HEICO CORP
Form 10-Q
August 31, 2018

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended July 31, 2018

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: 001-04604

HEICO CORPORATION

(Exact name of registrant as specified in its charter)

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

(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 ¨

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 ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Smaller reporting company ¨ Emerging growth company ¨

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

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

The number of shares outstanding of each of the registrant’s classes of common stock as of August 29, 2018 is as follows:

Common Stock, $.01 par value	53,349,968	shares
Class A Common Stock, $.01 par value	79,542,004	shares

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HEICO CORPORATION

INDEX TO QUARTERLY REPORT ON FORM 10-Q

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PART I. FINANCIAL INFORMATION; Item 1. FINANCIAL STATEMENTS

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

	July 31, 2018	**October 31, 2017**
ASSETS		
Current assets:		
Cash and cash equivalents	$66,981	$52,066
Accounts receivable, net	249,326	222,456
Inventories, net	391,788	343,628
Prepaid expenses and other current assets	20,063	13,742
Total current assets	728,158	631,892
Property, plant and equipment, net	154,614	129,883
Goodwill	1,102,352	1,081,306
Intangible assets, net	516,454	538,081
Other assets	153,261	131,269
Total assets	$2,654,839	$2,512,431
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	$929	$451
Trade accounts payable	99,955	89,724
Accrued expenses and other current liabilities	152,499	147,612
Income taxes payable	1,374	11,650
Total current liabilities	254,757	249,437
Long-term debt, net of current maturities	622,889	673,528
Deferred income taxes	46,469	59,026
Other long-term liabilities	166,803	151,025
Total liabilities	1,090,918	1,133,016
Commitments and contingencies (Note 10)		
Redeemable noncontrolling interests (Note 3)	133,599	131,123
Shareholders’ equity:		
Preferred Stock, $.01 par value per share; 10,000 shares authorized; none issued	—	—
Common Stock, $.01 par value per share; 150,000 and 75,000 shares authorized; 53,350 and 52,776 shares issued and outstanding	534	338
Class A Common Stock, $.01 par value per share; 150,000 and 75,000 shares authorized; 79,522 and 79,227 shares issued and outstanding	795	507
Capital in excess of par value	317,089	326,544
Deferred compensation obligation	3,118	3,118
HEICO stock held by irrevocable trust	(3,118)	(3,118)
Accumulated other comprehensive loss	(9,187)	(10,556)
Retained earnings	1,024,739	844,247

Total HEICO shareholders’ equity	1,333,970	1,161,080
Noncontrolling interests	96,352	87,212
Total shareholders’ equity	1,430,322	1,248,292
Total liabilities and equity	$2,654,839	$2,512,431

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 OPERATIONS – UNAUDITED
(in thousands, except per share data)

	Nine months ended July 31,		**Three months ended July 31,**	
	2018	**2017**	**2018**	**2017**
Net sales	$1,300,837	$1,103,589	$465,825	$391,500
Operating costs and expenses:				
Cost of sales	796,580	688,893	284,216	242,603
Selling, general and administrative expenses	231,709	197,482	80,186	72,775
Total operating costs and expenses	1,028,289	886,375	364,402	315,378
Operating income	272,548	217,214	101,423	76,122
Interest expense	(14,841)	(6,376)	(5,212)	(2,447)
Other (expense) income	(2)	835	(112)	200
Income before income taxes and noncontrolling interests	257,705	211,673	96,099	73,875
Income tax expense	46,100	63,100	22,200	22,400
Net income from consolidated operations	211,605	148,573	73,899	51,475
Less: Net income attributable to noncontrolling interests	19,749	16,262	6,813	5,777
Net income attributable to HEICO	$191,856	$132,311	$67,086	$45,698
Net income per share attributable to HEICO shareholders:				
Basic	$1.45	$1.01	$.51	$.35
Diluted	$1.40	$.98	$.49	$.34
Weighted average number of common shares outstanding:				
Basic	132,422	131,618	132,794	131,786
Diluted	136,570	135,382	136,733	135,771
Cash dividends per share	$.116	$.097	$.060	$.051

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 COMPREHENSIVE INCOME – UNAUDITED
(in thousands)

