HEICO CORP
Form 10-K
December 28, 2007

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

FORM 10-K

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

For the fiscal year ended October 31, 2007 or

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

For the transition period from ___________________to__________________

Commission file number 1-4604

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

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

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

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

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

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

Rights to Purchase Series B Junior Participating Preferred Stock
Rights to Purchase Series C Junior Participating Preferred Stock
(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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act:

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

The aggregate market value of the voting and non-voting common equity held by nonaffiliates of the registrant was $761,806,000 based on the closing price of Common Stock and Class A Common Stock as of April 30, 2007 (the last business day of the registrant's most recently completed second fiscal quarter) as reported by the New York Stock Exchange.

The number of shares outstanding of each of the registrant's classes of common stock, as of December 20, 2007:

Common Stock, $.01 par value	10,538,691 shares
Class A Common Stock, $.01 par value	15,614,663 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2008 Annual Meeting of Shareholders are incorporated by reference into Part III.

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HEICO CORPORATION
INDEX TO ANNUAL REPORT ON FORM 10-K

PART I

ITEM 1. BUSINESS

THE COMPANY

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

Our business is comprised of two operating segments:

The Flight Support Group. Our Flight Support Group, consisting of HEICO Aerospace Holdings Corp. ("HEICO Aerospace") and its subsidiaries, accounted for 76%, 71% and 71% of our net sales in fiscal 2007, 2006, and 2005, respectively. This Group uses proprietary technology to design and manufacture jet engine and aircraft component replacement parts for sale at lower prices than those manufactured by OEMs. These parts are approved by the FAA and are the functional equivalent of parts sold by OEMs. In addition, the Flight Support Group repairs and distributes jet engine and aircraft components, avionics, and instruments for domestic and foreign commercial air carriers and aircraft repair companies as well as military and business aircraft operators; and manufactures thermal insulation products and other component parts primarily for aerospace, defense, and commercial applications.

The Flight Support Group competes with the leading industry OEMs and, to a lesser extent, with a number of smaller, independent parts distributors. Historically, the three principal jet engine OEMs, General Electric (including CFM International), Pratt & Whitney, and Rolls Royce, have been the sole source of substantially all jet engine replacement parts for their jet engines. Other OEMs have been the sole source of replacement parts for their aircraft component parts. While we believe that we currently supply less than 2% of the market for jet engine and aircraft component replacement parts, we have consistently been adding new products to our line and currently hold Parts Manufacturer Approvals, which we refer to as "PMAs," for over 6,000 jet engine and aircraft component replacement parts.

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

The Electronic Technologies Group. Our Electronic Technologies Group, consisting of HEICO Electronic Technologies Corp. and its subsidiaries, accounted for 24%, 29% and 29% of our net sales in fiscal 2007, 2006, and 2005, respectively. Through our Electronic Technologies Group, which derived approximately 41% of its sales in fiscal 2007 from the sale of products and services to U.S. and foreign military agencies, we design, manufacture, and sell various types of electronic, microwave, and electro-optical products, including infrared simulation and test equipment, laser rangefinder receivers, electrical power supplies, back-up power supplies, electromagnetic interference and radio frequency interference shielding, high power capacitor charging power supplies, amplifiers, photodetectors, amplifier modules, flash lamp drivers, laser diode drivers, arc lamp power supplies, custom power supply designs, cable assemblies, high voltage interconnection devices and wire, high voltage energy generators, high

1

frequency power delivery systems, and high-speed interface products that link devices such as telemetry receivers, digital cameras, high resolution scanners, simulation systems, and test systems to almost any computer.

In October 1997, we entered into a strategic alliance with Lufthansa. Lufthansa is the world's largest independent provider of engineering and maintenance services for aircraft components and jet engines and supports over 200 airlines, governments, and other customers. As part of this strategic alliance, Lufthansa has invested approximately $50 million in our company to acquire and maintain a 20% minority interest in HEICO Aerospace and to partially fund the accelerated development of additional FAA-approved replacement parts for jet engines and aircraft components over the subsequent four years pursuant to a research and development cooperation agreement. This strategic alliance has enabled us to expand domestically and internationally by enhancing our ability to (i) identify key jet engine and aircraft 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 alliances within the airline industry.

In March 2001, we entered into a joint venture with American Airlines, one of the world's largest airlines, to develop, design, and sell FAA-approved jet engine and aircraft component replacement parts through HEICO Aerospace. The joint venture is partly owned by American Airlines. American Airlines and HEICO Aerospace have agreed to cooperate regarding technical services and marketing support on a worldwide basis. We have also entered into several strategic relationships with other leading airlines, such as United Airlines (May 2002), Delta Air Lines (February 2003), Air Canada (March 2003), Japan Airlines (March 2004), and British Airways (May 2007). These relationships accelerate HEICO's efforts in developing a broad range of jet engine and aircraft component replacement parts for FAA approval. Each of the aforementioned airlines purchase these newly developed parts, and most of HEICO Aerospace's current FAA-approved parts product line, on an exclusive basis from HEICO Aerospace.

In February 2006, we entered into a Joint Cooperation Agreement with China Aviation Import and Export Group Corporation ("CASGC") of the Peoples Republic of China to promote HEICO Aerospace FAA-approved aircraft and engine replacement products in China. CASGC is a state-owned company, which is a comprehensive service provider for aviation supplies, primarily engaged in the import and export of aviation-related products in China including aircraft engines, spares, ground support, and safety equipment. CASGC's business scope also covers leasing maintenance, component repair and overhaul, consignment stores, manufacturing, and training.

We have continuously operated in the aerospace industry for more than 50 years. Since assuming control in 1990, our current management has achieved significant sales and profit growth through a broadened line of product offerings, an expanded customer base, increased research and development expenditures, and the completion of a number of acquisitions. As a result of internal growth and acquisitions, our net sales from continuing operations have grown from $26.2 million in fiscal 1990 to $507.9 million in fiscal 2007, a compound annual growth rate of approximately 19%. During the same period, we improved our net income from continuing operations from $2.0 million to $39.0 million, representing a compound annual growth rate of approximately 19%.

FLIGHT SUPPORT GROUP

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

2

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

Jet engine and aircraft component replacement parts are classified within the industry as (i) factory-new, (ii) new surplus, (iii) overhauled, (iv) repairable, and (v) as removed. A factory-new or new surplus part is one that has never been installed or used. Factory-new parts are purchased from FAA-approved manufacturers (such as HEICO or OEMs) or their authorized distributors. New surplus parts are purchased from excess stock of airlines, repair facilities, or other redistributors. An overhauled part is one that has been completely repaired and inspected by a licensed repair facility such as ours. An aircraft spare part is classified as "repairable" if it can be repaired by a licensed repair facility under applicable regulations. A part may also be classified as "repairable" if it can be removed by the operator from an aircraft or jet engine while operating under an approved maintenance program and is airworthy and meets any manufacturer or time and cycle restrictions applicable to the part. A "factory-new," "new surplus," "overhauled," or "repairable" part 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 and Aircraft Component Replacement Parts. The principal business of the Flight Support Group 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, and General Electric Company, including its CFM International joint venture. The Flight Support Group's factory-new replacement parts include various jet engine and aircraft component replacement parts. A key element of our growth strategy is the continued design and development of an increasing number of 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 aircraft component replacement parts to design and manufacture through a selection process which analyzes industry information to determine which replacement parts are suitable candidates. As part of Lufthansa's investment in the Flight Support Group, 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.

Repair and Overhaul Services. The Flight Support Group provides repair and overhaul services on selected jet engine and aircraft component parts, as well as on avionics, instruments, composites, and flight surfaces of commercial aircraft. The Flight Support Group also provides repair and overhaul services to military aircraft operators and aircraft repair and overhaul companies. Our repair and overhaul operations require a high level of expertise, advanced technology, and sophisticated equipment. Services include the repair, refurbishment, and overhaul of numerous accessories and parts mounted on gas turbine engines and airframes. Components overhauled include fuel pumps, generators, fuel controls, pneumatic valves, starters and actuators, turbo compressors and constant speed drives, hydraulic pumps, valves and actuators, composite flight controls, electro-mechanical equipment, and auxiliary power unit accessories. The Flight Support Group also provides commercial airlines, regional operators, asset management companies, and Maintenance, Repair and Overhaul ("MRO") providers with high quality and cost effective niche accessory component exchange services as an alternative to OEMs' spares services.

Furthermore, the Flight Support Group repairs avionics and navigation systems as well as subcomponents and other instruments utilized in military and commercial aircraft. Our customers include the United States government, foreign military agencies, and both domestic and foreign commercial airlines.

Distribution. The Flight Support Group distributes FAA-approved parts including hydraulic, pneumatic, mechanical, and electro-mechanical components for the commercial, regional, and general aviation markets.

