00-15 as of July 31, 2000 and as such has reclassified the income tax benefit realized on stock options into the cash provided by operating activities for both periods presented.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The primary market risk to which the Company has exposure is interest rate risk, mainly related to its revolving credit facility and industrial revenue bonds, which had an aggregate outstanding balance of \$40 million and \$72 million at October 31, 2000 and 1999, respectively. Interest rates on the revolving credit facility borrowings are based on LIBOR plus a variable margin, while interest rates on the industrial development revenue bonds are based on variable rates. Changes in interest rates can affect the Company's net income and cash flows. In order to manage its interest rate risk, in February 2000, the Company entered into an interest rate swap with a bank pursuant to which it exchanged floating rate interest based on three-month LIBOR on a notional principal amount of \$30 million for a fixed rate payment obligation of 6.59% for a two-year period ending February 2, 2002. This allows the Company to reduce the effects (positive or negative) of interest rate changes on operations. Based on the outstanding debt balance at October 31, 2000 and 1999, a change of 1% in interest rates would cause a change in interest expense of approximately \$100,000 and \$720,000, respectively, on an annual basis.

As of October 31, 2000 and 1999, the Company maintains a portion of its cash and cash equivalents in financial instruments with original maturities of three months or less. These financial instruments are subject to interest rate risk and will decline in value if interest rates increase. Due to the short duration of these financial instruments, an immediate increase of 1% in interest rates would not have a material effect on the Company's financial condition.

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Item 8. Financial Statements and Supplementary Data HEICO Corporation and Subsidiaries

HEICO CORPORATION

INDEX TO FINANCIAL STATEMENTS

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|---|--|
| Independent Auditors' Report..... | |
| Consolidated Balance Sheets at October 31, 2000 and 1999..... | |

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Consolidated Statements of Operations for the years ended October 31, 2000, 1999 and 1998.....
Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years Ended October 31, 2000, 1999 and 1998.....
Consolidated Statements of Cash Flows for the years ended October 31, 2000, 1999 and 1998.....
Notes to Consolidated Financial Statements.....

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of HEICO Corporation:

We have audited the accompanying consolidated balance sheets of HEICO Corporation and subsidiaries (the Company) as of October 31, 2000 and 1999, and the related consolidated statements of operations, of shareholders' equity and comprehensive income, and of cash flows for each of the three years in the period ended October 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended October 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
Certified Public Accountants

Fort Lauderdale, Florida
December 14, 2000

HEICO CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
October 31, 2000 and 1999

ASSETS

Current assets:

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| | |
|--|-----------|
| (as restated)..... | 9 |
| Capital in excess of par value..... | 111,13 |
| Accumulated other comprehensive loss..... | (63 |
| Retained earnings..... | 60,61 |
| | ----- |
| | 171,29 |
| Less: Note receivable from employee savings and investment plan..... | (1,45 |
| | ----- |
| Total shareholders' equity..... | 169,84 |
| | ----- |
| Total liabilities and shareholders' equity..... | \$ 281,73 |
| | ===== |

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

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HEICO CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended October 31, 2000, 1999 and 1998

| | 2000 | 1999 |
|---|----------------|----------------|
| | ----- | ----- |
| Net sales | \$ 202,909,000 | \$ 141,269,000 |
| | ----- | ----- |
| Operating costs and expenses: | | |
| Cost of sales | 127,098,000 | 83,737,000 |
| Selling, general and administrative expenses | 36,576,000 | 24,717,000 |
| Write-off of receivables (Note 16) | 1,312,000 | -- |
| | ----- | ----- |
| Total operating costs and expenses | 164,986,000 | 108,454,000 |
| | ----- | ----- |
| Operating income | 37,923,000 | 32,815,000 |
| Interest expense | (5,611,000) | (2,173,000) |
| Interest and other income | 929,000 | 894,000 |
| Gain on sale of product line | 17,296,000 | -- |
| | ----- | ----- |
| Income from continuing operations | | |
| before income taxes and minority interest | 50,537,000 | 31,536,000 |
| Income tax expense | 19,509,000 | 11,606,000 |
| | ----- | ----- |
| Income from continuing operations before minority interest .. | 31,028,000 | 19,930,000 |
| Minority interest | 3,289,000 | 3,593,000 |
| | ----- | ----- |
| Income from continuing operations | 27,739,000 | 16,337,000 |
| Adjustment to gain on sale of discontinued health care operations, net of applicable income tax benefit of \$208,000 .. | (1,422,000) | -- |
| | ----- | ----- |
| Net income | \$ 26,317,000 | \$ 16,337,000 |
| | ===== | ===== |
| Basic per share data: | | |
| Income from continuing operations | \$ 1.59 | \$ 1.00 |

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| | | | | |
|---|----|------------|----|------------|
| Adjustment to gain on sale of discontinued health care operations | | (.08) | | -- |
| Net income | \$ | 1.51 | \$ | 1.00 |
| Diluted per share data: | | | | |
| Income from continuing operations | \$ | 1.39 | \$ | .84 |
| Adjustment to gain on sale of discontinued health care operations | | (.07) | | -- |
| Net income | \$ | 1.32 | \$ | .84 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | | 17,376,657 | | 16,302,791 |
| Diluted | | 19,916,794 | | 19,407,399 |

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

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HEICO CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
For the years ended OCTOBER 31, 2000, 1999 and 1998

| | Common Stock | Class A Common Stock | Capital in Excess of Par Value | Accumulated Other Comprehensive Loss | Ret Ear |
|--|-----------------|----------------------------|--------------------------------------|---|------------|
| | ----- | ----- | ----- | ----- | ----- |
| Balances, October 31, 1997..... | \$83,000 | \$ -- | \$ 35,533,000 | \$ -- | \$ 26, |
| Distribution of one share of Class A Common Stock for each two shares of Common Stock made April 23, 1998..... | -- | 42,000 | (42,000) | -- | |
| Repurchase of stock..... | (1,000) | (1,000) | (2,036,000) | -- | |
| Exercise of stock options..... | 1,000 | -- | 471,000 | -- | |
| Tax benefit for stock option exercises..... | -- | -- | 485,000 | -- | |
| Payment on note receivable from employee savings and investment plan..... | -- | -- | -- | -- | |
| Cash dividends (\$.045 per share)..... | -- | -- | -- | -- | (6 |
| Net income for the year..... | -- | -- | -- | -- | 10,5 |
| Unrealized loss on investments, net of tax of \$671,000..... | -- | -- | -- | (1,142,000) | |
| Comprehensive income..... | -- | -- | -- | -- | |

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| | | | | | |
|---|----------|----------|---------------|--------------|---------|
| Other..... | -- | -- | 63,000 | -- | -- |
| Balances, October 31, 1998..... | 83,000 | 41,000 | 34,474,000 | (1,142,000) | 36,6 |
| Secondary offering of Class A Common shares..... | -- | 30,000 | 56,235,000 | -- | -- |
| Repurchase of stock..... | (1,000) | -- | (2,625,000) | -- | -- |
| Exercise of stock options..... | 2,000 | 2,000 | 1,335,000 | -- | -- |
| Tax benefit for stock option exercises..... | -- | -- | 1,610,000 | -- | -- |
| Payment on note receivable from employee savings and investment plan..... | -- | -- | -- | -- | -- |
| Cash dividends (\$.045 per share)..... | -- | -- | -- | -- | (7 |
| Net income for the year..... | -- | -- | -- | -- | 16,3 |
| Unrealized loss on investments, net of tax of \$721,000..... | -- | -- | -- | (1,093,000) | -- |
| Comprehensive income..... | -- | -- | -- | -- | -- |
| Other..... | -- | -- | 65,000 | -- | -- |
| Balances, October 31, 1999..... | 84,000 | 73,000 | 91,094,000 | (2,235,000) | 52,2 |
| 10% Common and Class A stock dividend paid in Class A shares..... | -- | 15,000 | 17,125,000 | -- | (17,1 |
| Repurchase of stock..... | -- | -- | (105,000) | -- | -- |
| Exercise of stock options..... | 1,000 | 2,000 | 978,000 | -- | -- |
| Tax benefit for stock option exercises..... | -- | -- | 1,736,000 | -- | -- |
| Payment on note receivable from employee savings and investment plan..... | -- | -- | -- | -- | -- |
| Cash dividends (\$.048 per share)..... | -- | -- | -- | -- | (8 |
| Net income for the year..... | -- | -- | -- | -- | 26,3 |
| Unrealized gain on investments, net of tax of \$998,000..... | -- | -- | -- | 1,603,00 | -- |
| Comprehensive income..... | -- | -- | -- | -- | -- |
| Other..... | -- | -- | 310,000 | -- | -- |
| Balances, October 31, 2000..... | \$85,000 | \$90,000 | \$111,138,000 | \$ (632,000) | \$ 60,6 |

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

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HEICO CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended October 31, 2000, 1999 and 1998

2000

Cash flows from operating activities:

