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HEICO CORP

FORM 10-Q
(Quarterly Report)

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2000

OR

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

For the transition period from _____ to _____

Commission file number 1-4604

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

FLORIDA (State or other jurisdiction of incorporation or organization)	65-0341002 (I.R.S. Employer Identification No.)
3000 TAFT STREET, HOLLYWOOD, FLORIDA (Address of principal executive offices)	33021 (Zip Code)

(954) 987-6101
(Registrant's telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes __X__ No _____

The number of shares outstanding of each of the Registrant's classes of common stock as of May 31, 2000:

Title of Class	Shares Outstanding
Common Stock, $.01 par value	8,428,198
Class A Common Stock, $.01 par value	7,354,958

HEICO CORPORATION

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PART I. Item 1. FINANCIAL INFORMATION
HEICO CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

ASSETS

	April 30, 2000 (Unaudited)	October 31, 1999
Current assets:		
Cash and cash equivalents	$ 2,708,000	$ 6,031,000
Accounts receivable, net	46,985,000	35,326,000
Inventories	49,149,000	45,172,000
Prepaid expenses and other current assets	4,516,000	2,527,000
Deferred income taxes	1,800,000	1,534,000
Total current assets	105,158,000	90,590,000
Property, plant and equipment less accumulated depreciation of $19,302,000 and $18,588,000, respectively	31,356,000	28,336,000
Intangible assets less accumulated amortization of $9,328,000 and $5,911,000, respectively	146,696,000	143,557,000
Unexpended bond proceeds	287,000	280,000
Long-term investments	3,089,000	3,231,000
Deferred income taxes	521,000	1,366,000
Other assets	9,249,000	5,803,000
Total assets	$ 296,356,000	$ 273,163,000

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current maturities of long-term debt	$ 494,000	$ 551,000
Trade accounts payable	12,156,000	11,070,000
Accrued expenses and other current liabilities	18,378,000	15,299,000
Income taxes payable	--	392,000
Total current liabilities	31,028,000	27,312,000
Long-term debt, net of current maturities	79,750,000	72,950,000
Other non-current liabilities	3,574,000	3,590,000
Total liabilities	114,352,000	103,852,000
Minority interest in consolidated subsidiary	31,890,000	30,022,000
Commitments and contingencies (Notes 2 and 11)		
Shareholders' equity:		
Preferred Stock, par value $.01 per share; Authorized - 10,000,000 shares issuable in series; 200,000 designated as Series A Junior Participating Preferred Stock, none issued	--	--
Common Stock, $.01 par value; Authorized - 30,000,000 shares; Issued and outstanding - 8,428,032 and 8,408,821 shares, respectively	84,000	84,000
Class A Common Stock, $.01 par value; Authorized - 30,000,000 shares; Issued and outstanding - 7,354,875 and 7,334,750 shares, respectively	74,000	73,000
Capital in excess of par value	93,042,000	91,094,000
Accumulated other comprehensive loss	(2,322,000)	(2,235,000)
Retained earnings	60,687,000	52,280,000
	151,565,000	141,296,000
Less: Note receivable from employee savings and investment plan	(1,451,000)	(2,007,000)
Total shareholders' equity	150,114,000	139,289,000
Total liabilities and shareholders' equity	$ 296,356,000	$ 273,163,000

SEE NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

HEICO CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS - UNAUDITED

	Six months ended April 30,		Three months ended April 30,	
	2000	1999	2000	1999
Net sales	$ 101,488,000	$ 60,942,000	$ 53,548,000	$ 32,731,000
Operating costs and expenses:				
Cost of sales	63,951,000	35,830,000	33,869,000	19,302,000
Selling, general and administrative expenses	17,896,000	10,563,000	9,126,000	5,657,000
Total operating costs and expenses	81,847,000	46,393,000	42,995,000	24,959,000
Operating income	19,641,000	14,549,000	10,553,000	7,772,000
Interest expense	(2,597,000)	(821,000)	(1,379,000)	(225,000)
Interest and other income	335,000	547,000	125,000	321,000
Income before income taxes and minority interest	17,379,000	14,275,000	9,299,000	7,868,000
Income tax expense	6,747,000	5,151,000	3,593,000	2,844,000
Income before minority interest	10,632,000	9,124,000	5,706,000	5,024,000
Minority interest	1,828,000	1,831,000	917,000	934,000
Net income	$ 8,804,000	$ 7,293,000	$ 4,789,000	$ 4,090,000
Net income per share:				
Basic	$ .56	$ .52	$ .30	$ .27
Diluted	$ .49	$ .43	$ .27	$ .23
Weighted average number of common shares outstanding:				
Basic	15,763,663	13,911,609	15,773,674	15,307,866
Diluted	18,127,498	16,845,280	18,062,288	18,158,909
Cash dividends per share	$.025	$.025		

