HEICO CORP
Form 10-Q
May 31, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 30, 2012

OR

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

For the transition period from ______ to

Commission File Number: 1-4604

HEICO CORPORATION

(Exact name of registrant as specified in its charter)

Florida	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)

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes **x** No o

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

Large accelerated filer **x** Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

The number of shares outstanding of each of the registrant’s classes of common stock as of May 24, 2012 is as follows:

Common Stock, $.01 par value	21,331,762 shares
Class A Common Stock, $.01 par value	31,344,982 shares

HEICO CORPORATION

INDEX TO QUARTERLY REPORT ON FORM 10-Q

PART I. FINANCIAL INFORMATION; Item 1. FINANCIAL STATEMENTS

HEICO CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS – UNAUDITED

(in thousands, except per share data)

	April 30, 2012	October 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$22,262	$ 17,500
Accounts receivable, net	114,427	106,414
Inventories, net	187,395	164,967
Prepaid expenses and other current assets	8,491	5,471
Deferred income taxes	24,635	22,286
Total current assets	357,210	316,638
Property, plant and equipment, net	78,595	67,074
Goodwill	535,257	443,402
Intangible assets, net	153,113	78,157
Deferred income taxes	2,464	2,374
Other assets	44,876	33,424
Total assets	$1,171,515	$ 941,069
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	$318	$ 335
Trade accounts payable	43,511	43,547
Accrued expenses and other current liabilities	71,628	76,376
Income taxes payable	9,890	3,132
Total current liabilities	125,347	123,390
Long-term debt, net of current maturities	174,400	39,823
Deferred income taxes	88,981	58,899
Other long-term liabilities	51,782	33,373
Total liabilities	440,510	255,485
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests (Note 9)	59,096	65,430
Shareholders' equity:		
Preferred Stock, $.01 par value per share; 10,000 shares authorized; 300 shares designated as Series B Junior	-	-

Participating Preferred Stock and 300 shares designated as Series C Junior Participating Preferred Stock; none issued		
Common Stock, $.01 par value per share; 75,000 shares authorized; 21,327 and 21,318 shares issued and outstanding	213	171
Class A Common Stock, $.01 par value per share; 75,000 shares authorized; 31,340 and 31,278 shares issued and outstanding	313	250
Capital in excess of par value	241,193	226,120
Deferred compensation obligation	522	522
HEICO stock held by irrevocable trust	(522)	(522)
Accumulated other comprehensive (loss) income	(1,351)	3,033
Retained earnings	334,582	299,497
Total HEICO shareholders' equity	574,950	529,071
Noncontrolling interests	96,959	91,083
Total shareholders' equity	671,909	620,154
Total liabilities and equity	$1,171,515	$ 941,069

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

HEICO CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS – UNAUDITED

(in thousands, except per share data)

	Six months ended April 30,		Three months ended April 30,	
	2012	2011	2012	2011
Net sales	$428,969	$358,705	$216,314	$184,486
Operating costs and expenses:				
Cost of sales	275,523	228,408	141,116	118,115
Selling, general and administrative expenses	78,213	65,012	37,597	33,458
Total operating costs and expenses	353,736	293,420	178,713	151,573
Operating income	75,233	65,285	37,601	32,913
Interest expense	(1,264)	(92)	(654)	(38)
Other income	321	206	177	151
Income before income taxes and noncontrolling interests	74,290	65,399	37,124	33,026
Income tax expense	25,600	20,750	12,900	10,900
Net income from consolidated operations	48,690	44,649	24,224	22,126
Less: Net income attributable to noncontrolling interests	10,462	10,745	5,181	5,296
Net income attributable to HEICO	$38,228	$33,904	$19,043	$16,830
Net income per share attributable to HEICO shareholders:				
Basic	$.73	$.65	$.36	$.32
Diluted	$.72	$.64	$.36	$.32
Weighted average number of common shares outstanding:				
Basic	52,630	51,867	52,648	52,034
Diluted	53,290	53,042	53,296	53,103