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| | | |
|--|---------------|-------|
| Net income | \$ 26,317,000 | \$ |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Gain on sale of product line | (17,296,000) | |
| Depreciation and amortization | 9,775,000 | |
| Deferred income taxes | (175,000) | |
| Deferred financing costs | 8,000 | |
| Minority interest in consolidated subsidiary | 3,289,000 | |
| Tax benefit on stock option exercises | 1,736,000 | |
| Change in assets and liabilities, net of acquisitions and dispositions: | | |
| Increase in accounts receivable | (11,569,000) | |
| Increase in inventories | (7,471,000) | |
| Increase in prepaid expenses and other current assets | (1,662,000) | |
| Increase in trade payables, accrued expenses and other current liabilities | 1,159,000 | |
| Increase (decrease) in income taxes payable | 7,866,000 | |
| Other | 155,000 | |
| | ----- | |
| Net cash provided by operating activities | 12,132,000 | |
| | ----- | |
| Cash flows from investing activities: | | |
| Proceeds from sale of product line, net of expenses | 44,377,000 | |
| Proceeds from receivable from sale of product line | 4,000,000 | |
| Acquisitions, net of cash acquired | (24,799,000) | |
| Capital expenditures | (8,665,000) | |
| Net change in available-for-sale investments | -- | |
| Payment received from employee savings and investment plan note receivable | 556,000 | |
| Other | (724,000) | |
| | ----- | |
| Net cash provided by (used in) investing activities | 14,745,000 | |
| | ----- | |
| Cash flows from financing activities: | | |
| Proceeds from the issuance of long-term debt: | | |
| Revolving credit facility | 29,000,000 | |
| Bond reimbursement | 287,000 | |
| Other | 880,000 | |
| Principal payments on long-term debt | (58,381,000) | |
| Proceeds from Class A Common Stock offering, net | -- | |
| Minority interest investments | -- | |
| Proceeds from the exercise of stock options | 981,000 | |
| Repurchases of common stock | (105,000) | |
| Cash dividends paid | (846,000) | |
| Other | 83,000 | |
| | ----- | |
| Net cash (used in) provided by financing activities | (28,101,000) | |
| | ----- | |
| Net decrease in cash and cash equivalents | (1,224,000) | |
| Cash and cash equivalents at beginning of year | 6,031,000 | |
| | ----- | |
| Cash and cash equivalents at end of year | \$ 4,807,000 | \$ |
| | ===== | ===== |

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2000, 1999 and 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of business

HEICO Corporation, through its principal subsidiaries HEICO Aerospace Holdings Corp. (HEICO Aerospace) and HEICO Electronic Technologies Corp. (HEICO Electronic), formerly HEICO Aviation Products Corp. and their subsidiaries (collectively, the Company), is principally engaged in the design, manufacture and sale of aerospace, defense and electronics related products and services throughout the United States and internationally. HEICO Aerospace's subsidiaries include HEICO Aerospace Corporation, Jet Avion Corporation (Jet Avion), LPI Industries Corporation (LPI), Aircraft Technology, Inc. (Aircraft Technology), Northwings Accessories Corporation (Northwings), McClain International, Inc. (McClain), Associated Composite, Inc. (ACI), Rogers-Dierks, Inc. (Rogers-Dierks), Air Radio & Instruments Corp. (Air Radio), Turbine Kinetics, Inc. (Turbine), Thermal Structures, Inc. (Thermal), and Future Aviation, Inc. (Future) acquired June 2000. HEICO Electronic's subsidiaries include Trilectron Industries, Inc. (Trilectron) sold September 2000, Radiant Power Corp. (Radiant Power), Leader Tech, Inc. (Leader Tech) and Santa Barbara Infrared, Inc. (SBIR). For further detail of acquired and sold subsidiaries discussed above, see Notes 2 and 3. The Company's customer base is primarily the commercial airline, defense and electronics industries. As of October 31, 2000, the Company's principal operations are located in Atlanta, Georgia; Anacortes, Washington; Glastonbury, Connecticut; Corona and Santa Barbara, California; and Hollywood, Miami, Tampa, Naples and Palmetto, Florida.

Basis of presentation

The consolidated financial statements include the accounts of HEICO Corporation and its subsidiaries, all of which are wholly-owned except for HEICO Aerospace, of which a 20% interest was sold to Lufthansa Technik AG (Lufthansa) in October 1997 (Note 2). All significant intercompany balances and transactions are eliminated.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year presentation.

Cash and cash equivalents

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

Inventories

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Portions of the inventories are stated at the lower of cost or market, with cost being determined on the first-in, first-out basis. The remaining portions of the inventories are stated at the lower of cost or market, on a per contract basis, with estimated total contract costs being allocated ratably to all units. The effects of changes in estimated total contract costs are recognized in the period determined. Losses, if any, are recognized fully when identified.

Property, plant and equipment

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

| | |
|--|---------------|
| Buildings and components..... | 7 to 55 years |
| Building and leasehold improvements..... | 3 to 15 years |
| Machinery and equipment..... | 3 to 20 years |

The costs of major renewals and betterments are capitalized. Repairs and maintenance are charged to operations as incurred. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and any related gain or loss is reflected in earnings.

Intangible assets

Intangible assets include the excess of cost over the fair value of net assets acquired and deferred charges which are amortized on the straight-line method over their legal or estimated useful lives, whichever is shorter, as follows:

| | |
|---|----------------|
| Excess of cost over the fair market value of net assets acquired..... | 20 to 40 years |
| Deferred charges..... | 3 to 20 years |

The Company reviews the carrying value of the excess of cost over the fair value of net assets acquired (goodwill) for impairment whenever events or changes in circumstances indicate that it may not be recoverable. An impairment would be recognized in operating results, based upon the difference between each consolidated entities' respective present value of future cash flows and the carrying value of the goodwill, if a permanent diminution in value were to occur.

Financial instruments

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

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

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Long-term investments are stated at fair value based on quoted market prices.

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Revenue recognition

Revenue is recognized on an accrual basis, primarily upon shipment of products and the rendering of services. Revenue from certain fixed price contracts for which costs can be dependably estimated are recognized on the percentage of completion method, measured by the cost-to-cost method. Revisions in cost estimates as contracts progress have the effect of increasing or decreasing profits in the current period. For contracts in which costs cannot be dependably estimated, revenue is recognized on the completed-contract method. A contract is considered complete when all costs except insignificant items have been incurred or the item has been accepted by the customer. The aggregate effects of changes in estimates relating to inventories and/or long-term contracts were not material in any period presented, including the unaudited quarterly financial information presented in Note 14 to the Financial Statements. Revenues earned from rendering services represented less than 10% of net sales for all periods presented.

Long-term contracts

Accounts receivable and accrued expenses and current liabilities include amounts related to the production of products under fixed-price contracts exceeding terms of one year. Certain of these contracts recognize revenues 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. Certain other contracts have revenues recognized on the completed-contract method. This method is used where the Company does not have adequate historical data to ensure that estimates are reasonably dependable.

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

The asset, "Costs and estimated earnings in excess of billings on uncompleted percentage of completion contracts," included in accounts receivable, represents revenues recognized in excess of amounts billed. The liability, "Billings in excess of costs and estimated earnings on uncompleted percentage of completion contracts," included in accrued expenses and other current liabilities, represents billings in excess of revenues recognized. Billings are made based on the completion of certain milestones as provided for in the contracts.

Income taxes

Deferred income taxes are provided on elements of income that are recognized for financial accounting purposes in periods different from such items recognized for income tax purposes in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes."

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Net income per share

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

Stock based compensation

The Company measures compensation cost for stock options using the intrinsic value method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees."

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The Company has elected to continue using the accounting methods prescribed by APB No. 25 and to provide in Note 12 the pro forma disclosures required by SFAS No. 123

Contingencies

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

New accounting standards

In June 1999, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" (SFAS 137). SFAS 137 amends FASB Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) by deferring the effective date of SFAS 133 to fiscal years beginning after June 15, 2000. SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS 133 was amended in June 2000 by Statement of Financial Accounting Standards No. 138 (SFAS 138) for certain derivative instruments and hedging activities as indicated by SFAS 138. The Company adopted SFAS 133 beginning November 1, 2000. Adoption of SFAS 133 is not significant to the Company's consolidated financial statements as of October 31, 2000.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101), which among other guidance, clarifies certain conditions to be met in order to recognize revenue. In October 2000, the staff deferred the implementation date of SAB 101 until no later than the fourth quarter of fiscal years beginning after December 15, 1999. The Company will adopt SAB 101 in fiscal 2001, however, such adoption would not be significant to the Company's consolidated financial statements as of October 31, 2000.

In July 2000, the Emerging Issues Task Force (EITF) issued "Classification in the Statement of Cash Flows of the Income Tax Benefit Realized by a Company upon Employee Exercise of a Non-qualified Stock Option" (EITF 00-15). This Issue

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addresses the cash flow statement presentation of the windfall tax benefit associated with nonqualified stock options. Companies receive an income tax deduction for the difference between the exercise price and the market price of a nonqualified stock option upon exercise by the employee. EITF 00-15 concludes that the income tax benefit realized by the Company upon employee exercise should be classified in the operating section of the cash flow statement. The EITF is effective for all quarters ending after July 20, 2000. The Company adopted EITF 00-15 as of July 31, 2000 and as such has reclassified the income tax benefit realized on stock options into the cash provided by operating activities for all periods presented.

In September 2000, the EITF issued "Accounting for Shipping and Handling Fees and Costs" (EITF 00-10). This Issue addresses the income statement classification for shipping and handling fees and costs by companies that record revenue based on the gross amount billed to customers. EITF 00-10 concludes that all amounts billed to a customer in a sale transaction related to shipping and handling, if any, represent revenues earned for goods provided and should be classified as revenue. In addition, the shipping and handling costs should be included in cost of sales. If shipping costs or handling costs are significant and are not included in cost of sales, the amount and the line item on the income statement that include them should be disclosed. The Company will adopt EITF 00-10 in the quarter ending October 31, 2001. The Company does not expect the impact of such adoption to be significant to the Company's results of operations.

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2. ACQUISITIONS AND STRATEGIC ALLIANCE

Acquisitions

In July 1998, the Company, through a subsidiary, acquired all of the outstanding capital stock of McClain. In consideration of this acquisition, the Company paid approximately \$41 million in cash. The Company also purchased from one of McClain's selling shareholders, McClain's headquarters and manufacturing facility for \$2.5 million in cash. McClain designs, manufactures and overhauls Federal Aviation Administration (FAA)-approved aircraft jet engine replacement components. The source of the purchase price was \$10 million from available funds, \$9 million from an additional minority interest investment by Lufthansa and \$25 million from proceeds of the Company's Credit Facility (Note 6).

In October 1998, the Company, through a subsidiary, acquired all of the outstanding capital stock of ACI for cash. The purchase price was not significant. ACI is an FAA-licensed repair and overhaul company.