SEE NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

HEICO CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS - UNAUDITED

	Six months ended April 30, 2000	Six months ended April 30, 1999
Cash flows from operating activities:		
Net income	$ 8,804,000	$ 7,293,000
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	4,413,000	2,411,000
Deferred income taxes	634,000	(636,000)
Minority interest in consolidated subsidiary	1,828,000	1,831,000
Change in assets and liabilities, net of acquisitions:		
(Increase) in accounts receivable	(11,730,000)	(1,418,000)
(Increase) in inventories	(3,376,000)	(5,178,000)
(Increase) in prepaid expenses and other assets	(2,301,000)	(1,346,000)
Increase (decrease) in trade payables, accrued expenses and other current liabilities	4,492,000	(1,832,000)
(Decrease) in income taxes payable	(392,000)	(378,000)
Other	571,000	172,000
Net cash provided by operating activities	2,943,000	919,000
Cash flows from investing activities:		
Acquisitions and related costs, net of cash acquired	(9,046,000)	(21,960,000)
Capital expenditures	(4,640,000)	(6,977,000)
Net purchases of available-for-sale investments	--	(2,995,000)
Payment received from employee savings and investment plan note receivable	556,000	491,000
Other	(1,153,000)	(1,313,000)
Net cash (used in) investing activities	(14,283,000)	(32,754,000)
Cash flows from financing activities:		
Proceeds from Class A Common Stock offering	--	56,187,000
Proceeds from the issuance of long-term debt:		
Proceeds from revolving credit facility	11,000,000	22,500,000
Bond reimbursement proceeds	--	513,000
Principal payments on long-term debt	(4,445,000)	(42,750,000)
Proceeds from the exercise of stock options	188,000	483,000
Tax benefit on stock option exercises	1,733,000	1,611,000
Cash dividends paid	(394,000)	(315,000)
Additional minority interest investment	40,000	2,827,000
Other	(105,000)	(156,000)
Net cash provided by financing activities	8,017,000	40,900,000
Net (decrease) increase in cash and cash equivalents	(3,323,000)	9,065,000
Cash and cash equivalents at beginning of year	6,031,000	8,609,000
Cash and cash equivalents at end of period	$ 2,708,000	$ 17,674,000

SEE NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

HEICO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - UNAUDITED
April 30, 2000

1. The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes normally included in annual consolidated financial statements and should be read in conjunction with the financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K for the year ended October 31, 1999. In the opinion of management, the unaudited consolidated condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary for a fair presentation of the consolidated condensed balance sheets, statements of operations and cash flows for such interim periods presented. The results of operations for the six months ended April 30, 2000 are not necessarily indicative of the results which may be expected for the entire fiscal year.

2. Accounts receivable are composed of the following:

	April 30, 2000	October 31, 1999
Accounts receivable	$ 47,564,000	$ 36,047,000
Less allowance for doubtful accounts	(579,000)	(721,000)
Accounts receivable, net	$ 46,985,000	$ 35,326,000

In May 2000, one of the Company's customers filed for bankruptcy. The bankruptcy proceedings are in the early stages and the ultimate outcome is not certain at this time. The Company is unable to determine what amount, if any, will be uncollectible. Accordingly, no specific provision for loss has been made in the consolidated condensed financial statements. A full loss of the Company's outstanding receivable from this customer would result in a charge of approximately $700,000 to net income.

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, and estimated profitability, including those arising from contract penalty provisions, 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.