Manufacture of Specialty Aircraft/Defense Related Parts and Subcontracting for OEMs. The Flight Support Group manufactures thermal insulation blankets primarily for aerospace, defense, and commercial applications. The Flight Support Group also manufactures specialty components for sale as a subcontractor for aerospace and industrial original equipment manufacturers and the United States government.

FAA Approvals and Product Design. Non-OEM manufacturers of jet engine replacement parts must receive a Parts Manufacturer Approval ("PMA") from the FAA to sell the replacement part. The PMA approval process includes the submission of sample parts, drawings, and testing data to one of the FAA's Aircraft Certification Offices where the submitted data are analyzed. We believe that an applicant's ability to successfully complete the PMA process is limited by several factors, including (i) the agency's confidence level in the applicant, (ii) the complexity of the part, (iii) the volume of PMAs being filed, and (iv) the resources available to the FAA. We also believe that companies such as HEICO that have demonstrated their 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 Flight Support Group, which were approximately $300,000 in fiscal 1991, increased to approximately $10.7 million in fiscal 2007, $10.6 million in fiscal 2006, and $8.8 million in 2005. We believe that our Flight Support Group's research and development capabilities are a significant component of our historical success and an integral part of our growth strategy.

Our expanded research and development activities have included development of more complex jet engine and aircraft component replacement parts. We now have approximately 4,000 parts approved by the FAA that are actively being marketed and have cumulative FAA approvals for over 6,000 parts. We believe the development and subsequent sale of PMA parts represents a significant long-term market opportunity. In fiscal 2007, the FAA granted us PMAs for approximately 400 new parts (excluding acquired PMAs); however, no assurance can be given that the FAA will continue to grant PMAs or that we 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 design, engineering, and manufacturing processes and repair and overhaul procedures. Customers often rely on us to provide initial and additional components, as well as to redesign, re-engineer, replace, or repair and provide overhaul services on such aircraft components at every stage of their useful lives. In addition, for some products, our unique manufacturing capabilities are required by the customer's specifications or designs, thereby necessitating reliance on us for production of such designed products.

We have no patents for the proprietary techniques, including software and manufacturing expertise, we have developed to manufacture jet engine and aircraft component replacement parts and

instead, we rely on trade secret protection. Although our proprietary techniques and software and manufacturing expertise are subject to misappropriation or obsolescence, we believe that we take appropriate measures to prevent misappropriation or obsolescence from occurring by developing new techniques and improving existing methods and processes, which we will continue on an ongoing basis as dictated by the technological needs of our business.

ELECTRONIC TECHNOLOGIES GROUP

Much of our Electronic Technologies Group's strategy is centered around producing equipment that helps the U.S. military and allied foreign military agencies conduct stand-off operations from greater distances. Our activities in this regard are focused on products that are placed in airborne, vehicle-based, or handheld targeting systems as well as in providing equipment used to develop, test, and calibrate such systems.

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

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

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

Electro-Optical, Microwave, and Other Power Equipment. The Electronic Technologies Group produces power supplies, amplifiers, and flash lamp drivers used in laser systems for military, medical, and other applications that are sometimes utilized with our Rangefinder Receivers. We also produce emergency back-up power supplies and batteries used on commercial aircraft and business jets for services such as emergency exit lighting, emergency fuel shut-off, power door assists, cockpit voice recorders, and flight computers. We offer custom or standard designs that solve challenging OEM requirements and meet stringent agency safety and emissions requirements. Our power electronics products include capacitor charger power supplies, laser diode drivers, arc lamp power supplies, and custom power supply designs.

Our microwave products are used in satellites and electronic warfare systems. These products, which include isolators, bias tees, circulators, latching ferrite switches, and waveguide adapters, are used in satellites to control or direct energy according to operator needs. As satellites are frequently used as sensors for stand-off warfare, we believe this product line further supports our goal of increasing our

activity in the stand-off market. We believe we are a leading supplier of the niche products which we design and make for this market, a market that includes commercial satellites. Our customers for these products include satellite makers, such as Space Systems/Loral, Boeing, and Raytheon.

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

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

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

High Voltage Advanced Power Electronics. The Electronic Technologies Group designs and manufactures a patented line of high voltage energy generators for medical, baggage inspection, and industrial imaging systems. In addition, we offer a patented line of high frequency power delivery systems for the commercial sign industry.

FINANCIAL INFORMATION ABOUT OPERATING SEGMENTS AND GEOGRAPHIC AREAS

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

SALES, MARKETING, AND CUSTOMERS

Each of our operating segments 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 representatives receive a commission on sales.

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

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

materials, OEMs, domestic and foreign military units, electronic manufacturing services companies, manufacturers for the defense industry and telecommunications companies as well as medical, scientific, and industrial companies. No one customer accounted for sales of 10% or more of total consolidated sales from continuing operations during any of the last three fiscal years. Net sales to our five largest customers accounted for approximately 21% of total net sales during the year ended October 31, 2007.

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 we do. As a result, such competitors may be able to respond more quickly to customer requirements than we can. Moreover, smaller competitors may be in a position to offer more attractive pricing as a result of lower labor costs and other factors.

Our jet engine and aircraft component replacement parts business competes primarily with 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 Flight Support Group, 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 we do. Competition is based mainly on price, product performance, service, and technical capability.

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

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

BACKLOG

Our total backlog of unshipped orders was $106.3 million as of October 31, 2007 compared to $80.0 million as of October 31, 2006. The Flight Support Group's backlog of unshipped orders was $43.6 million as of October 31, 2007 as compared to $34.4 million as of October 31, 2006. This backlog excludes forecasted shipments for certain contracts of the Flight Support Group pursuant to which customers provide only estimated annual usage and not firm purchase orders. The increase in the Flight

Support Group's backlog is primarily related to continued strong demand for its aftermarket replacement parts and repair and overhaul services, as well as orders of new products and services. Our backlogs within the Flight Support Group are typically short-lead in nature with many product orders being received within the month of shipment. The Electronic Technologies Group's backlog of unshipped orders was $62.7 million as of October 31, 2007 as compared to $45.6 million as of October 31, 2006. The increase in the Electronic Technologies Group's backlog is primarily related to orders of new products and services as well as additional backlogs from fiscal 2007 acquisitions. Substantially the entire backlog of orders as of October 31, 2007 is expected to be delivered during fiscal 2008.

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.

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

ENVIRONMENTAL REGULATION

Our operations are subject to extensive, and frequently changing, federal, state, and local environmental laws and substantial related regulation by government agencies, including the Environmental Protection Agency. Among other matters, these regulatory authorities impose requirements that regulate the operation, handling, transportation, and disposal of hazardous materials, 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.

OTHER REGULATION

We are also subject to a variety of other regulations including work-related and community safety laws. The Occupational Safety and Health Act of 1970 mandates general requirements for safe workplaces for all employees and established the Occupational Safety and Health Administration ("OSHA") in the Department of Labor. In particular, OSHA provides special procedures and measures for the handling of 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 our insurance coverage is adequate to insure against the various liability risks of our business.

EMPLOYEES

As of October 31, 2007, we had 2,185 full-time and part-time employees, of whom 1,501 were in the Flight Support Group, 659 were in the Electronic Technologies Group, and 25 were Corporate. None of our employees is represented by a union. We believe that we have good relations with our employees.

AVAILABLE INFORMATION

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

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer, or controller and other persons performing similar functions. The code of ethics is located on our web site at http://www.heico.com. Any amendments to or waivers from a provision of this code of ethics will be posted on the web site. Also located on the web site are our Corporate Governance Guidelines, Finance/Audit Committee Charter, Nominating & Corporate Governance Committee Charter, and Compensation Committee Charter.

Copies of the above referenced materials will be made available, free of charge, upon written request to the Corporate Secretary at the Company's headquarters.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our 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 following table sets forth the names, ages of, and positions and offices held by our executive officers as of December 20, 2007:

NAME	AGE	POSITION(S)	DIRE SIN
Laurans A. Mendelson	69	Chairman of the Board, President, and Chief Executive Officer	198
Thomas S. Irwin	61	Executive Vice President and Chief Financial Officer	_
Eric A. Mendelson	42	Executive Vice President and Director; President and Chief Executive Officer of HEICO Aerospace Holdings Corp.	199
Victor H. Mendelson	40	Executive Vice President, General Counsel, and Director; President and Chief Executive Officer of HEICO Electronic Technologies Corp.	199
William S. Harlow	59	Vice President of Corporate Development	_

Laurans A. Mendelson has served as Chairman of the Board of the Company since December 1990. He has also served as Chief Executive Officer of the Company since February 1990 and President of the Company since September 1991. HEICO Corporation is a member of the Aerospace Industries Association ("AIA") in Washington D.C., and Mr. Mendelson frequently serves on the Board of Governors of AIA. He is also Chairman of the Board of Trustees, member of the Executive Committee, and member of the Society of Mt. Sinai Founders of Mt. Sinai Medical Center in Miami Beach, Florida. In addition, Mr. Mendelson served as a Trustee of Columbia University in The City of New York from 1995 to 2001, as well as Chairman of the Trustees' Audit Committee. Mr. Mendelson currently serves as Trustee Emeritus of Columbia University. Mr. Mendelson is a Certified Public Accountant. Laurans A. Mendelson is the father of Eric Mendelson and Victor Mendelson.