Between December 1998 and September 1999, the Company acquired substantially all of the assets of Rogers-Dierks, Radiant, Turbine and all of the outstanding capital stock of Air Radio, Leader Tech and SBIR for an aggregate purchase price of approximately \$72.6 million. Rogers-Dierks, Turbine and Air Radio were acquired through HEICO Aerospace. Radiant, Leader Tech, and SBIR were acquired through HEICO Electronic. The source of the purchase price for these acquisitions was proceeds from the Company's Credit Facility, excluding Air Radio and Turbine, which were funded primarily from the proceeds of the Company's public offering discussed in Note 11. Subsequent to the closings of the HEICO Aerospace transactions, Lufthansa made additional investments of approximately \$5.0 million in HEICO Aerospace pursuant to Lufthansa's option to maintain its 20% equity interest in HEICO Aerospace.

In connection with the Rogers-Dierks acquisition, the Company committed to pay \$1.1 million in deferred payments over the next two-year period ending in fiscal 2001. The Company paid \$250,000 related to this deferred payment in

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fiscal 2000. In March 2000, as a result of Rogers-Dierks meeting earnings objectives, the Company paid \$3.1 million in additional purchase consideration to the former shareholders of Rogers-Dierks. Subject to meeting additional earnings objectives, the former shareholders of Rogers-Dierks could receive additional consideration of up to \$3.1 million payable in cash or shares of the Company's Class A Common Stock payable in fiscal 2001. Rogers-Dierks formerly designed and manufactured FAA-approved, factory-new jet engine replacement parts for sale to commercial airlines. The Company has continued to use the acquired assets for the same purposes as formerly used by Rogers-Dierks.

The Radiant Power product line includes back-up power supplies and battery packs for a variety of aircraft applications.

Turbine is engaged in the design and manufacture of FAA-approved, factory-new replacement parts.

Air Radio is engaged in the overhaul and repair of avionics, instruments and electronic equipment for commercial aircraft. As a result of meeting certain earnings objectives, the former shareholders of Air Radio received additional consideration of \$1.25 million in fiscal 2000 under the terms of the acquisition.

Leader Tech manufactures electromagnetic and radio frequency shielding for circuit boards primarily utilized in telecommunications, computer, aerospace and microwave applications.

SBIR is an international designer and manufacturer of aerospace and defense infrared simulation and ground test equipment.

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In June 1999, the Company, through HEICO Aerospace, acquired all of the outstanding capital stock of Thermal. Thermal manufactures thermal insulation products and related components primarily for aerospace and defense applications. In consideration of this acquisition, the Company paid approximately \$28.9 million in cash, and assumed approximately \$4 million in debt. The assumed debt was repaid by the Company at closing. Subject to meeting certain earnings objectives, one of Thermal's selling shareholders would receive additional consideration of up to \$1 million over the three years following the acquisition date. The source of the purchase price was proceeds from the Company's Credit Facility. Subsequent to the closing of the transaction, Lufthansa made an additional investment of \$6.7 million in HEICO Aerospace pursuant to Lufthansa's option to maintain its 20% equity interest in HEICO Aerospace.

In June 1999, the Company, through its newly formed subsidiary, Trilectron Europe, LTD, acquired 40% of the outstanding capital stock of R.H. Phillips and Sons Engineers, LTD (Phillips) along with the exclusive worldwide rights to certain Phillips' products. The purchase price of this transaction was insignificant. In September 2000, the Company sold its 40% investment in the outstanding stock of Phillips in connection with the sale of product line discussed in Note 3. Prior to the sale, the Company accounted for this investment under the equity method.

In February 2000, the Company, through a subsidiary, acquired selected assets of the former Air-A-Plane Corporation for cash. The purchase price was not significant to the Company's consolidated financial statements. The principal acquired assets of Air-A-Plane were subsequently sold as a part of the product line sold in September 2000 (Note 3).

Effective June 1, 2000, the Company, through a subsidiary, acquired

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substantially all of the assets and certain liabilities of Future for \$14.7 million in cash. The source of the purchase price was proceeds from the Company's Credit Facility. Future is engaged in the repair and overhaul of aircraft accessory components principally serving the regional and commuter aircraft market.

Had the acquisitions of the assets of Air-A-Plane and Future been consummated as of the beginning of fiscal 2000, the proforma consolidated operating results would not have been materially different from the reported results.

All of the acquisitions described above were accounted for using the purchase method of accounting and the results of each company were included in the Company's results from their effective dates. The costs of each acquisition have been allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition as determined by management. The excess of the purchase prices over the fair value of the identifiable net assets acquired aggregated approximately \$20.0 million, \$92.6 million, and \$40.5 million in fiscal 2000, 1999, and 1998, respectively, and are being amortized over a range of 20 to 30 years using the straight-line method.

Strategic alliance and sale of minority interest in consolidated subsidiary

In October 1997, the Company entered into a strategic alliance with Lufthansa, the technical services subsidiary of Lufthansa German Airlines, whereby Lufthansa agreed to invest approximately \$26 million in HEICO Aerospace, including \$10 million paid at closing pursuant to a stock purchase agreement and approximately \$16 million to be paid to HEICO Aerospace pursuant to a research and development cooperation agreement, which has partially funded the accelerated development of additional FAA-approved replacement parts. The funds received as a result of the research and development cooperation agreement reduce research and development expenses in the period such expenses are incurred (Note 16). In addition, Lufthansa and HEICO Aerospace have agreed to cooperate regarding technical services and marketing support for jet engine parts on a worldwide basis. In connection with subsequent acquisitions by HEICO Aerospace, Lufthansa invested additional amounts aggregating \$21 million pursuant to its option to maintain a 20% equity interest.

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3. SALE OF PRODUCT LINE

On September 14, 2000, the Company consummated the sale of all of the outstanding capital stock of HEICO Electronic's wholly-owned subsidiary, Trilectron, to Hobart Brothers Company, a wholly-owned subsidiary of Illinois Tool Works Inc. (Hobart). In consideration of the sale of Trilectron's capital stock, including its 40% investment in the outstanding capital stock of Phillips, the Company received \$52,500,000 in cash, an unsecured non-interest bearing promissory note for \$12.0 million payable in three equal installments over the next 90 days, a purchase price adjustment of \$4.5 million based on the net worth of Trilectron as of the closing date of the sale, and retained certain property having a book value of approximately \$1.5 million. The proceeds from the sale were used to pay down the outstanding balance on the Company's Credit Facility.

The sale of Trilectron did not meet the requirements for classification as a discontinued operation in accordance with Accounting Principles Board Opinion No. 30 because its activities could not be clearly distinguished, physically and operationally and for financial reporting purposes, from the other assets, results of operations, and activities of the Company's Electronic Technologies Group (ETG) operating segment of which it was a part. Trilectron was managed as

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part of the ETG and the ETG was treated as a single operating segment. The ETG shared facilities, staff, information technology processing and other centrally provided services with no allocation of costs and interest expense between the divisions within the ETG. Accordingly, the sale was reported as a sale of a product line and Trilectron's results of operations through the date of the closing have been reported in the Company's consolidated statements of operations.

The sale of Trilectron resulted in a pretax gain in fiscal 2000 of \$17,296,000 (\$10,542,000 or \$.53 per diluted share, net of income tax). The pretax gain is net of expenses of \$10.8 million directly related to the transaction.

A summary of the components of the expenses of the sale of the Trilectron product line are as follows:

| | |
|--|-----------------------|
| Bonuses and related costs | \$ 6,700,000 (a) |
| Professional service fees | 2,500,000 (b) |
| Contract indemnification, reserves and miscellaneous costs and expenses | 1,600,000 (c) |
| | ----- |
| Total expenses of sale | \$10,800,000 ===== |

- (a) Represents incentive bonus payments which were approved by the Board of Directors contingent upon the sale of Trilectron and paid from the proceeds of the sale.
- (b) Represents investment banking, legal, accounting and tax consulting fees, all of which were incurred in connection with the sale.
- (c) Represents reserves related to indemnification provisions entered into in connection with the sale of Trilectron, estimated expenses of relocating Radiant Power from the Trilectron facility to new facilities and miscellaneous other expenses and costs which were incurred in connection with the sale of Trilectron.

The receivable from sale of product line of \$12,412,000 reported in the October 31, 2000 Consolidated Balance Sheet includes \$7.9 million outstanding as of October 31, 2000 under the \$12.0 million unsecured promissory note referenced above. The full amount of the receivable was collected subsequent to year end.

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4. ADJUSTMENT TO GAIN ON SALE OF DISCONTINUED OPERATIONS

In January 1999, the Company received notice of a proposed adjustment pursuant to an examination by the Internal Revenue Service (IRS) of the Company's fiscal 1995 and 1996 tax returns, disallowing the utilization of a \$4.6 million capital loss carryforward to partially offset the gain recognized by the Company in connection with the sale of its health care operations in July 1996. In the fourth quarter of 2000, the Company reached a settlement pursuant to which the IRS conceded one-third of the original tax adjustment. Accordingly, the additional taxes and related interest, aggregating \$1.4 million (\$.07 per diluted share) is reflected as adjustment to gain on sale of discontinued health care operations in the consolidated statement of operations.

5. INVESTMENTS

Long-term investments consist of equity securities with an aggregate cost

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of \$6,858,000 as of October 31, 2000 and 1999. These investments are classified as available-for-sale and stated at a fair value of \$5,832,000 and \$3,231,000 as of October 31, 2000 and 1999, respectively. The gross unrealized losses were \$1,026,000 and \$3,627,000 as of October 31, 2000 and 1999, respectively. Unrealized gains and losses, net of deferred taxes, are reflected as a component of comprehensive income. There were no realized gains or losses during fiscal 2000 and 1999. Gross realized gains were \$288,000 in fiscal 1998.