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

	April 30, 2000
Costs incurred on uncompleted contracts	$ 3,621,000
Estimated earnings	4,529,000
	8,150,000
Less: Billings to date	(5,413,000)
	$ 2,737,000
Included in accompanying balance sheets under the following captions:	
Accounts receivable	$ 2,763,000
Accrued expensed and other current liabilities	(26,000)
	$ 2,737,000

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.

3. Inventories are comprised of the following:

	April 30, 2000	October 31, 1999
Finished products	$ 16,328,000	$ 15,401,000
Work in process	13,922,000	12,801,000
Materials, parts, assemblies and supplies	18,899,000	16,970,000
Total inventories	$ 49,149,000	$ 45,172,000

Inventories related to long-term contracts were not significant as of April 30, 2000 and October 31, 1999.

4. 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.

5. Long-term debt consists of:

	April 30, 2000	October 31, 1999
Borrowings under revolving credit facility	$73,000,000	$66,000,000
Industrial Development Revenue Bonds - Series 1997A	3,000,000	3,000,000
Industrial Development Revenue Bonds - Series 1997C	995,000	995,000
Industrial Development Revenue Refunding Bonds - Series 1988	1,980,000	1,980,000
Equipment loans	1,269,000	1,526,000
	80,244,000	73,501,000
Less current maturities	(494,000)	(551,000)
	$79,750,000	$72,950,000

Pursuant to the Company's $120 million revolving credit facility (Credit Facility), funds are available for funding acquisitions, working capital and general corporate requirements on a revolving basis through July 2002. The weighted average interest rate was approximately 7.1% and 6.4% at April 30, 2000 and October 31, 1999, respectively.

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 will be recognized as an adjustment to interest expense. The bank has the option to call the swap one year after the effective date.

The industrial development revenue bonds represent bonds issued by Broward County, Florida in 1988 (Series 1988 bonds), and bonds issued by Manatee County, Florida in 1997 (Series 1997A and Series 1997C bonds).

Unexpended proceeds of the Series 1997A and 1997C bonds were $287,000 and $280,000 as of April 30, 2000 and October 31, 1999, respectively, including investment earnings. The balance of the unexpended proceeds will be used to reduce the principal balance in the third quarter 2000. The Series 1997A and 1997C bonds interest rates were 5.3% and 3.8% at April 30, 2000 and October 31, 1999, respectively.

The Series 1988 bonds interest rates were 5.15% and 3.4% at April 30, 2000 and October 31, 1999, respectively.

Equipment loans had interest rates ranging from 8.5% to 9.0% at April 30, 2000 and October 31, 1999.

6. Long-term investments consist of equity securities with an aggregate cost of $6,858,000 as of April 30, 2000 and October 31, 1999. These investments are classified as available-for-sale and stated at a fair value of $3,089,000 and $3,231,000 as of April 30, 2000 and October 31, 1999, respectively. The gross unrealized losses were $3,769,000 and $3,627,000 as of April 30, 2000 and October 31, 1999, respectively. Unrealized gains and losses, net of deferred taxes, are reflected as a component of comprehensive income (see Note 10). There were no realized gains or losses during fiscal 1999 and through the first six months of fiscal 2000. The investments are classified as long-term to correspond with management's intentions to hold the investments a minimum of one year.

7. Research and development expenses for the first six months of fiscal 2000 and 1999, which are included as a component of cost of sales, totaled approximately $1.3 million and $550,000, respectively in each of the six-month periods. The expenses for the first six months of 2000 and 1999 are net of $3.0 million and $3.3 million, respectively, received from Lufthansa pursuant to a research and development cooperation agreement entered into on October 30, 1997. Amounts received from Lufthansa and not used as of April 30, 2000 and 1999 were $1.5 million and $588,000 million, respectively, and are recorded as a component of accrued expenses and other current liabilities in the consolidated condensed balance sheets.

8. The Company's effective tax rate increased from 36.1% in the second quarter 1999 to 38.6% in the second quarter 2000 primarily due to increased state taxes and non-deductible goodwill resulting from acquisitions.