Thomas S. Irwin has served as Executive Vice President and Chief Financial Officer of the Company since September 1991, 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 and a Trustee of the Greater Hollywood Chamber of Commerce.

Eric A. Mendelson has served as Executive Vice President of the Company since 2001; President and Chief Executive Officer of HEICO Aerospace Holdings Corp., a subsidiary of the Company, since its formation in 1997; and President of HEICO Aerospace Corporation since 1993. He also served as Vice President of the Company from 1992 to 2001; President of HEICO's Jet Avion Corporation, a wholly owned subsidiary of HEICO Aerospace, from 1993 to 1996; and 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, a private investment company, which is a shareholder of HEICO. Eric Mendelson is the son of Laurans Mendelson and the brother of Victor Mendelson.

10

Victor H. Mendelson has served as Executive Vice President of the Company since 2001; President and Chief Executive Officer of HEICO Electronic Technologies Corp., a subsidiary of the Company, since September 1996; and General Counsel of the Company since 1993. He served as Vice President of the Company from 1996 to 2001; Executive Vice President of the Company's former MediTek Health Corporation subsidiary from 1994; and MediTek Health's 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 the Greater Miami Chamber of Commerce, a Trustee of St. Thomas University in Miami Gardens, Florida, and a Director of the Florida Grand Opera. Victor Mendelson is the son of Laurans Mendelson and the brother of Eric Mendelson.

William S. Harlow has served as Vice President of Corporate Development since 2001 and served as Director of Corporate Development from 1995 to 2001.

ITEM 1A. RISK FACTORS

Our business, financial condition, operating results, and cash flows can be impacted by a number of factors, many of which are beyond our control, including but not limited to those set forth below and elsewhere in this Annual Report on Form 10-K, any one of which may cause our actual results to differ materially from anticipated results:

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

Economic factors and passenger security concerns that affect the aviation industry also affect our business. The aviation industry has historically been subject to downward cycles from time to time which reduce the overall demand for jet engine and aircraft component replacement parts and repair and overhaul services, and such downward cycles result in lower prices and greater credit risk. These economic factors and passenger security concerns may have a material adverse effect on our business, financial condition, and results of operations.

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

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

government. Denial of export licenses could reduce our sales to those countries and could have a material adverse effect on our business.

The retirement of commercial aircraft could reduce our revenues.

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

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

In fiscal 2007, approximately 41% of the sales of our Electronic Technologies Group were derived from the sale of products and services to U.S. and foreign military agencies and their suppliers. A decline in defense, space or homeland security budgets or additional restrictions imposed by the U.S. government on sales of products or services to foreign military agencies could lower sales of our products and services.

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

We face significant competition in each of our businesses.

Flight Support Group

- For jet engine replacement parts, we compete with the industry's leading jet engine OEMs, particularly Pratt & Whitney and General Electric.
- For the overhaul and repair of jet engine and airframe components as well as avionics and navigation systems, we compete with:
  - major commercial airlines, many of which operate their own maintenance and overhaul units;
  - OEMs, which manufacture, repair, and overhaul their own parts; and
  - other independent service companies.

Electronic Technologies Group

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

The aviation aftermarket supply industry is highly fragmented, has several highly visible leading companies, and is characterized by intense competition. Some of our OEM competitors have greater name recognition than HEICO, as well as complementary lines of business and financial, marketing, and other resources that HEICO does not have. In addition, OEMs, aircraft maintenance providers, leasing companies, and FAA-certificated repair facilities may attempt to bundle their services and product offerings in the supply industry, thereby significantly increasing industry competition. Moreover, our smaller competitors may be able to offer more attractive pricing of parts as a result of lower labor costs or other factors. A variety of potential actions by any of our competitors, including a reduction of product

prices or the establishment by competitors of long-term relationships with new or existing customers, could have a material adverse effect on our business, financial condition, and results of operations. Competition typically intensifies during cyclical downturns in the aviation industry, when supply may exceed demand. We may not be able to continue to compete effectively against present or future competitors, and competitive pressures may have a material and adverse effect on our business, financial condition, and results of operations.

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

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

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

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

- We may need to expend significant capital to:

  - purchase new equipment and machines,
  - train employees in new methods of production and service, and
  - fund the research and development of new products; and

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

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

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

Although our engineering teams have usually successfully foreseen contract completion costs, the costs to meet customer specifications and requirements could result in us having to spend more to design or manufacture products and this could reduce our profit margins on current contracts or those we obtain in the future.

We may incur product liability claims that are not fully insured.

Our jet engine and aircraft component replacement parts and repair and overhaul services expose our business to potential liabilities for personal injury or death as a result of the failure of an aircraft component that we have designed, manufactured, or serviced. The commercial aviation industry occasionally has catastrophic losses that may exceed policy limits. An uninsured or partially insured claim, or a claim for which third-party indemnification is not available, could have a material adverse effect on our business, financial condition, and results of operations. Additionally, insurance coverage costs may become even more expensive in the future. Our customers typically require us to maintain substantial insurance coverage and our inability to obtain insurance coverage at commercially reasonable rates could have a material adverse effect on our business.

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

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

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

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

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

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

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

Our operations and facilities are subject to a number of federal, state, and local environmental laws and regulations, which govern, among other things, the discharge of hazardous materials into the air and water as well as the handling, storage, and disposal of hazardous materials. Pursuant to various environmental laws, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous materials. Environmental laws typically impose liability whether or not the owner or operator knew of, or was responsible for, the presence of hazardous materials. Although

management believes that our operations and facilities are in material compliance with environmental laws and regulations, future changes in them or interpretations thereof or the nature of our operations may require us to make significant additional capital expenditures to ensure compliance in the future.

We do not maintain specific environmental liability insurance, and the expenses related to these environmental liabilities, if we are required to pay them, could have a material adverse effect on our business, financial condition, and results of operations.

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

Our success substantially depends on the performance, contributions, and expertise of our senior management team led by Laurans A. Mendelson, our Chairman, President, and Chief Executive Officer. Technical employees are also critical to our research and product development, as well as our ability to continue to re-design sophisticated products of OEMs in order to sell competing replacement parts at substantially lower prices than those manufactured by the OEMs. The loss of the services of any of our executive officers or other key employees or our inability to continue to attract or retain the necessary personnel could have a material adverse effect on our business, financial condition, and results of operations.

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

As of January 22, 2007, collectively our executive officers and entities controlled by them, our 401(k) Plan, and members of the Board of Directors beneficially owned approximately 35% of our outstanding Common Stock and approximately 9% of our outstanding Class A Common Stock. Accordingly, they will be able to substantially influence the election of the Board of Directors and control our business, policies, and affairs, including our position with respect to proposed business combinations and attempted takeovers.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company owns or leases a number of facilities, which are utilized by its Flight Support Group ("FSG"), Electronic Technologies Group ("ETG"), and Corporate office. All of the facilities listed below are in good operating condition, are well maintained, and are in regular use. The Company believes that its existing facilities are sufficient to meet its operational needs for the foreseeable future. Summary information on the facilities utilized within the FSG and the ETG to support their principal operating activities is as follows:

FLIGHT SUPPORT GROUP

LOCATION	SQUARE FOOTAGE LEASED	OWNED	DESCRIPTION
United States facilities (9 states)	281,000	159,000	Manufacturing, engineerin facilities, and corpora
United States facilities (5 states)	97,000	141,000	Repair and overhaul facil
International facilities (2 countries) - India and Singapore	5,000	--	Manufacturing, engineerin facilities

ELECTRONIC TECHNOLOGIES GROUP

LOCATION	SQUARE FOOTAGE LEASED	OWNED	DESCRIPTION
United States facilities (7 states)	137,000	76,000	Manufacturing and enginee
International facilities (2 countries) - Canada and United Kingdom	52,000	12,000	Manufacturing and enginee

CORPORATE

LOCATION	SQUARE FOOTAGE LEASED	OWNED	DESCRIPTION
United States facilities (1 state)	--	4,000	Administrative offices

(1) Represents the square footage of corporate offices in Miami, Florida. The square footage of the Company's corporate headquarters in Hollywood, FL is included within the square footage under the caption "United States facilities (9 states)" under Flight Support Group.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal 2007.