6. CREDIT FACILITIES AND LONG-TERM DEBT

Long-term debt consists of:

| | October 31, | |
|--|---------------|---------------|
| | 2000 | 1999 |
| Borrowings under revolving credit facility | \$ 38,000,000 | \$ 66,000,000 |
| Industrial Development Revenue Bonds-- Series 1997A | -- | 3,000,000 |
| Industrial Development Revenue Bonds-- Series 1997C | -- | 995,000 |
| Industrial Development Revenue Refunding Bonds-- Series 1988 | 1,980,000 | 1,980,000 |
| Equipment loans | 62,000 | 1,526,000 |
| | 40,042,000 | 73,501,000 |
| Less current maturities | (27,000) | (551,000) |
| | \$ 40,015,000 | \$ 72,950,000 |

The amount of long-term debt maturing in each of the next five years is \$27,000 in fiscal 2001, \$27,000 in fiscal 2002, \$4,756,000 in fiscal 2003, \$19,002,000 in fiscal 2004, \$14,250,000 in fiscal 2005 and \$1,980,000 thereafter. The amount of long-term debt maturing in each of the next five years assumes the outstanding borrowings under the revolving credit facility of \$38,000,000 will be converted to term loans in July 2003 and amortized over a two-year period in accordance with the terms of the facility.

Revolving credit facility

In July 1998, the Company entered into a \$120 million credit facility (Credit Facility) with a bank syndicate replacing its \$7 million credit facility. Funds are available for funding acquisitions, working capital and general corporate requirements on a revolving basis through July 2003. The Company has the option to convert outstanding advances to term loans amortizing over a five year period, with a maximum Credit Facility term of seven years. Outstanding borrowings bear interest at the Company's choice of prime rate or London Interbank Offering Rates (LIBOR) plus applicable margins. The applicable margins range from .00% to .50% for prime rate borrowings and from .75% to 2.00% for LIBOR based borrowings depending on the leverage ratio of the Company. A fee of .20% to .40% is charged on the amount of the unused commitment depending on the leverage ratio of the Company. The Credit Facility is secured by all the assets, excluding real estate, of the Company and its subsidiaries and contains covenants which, among other things, requires the maintenance of certain working capital, leverage and debt service

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ratios as well as minimum net worth requirements. At October 31, 2000, the Company had a total of \$38 million borrowed under the Credit Facility at a weighted average interest rate of 7.6%, which was borrowed to partially fund acquisitions (Note 2).

Interest rate swap

In February 2000, the Company entered into an interest rate swap with a bank pursuant to which it exchanged floating rate interest based on three-month LIBOR on a notional principal amount of \$30 million for a fixed rate payment obligation of 6.59% for a two-year period ending February 1, 2002. The fixing of the interest rate for this period offsets the Company's exposure to the uncertainty of floating interest rates on a portion of indebtedness under the Credit Facility. The differential paid or received on the interest rate swap is recognized as an adjustment to interest expense. The bank has the option to call the swap February 2001. The market value of the interest rate swap was insignificant to the consolidated financial statements as of October 31, 2000.

Industrial development revenue bonds

The industrial development revenue bonds outstanding October 31, 2000 represent bonds issued by Broward County, Florida in 1988 (the 1988 bonds). The 1988 bonds are due April 2008 and bear interest at a variable rate calculated weekly (4.25% and 3.4% at October 31, 2000 and 1999, respectively). The 1988 bonds as amended are secured by a letter of credit expiring February 2004 and a mortgage on the related properties pledged as collateral.

The Series 1997A and 1997C bonds were issued in 1997 by Manatee County, Florida in the amounts of \$3,000,000 and \$1,000,000, respectively, for the purpose of constructing and purchasing equipment for a new facility in Palmetto, Florida. In September 2000, the facility in Palmetto, Florida and the Company's obligation under the 1997 bonds were sold in connection with the sale of the product line discussed in Note 3.

Equipment loan facility

In March 1994, a bank committed to advance up to \$2,000,000 through September 2001, as amended, for the purpose of purchasing equipment to be used in the Company's operations. Each term loan is limited to 80% of the purchase price of the related equipment and is repayable up to a maximum of 60 months with interest at a rate equal to prime rate (as defined). The term loans are secured by collateral representing the related purchased equipment. Equipment loans beared interest at rates ranging from 8.5% to 9.0% at October 31, 1999. In October 2000, the Company paid off the balance outstanding under the equipment loan facility.

7. LEASE COMMITMENTS

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

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

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Year ending October 31,

| | |
|--------------------------------------|--------------|
| 2001..... | \$ 1,915,000 |
| 2002..... | 1,513,000 |
| 2003..... | 1,279,000 |
| 2004..... | 610,000 |
| 2005..... | 254,000 |
| After 2005..... | -- |
| | ----- |
| Total minimum lease commitments..... | \$ 5,571,000 |
| | ===== |

Total rent expense charged to operations for operating leases in fiscal 2000, fiscal 1999 and fiscal 1998 amounted to \$2,041,000, \$976,000 and \$319,000, respectively.

8. INCOME TAXES

The provision for income taxes on income from continuing operations for each of the three years ended October 31 was as follows:

| | 2000 | 1999 |
|-------------------------------|---------------|---------------|
| | ----- | ----- |
| Current: | | |
| Federal..... | \$ 17,690,000 | \$ 10,540,000 |
| State..... | 1,994,000 | 1,035,000 |
| | ----- | ----- |
| Deferred..... | 19,684,000 | 11,575,000 |
| | (175,000) | 31,000 |
| | ----- | ----- |
| Total income tax expense..... | \$ 19,509,000 | \$ 11,606,000 |
| | ===== | ===== |

A deferred tax charge of \$998,000 and deferred tax benefits of \$721,000 and \$671,000, relating to gross unrealized losses on available-for-sale equity securities, were recorded as adjustments to shareholders' equity in fiscal 2000, 1999 and 1998, respectively.

In connection with its acquisitions, the Company assumed net deferred tax assets of \$37,000 in fiscal 2000 and net deferred tax liabilities of \$295,000 in fiscal 1999.

The following table reconciles the federal statutory tax rate to the Company's effective tax rate from continuing operations:

| | 2000 | 1999 |
|--|-------|-------|
| | ----- | ----- |
| Federal statutory tax rate..... | 35.0% | 35.0% |
| State taxes, less applicable federal income tax reduction..... | 2.5 | 2.1 |
| Tax benefits on export sales..... | (1.4) | (2.0) |
| Nondeductible amortization of intangible assets..... | 1.6 | 1.3 |
| Tax benefits from tax-free investments..... | -- | -- |
| Other, net..... | .9 | .4 |

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| | | |
|-------------------------|-------------------------|-------------------------|
| Effective tax rate..... | ----- 38.6% ===== | ----- 36.8% ===== |
|-------------------------|-------------------------|-------------------------|

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of October 31, 2000 and 1999 are as follows:

| | October 31, | |
|---|------------------------|------------------------|
| | ----- 2000 ----- | ----- 1999 ----- |
| Deferred tax assets: | | |
| Inventories..... | \$ 660,000 | \$ 924,000 |
| Bad debt allowances..... | 254,000 | 271,000 |
| Deferred compensation liability..... | 1,616,000 | 809,000 |
| Vacation accruals..... | 138,000 | 257,000 |
| Customer rebates and credits..... | 267,000 | 142,000 |
| Retirement plan liability..... | 228,000 | 212,000 |
| Warranty accruals..... | 280,000 | 210,000 |
| Unrealized loss on investments..... | 394,000 | 1,392,000 |
| Accrued items related to sale of product line..... | 1,073,000 | -- |
| Other..... | 158,000 | 102,000 |
| | ----- | ----- |
| Total deferred tax assets..... | 5,068,000 | 4,319,000 |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Accelerated depreciation..... | 635,000 | 396,000 |
| Intangible asset amortization..... | 2,054,000 | 857,000 |
| Other..... | 253,000 | 166,000 |
| | ----- | ----- |
| Total deferred tax liabilities..... | 2,942,000 | 1,419,000 |
| | ----- | ----- |
| Net deferred tax asset..... | 2,126,000 | 2,900,000 |
| Less current portion..... | (2,543,000) | (1,534,000) |
| | ----- | ----- |
| Net deferred tax asset (liability), long-term portion..... | \$ (417,000) | \$ 1,366,000 |
| | ===== | ===== |

9. STOCK DIVIDENDS

In March 1998, the Company's Board of Directors declared a stock distribution payable of one share of newly-authorized Class A Common Stock to each shareholder of Common Stock for each two shares of Common Stock held. The Class A Common Stock distribution was made in April 1998. In June 2000, the Board of Directors declared a 10% stock dividend on all shares outstanding payable in Class A Common shares. The dividend was paid on July 21, 2000 to shareholders of record July 10, 2000. The 10% dividend was valued based on the

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closing market price of the Company's Class A Common stock as of the day prior to the declaration date. All income per share, dividend per share, price per share, exercise price, stock options and common shares outstanding information has been retroactively restated to reflect stock dividends and splits.

10. PREFERRED STOCK PURCHASE RIGHTS PLAN

In November 1993, pursuant to a plan adopted by the Board of Directors on such date, the Board declared a distribution of one Preferred Stock Purchase Right (the Rights) for each outstanding share of common stock of the Company. The Rights trade with the common stock and are not exercisable or transferable apart from the Common Stock and Class A Common Stock until after a person or group either acquires 15% or more of the outstanding common stock or commences or announces an intention to commence a tender offer for 30% or more of the outstanding common stock. Absent either of the aforementioned events transpiring, the Rights will expire at the close of business on November 2, 2003.

The Rights have certain anti-takeover effects and, therefore, will cause substantial dilution to a person or group who attempts to acquire the Company on terms not approved by the Company's Board of Directors or who acquires 15% or more of the outstanding common stock without approval of the Company's Board of Directors. The Rights should not interfere with any merger or other business combination approved by the Board since they may be redeemed by the Company at \$.01 per Right at any time until the close of business on the tenth day after a person or group has obtained beneficial ownership of 15% or more of the outstanding common stock or until a person

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commences or announces an intention to commence a tender offer for 30% or more of the outstanding common stock.

11. COMMON STOCK AND CLASS A COMMON STOCK

In February and March 1999, the Company completed, through a public offering, the issuance of an aggregate of 3,293,455 shares of Class A Common Stock, including over-allotment options granted to the underwriters. The net proceeds of the offering to the Company were \$56.3 million. A portion of the proceeds of the offering were used to repay the outstanding balance under the Company's Credit Facility and to acquire Air Radio and Turbine (Note 2). The remaining proceeds were used for working capital and general corporate purposes.