9. Information on operating segments for the six months and quarter ended April 30, 2000 and 1999, respectively, for the Flight Support Group (FSG) and the Electronics and Ground Support Group (EGSG) are as follows:

	Segments			
	FSG	EGSG	Other, Primarily Corporate	Consolidated Totals
For the six months ended April 30, 2000:				
Net sales	$ 57,540,000	$ 43,948,000	$ --	$101,488,000
Depreciation and amortization	3,144,000	1,167,000	102,000	4,413,000
Operating income	15,984,000	6,062,000	(2,405,000)	19,641,000
Capital expenditures	4,009,000	630,000	1,000	4,640,000
For the six months ended April 30, 1999:				
Net sales	$ 43,018,000	$ 17,924,000	$ --	$ 60,942,000
Depreciation and amortization	1,991,000	341,000	79,000	2,411,000
Operating income	15,427,000	1,716,000	(2,594,000)	14,549,000
Capital expenditures	6,361,000	601,000	15,000	6,977,000
For the quarter ended April 30, 2000:				
Net sales	$ 29,345,000	$ 24,203,000	$ --	$ 53,548,000
Depreciation and amortization	1,541,000	602,000	51,000	2,194,000
Operating income	8,082,000	3,531,000	(1,060,000)	10,553,000
Capital expenditures	2,209,000	487,000	--	2,696,000
For the quarter ended April 30, 1999:				
Net sales	$ 22,250,000	$ 10,481,000	$ --	$ 32,731,000
Depreciation and amortization	950,000	195,000	34,000	1,179,000
Operating income	7,920,000	1,253,000	(1,401,000)	7,772,000
Capital expenditures	2,964,000	(106,000)	10,000	2,868,000

Total assets held by the operating segments as of April 30, 2000 and October 31, 1999 are as follows:

	Segments			
	FSG	EGSG	Other, Primarily Corporate	Consolidated Totals
As of April 30, 2000	$181,395,000	$105,090,000	$ 9,871,000	$296,356,000
As of October 31, 1999	173,635,000	89,486,000	10,042,000	273,163,000

10. The Company's comprehensive income consists of:

	Six months ended April 30,		Three months ended April 30,	
	2000	1999	2000	1999
Net income	$ 8,804,000	$ 7,293,000	$ 4,789,000	$ 4,090,000
Other comprehensive (loss) income:				
Unrealized holding (loss) gain on investments	(142,000)	502,000	752,000	(975,000)
Tax benefit (expense)	55,000	(176,000)	(289,000)	374,000
Comprehensive income	$ 8,717,000	$ 7,619,000	$ 5,252,000	$ 3,489,000

Accumulated other comprehensive loss as of April 30, 2000 and October 31, 1999 includes unrealized (loss) on investments as follows:

	Accumulated Other Comprehensive Loss
Balance, October 31, 1998	$ (1,142,000)
Unrealized holding (loss) on investments, net of tax benefit of $721,000	(1,093,000)
Balance, October 31, 1999	(2,235,000)
Unrealized holding (loss) on investments, net of tax benefit of $55,000	(87,000)
Balance, April 30, 2000	$ (2,322,000)

11. 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.

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 pre-paid sum for such license. 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 has appealed 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 condensed 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 condensed financial statements.

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 offset the gain recognized by the Company in connection with the sale of its health care operations in July 1996. The Company has filed a protest requesting an appeal of such proposed adjustment, which would result in additional taxes of approximately $1.8 million on the gain on the sale of the discontinued health care operations. The outcome of this matter is uncertain; accordingly, no provision for additional taxes, if any, has been made in the consolidated condensed financial statements.

12. 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. The Company will adopt SFAS 133 beginning November 1, 2000. The Company has not yet quantified the impact of adopting SFAS 133 on the Company's consolidated financial statements.

13. In June 2000, the Company, through a subsidiary, acquired substantially all of the assets and certain liabilities of Future Aviation, Inc. (Future) for $14 million in cash paid at closing. Future is engaged in the repair and overhaul of aircraft accessory components principally serving the regional and commuter aircraft market.

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

Overview

Our results of operations during the current period and the same period in the prior fiscal year 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 Condensed Financial Statements and Notes thereto included herein.