PART II

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

MARKET INFORMATION

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

CLASS A COMMON STOCK

	HIGH	LOW	CASH DIVIDENDS PER SHARE
FISCAL 2006:			
First Quarter	$ 21.93	$ 16.90	$ .04
Second Quarter	29.65	19.73	--
Third Quarter	31.20	22.87	.04
Fourth Quarter	30.67	24.33	--
FISCAL 2007:			
First Quarter	$ 33.01	$ 28.72	$ .04
Second Quarter	34.29	29.10	--
Third Quarter	37.58	30.65	.04
Fourth Quarter	44.36	32.65	--

As of December 20, 2007, there were 867 holders of record of the Company's Class A Common Stock.

COMMON STOCK

	HIGH	LOW	CASH DIVIDENDS PER SHARE
FISCAL 2006:			
First Quarter	$ 27.45	$ 21.87	$ .04
Second Quarter	34.69	24.56	--
Third Quarter	35.87	26.95	.04
Fourth Quarter	37.12	29.25	--
FISCAL 2007:			
First Quarter	$ 40.07	$ 34.01	$ .04
Second Quarter	40.35	33.76	--
Third Quarter	44.43	35.81	.04
Fourth Quarter	54.52	39.51	--

As of December 20, 2007, there were 829 holders of record of the Company's Common Stock.

PERFORMANCE GRAPHS

The following graph and table compare the total return on $100 invested in HEICO Common Stock and HEICO Class A Common Stock with the total return of $100 invested in the New York Stock Exchange (NYSE) Composite Index and the Dow Jones U.S. Aerospace Index for the five-year period from October 31, 2002 through October 31, 2007. The NYSE Composite Index measures all common stock listed on the NYSE. The Dow Jones U.S. Aerospace Index is comprised of large companies which make aircraft, major weapons, radar, and other defense equipment and systems as well as providers of satellites used for defense purposes. The total returns include the reinvestment of cash dividends.

[CHART APPEARS HERE]

	CUMULATIVE TOTAL RETURN AS OF OCTOBER 31,				
	2002	2003	2004	2005	2006
HEICO Common Stock (1)	$ 100.00	$ 159.40	$ 203.66	$ 249.93	$ 412.61
HEICO Class A Common Stock (1)	$ 100.00	$ 158.94	$ 204.13	$ 249.50	$ 443.30
NYSE Composite Index	$ 100.00	$ 119.17	$ 133.85	$ 148.65	$ 175.49
Dow Jones U.S. Aerospace Index	$ 100.00	$ 114.34	$ 139.15	$ 168.60	$ 220.42

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

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

[CHART APPEARS HERE]

	CUMULATIVE TOTAL RETURN AS OF OCTOBER 31,				
	1990	1991	1992	1993	1994
HEICO Common Stock (1)	$ 100.00	$ 141.49	$ 158.35	$ 173.88	$ 123.41
NYSE Composite Index	$ 100.00	$ 130.31	$ 138.76	$ 156.09	$ 155.68
Dow Jones U.S. Aerospace Index	$ 100.00	$ 130.67	$ 122.00	$ 158.36	$ 176.11

	CUMULATIVE TOTAL RETURN AS OF OCTOBER 31,				
	1996	1997	1998	1999	2000

HEICO Common Stock (1)	$ 430.02	$ 1,008.31	$ 1,448.99	$ 1,051.61	$ 809.50
NYSE Composite Index	$ 225.37	$ 289.55	$ 326.98	$ 376.40	$ 400.81
Dow Jones U.S. Aerospace Index	$ 341.65	$ 376.36	$ 378.66	$ 295.99	$ 418.32

	CUMULATIVE TOTAL RETURN AS OF OCTOBER 31,				
	2002	2003	2004	2005	2006
HEICO Common Stock (1)	$ 670.39	$ 1,067.42	$ 1,366.57	$ 1,674.40	$ 2,846.48
NYSE Composite Index	$ 284.59	$ 339.15	$ 380.91	$ 423.05	$ 499.42
Dow Jones U.S. Aerospace Index	$ 343.88	$ 393.19	$ 478.49	$ 579.77	$ 757.97

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(1) Information has been adjusted retroactively to give effect to all stock dividends paid during the seventeen-year period.

DIVIDEND POLICY

The Company has historically paid semi-annual cash dividends on both its Class A Common Stock and Common Stock. In July 2007, HEICO paid its 58th consecutive semi-annual cash dividend since 1979. HEICO's Board of Directors presently intends to continue the payment of regular semi-annual cash dividends on both classes of its common stock. In December 2007, the Board of Directors declared a regular semi-annual cash dividend of $.05 per share payable in January 2008. The cash dividend represents a 25% increase over the prior per share amount of $.04. The Company's ability to pay dividends could be affected by future business performance, liquidity, capital needs, alternative investment opportunities, and loan covenants under its revolving credit facility.

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes information about the Company's equity compensation plans as of October 31, 2007.

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS, AND RIGHTS (a)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS, AND RIGHTS (b)	NUMBER OF SECURI REMAINING AVAIL FOR FUTURE ISSU UNDER EQUITY COMPENSATION PL (EXCLUDING SECUR REFLECTED IN CO (a)) (c)
Equity compensation plans approved by security holders (1)	1,600,330	$ 10.21	16
Equity compensation plans not approved by security holders (2)	275,000	$ 7.36	

Total	1,875,330	$	9.79	16

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(1) Represents aggregated information pertaining to the Company's three equity compensation plans: the 1993 Stock Option Plan, the Non-Qualified Stock Option Plan, and the 2002 Stock Option Plan. See Note 8, Stock Options, of the Notes to Consolidated Financial Statements for further information regarding these plans.

(2) Represents stock options granted to a former shareholder of a business acquired in fiscal 1999. Such stock options were fully vested and transferable as of the grant date and expire ten years from the date of grant. The exercise price of such options was the fair market value as of the date of grant.

ISSUER PURCHASES OF EQUITY SECURITIES

As announced by the Company on October 21, 2002, the Company's Board of Directors has authorized the repurchase of up to 425,000 shares of its Class A Common Stock and/or Common Stock to be executed, at management's discretion, in the open market or via private transactions. From October 21, 2002 through October 31, 2003, the Company repurchased 22,000 shares of its Class A Common Stock. The remaining 403,000 shares authorized for repurchase are subject to certain restrictions included in the Company's revolving credit agreement. The Company did not repurchase any shares of its Class A Common Stock and/or Common Stock during fiscal 2007, 2006, or 2005. The repurchase program does not have a fixed termination date.

ITEM 6. SELECTED FINANCIAL DATA

	FOR THE YEAR ENDED OCTOBER 3		
	2003	2004	2005
	(in thousands, except per sha		
OPERATING DATA:			
Net sales	$ 176,453	$ 215,744	$ 269,647
Gross profit	58,104	75,812	100,996
Selling, general, and administrative expenses	34,899	43,193	56,347
Operating income	23,205	32,619(3)	44,649
Interest expense	1,189	1,090	1,136
Interest and other income	93	26	528
Life insurance proceeds	--	5,000(4)	--
Net income	$ 12,222	$ 20,630(3)(4)	$ 22,812
Weighted average number of common shares outstanding:(2)			

Basic	23,237	24,037	24,460
Diluted	24,531	25,755	26,323
PER SHARE DATA: (2)			
Net income:			
Basic	$ .53	$ .86(3)(4)	$ .93
Diluted	.50	.80(3)(4)	.87
Cash dividends	.045	.050	.050
BALANCE SHEET DATA (AS OF OCTOBER 31):			
Total assets	$ 333,244	$ 364,255	$ 435,624
Total debt (including current portion)	32,013	18,129	34,124
Minority interests in consolidated subsidiaries	40,577	44,644	49,035
Shareholders' equity	221,518	247,402	273,503

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

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

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

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

(5) Includes the benefit of a tax credit (net of related expenses) for qualified research and development activities claimed for certain prior years, which increased net income by $1,002, or $.04 per basic and diluted share.

(6) Includes the benefit of a tax credit (net of related expenses) for qualified research and development activities recognized for the full fiscal 2006 year pursuant to the retroactive extension in December 2006 of Section 41, "Credit for Increasing Research Activities," of the Internal Revenue Code, which increased net income by $535, or $.02 per basic and diluted share.

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

OVERVIEW

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

The Flight Support Group consists of HEICO Aerospace Holdings Corp.