In accordance with the Company's share repurchase program, 6,600 shares of Common Stock were repurchased in fiscal 2000 at a total cost of approximately \$105,000. In fiscal 1999, 96,300 and 42,190 shares of Common Stock and Class A Common Stock, respectively, were repurchased at a total cost of approximately \$2.6 million.

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

12. STOCK OPTIONS

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The Company currently has two stock option plans, the 1993 Stock Option Plan (1993 Plan) and the Non-Qualified Stock Option Plan (NQSOP). A total of 2,891,272 Common and 2,338,971 Class A Common shares of the Company's stock are reserved for issuance to directors, officers and key employees as of October 31, 2000. Options issued under the 1993 Plan may be designated incentive stock options (ISO) or non-qualified stock options (NQSO). ISOs are granted at not less than 100% of the fair market value at the date of grant (110% thereof in certain cases) and are exercisable in percentages specified at date of grant over a period up to ten years. Only employees are eligible to receive ISOs. NQSOs may be granted at less than fair market value and may be immediately exercisable. Options granted under the NQSOP may be granted to directors, officers and employees at no less than the fair market value at the date of grant and are generally exercisable in four equal annual installments commencing one year from date of grant.

All stock option share and price per share information has been retroactively restated for stock dividends and splits.

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Information concerning all of the stock option transactions for the three years ended October 31, 2000 is as follows:

| | Shares Available For Option | Share |
|---|-----------------------------------|---------|
| | | |
| Outstanding, October 31, 1997..... | 75,790 | 4,305,6 |
| Additional shares approved by shareholders for 1993 Stock Option Plan..... | 645,552 | |
| Granted..... | (471,902) | 471,9 |
| Cancelled..... | 2,620 | (23,6 |
| Exercised..... | -- | (169,3 |
| | | |
| Outstanding, October 31, 1998..... | 252,060 | 4,584,4 |
| Additional shares approved by shareholders for 1993 Stock Option Plan..... | 660,000 | |
| Shares approved by Board of Directors for grant to former shareholders of SBIR | 417,175 | |
| Granted..... | (979,110) | 979,1 |
| Cancelled..... | 28,980 | (29,3 |
| Exercised..... | -- | (463,8 |
| | | |
| Outstanding, October 31, 1999..... | 379,105 | 5,070,4 |
| Granted..... | (307,615) | 307,6 |
| Cancelled..... | 661,217 | (691,2 |
| Exercised..... | -- | (189,2 |
| | | |
| Outstanding, October 31, 2000..... | 732,707 | 4,497,5 |
| | | |

Summary of shares available for option and shares under option by class of common stock is as follows:

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| | Shares Available For Option | Shares Under |
|-------------------------------|-----------------------------|--------------|
| Common Stock..... | 175,403 | 2,848,884 |
| Class A Common Stock..... | 203,702 | 2,221,524 |
| Outstanding, October 31, 1999 | 379,105 | 5,070,408 |
| Common Stock..... | 532,869 | 2,358,403 |
| Class A Common Stock..... | 199,838 | 2,139,133 |
| Outstanding, October 31, 2000 | 732,707 | 4,497,536 |

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Information concerning stock options outstanding and exercisable by class of common stock as of October 31, 2000 is as follows:

Common Stock

| Range of Exercise Prices | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Options Exercisable |
|--------------------------|---------------------|---------------------------------|---|---------------------|
| \$ 1.33 - \$ 3.03 | 1,290,325 | \$ 2.04 | 1.7 | 1,290,325 |
| \$ 3.04 - \$ 6.66 | 407,410 | 4.17 | 4.3 | 387,175 |
| \$ 6.67 - \$11.24 | 453,418 | 9.15 | 6.2 | 372,925 |
| \$11.25 - \$27.85 | 207,250 | 20.06 | 8.5 | 101,551 |
| | 2,358,403 | \$ 5.36 | 3.6 | 2,151,976 |

Class A Common Stock

| Range of Exercise Prices | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Options Exercisable |
|--------------------------|---------------------|---------------------------------|---|---------------------|
| \$ 1.33 - \$ 3.03 | 708,415 | \$ 2.02 | 1.9 | 708,415 |
| \$ 3.04 - \$ 6.66 | 255,957 | 4.15 | 4.2 | 241,333 |
| \$ 6.67 - \$11.24 | 299,459 | 9.30 | 6.5 | 220,788 |
| \$11.25 - \$26.52 | 875,302 | 18.80 | 8.6 | 516,322 |
| | 2,139,133 | \$10.16 | 5.6 | 1,686,858 |

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Information concerning stock options outstanding and exercisable by class of common stock as of October 31, 1999 is as follows:

Common Stock

| Range of Exercise Prices | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Options Exercisable |
|-----------------------------|------------------------|---------------------------------------|---|------------------------|
| \$ 1.33 - \$ 3.03 | 1,314,691 | \$ 2.04 | 2.6 | 1,309,56 |
| \$ 3.04 - \$ 6.66 | 451,178 | 4.12 | 5.2 | 395,97 |
| \$ 6.67 - \$11.24 | 534,465 | 9.03 | 7.4 | 350,30 |
| \$11.25 - \$27.85 | 548,550 | 25.46 | 9.0 | 54,15 |
| | ----- | ----- | --- | ----- |
| | 2,848,884 | \$ 8.19 | 5.2 | 2,109,99 |
| | ===== | ===== | === | ===== |

Class A Common Stock

| Range of Exercise Prices | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Options Exercisable |
|-----------------------------|------------------------|---------------------------------------|---|------------------------|
| \$ 1.33 - \$ 3.03 | 730,090 | \$ 2.01 | 2.8 | 726,7 |
| \$ 3.04 - \$ 6.66 | 283,030 | 4.09 | 5.1 | 247,1 |
| \$ 6.67 - \$11.24 | 319,554 | 9.09 | 7.4 | 199,8 |
| \$11.25 - \$26.52 | 888,850 | 20.98 | 9.5 | 478,4 |
| | ----- | ----- | --- | ----- |
| | 2,221,524 | \$10.88 | 6.4 | 1,652,2 |
| | ===== | ===== | === | ===== |

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Information concerning stock options outstanding and exercisable by class of common stock as of October 31, 1998 is as follows:

Common Stock

| Range of Exercise Prices | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Options Exercisable |
|-----------------------------|------------------------|---------------------------------------|---|------------------------|
| \$ 1.33 - \$ 3.03 | 1,423,362 | \$ 2.03 | 3.5 | 1,407,013 |
| \$ 3.04 - \$ 6.66 | 502,895 | 4.06 | 5.8 | 405,425 |
| \$ 6.67 - \$ 11.24 | 566,925 | 9.05 | 8.4 | 303,754 |
| \$ 11.25 - \$ 27.85 | 272,750 | 27.42 | 9.6 | -- |
| | ----- | ----- | --- | ----- |
| | 2,765,932 | \$ 6.35 | 5.5 | 2,116,192 |
| | ===== | ===== | ==== | ===== |

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Class A Common Stock

| Range of Exercise Prices | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Options Exercisable |
|--------------------------|---------------------|---------------------------------|---|---------------------|
| \$ 1.33 - \$ 3.03 | 925,023 | \$ 2.03 | 3.3 | 914,384 |
| \$ 3.04 - \$ 6.66 | 327,041 | 4.06 | 5.6 | 263,673 |
| \$ 6.67 - \$ 11.24 | 368,588 | 9.05 | 8.4 | 197,572 |
| \$ 11.25 - \$ 26.52 | 197,914 | 25.18 | 9.6 | 27,500 |
| | ----- | ----- | ----- | ----- |
| | 1,818,566 | \$ 6.34 | 5.4 | 1,403,129 |
| | ===== | ===== | ===== | ===== |

If there were a change in control of the Company, options for an additional 206,427 shares of Common Stock and 452,274 shares of Class A Common Stock would become immediately exercisable.

The Company applies APB Opinion No. 25 and related Interpretations in accounting for its stock option plans. Accordingly, compensation expense has been recorded in the accompanying consolidated financial statements for those options granted below the fair market value of the stock on the date of grant. Had the fair value of all grants under these plans been recognized as compensation expense over the vesting period of the grants, consistent with SFAS No. 123, the Company's net income would have been \$22,953,000 (\$1.32 and \$1.15 basic and diluted net income per share, respectively) for fiscal 2000, \$10,666,000 (\$.65 and \$.55 basic and diluted net income per share, respectively) for fiscal 1999, and \$8,913,000 (\$.65 and \$.52 basic and diluted net income per share, respectively) for fiscal 1998.

The estimated weighted average fair value of options granted was \$10.07 per share for Common Stock and \$9.85 per share for Class A Common Stock in fiscal 2000, \$16.45 per share for Common Stock and \$12.96 per share for Class A Common Stock in fiscal 1999 and \$20.77 per share for Common Stock and \$18.68 per share for Class A Common Stock in fiscal 1998.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

| | 2000 | | 1999 | |
|---|--------------|----------------------|--------------|----------------------|
| | Common Stock | Class A Common Stock | Common Stock | Class A Common Stock |
| Volatility..... | 55.83% | 55.12% | 59.42% | 56.74% |
| Risk free interest rate (weighted average)..... | 6.22% | 6.16% | 5.21% | 5.17% |
| Dividend yield (weighted average)..... | .0031% | .0033% | .0019% | .0021% |
| Expected life (years)..... | 8 | 8 | 8 | 8 |

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13. RETIREMENT PLANS

The Company has a qualified defined contribution retirement plan (the Plan) under which eligible employees of the Company and its participating subsidiaries may contribute up to 10% of their annual compensation, as defined, and the Company will contribute specified percentages ranging from 25% to 50% of employee contributions up to 3% of annual pay in Company stock or cash, as determined by the Company. The Plan also provides that the Company may contribute additional amounts in its common stock or cash at the discretion of the Board of Directors.

In September 1992, the Company sold 987,699 shares of the Company's Common Stock and 642,005 shares of Class A Common Stock to the Plan for an aggregate price of \$4,122,000 entirely financed through a promissory note with the Company. The promissory note is payable in nine equal annual installments, inclusive of principal and interest at the rate of 8% per annum, of \$655,000 each and a final installment of \$640,000 in September 2002 and is prepayable in full or in part without penalty at any time.