Our Flight Support Group (FSG) consists of HEICO Aerospace Holdings Corp. and its subsidiaries; HEICO Aerospace Corporation, Jet Avion Corporation (Jet Avion), LPI Industries Corporation (LPI), Aircraft Technology, Inc. (ATI), Northwings Accessories Corp. (Northwings), McClain International, Inc.
(McClain), Associated Composite, Inc. (ACI), Rogers-Dierks, Inc. (Rogers-Dierks)
acquired December 1998, Air Radio & Instruments Corp. (Air Radio) acquired May 1999, Turbine Kinetics, Inc. (Turbine) acquired June 1999, and Thermal Structures, Inc. (Thermal) acquired June 1999.

Our Electronics & Ground Support Group (EGSG) consists of HEICO Aviation Products Corp. and its subsidiaries; Trilectron Industries, Inc. (Trilectron), Radiant Power Corp. (Radiant) acquired January 1999, Leader Tech, Inc. (Leader Tech) acquired May 1999, and Santa Barbara Infrared, Inc. (SBIR) acquired September 1999.

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.

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 will be recognized as an adjustment to interest expense. The bank has the option to call the swap one year after the effective date.

In March 2000, the Company settled its litigation with United Technologies Corporation (UTC) discussed in Note 11 to the consolidated financial statements. 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 pre-paid sum for such license. The settlement is not expected to materially affect the Company's earnings or financial condition.

In May 2000, one of our customers filed for bankruptcy. This customer contributed sales of approximately $2 million in the first half of fiscal year 2000. The ultimate outcome of the bankruptcy proceedings is not certain at this time and the Company is unable to determine what amount, if any, will be uncollectible. Accordingly, no specific provision for loss has been made in the consolidated condensed financial statements. A full loss of the Company's outstanding receivable from this customer would result in a charge of approximately $700,000 to net income.

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 Condensed Statements of Operations.

	Six months ended April 30,		Three months ended April 30,	
	2000	1999	2000	1999
	(Dollar amounts in thousands)			
Net sales				
FSG	$ 57,540	$ 43,018	$ 29,345	$ 22,250
EGSG	43,948	17,924	24,203	10,481
	$ 101,488	$ 60,942	$ 53,548	$ 32,731
Net sales	100.0%	100.0%	100.0%	100.0%
Gross profit	37.0%	41.2%	36.8%	41.0%
Selling, general and administrative expenses	17.6%	17.3%	17.0%	17.3%
Operating income	19.4%	23.9%	19.7%	23.7%
Interest expense	2.6%	1.3%	2.6%	0.7%
Interest and other income	0.3%	0.9%	0.2%	1.0%
Income tax expense	6.7%	8.5%	6.7%	8.7%
Minority interest	1.8%	3.0%	1.7%	2.9%
Net income	8.7%	12.0%	8.9%	12.5%

Comparison of First Six Months of 2000 to First Six Months of 1999

Net Sales

Net sales for the first six months of 2000 totaled $101.5 million, up 67% when compared to the first six months of 1999 net sales of $60.9 million.

The increase in sales for the first six months of 2000 reflects an increase of $14.5 million (a 34% increase) to $57.5 million in revenues from the FSG and an increase of $26.0 million (a 145% increase) to $43.9 million in revenues from the EGSG. The FSG sales increase represents revenues of $9.4 million from newly-acquired businesses (Air Radio and Thermal). The balance of $5.1 million reflects increases in sales of new products and services, including newly developed and acquired FAA-approved jet engine replacement parts. The EGSG sales increase reflects $14.7 million from internal growth and $11.3 from acquired businesses (Radiant, Leader Tech and SBIR). The internal growth in the EGSG is primarily attributed to sales of new products and increased market penetration.