("HEICO Aerospace") and its subsidiaries, which primarily:

- o Designs, Manufactures, Repairs and Distributes Jet Engine and Aircraft Component Replacement Parts. The Flight Support Group designs, manufactures, repairs and distributes jet engine and aircraft component replacement parts. The parts and services are approved by the Federal Aviation Administration ("FAA"). The Flight Support Group also manufactures and sells specialty parts as a subcontractor for aerospace and industrial original equipment manufacturers and the United States government.

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

- o Designs and Manufactures Electronic, Microwave, and Electro-Optical Equipment, High-Speed Interface Products, High Voltage Interconnection Devices, and High Voltage Advanced Power Electronics. The Electronic Technologies Group designs, manufactures and sells various types of electronic, microwave and electro-optical equipment and components, including power supplies, laser rangefinder receivers, infra-red simulation, calibration and testing equipment; electromagnetic interference shielding for commercial and military aircraft operators, electronics companies, and telecommunications equipment suppliers; advanced high-technology interface products that link devices such as telemetry receivers, digital cameras, high resolution scanners, simulation systems, and test systems to computers; high voltage energy generators interconnection devices, cable assemblies and wire for the medical equipment, defense, and other industrial markets; and high frequency power delivery systems for the commercial sign industry.

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

In November 2005, the Company, through HEICO Electronic, acquired all of the stock of Engineering Design Team, Inc. and substantially all of the assets of its affiliate (collectively "EDT") and through HEICO Aerospace, acquired a 51% interest in Seal Dynamics LLC ("Seal LLC"). The remaining 49% interest is principally owned by a member of Seal LLC's management group.

In May 2006 and September 2006, the Company, through HEICO Aerospace, acquired all of the stock of Arger Enterprises, Inc. and its related companies (collectively "Arger") and an 80% interest in Prime Air, Inc. and its affiliate (collectively "Prime"), respectively. Under the Prime transaction, a new subsidiary was formed, Prime Air, LLC ("Prime Air"), which acquired substantially all of the assets and

assumed certain liabilities of Prime. Prime Air is owned 80% by the Company and 20% by certain members of Prime's management group.

During fiscal 2007, the Company, through HEICO Aerospace and HEICO Electronic, acquired an additional 10% and .75%, respectively, of the equity interests in two of its subsidiaries, which increased the Company's ownership interest to 90% and 85.75%, respectively. The purchase price of the acquired equity interests was paid using cash provided by operating activities.

In April and September 2007, the Company, through HEICO Electronic, acquired all of the stock of FerriShield, Inc. ("FerriShield") and EMD Technologies Inc. ("EMD"), respectively. In May 2007 and August 2007, the Company, through HEICO Aerospace, acquired certain assets of a supplier and substantially all of the assets of a U.S. company that designs and manufactures FAA-approved aircraft and engine parts, respectively. The purchase price of the supplier's assets was paid using cash provided by operating activities.

The purchase price of each fiscal 2006 and 2007 acquisition was paid in cash using proceeds from the Company's revolving credit facility unless otherwise noted and was not significant to the Company's consolidated financial statements individually.

CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition

Revenue is recognized on an accrual basis, primarily upon the shipment of products and the rendering of services. Revenue from certain fixed price contracts for which costs can be dependably estimated is recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract. Variations in actual labor performance, changes to estimated profitability, and final contract settlements may result in revisions to cost estimates. Revisions in cost estimates as contracts progress have the effect of increasing or decreasing profits in the period of revision. For fixed price contracts in which costs cannot be dependably estimated, revenue is recognized on the completed-contract method. A contract is considered complete when all significant costs have been incurred or the item has been accepted by the customer. The percentage of the Company's net sales recognized under the percentage-of-completion method was approximately 3%, 4%, and 6% in fiscal 2007, 2006, and 2005, respectively. The aggregate effects of changes in estimates relating to inventories and/or long-term contracts did not have a significant effect on net income or diluted net income per share in fiscal 2007, 2006, or 2005.

Valuation of Accounts Receivable

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

Valuation of Inventory

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

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

Valuation of Goodwill

The Company tests goodwill for impairment annually as of October 31 or more frequently if events or changes in circumstances indicate that the carrying amount of goodwill may not be fully recoverable. The test requires the Company to compare the fair value of each of its reporting units to its carrying value to determine potential impairment. If the carrying value of a reporting unit exceeds its fair value, the implied fair value of that reporting unit's goodwill is to be calculated and an impairment loss is recognized in the amount by which the carrying value of a reporting unit's goodwill exceeds its implied fair value, if any. The determination of fair value requires the Company to make a number of estimates, assumptions, and judgments of such factors as earnings multiples, projected revenues, and operating expenses and the Company's weighted average cost of capital. If there is a material change in such assumptions used by the Company in determining fair value or if there is a material change in the conditions or circumstances influencing fair value, the Company could be required to recognize a material impairment charge. Based on the annual goodwill test for impairment as of October 31, 2007, the Company determined there is no impairment of its goodwill.

Purchase Accounting

The Company applies the purchase method of accounting to its acquisitions. Under this method, the purchase price, including any capitalized acquisition costs, is allocated to the underlying tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair market values, with any excess recorded as goodwill. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives, and market multiples, among other items. We determine the fair values of such assets and liabilities, generally in consultation with third-party valuation advisors.

RESULTS OF OPERATIONS

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

	FOR THE YEAR ENDED OCTOBER 31,		
	2005	2006	2007
Net sales	$ 269,647,000	$ 392,190,000	$ 507,924,00
Cost of sales	168,651,000	249,677,000	330,466,00
Selling, general, and administrative expenses	56,347,000	75,646,000	91,444,00

Total operating costs and expenses	224,998,000	325,323,000	421,910,00
Operating income	$ 44,649,000	$ 66,867,000	$ 86,014,00
Net sales by segment:			
Flight Support Group	$ 191,989,000	$ 277,255,000	$ 383,911,00
Electronic Technologies Group	77,821,000	115,021,000	124,035,00
Intersegment sales	(163,000)	(86,000)	(22,00
	$ 269,647,000	$ 392,190,000	$ 507,924,00
Operating income by segment:			
Flight Support Group	$ 32,795,000	$ 46,840,000	$ 67,408,00
Electronic Technologies Group	20,978,000	34,026,000	33,870,00
Other, primarily corporate	(9,124,000)	(13,999,000)	(15,264,00
	$ 44,649,000	$ 66,867,000	$ 86,014,00
Net sales	100.0%	100.0%	100.
Gross profit	37.5%	36.3%	34.
Selling, general, and administrative expenses	20.9%	19.3%	18.
Operating income	16.6%	17.0%	16.
Interest expense	0.4%	0.9%	0.
Interest and other income	0.2%	0.2%	0.
Income tax expense	6.0%	5.3%	5.
Minority interests' share of income	1.9%	2.9%	3.
Net income	8.5%	8.1%	7.

25

COMPARISON OF FISCAL 2007 TO FISCAL 2006

Net Sales

Net sales in fiscal 2007 increased by 29.5% to $507.9 million, as compared to net sales of $392.2 million in fiscal 2006. The increase in net sales reflects an increase of $106.7 million (a 38.5% increase) to $383.9 million in net sales within the FSG, and an increase of $9.0 million (a 7.8% increase) to $124.0 million in net sales within the ETG. The FSG's net sales increase reflects organic growth of approximately 21% and acquisitions, principally Arger in May 2006 and Prime Air in September 2006. The organic growth reflects increased sales of new products and services and continued increased demand for the FSG's aftermarket replacement parts and repair and overhaul services within the commercial airline industry. The ETG's net sales increase reflects organic growth of approximately 5% and the acquisitions of FerriShield in April 2007 and EMD in September 2007. The organic growth principally reflects increased demand for certain products.

The Company's net sales in fiscal 2007 by market approximated 69% from the commercial aviation industry, 16% from the defense and space industries, and 15% from other industrial markets including medical, electronics, and telecommunications. The Company's net sales in fiscal 2006 by market approximated 64% from the commercial aviation industry, 19% from the defense and space industries, and 17% from other industrial markets including medical, electronics, and telecommunications.

Gross Profit and Operating Expenses

The Company's gross profit margin decreased to 34.9% in fiscal 2007 as compared to 36.3% in fiscal 2006, reflecting lower margins within the ETG due principally to a less favorable product mix. Consolidated cost of sales in fiscal 2007 and 2006 includes approximately $16.5 million and $15.3 million, respectively, of new product research and development expenses.

Selling, general, and administrative ("SG&A") expenses were $91.4 million and $75.6 million in fiscal 2007 and 2006, respectively. The increase in SG&A expenses was mainly due to higher operating costs, principally personnel related, associated with the growth in net sales discussed above including acquisitions and an increase in corporate expenses. The increase in corporate expenses reflects higher compensation and performance awards based on improvement in consolidated operating results.