Cash dividends per share	$ .048	$ .038	$ -	$ -

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

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HEICO CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

AND COMPREHENSIVE INCOME – UNAUDITED

(in thousands, except per share data)

		HEICO Shareholders' Equity								
	Redeemable Noncontrolling Interests	Common Stock	Class A Common Stock	Capital in Excess of Par Value	Deferred Compensation Obligation	HEICO Stock Held by Irrevocable Trust	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interests	Total Shareholders' Equity
Balances as of October 31, 2011	$65,430	$171	$250	$226,120	$522	$(522)	$3,033	$299,497	$91,083	$620,154
Comprehensive income:										
Net income	4,586	-	-	-	-	-	-	38,228	5,876	44,104
Foreign currency translation	-	-	-	-	-	-	(4,236)	-	-	(4,236)
Total comprehensive income	4,586	-	-	-	-	-	(4,236)	38,228	5,876	39,868
Cash dividends ($.048 per share)	-	-	-	-	-	-	-	(2,526)	-	(2,526)
Five-for-four common stock split	-	42	63	(105)	-	-	-	(16)	-	(16)
Tax benefit from stock option exercises	-	-	-	13,148	-	-	-	-	-	13,148
Stock option compensation expense	-	-	-	1,883	-	-	-	-	-	1,883
Proceeds from stock option exercises	-	-	-	275	-	-	-	-	-	275
Acquisitions of noncontrolling	(7,616)	-	-	-	-	-	-	-	-	-

interests										
Distributions to noncontrolling interests	(5,050)	-	-	-	-	-	-	-	-	-
Redemptions of common stock related to stock options exercises	-	-	-	(127)	-	-	-	-	-	(127)
Adjustments to redemption amount of redeemable noncontrolling interests	522	-	-	-	-	-	-	(522)	-	(522)
Other	1,224	-	-	(1)	-	-	(148)	(79)	-	(228)
Balances as of April 30, 2012	$ 59,096	$ 213	$ 313	$ 241,193	$ 522	$ (522)	$ (1,351)	$ 334,582	$ 96,959	$ 671,909

		HEICO Shareholders' Equity								
	Redeemable Noncontrolling Interests	Common Stock	Class A Common Stock	Capital in Excess of Par Value	Deferred Compensation Obligation	HEICO Stock Held by Irrevocable Trust	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interests	Total Shareholders' Equity
Balances as of October 31, 2010	$ 55,048	$ 131	$ 199	227,993	$ -	$ -	$ (124)	$ 240,913	$ 85,714	$ 554,826
Comprehensive income:										
Net income	5,625	-	-	-	-	-	-	33,904	5,120	39,024
Foreign currency translation	-	-	-	-	-	-	1,867	-	-	1,867
Total comprehensive income	5,625	-	-	-	-	-	1,867	33,904	5,120	40,891
Cash dividends ($.038 per share)	-	-	-	-	-	-	-	(1,990)	-	(1,990)
Five-for-four common stock split	-	33	50	(83)	-	-	-	(102)	-	(102)
Tax benefit from stock option exercises	-	-	-	7,718	-	-	-	-	-	7,718
Proceeds from stock option exercises	-	3	1	1,802	-	-	-	-	-	1,806

Stock option compensation expense	-	-	-	1,128	-	-	-	-	-	1,128
Acquisitions of noncontrolling interests	(7,241)	-	-	-	-	-	-	-	-	-
Redemptions of common stock related to stock option exercises	-	-	-	(5,432)	-	-	-	-	-	(5,432)
Distributions to noncontrolling interests	(4,450)	-	-	-	-	-	-	-	-	-
Noncontrolling interests assumed related to acquisition	5,612	-	-	-	-	-	-	-	-	-
Adjustments to redemption amount of redeemable noncontrolling interests	(639)	-	-	-	-	-	-	639	-	639
Other	-	-	-	(2)	-	-	-	-	-	(2)
Balances as of April 30, 2011	$ 53,955	$ 167	$ 250	$ 233,124	$ -	$ -	$ 1,743	$ 273,364	$ 90,834	$ 599,482