	Nine months ended July 31,		Three months ended July 31,	
	2018	**2017**	**2018**	**2017**
Net income from consolidated operations	$211,605	$148,573	$73,899	$51,475
Other comprehensive income (loss):				
Foreign currency translation adjustments	1,209	17,854	(8,181)	17,620
Amortization of unrealized loss on defined benefit pension plan, net of tax	11	22	5	7
Total other comprehensive income (loss)	1,220	17,876	(8,176)	17,627
Comprehensive income from consolidated operations	212,825	166,449	65,723	69,102
Net income attributable to noncontrolling interests	19,749	16,262	6,813	5,777
Foreign currency translation adjustments attributable to noncontrolling interests	72	1,117	(505)	1,192
Comprehensive income attributable to noncontrolling interests	19,821	17,379	6,308	6,969
Comprehensive income attributable to HEICO	$193,004	$149,070	$59,415	$62,133

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 - 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 Loss**	**Retained Earnings**	**Noncontrolling Interests**	**Total Shareholders' Equity**
Balances as of October 31, 2017	$131,123	$338	$507	$326,544	$3,118	($3,118)	($10,556)	$844,247	$87,212	$1,248,292
Comprehensive income	9,913	—	—	—	—	—	1,148	191,856	9,908	202,912
Cash dividends ($.116 per share)	—	—	—	—	—	—	—	(15,363)	—	(15,363)
Five-for-four common stock splits	—	191	286	(477)	—	—	—	(29)	—	(29)
Issuance of common stock to HEICO Savings and Investment Plan	—	1	1	6,993	—	—	—	—	—	6,995
Share-based compensation expense	—	—	—	6,933	—	—	—	—	—	6,933
Proceeds from stock option exercises	—	7	1	3,028	—	—	—	—	—	3,036
Redemptions of common stock related to stock option exercises	—	(3)	—	(24,938)	—	—	—	—	—	(24,941)
Distributions to noncontrolling interests	(6,361)	—	—	—	—	—	—	—	(768)	(768)
Adjustments to redemption amount of redeemable noncontrolling interests	(4,561)	—	—	—	—	—	—	4,561	—	4,561
Noncontrolling interests assumed related to acquisitions	2,491	—	—	—	—	—	—	—	—	—
Other	994	—	—	(994)	—	—	221	(533)	—	(1,306)
Balances as of July 31, 2018	$133,599	$534	$795	$317,089	$3,118	($3,118)	($9,187)	$1,024,739	$96,352	$1,430,322

		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 Loss**	**Retained Earnings**	**Noncontrolling Interests**	**Total Shareholders' Equity**
Balances as of October 31, 2016	$99,512	$270	$403	$306,328	$2,460	($2,460)	($25,326)	$681,704	$84,326	$1,047,705
Comprehensive income	9,127	—	—	—	—	—	16,759	132,311	8,252	157,322
Cash dividends ($.097 per share)	—	—	—	—	—	—	—	(12,807)	—	(12,807)
Five-for-four common stock split	—	68	101	(169)	—	—	—	(23)	—	(23)
Issuance of common stock to HEICO Savings and Investment Plan	—	—	—	6,489	—	—	—	—	—	6,489
Share-based compensation expense	—	—	—	5,207	—	—	—	—	—	5,207
Proceeds from stock option exercises	—	—	2	4,169	—	—	—	—	—	4,171
Noncontrolling interests assumed related to acquisitions	23,618	—	—	—	—	—	—	—	—	—
Distributions to noncontrolling interests	(5,093)	—	—	—	—	—	—	—	(7,831)	(7,831)
Acquisitions of noncontrolling interest	(3,848)	—	—	—	—	—	—	—	—	—
Adjustments to redemption amount of redeemable noncontrolling interests	3,565	—	—	—	—	—	—	(3,565)	—	(3,565)
Deferred compensation obligation	—	—	—	—	(140)	140	—	—	—	—
Other	—	—	—	—	—	—	—	1	—	1
Balances as of July 31, 2017	$126,881	$338	$506	$322,024	$2,320	($2,320)	($8,567)	$797,621	$84,747	$1,196,669

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)