As a percentage of net sales, SG&A expenses decreased to 18.0% in fiscal 2007 compared to 19.3% in fiscal 2006. The decrease as a percentage of net sales is due to efficiencies in controlling costs while increasing revenues.

Operating Income

Operating income in fiscal 2007 increased by 28.6% to $86.0 million, compared to operating income of $66.9 million in fiscal 2006. The increase in operating income reflects an increase of $20.6 million (a 43.9% increase) to $67.4 million in operating income of the FSG in fiscal 2007, partially offset by a $.2 million decrease (a .5% decrease) in operating income of the ETG to $33.9 million in fiscal 2007 and a $1.3 million increase in corporate expenses as discussed above.

As a percentage of net sales, operating income decreased slightly to 16.9% in fiscal 2007 compared to 17.0% in fiscal 2006. The decrease in operating income as a percentage of net sales reflects a decrease in the ETG's operating income as a percentage of net sales from 29.6% in fiscal 2006 to 27.3% in fiscal 2007, partially offset by an increase in the FSG's operating income as a percentage of net sales

from 16.9% in fiscal 2006 to 17.6% in fiscal 2007. The decrease in the ETG's operating income as a percentage of net sales principally reflects the lower gross profit margins discussed previously. The increase in the FSG's operating income as a percentage of net sales reflects the increase in net sales and operating efficiencies within SG&A expenses. See "Outlook" below for additional information on the operating margins of the FSG & ETG.

Interest Expense

Interest expense decreased to $3,293,000 in fiscal 2007 from $3,523,000 in fiscal 2006. The decrease was principally due to a lower weighted average balance outstanding under the revolving credit facility in fiscal 2007, partially offset by higher interest rates. Additional information about the Company's revolving credit facility may be found within "Financing Activities," which follows within this Item 7.

Interest and Other Income

Interest and other income in fiscal 2007 and 2006 were not material.

Income Tax Expense

The Company's effective tax rate for fiscal 2007 increased to 33.2% from 32.7% in fiscal 2006. The increase is principally due to the phase-out of the extraterritorial income ("ETI") exclusion provisions pursuant to the American Jobs Creation Act of 2004 that had resulted in a tax benefit on export sales, partially offset by a higher amount of the minority interests' share of income excluded from the Company's 2007 consolidated income subject to federal income taxes.

The effective tax rate for fiscal 2007 reflects an income tax credit (net of expenses) for qualified research and development activities recognized for the full fiscal 2006 year in fiscal 2007. The fiscal 2006 tax credit was recorded pursuant to the December 2006 retroactive extension for the two year period covering January 1, 2006 to December 31, 2007 of Section 41, "Credit for Increasing Research Activities," of the Internal Revenue Code and increased net income by approximately $.5 million in fiscal 2007.

Income tax expense in fiscal 2006 includes an income tax credit for qualified research and development activities claimed in the Company's income tax return for fiscal 2005 and amended returns for previous tax years that were filed in fiscal 2006. The aggregate tax credit, net of expenses, increased net income by approximately $1.0 million in fiscal 2006.

For a detailed analysis of the provision for income taxes, see Note 6, Income Taxes, of the Notes to Consolidated Statements of Operations.

Minority Interests' Share of Income

Minority interests' share of income of consolidated subsidiaries relates to the minority interests held in HEICO Aerospace, including the 20% minority interest held in HEICO Aerospace, the 49% minority interest held in Seal LLC, and the 20% minority interest held in Prime Air; as well as the minority interests held in certain subsidiaries of HEICO Electronic. The increase in the minority interests' share of income in fiscal 2007 compared to fiscal 2006 is primarily attributable to the higher earnings of the FSG and Seal LLC, as well as the September 2006 acquisition of Prime Air.

Net Income

The Company's net income was $39.0 million, or $1.45 per diluted share, in fiscal 2007 compared to $31.9 million, or $1.20 per diluted share, in fiscal 2006 reflecting the increased operating income referenced above, partially offset by the increased minority interests' share of certain consolidated subsidiaries.

Outlook

The Company reported increased consolidated net sales and operating income in fiscal 2007 compared to fiscal 2006, reflecting both strong organic growth and growth through acquisitions. The consolidated operating margin of 16.9% for fiscal 2007 was in line with the Company's expectations and approximated the 17.0% reported for fiscal 2006. The operating margins of the FSG improved year-over-year due principally to operating efficiencies, and, although the ETG experienced a slight decrease, the operating margins within the ETG have remained strong.

As the Company looks forward to fiscal 2008 and beyond, HEICO will continue its focus on developing new products and services, further market penetration, additional acquisition opportunities, and maintaining its financial strength. Based on current economic and market conditions and including the results of the Company's recent acquisitions, the Company is targeting growth in fiscal 2008 net sales and earnings over fiscal 2007 results.

COMPARISON OF FISCAL 2006 TO FISCAL 2005

Net Sales

Net sales in fiscal 2006 increased by 45.4% to $392.2 million, as compared to net sales of $269.6 million in fiscal 2005. The increase in net sales reflects an increase of $85.3 million (a 44.4% increase) to $277.3 million in net sales within the FSG, and an increase of $37.2 million (a 47.8% increase) to $115.0 million in net sales within the ETG. The FSG's net sales increase reflects the acquisitions of Seal LLC, Arger, and Prime Air and organic growth of approximately 14%. The organic growth reflects increased sales of new products and services as well as improved demand for the FSG's aftermarket replacement parts and repair and overhaul services associated with continued recovery within the commercial airline industry. The ETG's net sales increase reflects the acquisitions of Connectronics, Lumina, HVT, and EDT and organic growth of approximately 8% reflecting increased demand for certain products.

The Company's net sales in fiscal 2006 by market approximated 64% from the commercial aviation industry, 19% from the defense and space industries, and 17% from other industrial markets including medical, electronics, and telecommunications. The Company's net sales in fiscal 2005 by market approximated 64% from the commercial aviation industry, 23% from the defense and space industries, and 13% from other industrial markets including medical, electronics, and telecommunications.

Gross Profit and Operating Expenses

The Company's gross profit margin decreased slightly to 36.3% in fiscal 2006 as compared to 37.5% in fiscal 2005, reflecting slightly lower margins within the FSG offset by an increase in the ETG margin. The FSG's gross profit margin decrease was due principally to a less favorable product mix including the expected impact of lower margins realized on products distributed by Seal LLC and Arger. The ETG's gross profit margin increase was principally from improved product mix, including a higher

margin product mix contributed by recent acquisitions. Consolidated cost of sales in fiscal 2006 and 2005 includes approximately $15.3 million and $11.3 million, respectively, of new product research and development expenses.

Selling, general, and administrative ("SG&A") expenses were $75.6 million and $56.3 million in fiscal 2006 and 2005, respectively. The increase in SG&A expenses was mainly due to higher operating costs, principally personnel related, associated with the aforementioned acquisitions, the increase in net sales discussed above, an increase in corporate expenses and stock option compensation expense (see "Stock Based Compensation," which follows within this Item 7). The increase in corporate expenses reflects higher compensation and performance awards ($2.0 million) as well as professional fees ($.7 million) associated with a qualified research and development activities claim (see "Income Tax Expense" below).

As a percentage of net sales, SG&A expenses decreased to 19.3% in fiscal 2006 compared to 20.9% in fiscal 2005. The decrease as a percentage of net sales is due to continued efficiencies in controlling costs while increasing revenues.

Operating Income

Operating income in fiscal 2006 increased by 49.8% to $66.9 million, compared to operating income of $44.6 million in fiscal 2005. The increase in operating income reflects an increase of $14.0 million (a 42.8% increase) to $46.8 million in operating income of the FSG in fiscal 2006. Operating income of the ETG increased $13.0 million (a 62.2% increase) to $34.0 million in fiscal 2006. These increases were partially offset by the aforementioned increase in corporate expenses. As a percentage of net sales, operating income increased from 16.6% in fiscal 2005 to 17.0% in fiscal 2006. The increase in operating income as a percentage of net sales reflects a slight decrease in the FSG's operating income as a percentage of net sales from 17.1% in fiscal 2005 to 16.9% in fiscal 2006 offset by an increase in the ETG's operating income as a percentage of net sales from 27.0% in fiscal 2005 to 29.6% in fiscal 2006. The decrease in the FSG's operating income as a percentage of net sales reflects the lower gross profit margins discussed previously, partially offset by improved operating efficiencies within SG&A expenses. The increase in the ETG's operating income as a percentage of net sales reflects the increased gross profit margins discussed previously.

Interest Expense

Interest expense increased to $3,523,000 in fiscal 2006 from $1,136,000 in fiscal 2005. The increase was principally due to a higher weighted average balance outstanding under the revolving credit facility in fiscal 2006 and higher interest rates. Additional information about the Company's revolving credit facility may be found within "Financing Activities," which follows within this Item 7.