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

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HEICO CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS – UNAUDITED

(in thousands)

	Six months ended April 30, 2012	2011
Operating Activities:		
Net income from consolidated operations	$48,690	$44,649
Adjustments to reconcile net income from consolidated operations to net cash provided by operating activities:		
Depreciation and amortization	14,438	8,891
Deferred income tax (benefit) provision	(1,057)	242
Tax benefit from stock option exercises	13,148	7,718
Excess tax benefit from stock option exercises	(12,095)	(6,358)
Stock option compensation expense	1,883	1,128
Changes in operating assets and liabilities, net of acquisitions:		
Decrease (increase) in accounts receivable	777	(3,597)
Increase in inventories	(6,981)	(6,153)
Increase in prepaid expenses and other current assets	(2,725)	(2,777)
(Decrease) increase in trade accounts payable	(2,005)	4,119
Decrease in accrued expenses and other current liabilities	(13,695)	(2,969)
Increase in income taxes payable	4,929	5,985
Other	39	203
Net cash provided by operating activities	45,346	51,081
Investing Activities:		
Acquisitions, net of cash acquired	(161,357)	(27,936)
Capital expenditures	(8,148)	(3,845)
Other	(136)	3
Net cash used in investing activities	(169,641)	(31,778)
Financing Activities:		
Borrowings on revolving credit facility	163,000	28,000
Payments on revolving credit facility	(28,000)	(35,000)
Excess tax benefit from stock option exercises	12,095	6,358
Acquisitions of noncontrolling interests	(7,616)	(7,241)
Redemptions of common stock related to stock option exercises	(127)	(5,432)
Distributions to noncontrolling interests	(5,050)	(4,450)
Cash dividends paid	(2,526)	(2,092)
Revolving credit facility issuance costs	(3,028)	-

Proceeds from stock option exercises	275	1,806
Other	297	(125)
Net cash provided by (used in) financing activities	129,320	(18,176)
Effect of exchange rate changes on cash	(263)	90
Net increase in cash and cash equivalents	4,762	1,217
Cash and cash equivalents at beginning of year	17,500	6,543
Cash and cash equivalents at end of period	$22,262	$7,760

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

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HEICO CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS–UNAUDITED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of HEICO Corporation and its subsidiaries (collectively, "HEICO," or the "Company") have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions to Form 10-Q. Therefore, the condensed consolidated financial statements do not include all information and footnotes normally included in annual consolidated financial statements and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended October 31, 2011. The October 31, 2011 Condensed Consolidated Balance Sheet has been derived from the Company's audited consolidated financial statements. In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments (consisting principally of normal recurring accruals) necessary for a fair presentation of the condensed consolidated balance sheets, statements of operations and statements of cash flows for such interim periods presented. The results of operations for the six months ended April 30, 2012 are not necessarily indicative of the results which may be expected for the entire fiscal year.

Stock Split

In March 2012, the Company's Board of Directors declared a 5-for-4 stock split on both classes of the Company's common stock. The stock split was effected as of April 25, 2012 in the form of a 25% stock dividend distributed to shareholders of record as of April 13, 2012. All applicable share and per share information has been adjusted retrospectively to give effect to the 5-for-4 stock split.

New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-06, "Improving Disclosures About Fair Value Measurements," which requires additional disclosures regarding transfers in and out of Level 1 and Level 2 fair value measurements and more detailed information of activity in Level 3 fair value measurements. The Company adopted ASU 2010-06 as of the beginning of fiscal 2010, except the additional Level 3 disclosures, which were adopted in the first quarter of fiscal 2012. ASU 2010-06 affects financial statement disclosures only and the Company will make the required additional disclosures as applicable.

In May 2011, the FASB issued ASU 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs,” which amends current fair value measurement and disclosure guidance to converge with International Financial Reporting Standards and provides increased transparency around valuation inputs and investment

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categorization. ASU 2011-04 also requires new disclosures about qualitative and quantitative information regarding the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy. The Company adopted ASU 2011-04 in the second quarter of fiscal 2012, resulting in only expanded fair value disclosures and no impact on the Company’s results of operations, financial position or cash flows.