Gross Profits and Operating Expenses

The Company's gross profit margins averaged 37.0% for the first six months of 2000 as compared to 41.2% for the first six months of 1999. This decrease reflects lower margins within the FSG contributed by certain acquired businesses, softness in demand for our higher margin replacement parts, less favorable product mix, and the benefit realized in fiscal 1999 from favorable pricing under certain contracts. Lower gross margins in the FSG were partially offset by increased margins

in the EGSG resulting primarily from higher gross profit margins contributed by the acquired businesses. Cost of sales amounts for the first six months of 2000 and first six months of 1999 include approximately $1,323,000 and $550,000 of new product and development expenses, respectively. These amounts are net of $3.0 million and $3.3 million received from Lufthansa in the first six months of 2000 and 1999, respectively. Pursuant to the research and development agreement with Lufthansa, a total of $2.8 million remained available to reimburse new product and development expenses at April 30, 2000. Accordingly, total new product development expense is likely to increase by approximately $1 million for the full fiscal 2000.

Selling, general and administrative (SG&A) expenses increased $7.3 million to $17.9 million for the first six months of 2000 from $10.6 million for the first six months of 1999. The increase results primarily from the inclusion of SG&A expenses of acquired companies, including additional goodwill amortization and increases in both operating segments related to internal sales growth. As a percentage of net sales, SG&A expenses increased to 17.6% for the first six months of 2000 compared to 17.3% for the first six months of 1999 primarily resulting from higher selling costs in the FSG associated with expanding product lines and higher goodwill amortization resulting from acquired businesses.

Operating Income

Operating income increased $5.1 million to $19.6 million (a 35% increase) for the first six months of 2000 from $14.5 million for the first six months of 1999. The increase in operating income reflects an increase of $600,000 (a 4% increase) from $15.4 million to $16 million in the Company's FSG and an increase of $4.4 million (a 253% increase) from $1.7 million to $6.1 million in the Company's EGSG. The increases in operating income were due primarily to increases in sales in the EGSG and FSG, and higher gross profit margins in the EGSG offset by lower margins in the FSG discussed above.

As a percentage of net sales, operating income decreased from 23.9% in the first six months of 1999 to 19.4% in the first six months of 2000 primarily reflecting lower gross profit margins within the FSG and the increase in SG&A expenses as a percentage of net sales discussed above. The FSG's operating income as a percentage of net sales declined from 35.9% in the first six months of 1999 to 27.8% in the first six months of 2000 due to lower gross profit margins, higher selling costs and higher goodwill amortization discussed above. The EGSG's operating income as a percentage of net sales improved from 9.6% in the first six months of 1999 to 13.8% in the first six months of 2000. This improvement reflects higher gross margins contributed by acquired businesses.

Interest Expense

Interest expense increased $1,776,000 to $2,597,000 from the first six months of 1999 to the first six months of 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 the Company's acquisitions in fiscal 1999.

Interest and Other Income

Interest and other income decreased $212,000 to $335,000 from the first six months of 1999 to the first six months of 2000 due principally to the decrease in invested funds used for acquisitions in fiscal 1999.

Minority Interest

Minority interest represents the 20% minority interest held by Lufthansa.

Net income

The Company's net income totaled $8.8 million, or $.49 per diluted share, in the first six months of 2000, improving 21% from net income of $7.3 million, or $.43 per diluted share, in the first six months of 1999.

The improvement in net income for the first six months of 2000 over the first six months of 1999 is primarily attributable to the increased operating income discussed above. The increase was partially offset by the aforementioned higher interest costs, as well as an increase in the Company's effective tax rate. The Company's effective tax rate increased from 36.1% for the first six months of 1999 to 38.8% in the first six months of 2000 primarily due to increased state taxes and non-deductible goodwill resulting from acquisitions.

Cash earnings per share or net income per diluted share before goodwill amortization (adjusted for the after tax impact of goodwill) increased 23% to $.59 in the first six months of fiscal year 2000 from $.48 in the first half of fiscal year 1999.

Comparison of Second Quarter 2000 to Second Quarter 1999

Net Sales

Net sales for the second quarter 2000 totaled $53.5 million, up 64% when compared to the second quarter 1999 net sales of $32.7 million.