Participants receive 100% vesting in employee contributions. Vesting in Company contributions is based on number of years of service. Contributions to the Plan charged to income for fiscal 2000, 1999 and 1998 totaled \$907,000, \$503,000, and \$452,000, respectively, net of interest income earned on the note received from the Plan of \$168,000 in fiscal 2000, \$202,000 in fiscal 1999 and \$182,000 in fiscal 1998.

In 1991, the Company established a Directors Retirement Plan covering its then current directors. The net assets of this plan as of October 31, 2000 and 1999 are not material to the financial position of the Company. During fiscal 2000, 1999 and 1998, \$62,000, \$67,000, and \$80,000, respectively, was expensed for this plan.

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14. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

| | First Quarter ----- | Second Quarter ----- | Third Quarte ----- |
|--|---------------------------|----------------------------|--------------------------|
| Net sales: | | | |
| 2000..... | \$47,940,000 | \$53,548,000 | \$53,912, |
| 1999..... | 28,211,000 | 32,731,000 | 35,593, |
| 1998..... | 19,783,000 | 22,673,000 | 24,062, |
| Gross profit: | | | |
| 2000..... | 17,858,000 | 19,679,000 | 19,679, |
| 1999..... | 11,683,000 | 13,429,000 | 14,479, |
| 1998..... | 7,304,000 | 8,156,000 | 8,808, |
| Income from continuing operations: | | | |
| 2000..... | 4,015,000 | 4,789,000 | 4,721, |
| 1999..... | 3,203,000 | 4,090,000 | 4,351, |
| 1998..... | 2,282,000 | 2,451,000 | 2,613, |
| Net income: | | | |
| 2000..... | 4,015,000 | 4,789,000 | 4,721, |
| 1999..... | 3,203,000 | 4,090,000 | 4,351, |
| 1998..... | 2,282,000 | 2,451,000 | 2,613, |
| Income per share from continuing operations: | | | |

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| | | |
|-----------------------|-----|-----|
| Basic | | |
| 2000..... | .23 | .28 |
| 1999..... | .23 | .24 |
| 1998..... | .17 | .18 |
| Diluted | | |
| 2000..... | .20 | .24 |
| 1999..... | .19 | .20 |
| 1998..... | .14 | .14 |
| Net income per share: | | |
| Basic | | |
| 2000..... | .23 | .28 |
| 1999..... | .23 | .24 |
| 1998..... | .17 | .18 |
| Diluted | | |
| 2000..... | .20 | .24 |
| 1999..... | .19 | .20 |
| 1998..... | .14 | .14 |

Income from continuing operations in the fourth quarter of fiscal 2000 includes the gain on sale of product line and write-off of certain receivables referenced in Notes 3 and 16, respectively. Excluding these items, income from continuing operations in the fourth quarter of fiscal 2000 was \$4,323,000 (\$.22 per diluted share). Net income in the fourth quarter of fiscal 2000 also includes the adjustment to gain on sale of discontinued operations referenced in Note 4, which reduced net income by \$1,422,000 (\$.07 per diluted share).

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

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15. OPERATING SEGMENTS

The Company has two operating segments: the Flight Support Group (FSG) which represents HEICO Aerospace and its subsidiaries and the Electronic Technologies Group (ETG), formerly the Electronics & Ground Support Group, which represents HEICO Electronic and its subsidiaries. See Note 1 for the list of operating subsidiaries aggregated in each reportable operating segment. The FSG designs and manufactures FAA-approved replacement parts, provides FAA-authorized repair and overhaul services and provides subcontracting services to OEMs in the aviation industry and the U.S. Government. The ETG designs and manufactures commercial and military power supplies, circuit board shielding and infrared simulation and test equipment primarily for the aerospace, defense and electronics industries.

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

Segment profit or loss

The accounting policies for segments are the same as those described in the summary of significant accounting policies (Note 1). Management evaluates segment performance based on segment operating income.

Segments

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| | FSG --- | ETG --- | Other, Primarily Corporate ----- | Co |
|--------------------------------------|----------------|---------------|---|----|
| For the year ended October 31, 2000: | | | | |
| Net sales | \$ 119,304,000 | \$ 83,605,000 | \$ -- | \$ |
| Depreciation and amortization | 6,808,000 | 2,762,000 | 205,000 | |
| Operating income | 29,621,000 | 12,464,000 | (4,162,000) | |
| Total assets | 197,442,000 | 54,997,000 | 29,293,000 | |
| Capital expenditures | 7,301,000 | 1,360,000 | 4,000 | |
| For the year ended October 31, 1999: | | | | |
| Net sales | \$ 94,617,000 | \$ 46,652,000 | \$ -- | \$ |
| Depreciation and amortization | 4,727,000 | 1,364,000 | 198,000 | |
| Operating income | 31,338,000 | 5,937,000 | (4,460,000) | |
| Total assets | 173,635,000 | 89,486,000 | 10,042,000 | |
| Capital expenditures | 13,359,000 | 835,000 | 23,000 | |
| For the year ended October 31, 1998: | | | | |
| Net sales | \$ 65,412,000 | \$ 29,939,000 | \$ -- | \$ |
| Depreciation and amortization | 2,353,000 | 325,000 | 83,000 | |
| Operating income | 22,263,000 | 1,882,000 | (5,181,000) | |
| Total assets | 100,835,000 | 24,354,000 | 7,872,000 | |
| Capital expenditures | 1,192,000 | 4,920,000 | 59,000 | |

Major customer and geographic information

No one customer accounted for 10 percent or more of the Company's consolidated net sales during the last three fiscal years. The Company had no material sales originating or long-lived assets held outside of the United States during the last three fiscal years.

Export sales were \$56,626,000 in fiscal 2000, \$42,167,000 in fiscal 1999 and \$22,874,000 in fiscal 1998.

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16. OTHER CONSOLIDATED BALANCE SHEETS, STATEMENTS OF OPERATIONS AND STATEMENTS OF CASH FLOWS INFORMATION

Accounts receivable are composed of the following:

| | Balance at October 31, | |
|---|------------------------|---------------|
| | 2000 | 1999 |
| | ----- | ----- |
| Accounts receivable..... | \$ 30,110,000 | \$ 36,047,000 |
| Less allowance for doubtful accounts..... | (557,000) | (721,000) |
| | ----- | ----- |
| Accounts receivable, net..... | \$ 29,553,000 | \$ 35,326,000 |
| | ===== | ===== |

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In the fourth quarter of fiscal 2000, the Company wrote off receivables aggregating \$1,312,000 as a result of bankruptcy filings by certain customers. The charge is included in the operating income section of the consolidated results of operations. The charge reduced fiscal 2000 net income by \$651,000 (\$.03 per diluted share). There were no significant receivables write-offs resulting from customer bankruptcies during 1999 or 1998.

Costs and estimated earnings on uncompleted percentage of completion contracts are as follows:

| | October 31, 2000 | |
|--|------------------|--|
| Costs incurred on uncompleted contracts..... | \$ 5,911,000 | |
| Estimated earnings..... | 6,436,000 | |
| | 12,347,000 | |
| Less billings to date..... | (11,689,000) | |
| | \$ 658,000 | |
| Included in accompanying balance sheets under the following captions: | | |
| Accounts receivable, net (costs and estimated earnings in excess of billings)..... | \$ 1,372,000 | |
| Accrued expenses, net of other current liabilities (billings in excess of costs and estimated earnings)..... | (714,000) | |
| | \$ 658,000 | |

Costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings on percentage of completion contracts were not material in fiscal 1999.

Inventories are composed of the following:

| | Balance at October 31, | |
|--|------------------------|---------------|
| | 2000 | 1999 |
| Finished products..... | \$ 17,364,000 | \$ 15,400,000 |
| Work in process..... | 6,074,000 | 12,800,000 |
| Materials, parts, assemblies and supplies..... | 10,924,000 | 16,970,000 |
| | \$ 34,362,000 | \$ 45,170,000 |

Inventories related to long-term contracts were not significant as of October 31, 2000 and 1999.

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Property, plant and equipment are composed of the following:

| | Balance at October 31, | |
|---|------------------------|---------------|
| | 2000 | 1999 |
| Land..... | \$ 2,258,000 | \$ 1,799,000 |
| Buildings and improvements..... | 16,549,000 | 16,954,000 |
| Machinery and equipment..... | 26,927,000 | 22,412,000 |
| Construction in progress..... | 957,000 | 5,759,000 |
| | 46,691,000 | 46,924,000 |
| Less accumulated depreciation..... | (19,788,000) | (18,588,000) |
| Property, plant and equipment, net..... | \$ 26,903,000 | \$ 28,336,000 |

Depreciation and amortization expense on property, plant, and equipment amounted to approximately \$3,011,000, \$2,430,000 and \$1,973,000 for the years ended October 31, 2000, 1999 and 1998, respectively.

Intangible assets are composed of the following:

| | Balance at October 31, | |
|--|------------------------|----------------|
| | 2000 | 1999 |
| Excess of cost over the fair value of net assets acquired..... | \$ 161,976,000 | \$ 146,964,000 |
| Deferred charges | 2,748,000 | 2,504,000 |
| | 164,724,000 | 149,468,000 |
| Less accumulated amortization | (11,954,000) | (5,911,000) |
| Intangible assets, net | \$ 152,770,000 | \$ 143,557,000 |

Amortization expense related to excess of costs over the fair value of net assets acquired and deferred charges amounted to approximately \$6,764,000, \$3,859,000 and \$788,000 for the years ended October 31, 2000, 1999 and 1998, respectively.