In June 2011, the FASB issued ASU 2011-05, “Presentation of Comprehensive Income,” which requires the presentation of total comprehensive income, the components of net income and the components of other comprehensive income in either a single continuous statement of comprehensive income or in two separate, but consecutive statements. ASU 2011-05 eliminates the option to present other comprehensive income and its components in the statement of shareholders’ equity. ASU 2011-05 must be applied retroactively and is effective for fiscal years and interim periods within those years beginning after December 15, 2011, or in the first quarter of fiscal 2013 for HEICO. The Company is currently evaluating which presentation option it will elect, but the adoption of these provisions will have no effect on its results of operations, financial position or cash flows.

In September 2011, the FASB issued ASU 2011-08, “Testing Goodwill for Impairment,” which is intended to reduce complexity and costs by permitting an entity the option to perform a qualitative evaluation about the likelihood of goodwill impairment in order to determine whether it should calculate the fair value of a reporting unit. The update also improves previous guidance by expanding upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, or in fiscal 2013 for HEICO’s annual impairment test. The adoption of this guidance is not expected to have a material impact on the Company’s results of operations, financial position or cash flows.

2. ACQUISITIONS

On November 22, 2011, the Company, through its HEICO Electronic Technologies Corp. (“HEICO Electronic”) subsidiary, acquired Switchcraft, Inc. (“Switchcraft”) through the purchase of all of the stock of Switchcraft’s parent company, Switchcraft Holdco, Inc., for approximately $143.2 million, net of cash acquired. The purchase price of this acquisition was paid in cash, principally using proceeds from the Company’s revolving credit facility. Switchcraft is a leading designer and manufacturer of high performance, high reliability and harsh environment electronic connectors and other interconnect products. This acquisition is consistent with HEICO’s practice of acquiring outstanding, niche designers and manufacturers of critical components in the aerospace and electronic industries and will further enable the Company to broaden its product offerings, technologies and customer base.

The following table summarizes the allocation of the purchase price of Switchcraft to the estimated fair values of the tangible and identifiable intangible assets acquired and liabilities assumed (in thousands).

Assets acquired:	
Goodwill	$76,581
Identifiable intangible assets	72,500
Inventories	13,086
Property, plant and equipment	10,166
Accounts receivable	6,123
Other assets	1,570
Total assets acquired, excluding cash	$180,026
Liabilities assumed:	
Deferred income taxes	$30,448
Accrued expenses	2,252
Income taxes payable	2,016
Accounts payable	1,889
Other liabilities	258
Total liabilities assumed	$36,863
Net assets acquired, excluding cash	$143,163

The allocation of the purchase price to the tangible and identifiable assets acquired and liabilities assumed is preliminary until the Company obtains final information regarding their fair values. The primary items that generated the goodwill recognized were the premiums paid by the Company for the future earnings potential of Switchcraft and the value of its assembled workforce that do not qualify for separate recognition. The operating results of Switchcraft were included in the Company's results of operations from the effective acquisition date. The Company's consolidated net sales and net income attributable to HEICO for the six months ended April 30, 2012, includes approximately $25.5 million and $1.5 million, respectively, from the acquisition of Switchcraft. The Company's consolidated net sales and net income attributable to HEICO for the three months ended April 30, 2012, includes approximately $14.8 million and $.6 million, respectively, from the acquisition of Switchcraft.

The following table presents unaudited pro forma financial information for the six and three months ended April 30, 2011 as if the acquisition of Switchcraft had occurred as of November 1, 2010 (in thousands).