Interest and Other Income

Interest and other income in fiscal 2006 and 2005 were not material.

Income Tax Expense

The Company's effective tax rate for fiscal 2006 decreased to 32.7% from 36.6% in fiscal 2005. The decrease is principally due to a higher amount of the minority interests' share of income excluded from the Company's fiscal 2006 consolidated income subject to federal income taxes, as well as an income tax credit for qualified research and development activities claimed in its income tax return for fiscal 2005 and amended returns for previous tax years that were filed in the third and fourth quarters of

fiscal 2006. The aggregate tax credit, net of expenses, increased net income by approximately $1.0 million in fiscal 2006. For a detailed analysis of the provision for income taxes see Note 6, Income Taxes, of the Notes to Consolidated Statements of Operations.

Minority Interests' Share of Income

Minority interests' share of income of consolidated subsidiaries relates to the minority interests held in HEICO Aerospace, including the 20% minority interest held in HEICO Aerospace, the 49% minority interest held in Seal LLC and the 20% minority interest held in Prime Air; and the minority interests held in the ETG, which consist of the 20% minority interest held in Sierra Microwave Technology, LLC ("Sierra") and the 15% minority interest held in HVT. The increase in the minority interests' share of income in fiscal 2006 compared to fiscal 2005 is attributable to the acquisitions of Seal LLC (November 2005), HVT (September 2005), and Prime Air (September 2006) and the higher earnings of the FSG and Sierra.

Net Income

The Company's net income was $31.9 million, or $1.20 per diluted share, in fiscal 2006 compared to $22.8 million, or $.87 per diluted share, in fiscal 2005 reflecting the increased operating income referenced above.

INFLATION

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

Operating Activities

Net cash provided by operating activities was $57.5 million for fiscal 2007, principally reflecting net income of $39.0 million, minority interests' share of income of $16.3 million, depreciation and amortization of $12.2 million, a tax benefit related to stock option exercises of $6.9 million, and a deferred income tax provision of $2.8 million, partially offset by an increase in net operating assets of $16.0 million and the presentation of $5.3 million of excess tax benefit from stock option exercises as a financing activity in accordance with the provisions of SFAS No. 123(R) (see "Stock Based Compensation" below). The increase in net operating assets (current assets used in operating activities net of current liabilities) primarily reflects a higher investment in inventories by the FSG required to meet increased sales demand associated with new product offerings, sales growth, improved product delivery times, and higher prices of certain raw materials; and an increase in accounts receivable due to sales growth; partially

offset by higher current liabilities associated with increased sales and purchases and higher accrued employee compensation and related payroll taxes.

Net cash provided by operating activities was $46.9 million for fiscal 2006, principally reflecting net income of $31.9 million, minority interests' share of income of $11.2 million, depreciation and amortization of $10.6 million, a tax benefit related to stock option exercises of $2.2 million, a deferred income tax provision of $2.6 million, and stock option compensation expense of $1.4 million, partially offset by an increase in net operating assets of $12.0 million and the presentation of $1.6 million of excess tax benefit from stock option exercises as a financing activity in accordance with the provisions of SFAS No. 123(R) (see "Stock Based Compensation" below). The increase in net operating assets (current assets used in operating activities net of current liabilities) primarily reflects a higher investment in inventories required to meet increased sales demand associated with new product offerings, sales growth, and increased lead times on certain raw materials; and an increase in accounts receivable due to sales growth; partially offset by higher current liabilities associated with increased sales and purchases and higher accrued employee compensation and related payroll taxes.

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

Investing Activities

Net cash used in investing activities during the three fiscal year period ended October 31, 2007 primarily relates to several acquisitions, including contingent payments, totaling $148.0 million, including $48.4 million in fiscal 2007, $58.1 million in fiscal 2006, and $41.5 million in fiscal 2005. Further details on acquisitions may be found at the beginning of this Item 7 under the caption "Overview" and Note 2, Acquisitions, of the Notes to Consolidated Financial Statements. Capital expenditures aggregated $31.1 million over the last three fiscal years, primarily reflecting the expansion of existing production facilities and capabilities, which were generally funded using cash provided by operating activities. In fiscal 2005, the Company received proceeds of $3.5 million from the sale of a building held for sale.

Financing Activities

During the three fiscal year period ended October 31, 2007, the Company borrowed an aggregate $142.0 million under its revolving credit facility principally to fund acquisitions, including $46.0 million in fiscal 2007, $59.0 million in fiscal 2006, and $37.0 million in fiscal 2005. Further details on acquisitions may be found at the beginning of this Item under the caption "Overview" and Note 2, Acquisitions, of the Notes to Consolidated Financial Statements. Repayments on the revolving credit facility aggregated $105.0 million over the last three fiscal years, including $46.0 million in fiscal 2007, $38.0 million in fiscal 2006, and $21.0 million in fiscal 2005. For the three year fiscal period ended October 31, 2007, the Company received proceeds from stock option exercises aggregating $13.7 million, made distributions to minority interest owners aggregating $10.4 million, and paid cash dividends aggregating $5.3 million, partially offset by net repayments of $2.0 million on the Company's short-term line of credit. Net cash provided by financing activities also includes the presentation of $5.3 million and

$1.6 million of excess tax benefit from stock option exercises in fiscal 2007 and 2006, respectively, in accordance with the provisions of SFAS No. 123(R).

In August 2005, the Company amended its revolving credit facility by entering into a $130 million Amended and Restated Revolving Credit Agreement ("Credit Facility") with a bank syndicate, which expires in August 2010. The Credit Facility includes a feature that will allow the Company to increase the Credit Facility, at its option, up to an aggregate amount of $175 million through increased commitments from existing lenders or the addition of new lenders. The Credit Facility may be used for working capital and general corporate needs of the Company, including letters of credit, capital expenditures, and to finance acquisitions. In July 2006, the Company amended the Credit Facility principally to include a less restrictive covenant regarding requisite approval of acquisitions by the bank syndicate. The prior covenant relating to approval by the bank syndicate of acquisitions in excess of an aggregate of $50 million over any twelve-month period was eliminated provided the Company maintains an agreed upon, or lower, leverage ratio. Advances under the Credit Facility accrue interest at the Company's choice of the "Base Rate" or the London Interbank Offered Rate ("LIBOR") plus applicable margins (based on the Company's ratio of total funded debt to earnings before interest, taxes, depreciation and amortization, minority interest, and non-cash charges or "leverage ratio"). The Base Rate is the higher of (i) the Prime Rate or (ii) the Federal Funds rate plus .50%. The applicable margins range from .75% to 2.00% for LIBOR based borrowings and from .00% to .50% for Base Rate based borrowings. A fee is charged on the amount of the unused commitment ranging from .20% to ..50% (depending on the Company's leverage ratio). The Credit Facility also includes a $10 million swingline sublimit and a $15 million sublimit for letters of credit. The Credit Facility is secured by substantially all assets other than real property of the Company and its subsidiaries and contains covenants that require, among other things, the maintenance of the leverage ratio and a fixed charge coverage ratio as well as minimum net worth requirements. See Note 5, Short-Term and Long-Term Debt, of the Notes to Consolidated Financial Statements for further information regarding the revolving credit facility.

CONTRACTUAL OBLIGATIONS

The following table summarizes the Company's contractual obligations as of October 31, 2007:

		PAYMENTS DUE BY FISCAL PERIOD			
	TOTAL	2008	2009 - 2010	2011 - 2012	T
Short term and long-term debt obligations (1)	$ 55,788,000	$ 2,134,000	$ 53,450,000	$ 181,000	$
Capital lease obligations and equipment loans (1)	164,000	53,000	102,000	9,000	
Operating lease obligations (2)	25,927,000	4,682,000	6,899,000	4,454,000	
Purchase obligations (3)	11,899,000	11,857,000	42,000	--	
Other long-term liabilities (4)	2,216,000	1,932,000	137,000	81,000	
Total contractual obligations	$ 95,994,000	$ 20,658,000	$ 60,630,000	$ 4,725,000	$

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

(2) See Note 15, Commitments and Contingencies - Lease Commitments, of the Notes to Consolidated Financial Statements for additional information regarding the Company's operating lease obligations.

(3) Includes additional purchase consideration aggregating $11,736,000 relating to fiscal 2006 acquisitions. See Note 2, Acquisitions, of the Notes to Consolidated Financial Statements. Also includes $163,000 of commitments for capitalized expenditures and excludes all purchase obligations for inventory and supplies in the ordinary course of business.