Accrued expenses and other current liabilities are composed of the following:

| | Balance at October 31, | |
|--|------------------------|--------------|
| | 2000 | 1999 |
| Accrued employee compensation | \$ 4,004,000 | \$ 3,321,000 |
| Deferred purchase price adjustments related to acquisitions..... | 3,024,000 | 2,481,000 |
| Accrued customer rebates and credits | 1,893,000 | 1,631,000 |
| Accrued acquisition costs | 191,000 | 879,000 |
| Accrued expenses related to sale of product line..... | 2,757,000 | -- |
| Deferred reimbursement of research and development costs..... | -- | 1,404,000 |

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| | | |
|--|--------------|--------------|
| Accrued license payment | -- | 1,043,000 |
| Other | 6,003,000 | 4,540,000 |
| | ----- | ----- |
| Total accrued expenses and other current liabilities | \$17,872,000 | \$15,299,000 |
| | ===== | ===== |

Other non-current liabilities include deferred compensation of \$4,117,000 as of October 31, 2000. Deferred compensation as of October 31, 1999 was insignificant.

Research and development expenses

Fiscal 2000, 1999 and 1998 cost of sales amounts include approximately \$2,300,000, \$1,200,000 and \$900,000, respectively, of new product research and development expenses of HEICO Aerospace. The expenses for fiscal 2000, 1999 and 1998 are net of \$5,200,000, \$6,700,000 and \$3,500,000, respectively, received from Lufthansa and spent by the Company for all three years pursuant to a research and development cooperation agreement entered into

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October 1997 (Note 2). Amounts received from Lufthansa and not used as of October 31, 1999 totaled \$1,404,000 and are recorded as accrued expenses on the consolidated balance sheets. There were no amounts received from Lufthansa and not used as of October 31, 2000. As of October 31, 2000, the Company has future reimbursements for research and development expenses aggregating \$700,000 from Lufthansa which will be received through May 2001.

Supplemental disclosures of cash flow information are as follows:

Cash paid for interest was \$5,575,000, \$2,052,000 and \$996,000 in fiscal 2000, 1999 and 1998, respectively. Cash paid for income taxes was \$10,248,000, \$10,312,000 and \$6,753,000 in fiscal 2000, 1999 and 1998, respectively.

Non-cash investing and financing activities related to the acquisitions and contingent note payments during fiscal 2000, 1999 and 1998 were as follows:

| | 2000 | 1999 | 1998 |
|--|---------------|---------------|---------------|
| | ----- | ----- | ----- |
| Fair value of assets acquired: | | | |
| Intangible assets | \$ 19,974,000 | \$ 93,347,000 | \$ 40,468,000 |
| Inventories | 1,698,000 | 8,640,000 | 1,327,000 |
| Accounts receivable | 1,567,000 | 10,381,000 | 3,040,000 |
| Property, plant and equipment | 83,000 | 1,597,000 | 1,985,000 |
| Other assets | 1,508,000 | 2,213,000 | 95,000 |
| Cash paid, including contingent note payments..... | (24,799,000) | (104,861,000) | (45,627,000) |
| | ----- | ----- | ----- |
| Liabilities assumed | \$ 31,000 | \$ 11,317,000 | \$ 1,288,000 |
| | ===== | ===== | ===== |

There were no significant capital lease financing activities during fiscal 2000, 1999 and 1998. As part of the consideration in connection with the sale of the product line, the Company received an unsecured promissory note for \$12.0 million (Note 3). Additionally, retained earnings was charged \$17,158,000 as a

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result of the 10% stock dividend described in Note 9 above.

17. CONTINGENCIES

Pending litigation

In November 1989, HEICO Aerospace Corporation and Jet Avion were named defendants in a complaint filed by United Technologies Corporation (UTC) in the United States District Court for the Southern District of Florida. The complaint, as amended in fiscal 1995, alleged infringement of a patent, misappropriation of trade secrets and unfair competition relating to certain jet engine parts and coatings sold by Jet Avion in competition with Pratt & Whitney, a division of UTC. The Company filed counterclaims against UTC. UTC filed an answer denying the counterclaims. All counts of UTC's complaint that were not previously withdrawn by UTC were dismissed by the court and UTC appealed the dismissal.

In March 2000, the Company settled the litigation with UTC. As part of the settlement, the Company received a permanent license to make and sell parts which were the subject of the litigation, and UTC was paid a prepaid sum for such license by the Company's insurer (see below). The settlement is not expected to materially affect the Company's earnings or financial condition.

In May 1998, the Company and its HEICO Aerospace Corporation and Jet Avion Corporation subsidiaries were served with a lawsuit by Travelers Casualty & Surety Co., f/k/a the Aetna Casualty and Surety Co. (Travelers). In June 1999, the Travelers lawsuit was dismissed by the federal court based on a lack of jurisdiction. Travelers is challenging the dismissal. The complaint sought reimbursement of legal fees and costs totaling in excess of \$15

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million paid by Travelers in defending the Company in the above referenced litigation with UTC. In addition, Travelers sought a declaratory judgment that the Company did not and does not have insurance coverage under certain insurance policies with Travelers and, accordingly, that Travelers did not have and does not have a duty to defend or indemnify the Company under such policies. Also named as defendants in Travelers' lawsuit are UTC and one of the law firms representing the Company in the UTC litigation.

The Company believes that it has significant counterclaims against Travelers for damages. After taking into consideration legal counsel's evaluation of Travelers' claim, management is of the opinion that the outcome of the Travelers litigation will not have a significant adverse effect on the Company's consolidated financial statements. No provision for gain or loss, if any, has been made in the consolidated financial statements.

The Company is involved in various other legal actions arising in the normal course of business. Based upon the amounts sought by the plaintiffs in these actions, management is of the opinion that the outcome of these other matters will not have a significant effect on the Company's consolidated financial statements.

Other contingencies

In January 1999, the Company received notice of a proposed adjustment pursuant to an examination by the Internal Revenue Service of the Company's fiscal 1995 and 1996 tax returns, disallowing the utilization of a \$4.6 million capital loss carryforward to partially offset the gain recognized by the Company in connection with the sale of its health care operations in July 1996. In the fourth quarter of fiscal 2000, the Company settled the claim as described in

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Note 4.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

Not applicable.

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PART III

Item 10. Directors and Executive Officers of the Registrant

Information concerning the Directors of the Company is incorporated by reference to the Company's definitive proxy statement which will be filed with the Securities and Exchange Commission (Commission) within 120 days after the close of fiscal 2000.

Information concerning the executive officers of the Company is set forth at Part I hereof under the caption "Executive Officers of the Registrant."

Item 11. Executive Compensation

Information concerning executive compensation is hereby incorporated by reference to the Company's definitive proxy statement which will be filed with the Commission within 120 days after the close of fiscal 2000.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information concerning security ownership of certain beneficial owners and management is hereby incorporated by reference to the Company's definitive proxy statement which will be filed with the Commission within 120 days after the close of fiscal 2000.

Item 13. Certain Relationships and Related Transactions

Information concerning certain relationships and related transactions is hereby incorporated by reference to the Company's definitive proxy statement which will be filed with the Commission within 120 days after the close of fiscal 2000.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a)(1) Financial Statements:

The following consolidated financial statements of the Company and subsidiaries are included in Part II, Item 8:

| | Pag --- |
|--|------------|
| Independent Auditors' Report..... | 25 |
| Consolidated Balance Sheets at October 31, 2000 and 1999..... | 26 |
| Consolidated Statements of Operations for the years ended October 31, 2000, 1999 and 1998..... | 28 |
| Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended October 31, 2000, 1999 and 1998..... | 29 |
| Consolidated Statements of Cash Flows for the years ended October 31, 2000, | |

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| | |
|---|----|
| 1999 and 1998..... | 30 |
| Notes to Consolidated Financial Statements..... | 31 |

(a) (2) Financial Statement Schedules:

No schedules have been submitted because they are not applicable or the required information is included in the financial statements or notes thereto.

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(a) (3) Exhibits

| Exhibit Number ----- | Description ----- |
|----------------------------|--|
| 2.1 | -- Amended and Restated Agreement of Merger and Plan of Reorganization, dated as of March 22, 1993, by and among HEICO Corporation, HEICO Industries, Corp. and New HEICO, Inc. is incorporated by reference to Exhibit 2.1 to the Registrant's Registration Statement on Form S-4 (Registration No. 33-57624) Amendment No. 1 filed on March 19, 1993.* |
| 2.2 | -- Stock Purchase Agreement, dated June 20, 1996, by and among HEICO Corporation, MediTek Health Corporation and U.S. Diagnostic Inc. is incorporated by reference to Exhibit 2 to the Form 8-K dated July 11, 1996.* |
| 2.3 | -- Stock Purchase Agreement, dated as of September 16, 1996, by and between HEICO Corporation and Sigmund Borax is incorporated by reference to Exhibit 2 to the Form 8-K dated September 16, 1996.* |
| 2.4 | -- Stock Purchase Agreement, dated July 25, 1997, among HEICO Corporation, N.A.C. Acquisition Corporation, Northwings Accessories Corporation, Ramon Portela and Otto Newman (without schedules) is incorporated by reference to Exhibit 2 to Form 8-K dated September 16, 1997.* |
| 2.5 | -- Stock Purchase Agreement, dated as of July 12, 1999, among HEICO Corporation, Thermal Structures, Inc., Quality Honeycomb, Inc., David A. Janes, Vaughn Barnes, Stephen T. Braunheim, DLD Investments, LLC, and Acme Freight, LLC (without schedules and exhibits) is incorporated by reference to Exhibit 2.1 to Form 8-K dated July 30, 1999.* |
| 2.6 | -- Stock Purchase Agreement, dated August 1, 2000, by and between HEICO Aviation Products Corp., and Hobart Brothers Company (without schedules and exhibits) is incorporated by reference to Exhibit 2.1 to Form 8-K dated September 14, 2000.* |
| 2.7 | -- First Amendment to Stock Purchase Agreement, effective as of September 14, 2000, between HEICO Aviation Products Corp. and Hobart Brothers Company is incorporated by reference to Exhibit 2.2 to Form 8-K dated September 14, 2000.* |