	Six months ended April 30, 2011	Three months ended April 30, 2011
Net sales	$ 388,113	$ 199,981
Net income from consolidated operations	$ 46,961	$ 23,485
Net income attributable to HEICO	$ 36,216	$ 18,189
Net income per share attributable to HEICO shareholders:		

Basic	$ .70	$ .35
Diluted	$ .68	$ .34

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The pro forma financial information is presented for comparative purposes only and is not necessarily indicative of the results of operations that actually would have been achieved if the acquisition had taken place as of November 1, 2010. The unaudited pro forma financial information includes adjustments to historical amounts such as additional amortization expense related to intangible assets acquired, increased interest expense associated with borrowings to finance the acquisition and inventory purchase accounting adjustments charged to cost of sales as the inventory is sold. Had the acquisition been consummated as of November 1, 2010, net sales, net income from consolidated operations, net income attributable to HEICO, and basic and diluted net income per share attributable to HEICO shareholders on a pro forma basis for the six and three months ended April 30, 2012 would not have been materially different than the reported amounts.

In March 2012, the Company, through HEICO Electronic, acquired the business and substantially all of the assets of Ramona Research, Inc. (“Ramona Research”). Ramona Research designs and manufactures RF and microwave amplifiers, transmitters and receivers primarily used to support military communications on unmanned aerial systems, other aircraft, helicopters and ground-based data/communications systems. The purchase price of this acquisition was paid in cash principally using proceeds from the Company’s revolving credit facility. The total consideration includes an accrual of approximately $10.8 million representing the fair value of contingent consideration in aggregate that the Company may be obligated to pay should Ramona Research meet certain earnings objectives during each of the first five years following the acquisition. The maximum amount of contingent consideration that the Company could be required to pay is $14.6 million in aggregate. See Note 7, Fair Value Measurements, for additional information regarding the Company’s contingent consideration obligation.

In April 2012, the Company, through a subsidiary of HEICO Electronic, acquired certain aerospace assets of Moritz Aerospace, Inc. (“Moritz Aerospace”) in an aerospace product line acquisition. The Moritz Aerospace product line designs and manufactures next generation wireless cabin control systems, solid state power distribution and management systems and fuel level sensing systems for business jets and for general aviation, as well as for the military/defense market segments. The purchase price of this acquisition was paid using cash provided by operating activities.

The total consideration and related allocation to the tangible and identifiable intangible assets acquired and liabilities assumed for the acquisitions of Ramona Research and Moritz Aerospace is not material or significant to the Company’s condensed consolidated financial statements. The operating results of Ramona Research and Moritz Aerospace were included in the Company’s results of operations from the effective acquisition dates. The amount of net sales and earnings of Ramona Research and Moritz Aerospace included in the Condensed Consolidated Statements of Operations is not material. Had the Ramona Research and Moritz Aerospace acquisitions been consummated as of November 1, 2010, net sales, net income from consolidated operations, net income attributable to HEICO, and basic and diluted net income per share attributable to HEICO shareholders on a pro forma basis for the six and three months ended April 30, 2012 and 2011 would not have been materially different than the reported amounts.

As part of the purchase agreements associated with certain prior year acquisitions, the Company may be obligated to pay additional purchase consideration based on the acquired subsidiary meeting certain earnings objectives following the acquisition. For acquisitions consummated prior to fiscal 2010, the Company accrues an estimate of additional purchase consideration when the earnings objectives are met. During the second quarter of fiscal 2012, the Company, through HEICO Electronic, accrued $10.1 million of additional purchase consideration related to a prior year acquisition for which the earning objectives were met in fiscal 2012. During the second quarter of fiscal 2011, the Company, through HEICO Electronic, paid $4.1 million of such additional purchase consideration, which was accrued as of October 31, 2010, using cash provided by operating activities and also accrued $1.3 million of additional purchase consideration related to a prior year acquisition for which the earnings objectives were met during fiscal 2011. The amount accrued in fiscal 2012 and the amounts paid and accrued in fiscal 2011 were based on a multiple of the respective subsidiary's earnings relative to target and were not contingent upon the former shareholders of the respective acquired entity remaining employed by the Company or providing future services to the Company. Accordingly, these amounts represent an additional cost of the respective entity recorded as additional goodwill. Information regarding additional contingent purchase consideration may be found in Note 12, Commitments and Contingencies.