The increase in second quarter 2000 sales reflects an increase of $7.1 million (a 32% increase) to $29.3 million in revenues from the FSG and an increase of $13.7 million (a 131% increase) to $24.2 million in revenues from the EGSG. The FSG sales increase represents revenues of $4.7 million from newly-acquired businesses (Air Radio and Thermal). The balance of $2.4 million reflects increases in sales of new products and services, including newly developed and acquired FAA-approved jet engine replacement parts. The EGSG sales increase reflects $8.5 million from internal growth and $5.2 from acquired businesses (Leader Tech and SBIR). The internal growth in the EGSG is primarily attributed to sales of new products and increased market penetration.

Gross Profits and Operating Expenses

The Company's gross profit margins averaged 36.8% for the second quarter 2000 as compared to 41.0% for the second quarter 1999. This decrease reflects lower margins within the FSG contributed by certain acquired businesses, softness in demand for our higher margin replacement parts, less favorable product mix, and the benefit realized in fiscal 1999 from favorable pricing under certain contracts. Lower gross margins in the FSG were partially offset by increased margins in the EGSG resulting primarily from higher gross profit margins contributed by the acquired businesses. Cost of sales amounts for the second quarter 2000 and second quarter 1999 include approximately $758,000 and $298,000, respectively, of new product and development expenses. These amounts are net of $1.6 million and $1.7 million received from Lufthansa in the second quarter of 2000 and 1999, respectively.

Selling, general and administrative (SG&A) expenses increased $3.4 million to $9.1 million for the second quarter 2000 from $5.7 million for the second quarter 1999. The increase results primarily from the inclusion of SG&A expenses of acquired companies, including additional goodwill amortization and increases in both operating segments related to internal sales growth. As a percentage of net sales, SG&A expenses increased to 17.0% for the second quarter 2000 compared to 17.3% for the second quarter 1999 primarily resulting from continuing efforts to control costs while increasing revenues offset by higher selling costs in the FSG associated with expanding product lines and higher goodwill amortization.

Operating Income

Operating income increased $2.8 million to $10.6 million (a 36% increase) for the second quarter 2000 from $7.8 million for the second quarter 1999. The increase in operating income reflects an increase of $200,000 (a 2% increase) from $7.9 million to $8.1 million in the Company's FSG and an increase of $2.2 million (a 182% increase) from $1.3 million to $3.5 million in the Company's EGSG. The increases in operating income were due primarily to increases in sales in the EGSG and FSG and higher gross profit margins in the EGSG offset by lower margins in the FSG discussed above.

As a percentage of net sales, operating income decreased from 23.7% in the second quarter 1999 to 19.7% in the second quarter 2000 primarily reflecting lower gross profit margins within the FSG and the increase in SG&A expenses as a percentage of net sales discussed above. The FSG's operating income as a percentage of net sales declined from 35.6% in the second quarter 1999 to 27.5% in the second quarter 2000 due to lower gross profit margins, higher selling costs, and higher goodwill amortization discussed above. The EGSG's operating income as a percentage of net sales improved from 12.0% in the second quarter 1999 to 14.6% in the second quarter 2000. This improvement reflects higher gross margins contributed by acquired businesses.

Interest Expense

Interest expense increased $1,154,000 to $1,379,000 from the second quarter 1999 to the second quarter 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 the Company's acquisitions in fiscal 1999.

Interest and Other Income

Interest and other income decreased $196,000 to $125,000 from the second quarter 1999 to the first quarter 2000 due principally to the decrease in invested funds used for acquisitions in fiscal 1999.

Minority Interest

Minority interest represents the 20% minority interest held by Lufthansa.

Net income

The Company's net income totaled $4.8 million, or $.27 per diluted share, in the second quarter 2000, improving 17% from net income of $4.1 million, or $0.23 per diluted share, in the second quarter 1999.

The improvement in net income for the second quarter 2000 over the second quarter 1999 is primarily attributable to the increased operating income discussed above. The increase was partially offset by the aforementioned higher interest costs, as well as an increase in the Company's effective tax rate. The Company's effective tax rate increased from 36.1% in the second quarter 1999 to 38.6% in the second quarter 2000 primarily due to increased state taxes and non-deductible goodwill resulting from acquisitions.

Cash earnings per share or net income per diluted share before goodwill amortization (adjusted for the after tax impact of goodwill) increased 28% to $.32 per share in the second quarter of fiscal year 2000 from $.25 per share in the second quarter of fiscal year 1999.