	Nine months ended July 31,	
	2018	**2017**
Operating Activities:		
Net income from consolidated operations	$211,605	$148,573
Adjustments to reconcile net income from consolidated operations to net cash provided by operating activities:		
Depreciation and amortization	57,523	46,912
Share-based compensation expense	6,933	5,207
Employer contributions to HEICO Savings and Investment Plan	6,015	5,732
Foreign currency transaction adjustments, net	183	3,316
(Decrease) increase in accrued contingent consideration, net	(3,789)	1,227
Deferred income tax benefit	(13,485)	(6,998)
Changes in operating assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	(26,315)	13,343
Increase in inventories	(40,965)	(22,415)
Decrease (increase) in prepaid expenses and other current assets	1,026	(3,722)
Increase (decrease) in trade accounts payable	10,048	(3,561)
Increase (decrease) in accrued expenses and other current liabilities	8,078	(1,476)
Decrease in income taxes payable	(13,479)	(5,423)
Other long-term assets and liabilities, net	1,325	(1,412)
Net cash provided by operating activities	204,703	179,303
Investing Activities:		
Acquisitions, net of cash acquired	(40,599)	(95,759)
Capital expenditures	(35,898)	(20,445)
Other	(2,736)	(685)
Net cash used in investing activities	(79,233)	(116,889)
Financing Activities:		
Payments on revolving credit facility	(110,000)	(113,000)
Borrowings on revolving credit facility	53,000	87,000
Redemptions of common stock related to stock option exercises	(24,941)	—
Cash dividends paid	(15,363)	(12,807)
Distributions to noncontrolling interests	(7,129)	(12,924)
Payment of contingent consideration	(5,425)	(7,039)
Revolving credit facility issuance costs	(4,067)	(270)
Acquisitions of noncontrolling interests	—	(3,848)
Proceeds from stock option exercises	3,036	4,171
Other	(376)	(241)
Net cash used in financing activities	(111,265)	(58,958)
Effect of exchange rate changes on cash	710	3,078
Net increase in cash and cash equivalents	14,915	6,534
Cash and cash equivalents at beginning of year	52,066	42,955
Cash and cash equivalents at end of period	$66,981	$49,489

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, 2017. The October 31, 2017 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, statements of comprehensive income, statements of shareholders' equity and statements of cash flows for such interim periods presented. The results of operations for the nine months ended July 31, 2018 are not necessarily indicative of the results which may be expected for the entire fiscal year.

The Company has two operating segments: the Flight Support Group ("FSG"), consisting of HEICO Aerospace Holdings Corp. and HEICO Flight Support Corp. and their respective subsidiaries; and the Electronic Technologies Group ("ETG"), consisting of HEICO Electronic Technologies Corp. ("HEICO Electronic") and its subsidiaries.

Stock Splits

In December 2017, 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 January 18, 2018 in the form of a 25% stock dividend distributed to shareholders of record as of January 3, 2018. In June 2018, 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 June 28, 2018 in the form of a 25% stock dividend distributed to shareholders of record as of June 21, 2018. All applicable share and per share information has been adjusted retrospectively to give effect to the 5-for-4 stock splits.

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New Accounting Pronouncements

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

The Company is in the process of assessing the overall impact of adopting ASU 2014-09. Based on the work completed to date, the Company foresees two types of contracts for which ASU 2014-09 will impact the timing of revenue recognition. For certain contracts under which it produces products with no alternative use and for which the Company has an enforceable right to payment during the production cycle and for certain other contracts under which the Company creates or enhances customer-owned assets while performing repair and overhaul services, ASU 2014-09 will require HEICO to recognize revenue using an over time recognition model as opposed to the Company’s current policy of recognizing revenue at the time of shipment. For impacted customer contracts, the adoption of ASU 2014-09 will accelerate revenue recognition and the associated cost of sales. The Company is continuing to quantify the effect the adoption of this guidance will have on its consolidated results of operations, financial position and cash flows.

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

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

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In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which clarifies how certain cash receipts and cash payments are to be presented and classified in the statement of cash flows. ASU 2016-15 provides guidance on eight specific cash flow classification issues including contingent consideration payments made after a business combination, proceeds from corporate-owned life insurance policies and distributions received from equity method investees. ASU 2016-15 is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2017, or in fiscal 2019 for HEICO. Early adoption is permitted. ASU 2016-15 requires a retrospective transition approach for all periods presented. The Company is currently evaluating the effect the adoption of this guidance will have on its consolidated statement of cash flows.

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

2. ACQUISITIONS

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

In February 2018, the Company, through a subsidiary of HEICO Electronic, acquired 85% of the assets and business of Sensor Technology Engineering, Inc. ("Sensor Technology"). Sensor Technology designs and manufactures sophisticated nuclear radiation detectors for law enforcement, homeland security and military applications. The remaining 15% continues to be owned by certain members of Sensory Technology's management team. The purchase price of this acquisition was paid in cash, principally using proceeds from the Company's revolving credit facility.

In November 2017, the Company, through a subsidiary of HEICO Electronic, acquired all of the stock of Interface Displays & Controls, Inc. ("IDC"). IDC designs and manufactures electronic products for aviation, marine, military fighting vehicles, and embedded computing

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markets. The purchase price of this acquisition was paid using cash provided by operating activities.