3. SELECTED FINANCIAL STATEMENT INFORMATION

Accounts Receivable

(in thousands)	April 30, 2012	October 31, 2011
Accounts receivable	$ 118,877	$ 109,081
Less: Allowance for doubtful accounts	(4,450)	(2,667)
Accounts receivable, net	$ 114,427	$ 106,414

The $1.8 million increase in the Company's allowance for doubtful accounts is principally due to potential collection difficulties resulting from bankruptcy filings by certain customers during the six months ended April 30, 2012. The associated charges are included in selling, general and administrative expenses in the Company's Condensed Consolidated Statements of Operations for the six months ended April 30, 2012 and were partially offset by the reversal of certain forfeited amounts otherwise payable to such customers.

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

(in thousands)	April 30, 2012	October 31, 2011
Costs incurred on uncompleted contracts	$ 5,396	$ 4,443
Estimated earnings	4,886	4,206
	10,282	8,649
Less: Billings to date	(5,691)	(4,876)
	$ 4,591	$ 3,773
Included in the accompanying Condensed Consolidated Balance Sheets under the following captions:		
Accounts receivable, net (costs and estimated earnings in excess of billings)	$ 4,591	$ 3,773
Accrued expenses and other current liabilities (billings in excess of costs and estimated earnings)	-	-
	$ 4,591	$ 3,773

The percentage of the Company's net sales recognized under the percentage-of-completion method was not material for the six months ended April 30, 2012 and 2011. Changes in estimates pertaining to percentage-of-completion contracts did not have a material effect on net income from consolidated operations for the six months ended April 30, 2012 and 2011.

Inventories

(in thousands)	April 30, 2012	October 31, 2011
Finished products	$ 92,450	$ 86,487
Work in process	20,475	19,708
Materials, parts, assemblies and supplies	67,555	52,173
Contracts in process	8,081	8,291
Less: Billings to date	(1,166)	(1,692)
Inventories, net of valuation reserves	$ 187,395	$ 164,967

Contracts in process represents accumulated capitalized costs associated with fixed price contracts for which revenue is recognized on the completed-contract method. Related progress billings and customer advances ("billings to date") are classified as a reduction to contracts in process, if any, and any excess is included in accrued expenses and other liabilities.

Property, Plant and Equipment

(in thousands)	April 30, 2012	October 31, 2011
Land	$ 4,509	$ 3,825
Buildings and improvements	52,163	46,892
Machinery, equipment and tooling	103,821	94,297
Construction in progress	5,881	3,671
	166,374	148,685
Less: Accumulated depreciation and amortization	(87,779)	(81,611)
Property, plant and equipment, net	$ 78,595	$ 67,074

Accrued Customer Rebates and Credits

The aggregate amount of accrued customer rebates and credits included within accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheets was $9.4 million and $9.6 million as of April 30, 2012 and October 31, 2011, respectively. The total customer rebates and credits deducted within net sales for the six months ended April 30, 2012 and 2011 was $1.1 million and $4.4 million, respectively. The total customer rebates and credits deducted within net sales for the three months ended April 30, 2012 and 2011 was $ .7 million and $1.8 million, respectively. The decrease in customer rebates and credits principally reflects a reduction in the net sales volume of certain customers eligible for rebates as well as a reduction in associated rebate percentages.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company has two operating segments: the Flight Support Group (“FSG”) and the Electronic Technologies Group (“ETG”). Changes in the carrying amount of goodwill by operating segment for the six months ended April 30, 2012 are as follows (in thousands):

	Segment		Consolidated
	FSG	ETG	Totals
Balances as of October 31, 2011	$192,357	$251,045	$ 443,402
Goodwill acquired	-	84,172	84,172
Accrued additional purchase consideration	-	10,145	10,145
Foreign currency translation adjustments	-	(2,771)	(2,771)
Other	309	-	309
Balances as of April 30, 2012	$192,666	$342,591	$ 535,257

The goodwill acquired pertains to the current year acquisitions described in Note 2, Acquisitions, and represents the residual value after the allocation of the total consideration to the tangible and identifiable intangible assets acquired and liabilities assumed. The accrued additional purchase consideration is the result of a subsidiary of the ETG meeting certain earnings objectives in fiscal 2012. See Note 2, Acquisitions, and Note 12, Commitments and Contingencies, for additional information regarding additional contingent purchase

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consideration. The Company estimates that approximately $13 million of the goodwill recognized in fiscal 2012 will be deductible for income tax purposes.