(4) Includes $1,826,000 of discretionary contributions under our Leadership Compensation Plan, which is explained further in Note 3, Selected Financial Statement Information - Other Non-Current Liabilities, of the Notes to Consolidated Financial Statements. The amounts in the table do not include amounts related to the Company's other deferred compensation arrangement for which there is an offsetting asset included in the Company's Consolidated Balance Sheets. Also includes projected payments aggregating $315,000 under our Directors Retirement Plan, which is explained further in Note 9, Retirement Plans, of the Notes to Consolidated Financial Statements (the plan is unfunded and we pay benefits directly) and $75,000 of other contractual obligations.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has arranged for standby letters of credit aggregating $1.8 million to meet the security requirement of its insurance company for potential workers' compensation claims, which are supported by the Company's revolving credit facility. In addition, the Company's industrial development revenue bonds are secured by a $2.0 million letter of credit expiring April 2008 and a mortgage on the related properties pledged as collateral.

Pursuant to the purchase agreement related to the acquisition of an 80% interest in a subsidiary by the FSG in fiscal 2001, the Company acquired an additional 10% of the equity interests of the subsidiary in fiscal 2007. The Company has the right to purchase the remaining 10% of the equity interests in fiscal 2011, or sooner under certain conditions, and the minority interest holder has the right to cause the Company to purchase the same equity interest in the same period.

As part of the agreement to acquire an 80% interest in a subsidiary by the ETG in fiscal 2004, the Company has the right to purchase the minority interests beginning at approximately the tenth anniversary of the acquisition, or sooner under certain conditions, and the minority interest holders have the right to cause the Company to purchase their interests commencing on approximately the fifth anniversary of the acquisition, or sooner under certain conditions.

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

As part of the agreement to acquire an 85% interest in a subsidiary by the ETG in fiscal 2005, the minority interest holders have the right to cause the Company to purchase their interests over a four-year period starting around the second anniversary of the acquisition, or sooner under certain conditions. In fiscal 2007, some of the minority interest holders exercised their option to cause the Company to purchase their aggregate 3% interest over the four-year period ending in fiscal 2010. Accordingly, the Company increased its ownership interest in the subsidiary by .75% (or one-fourth of such minority interest holders' aggregate interest) to 85.75% effective April 2007.

As part of the agreement to acquire a 51% interest in a subsidiary by the FSG in fiscal 2006, the Company has the right to purchase 28% of the equity interests of the subsidiary over a four-year period beginning approximately after the second anniversary of the acquisition, or sooner under certain conditions, and the minority interest holders have the right to cause the Company to purchase the same equity interest over the same period. Further, the Company has the right to purchase the remaining 21% of the equity interests of the subsidiary over a three-year period beginning approximately after the fourth anniversary of the acquisition, or sooner under certain conditions, and the minority interest holders have the right to cause the Company to purchase the same et style="font-family:inherit;font-size:10pt;">Mutual funds

$
41,114,733

$
—

$
—

$
41,114,733

Peoples Bancorp Inc. Common Stock Fund Units

5,796,913

—

—

5,796,913

Total

$

46,911,646

$
—

$
—

$
46,911,646

Note 5. Party-in-Interest Transactions

Party-in-interest transactions include those with fiduciaries or employees of the Plan, any person who provides services to the Plan, an employer whose employees are covered by the Plan, and an employee organization whose members are covered by the Plan, as well as, a person who owns 50 percent or more of such employer or employee organization or relatives of such persons.

The Plan holds common shares of Peoples, which is the plan sponsor. The plan receives dividends quarterly from Peoples on the common shares held in the Plan. The plan received $125,491 and $125,737 of dividends in 2017 and 2016 respectively. The Plan also invests in certain funds of the Plan trustee. Certain administrative services are provided at no cost to the Plan by Peoples. The Plan paid $83,402 and $84,228 of record-keeping fees to Mass Mutual Retirement Services, LLC during 2017 and 2016, respectively.

Note 6. Risks and Uncertainties

The Plan provides for various investments in common stock and mutual funds. Such investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of these investments will occur in the near term and such changes could materially affect the amounts reported in the statements of net assets available for benefits and participant account balances. Peoples common shares represented 9% of the total value of assets held in the Plan at December 31, 2017.

Note 7. Subsequent Events

Subsequent events have been evaluated through the date of the Report of the Independent Registered Public Accounting Firm, which is the date the financial statements were issued for purposes of the standards of the Public Company Accounting Oversight Board.

Peoples Bancorp Inc. Retirement Savings Plan
Notes to Financial Statements
December 31, 2017 and 2016

During January 2018, two new investment options were added to the Plan: Vanguard Short-Term Investment Grade Admiral and Vanguard Total Bond Market Index Admiral.

On April 13, 2018, Peoples completed its acquisition of ASB Financial Corp. (“ASB”). ASB merged into Peoples and ASB’s wholly-owned subsidiary, American Savings Banks, fsb, which operates six full-service branches and two loan production offices in southern Ohio and northern Kentucky, merged into Peoples Bank. As of the acquisition date, certain ASB employees became Peoples employees and are eligible for participation in the Plan.

Note 8. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements at December 31, 2017 and 2016, to Form 5500:

	2017	2016
Net assets available for benefits per the financial statements	$56,659,319	$47,797,356
Employer's contribution receivable	(54,096)	(37,652)
Net assets available for benefits per Form 5500	$56,605,223	$47,759,704

The following is a reconciliation of employers’ contributions per the financial statements for the years ended December 31, 2017 and 2016, to Form 5500:

	2017	2016
Employer's contributions per the financial statements	$1,666,629	$1,569,392
Add: Employer's contribution receivable at December 31, 2015	37,652	49,115
Less: Employer's contribution receivable at December 31, 2016	(54,096)	(37,652)
Employer's contributions per Form 5500	$1,650,185	$1,580,855

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Supplemental Schedule

Peoples Bancorp Inc. Retirement Savings Plan
EIN 31-0987416 PN 002
Schedule H, Line 4i – Schedule of Assets (Held at End of Year)
December 31, 2017

(a)(b) Identity of Issuer	(c) Description of Investment (units)	(e) Current Value
American Century Mid Cap Value Institutional	36,489	639,660
Blackrock Global Allocation-I Fund	28,239	559,416
Carillon Eagles Mid Cap Growth-I	997	59,279
Columbia Mid Cap Index Fund-Z	168,697	2,778,445
Dodge and Cox Income	166,278	2,287,978
Fidelity Government Money Market	2,166,044	2,136,326
Fidelity International Index Investment	9,703	418,990
Mainstay Large Cap Growth-I Fund	324,781	3,153,625
Oppenheimer International Growth Fund - Y	50,548	2,204,916
* Peoples Bancorp Stock	234,718	4,812,512
PIMCO Low Duration Institutional Class	156,651	1,544,575
T Rowe Price Balanced Fund	94,242	2,292,905
T Rowe Price New Horizons	22,221	1,168,176
T Rowe Price Retirement 2005	13,659	186,447
T Rowe Price Retirement 2010	12,035	219,993
T Rowe Price Retirement 2015	31,059	465,264
T Rowe Price Retirement 2020	63,163	1,423,701
T Rowe Price Retirement 2025	132,877	2,337,296
T Rowe Price Retirement 2030	107,751	2,792,911
T Rowe Price Retirement 2035	96,698	1,834,362
T Rowe Price Retirement 2040	45,346	1,235,229
T Rowe Price Retirement 2045	60,932	1,125,421
T Rowe Price Retirement 2050	139,270	2,161,470
T Rowe Price Retirement 2055	1,777	27,692
Vanguard Equity Income Fund Investor	24,635	916,184
Vanguard Life Strategy Cons Growth	8,015	159,972
Vanguard Life Strategy Growth	19,576	659,122
Vanguard Life Strategy Income	51	794
Vanguard Life Strategy Moderate Growth	18,379	498,806
Vanguard Mid-Cap GR Index-ADM	44,817	2,463,161
Vanguard Primecap Core Investment	196,268	5,279,615
Vanguard Small Cap Index Admiral	31,251	2,211,940
Vanguard Small Cap Value Index Fd Admiral	9,922	565,734
Vanguard Total Stock Market Index Admiral	78,878	5,262,738
* Participant loans (Interest rates - 3.25% - 6.50%, maturing between June 15, 2018 and December 31, 2022)		720,568
Assets held at end of year		$56,605,223

* Parties-in-interest

Cost information is not required for participant-directed investments and, therefore, is not included.

--11-

Exhibit Index

Exhibit Number	Description
23.1	Consent of Independent Registered Public Accounting Firm

--12-

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

PEOPLES BANCORP INC.
RETIREMENT SAVINGS PLAN

Date:	June 28, 2018	By:	/s/ MATTHEW EDGELL
			Matthew Edgell
			Senior Vice President, Director of Human Resources
			Chairperson, Retirement Plan Committee

--13-