Inflation

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

Liquidity and Capital Resources

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

Principal uses of cash by the Company include payments of interest and principal on debt, acquisitions, 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

The Company's cash flow from operations was $2.9 million for the first six months of 2000, principally reflecting net income of $8.8 million, adjustments for depreciation and amortization and minority interest of 4.4 million and $1.8 million, respectively, offset by an increase in net operating assets of $13.2 million. The increase in net operating assets primarily resulted from an increase in accounts receivable reflecting sales growth, extended payment terms under certain EGSG contracts and an increase in inventories to meet higher production requirements.

Investing Activities

The principal cash used in investing activities in the first six months of 2000 was cash used for payments for acquisitions and related costs totaling $9.0 million and capital expenditures, which totaled $4.6 million primarily representing the construction of a new facility and purchases of machinery and equipment.

Financing Activities

The Company's principal financing activities during the first six months of 2000 included net proceeds of $7.0 million from the Company's Credit Facility. In addition, the Company received $1.7 million in tax benefits related to stock option exercises.

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. The Company will adopt SFAS 133 beginning November 1, 2000. The Company has not yet quantified the impact of adopting SFAS 133 on the Company's consolidated financial statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The primary market risk to which the Company has exposure is interest rate risk. Changes in interest rates can affect the Company's net income and cash flows. In order to manage 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 1, 2002. This allows the Company to reduce the effects (positive or negative) of interest rate changes on operations. This financial instrument carries a number of risks, including a risk of non-performance on the part of the counterparty and a risk that the financial instrument will not function as expected. This risk is mitigated by entering into the agreement with a financial institution with investment grade credit rating.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material developments in previously reported litigation involving the Company and its subsidiaries except as discussed in Note 11 to the consolidated condensed financial statements.

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

At the Annual Meeting of Shareholders held on March 21, 2000, the Company's shareholders elected eight directors.

The number of votes cast for and withheld for each nominee for director were as follows:

Director	For	Withheld
Jacob T. Carwile	8,226,909	93,029
Samuel L. Higginbottom	8,226,667	93,271
Eric A. Mendelson	8,237,200	82,738
Laurans A. Mendelson	8,241,443	78,495
Victor H. Mendelson	8,236,067	83,871
Albert Morrison, Jr.	8,240,443	79,495
Dr. Alan Schriesheim	8,240,828	79,110
Guy C. Shafer	8,226,835	93,103

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

(27) Financial data schedule

(b) A report on Form 8-K was filed by the Company dated March 17, 2000, reported under Item 5, "Other Events," related to the Company's settlement agreement with United Technologies Corporation ("UTC") for all litigation between UTC and the Company.

SIGNATURES

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

HEICO CORPORATION
(Registrant)

June 8, 2000	*BY /s/Thomas S. Irwin*
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Date	*Thomas S. Irwin, Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)*

EHXIBIT INDEX

EXHIBIT	DESCRIPTION
27	Financial Data Schedule

ARTICLE 5

PERIOD TYPE	6 MOS
FISCAL YEAR END	OCT 31 2000
PERIOD END	APR 30 2000
CASH	2,708,000
SECURITIES	0
RECEIVABLES	47,564,000
ALLOWANCES	(579,000)
INVENTORY	49,149,000
CURRENT ASSETS	105,158,000
PP&E	50,657,000
DEPRECIATION	(19,301,000)
TOTAL ASSETS	296,356,000
CURRENT LIABILITIES	31,028,000
BONDS	5,935,000
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	158,000
OTHER SE	149,956,000
TOTAL LIABILITY AND EQUITY	296,356,000
SALES	101,488,000
TOTAL REVENUES	101,488,000
CGS	63,951,000
TOTAL COSTS	63,951,000
OTHER EXPENSES	17,896,000
LOSS PROVISION	0
INTEREST EXPENSE	2,597,000
INCOME PRETAX	17,379,000
INCOME TAX	6,747,000
INCOME CONTINUING	10,632,000
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	8,804,000
EPS BASIC	0.56
EPS DILUTED	0.49

End of Filing

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