Identifiable intangible assets consist of the following (in thousands):

	As of April 30, 2012			As of October 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizing Assets:						
Customer relationships	$99,039	($19,335)	$79,704	$51,934	($18,085)	$33,849
Intellectual property	39,006	(3,798)	35,208	18,493	(2,236)	16,257
Licenses	2,900	(985)	1,915	2,900	(854)	2,046
Non-compete agreements	1,344	(1,254)	90	1,364	(1,203)	161
Patents	625	(337)	288	576	(313)	263
Trade names	566	(280)	286	569	(224)	345
	143,480	(25,989)	117,491	75,836	(22,915)	52,921
Non-Amortizing Assets:						
Trade names	35,622	-	35,622	25,236	-	25,236
	$179,102	($25,989)	$153,113	$101,072	($22,915)	$78,157

The increase in the gross carrying amount of customer relationships, intellectual property and non-amortizing trade names as of April 30, 2012 compared to October 31, 2011 principally relates to such intangible assets recognized in connection with acquisitions made during fiscal 2012 (see Note 2, Acquisitions). The weighted average amortization period of the customer relationships and intellectual property acquired is 10 years and 11 years, respectively.

Amortization expense related to intangible assets for the six months ended April 30, 2012 and 2011 was $7.5 million and $3.5 million, respectively. Amortization expense related to intangible assets for the three months ended April 30, 2012 and 2011 was $4.0 and $1.8 million, respectively. Amortization expense related to intangible assets for the remainder of fiscal 2012 is estimated to be $8.4 million. Amortization expense for each of the next five fiscal years and thereafter is estimated to be $16.3 million in fiscal 2013, $15.7 million in fiscal 2014, $14.2 million in fiscal 2015, $12.8 million in fiscal 2016, $12.2 million in fiscal 2017 and $37.9 million thereafter.

5. LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	April 30, 2012	October 31, 2011
Borrowings under revolving credit facility	$ 171,000	$ 36,000
Capital lease and note payable	3,718	4,158
	174,718	40,158
Less: Current maturities of long-term debt	(318)	(335)
	$ 174,400	$ 39,823

On December 14, 2011, the Company entered into a $670 million Revolving Credit Agreement (“New Credit Facility”) with a bank syndicate, which matures in December 2016.

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Under certain circumstances, the maturity of the New Credit Facility may be extended for two one-year periods. The New Credit Facility also includes a feature that will allow the Company to increase the New Credit Facility by $130 million, at its option, to become an $800 million facility through increased commitments from existing lenders or the addition of new lenders. The New Credit Facility may be used for working capital and general corporate needs of the Company, including capital expenditures and to finance acquisitions. The New Credit Facility replaced the $300 million Second Amended and Restated Revolving Credit Facility Agreement.

Advances under the New 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, noncontrolling interests and non-cash charges, or "leverage ratio"). The Base Rate is the highest of (i) the Prime Rate; (ii) the Federal Funds rate plus .50% per annum; and (iii) the Adjusted LIBO Rate determined on a daily basis for an Interest Period of one month plus 1.00% per annum, as such capitalized terms are defined in the New Credit Facility. The applicable margins for LIBOR-based borrowings range from .75% to 2.25%. The applicable margins for Base Rate borrowings range from 0% to 1.25%. A fee is charged on the amount of the unused commitment ranging from .125% to .35% (depending on the Company's leverage ratio). The New Credit Facility also includes a $50 million sublimit for borrowings made in foreign currencies, letters of credit and swingline borrowings. Outstanding principal, accrued and unpaid interest and other amounts payable under the New Credit Facility may be accelerated upon an event of default, as such events are described in the New Credit Facility. The New Credit Facility is unsecured and contains covenants that require, among other things, the maintenance of a total leverage ratio, a senior leverage ratio and a fixed charge coverage ratio. In the event the Company's leverage ratio exceeds a specified level, the New Credit Facility would become secured by the capital stock owned in substantially all of the Company's subsidiaries.