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- 3.1 -- Articles of Incorporation of the Registrant are incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-4 (Registration No. 33-57624) Amendment No. 1 filed on March 19, 1993.*
- 3.2 -- Articles of Amendment of the Articles of Incorporation of the Registrant, dated April 27, 1993, are incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form 8-B dated April 29, 1993.*
- 3.3 -- Articles of Amendment of the Articles of Incorporation of the Registrant, dated November 3, 1993, are incorporated by reference to Exhibit 3.3 to the Form 10-K for the year ended October 31, 1993.*
- 3.4 -- Articles of Amendment of the Articles of Incorporation of the Registrant, dated March 19, 1998, are incorporated by reference to Exhibit 3.4 to the Company's Registration Statement on Form S-3 (Registration No. 333-48439) filed on March 23, 1998.*
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- 3.5 -- Bylaws of the Registrant are incorporated by reference to Exhibit 3.4 to the Form 10-K for the year ended October 31, 1996.*
- 4.0 -- The description and terms of Preferred Stock Purchase Rights are set forth in a Rights Agreement between the Company and SunBank, N.A., as Rights Agent, dated as of November 2, 1993, incorporated by reference to Exhibit 1 to the Form 8-K dated November 2, 1993.*
- 10.1 -- Loan Agreement, dated March 1, 1988, between HEICO Corporation and Broward County, Florida is incorporated by reference to Exhibit 10.1 to the Form 10-K for the year ended October 31, 1994.*
- 10.2 -- SunBank Reimbursement Agreement, dated February 28, 1994, between HEICO Aerospace Corporation and SunBank/South Florida, N.A. is incorporated by reference to Exhibit 10.2 to the Form 10-K for the year ended October 31, 1994.*
- 10.3 -- Amendment, dated March 1, 1995, to the SunBank Reimbursement Agreement dated February 28, 1994 between HEICO Aerospace Corporation and SunBank/South Florida, N.A. is incorporated by reference to Exhibit 10.3 to the Form 10-K from the year ended October 31, 1995.*
- 10.4 -- Amendment and Extension, dated February 28, 1999 to Loan Agreement dated February 28, 1994, between SunTrust Bank, South Florida, N.A. and HEICO Aerospace Corporation is incorporated by reference

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to Exhibit 10.4 to the Form 10-K for the year ended October 31, 1999.*

- 10.5 -- Amendment, dated July 20, 2000, to the SunBank Reimbursement Agreement dated February 28, 1994, between HEICO Aerospace Corporation and SunTrust Bank is incorporated by reference to Exhibit 10.5 to the Form 10-K for the year ended October 31, 2000.*
- 10.6 -- Loan Agreement, dated March 31, 1994, between HEICO Corporation and Eagle National Bank of Miami is incorporated by reference to Exhibit 10.5 to the Form 10-K for the year ended October 31, 1994.*
- 10.7 -- The First Amendment, dated May 31, 1994, to Loan Agreement dated March 31, 1994 between HEICO Corporation and Eagle National Bank of Miami is incorporated by reference to Exhibit 10.6 to the Form 10-K for the year ended October 31, 1994.*
- 10.8 -- The Second Amendment, dated August 9, 1995, to the Loan Agreement dated March 31, 1994 between HEICO Corporation and Eagle National Bank of Miami is incorporated by reference to Exhibit 10.9 to the Form 10-K for the year ended October 31, 1995.*
- 10.9 -- Second Loan Modification Agreement, dated February 27, 1997, between HEICO Corporation and Eagle National Bank of Miami is incorporated by reference to Exhibit 10.3 to the Form 10-Q for the three months ended April 30, 1997.*
- 10.10 -- Third Loan Modification Agreement, dated February 6, 1998, between HEICO Corporation and Eagle National Bank of Miami is incorporated by reference to Exhibit 10.1 to the Form 10-Q for the three months ended January 31, 1998.*
- 10.11 -- Fourth Loan Modification Agreement, dated August 24, 1999, between HEICO Corporation and Eagle National Bank of Miami is incorporated by reference to Exhibit 10.10 to the Form 10-K for the year ended October 31, 1999.*
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- 10.12 -- Fifth Loan Modification Agreement, dated October 23, 2000, between HEICO Corporation and Eagle National Bank of Miami is incorporated by reference to Exhibit 10.12 to the Form 10-K for the year ended October 31, 2000.*
- 10.13 -- HEICO Savings and Investment Plan and Trust, as amended and restated effective January 2, 1987 is incorporated by reference to Exhibit 10.2 to the Form 10-K for the year ended October 31, 1987.*
- 10.14 -- HEICO Savings and Investment Plan, as amended and restated December 19, 1994, is incorporated by reference to Exhibit 10.11 to the Form 10-K for the year ended October 31, 1994.*

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- 10.15 -- HEICO Corporation 1993 Stock Option Plan, as amended, is incorporated by reference to Exhibit 4.7 to the Company's Registration Statement on Form S-8 (Registration No. 333-81789) filed on June 29, 1999.*
- 10.16 -- HEICO Corporation Combined Stock Option Plan, dated March 15, 1988, is incorporated by reference to Exhibit 10.3 to the Form 10-K for the year ended October 31, 1989.*
- 10.17 -- Non-Qualified Stock Option Agreement for Directors, Officers and Employees is incorporated by reference to Exhibit 10.8 to the Form 10-K for the year ended October 31, 1985.*
- 10.18 -- HEICO Corporation Directors' Retirement Plan, as amended, dated as of May 31, 1991, is incorporated by reference to Exhibit 10.19 to the Form 10-K for the year ended October 31, 1992.*
- 10.19 -- Key Employee Termination Agreement, dated as of April 5, 1988, between HEICO Corporation and Thomas S. Irwin is incorporated by reference to Exhibit 10.20 to the Form 10-K for the year ended October 31, 1992.*
- 10.20 -- Loan Agreement, dated as of March 1, 1997, between Trilectron Industries, Inc. and Manatee County, Florida is incorporated by reference to Exhibit 10.1 to the Form 10-Q for the three months ended April 30, 1997.*
- 10.21 -- Letter of Credit and Reimbursement Agreement, dated as of March 1, 1997, between Trilectron Industries, Inc., and First Union National Bank of Florida (excluding referenced exhibits) is incorporated by reference to Exhibit 10.2 to the Form 10-Q for the three months ended April 30, 1997*
- 10.22 -- Registration Rights Agreement, dated September 15, 1997, by and between HEICO Corporation and Ramon Portela is incorporated by reference to Exhibit 10.1 to Form 8-K dated September 16, 1997.*
- 10.23 -- Employment and Non-compete Agreement dated September 16, 1997, by and between Northwings Accessories Corporation and Ramon Portela is incorporated by reference to Exhibit 10.2 to Form 8-K dated September 16, 1997.*
- 10.24 -- Stock Purchase Agreement, dated October 30, 1997, by and among HEICO Corporation, HEICO Aerospace Holdings Corp. and Lufthansa Technik AG is incorporated by reference to Exhibit 10.31 to Form 10-K/A for the year ended October 31, 1997.*
- 10.25 -- Shareholders Agreement, dated October 30, 1997, by and between HEICO Aerospace Holdings Corp., HEICO Aerospace Corporation and all of the shareholders of HEICO Aerospace

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Holdings Corp. and Lufthansa Technik AG is incorporated by reference to Exhibit 10.32 to Form 10-K/A for the year ended October 31, 1997.*

- 10.26 -- Credit Agreement among HEICO Corporation and SunTrust Bank, South Florida, N.A., as Agent, dated as of July 30, 1998, is incorporated by reference to Exhibit 10.2 to Form 8-K dated August 4, 1998.*
- 10.27 -- First Amendment, dated July 30, 1998 to Credit Agreement among HEICO Corporation and SunTrust Bank, South Florida, N.A., as agent, dated as of July 31, 1998 is incorporated by reference to Exhibit 10.31 to the Form 10-K for the year ended October 31, 1999.*
- 10.28 -- Second Amendment, dated May 12, 1999, to Credit Agreement among HEICO Corporation and SunTrust Bank, South Florida, N.A., as agent, dated as of July 31, 1998 is incorporated by reference to Exhibit 10.32 to the Form 10-K for the year ended October 31, 1999.*
- 10.29 -- Third Amendment, dated as of June 23, 2000, to Credit Agreement among HEICO Corporation and SunTrust Bank (formerly known as SunTrust Bank, South Florida, N.A.) as Agent dated as of July 31, 1998, is incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarterly period ended July 31, 2000.*
- 10.30 -- Asset Purchase Agreement, dated as of December 4, 1998, among RDI Acquisition Corp., HEICO Aerospace Holdings Corp., HEICO Corporation, Rogers-Dierks, Inc., William Rogers and John Dierks (without schedules and exhibits) is incorporated by Reference to Exhibit 2.1 to Form 8-K dated December 22, 1998.*
- 21 -- Subsidiaries of the Company is incorporated by reference to Exhibit 21 to the Form 10-K for the year ended October 31, 2000.*
- 23 -- Consent of Deloitte & Touche LLP.**
- 27 -- Financial Data Schedule is incorporated by reference to Exhibit 27 to the Form 10-K for the year ended October 31, 2000.*

* Previously filed.

** Filed herewith.

(b) Reports on Form 8-K

A report on Form 8-K dated September 14, 2000 relating to the sale of all of the outstanding stock of Trilectron Industries, Inc. was filed by the Company during the fourth quarter of fiscal 2000. See Item 1. "Business."

(c) Exhibits

See Item 14(a)(3).

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(d) Separate Financial Statements Required

Not applicable.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

HEICO CORPORATION

By: /s/ THOMAS S. IRWIN

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

Date: August 13, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ LAURANS A. MENDELSON Chairman, President, Chief

Laurans A. Mendelson Executive Officer and
Director (Principal
Executive Officer)

/s/ SAMUEL L. HIGGINBOTTOM Director

Samuel L. Higginbottom

/s/WOLFGANG MAYRHUBER Director

Wolfgang Mayrhuber

/s/ERIC A. MENDELSON Director

Eric A. Mendelson

/s/ VICTOR H. MENDELSON Director

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Victor H. Mendelson

/s/ ALBERT MORRISON, JR Director

Albert Morrison, Jr.

/s/ ALAN SCHRIESHEIM Director

Alan Schriesheim