As of April 30, 2012 and October 31, 2011, the weighted average interest rate on borrowings under the Company's revolving credit facility was 1.2% and .9%, respectively. The revolving credit facility contains both financial and non-financial covenants. As of April 30, 2012, the Company was in compliance with all such covenants.

6. INCOME TAXES

As of April 30, 2012, the Company's liability for gross unrecognized tax benefits related to uncertain tax positions was $2.0 million of which $1.6 million would decrease the Company's income tax expense and effective income tax rate if the tax benefits were recognized. A reconciliation of the activity related to the liability for gross unrecognized tax benefits for the six months ended April 30, 2012 is as follows (in thousands):

Balance as of October 31, 2011	$1,834
Increases related to current year tax positions	196

Lapse of statutes of limitations	(45)
Balance as of April 30, 2012	$1,985

There were no material changes in the liability for unrecognized tax positions resulting from tax positions taken during the current or a prior year, settlements with other taxing authorities or a lapse of applicable statutes of limitations. The accrual of interest and penalties related to the unrecognized tax benefits was not material for the six months ended April 30, 2012. Further, the Company does not expect the total amount of unrecognized tax benefits to materially change in the next twelve months.

The Company's effective tax rate in the first six months of fiscal 2012 increased to 34.5% from 31.7% in the first six months of fiscal 2011. The increase is principally due to an income tax credit for qualified research and development activities for the last ten months of fiscal 2010 that was recognized in the first quarter of fiscal 2011 resulting from the retroactive extension of Section 41 of the Internal Revenue Code, "Credit for Increasing Research Activities," to cover the period from January 1, 2010 to December 31, 2011. The increase also reflects a higher effective state income tax rate attributable to a fiscal 2012 acquisition and changes in certain state tax laws which impacted state apportionment factors. During fiscal 2011 and 2012, the Company purchased certain noncontrolling interests that also contributed to the increase in the effective tax rate for the six months ended April 30, 2012.

The Company's effective tax rate in the second quarter of fiscal 2012 increased to 34.7% from 33.0% in the second quarter of fiscal 2011. The increase principally reflects a higher effective state income tax rate attributable to a fiscal 2012 acquisition and changes in certain state tax laws which impacted state apportionment factors. During fiscal 2011 and 2012, the Company purchased certain noncontrolling interests that also contributed to the increase in the effective tax rate for the three months ended April 30, 2012.

7. FAIR VALUE MEASUREMENTS

The following tables set forth by level within the fair value hierarchy, the Company's assets and liabilities that were measured at fair value on a recurring basis (in thousands):

As of April 30, 2012			
Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	(Level 2)	(Level 3)	Total

	(Level 1)			
Assets:				
Deferred compensation plans:				
Corporate owned life insurance	$-	$ 35,677	$ -	$35,677
Equity securities	1,225	-	-	1,225
Mutual funds	1,114	-	-	1,114
Money market funds and cash	963	-	-	963
Other	-	425	576	1,001
Total assets	$3,302	$ 36,102	$ 576	$39,980
Liabilities:				
Contingent Consideration	$-	$ -	$ 10,825	$10,825

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	As of October 31, 2011			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Deferred compensation plans:				
Corporate owned life insurance	$-	$ 26,989	$ -	$26,989
Equity securities	1,150	-	-	1,150
Mutual funds	1,004	-	-	1,004
Money market funds and cash	920	-	-	920
Other	-	451	573	1,024
Total assets	$3,074	$ 27,440	$ 573	$31,087
Liabilities:	$-	$ -	$ -	