The total consideration for the fiscal 2018 acquisitions is not material or significant to the Company’s condensed consolidated financial statements and the related allocation to the tangible and identifiable intangible assets acquired and liabilities and noncontrolling interests assumed is preliminary until the Company obtains final information regarding their fair values. However, the Company does not expect any adjustments to such allocations to be material to the Company's consolidated financial statements. The operating results of the fiscal 2018 acquisitions were included in the Company’s results of operations from each of the effective acquisition dates. The amount of net sales and earnings of the fiscal 2018 acquisitions included in the Condensed Consolidated Statement of Operations for the nine and three months ended July 31, 2018 is not material. Had the fiscal 2018 acquisitions been consummated as of November 1, 2016, 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 nine and three months ended July 31, 2018 and 2017 would not have been materially different than the reported amounts.

3. SELECTED FINANCIAL STATEMENT INFORMATION

Accounts Receivable

(in thousands)	**July 31, 2018**	**October 31, 2017**
Accounts receivable	$252,885	$225,462
Less: Allowance for doubtful accounts	(3,559)	(3,006)
Accounts receivable, net	$249,326	$222,456

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

(in thousands)	**July 31, 2018**	**October 31, 2017**
Costs incurred on uncompleted contracts	$33,848	$29,491
Estimated earnings	16,565	19,902
	50,413	49,393
Less: Billings to date	(37,334)	(41,262)
	$13,079	$8,131
Included in the accompanying Condensed Consolidated Balance Sheets under the following captions:		
Accounts receivable, net (costs and estimated earnings in excess of billings)	$14,649	$9,377
Accrued expenses and other current liabilities (billings in excess of costs and estimated earnings)	(1,570)	(1,246)

	$13,079	$8,131

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Changes in estimates pertaining to percentage-of-completion contracts did not have a material effect on net income from consolidated operations for the nine and three months ended July 31, 2018 and 2017.

Inventories

(in thousands)	**July 31, 2018**	**October 31, 2017**
Finished products	$189,145	$173,559
Work in process	48,068	39,986
Materials, parts, assemblies and supplies	152,458	128,031
Contracts in process	2,171	2,415
Less: Billings to date	(54)	(363)
Inventories, net of valuation reserves	$391,788	$343,628

Contracts in process represents accumulated capitalized costs associated with fixed price contracts. 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)	**July 31, 2018**	**October 31, 2017**
Land	$5,875	$5,435
Buildings and improvements	101,128	91,916
Machinery, equipment and tooling	222,502	191,298
Construction in progress	5,569	5,553
	335,074	294,202
Less: Accumulated depreciation and amortization	(180,460)	(164,319)
Property, plant and equipment, net	$154,614	$129,883

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 $15.1 million as of July 31, 2018 and $12.9 million as of October 31, 2017. The total customer rebates and credits deducted within net sales for the nine months ended July 31, 2018 and 2017 was $7.7 million and $8.1 million, respectively. The total customer rebates and credits deducted within net sales for the three months ended July 31, 2018 and 2017 was $2.5 million and $2.7 million, respectively.

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Research and Development Expenses

The amount of new product research and development ("R&D") expenses included in cost of sales for the nine and three months ended July 31, 2018 and 2017 is as follows (in thousands):

	Nine months ended July 31,		Three months ended July 31,	
	2018	2017	2018	2017
R&D expenses	$40,680	$33,889	$14,020	$11,420

Redeemable Noncontrolling Interests

The holders of equity interests in certain of the Company's subsidiaries have rights ("Put Rights") that may be exercised on varying dates causing the Company to purchase their equity interests through fiscal 2025. The Put Rights, all of which relate either to common shares or membership interests in limited liability companies, provide that the cash consideration to be paid for their equity interests (the "Redemption Amount") be at fair value or a formula that management intended to reasonably approximate fair value based solely on a multiple of future earnings over a measurement period. Management's estimate of the aggregate Redemption Amount of all Put Rights that the Company could be required to pay is as follows (in thousands):

	July 31, 2018	October 31, 2017
Redeemable at fair value	$84,604	$82,128
Redeemable based on a multiple of future earnings	48,995	48,995
Redeemable noncontrolling interests	$133,599	$131,123

As discussed in Note 2, Acquisitions, the Company, through a subsidiary of HEICO Electronic, acquired 85% of the assets and business of Sensor Technology in February 2018. As part of the Sensor Technology purchase agreement, the Company has the right to purchase the noncontrolling interest in fiscal 2021, or sooner under certain conditions, and the noncontrolling interest holders have the right to cause the Company to purchase the same equity interest at the same point in time.

Accumulated Other Comprehensive Loss

Changes in the components of accumulated other comprehensive loss for the nine months ended July 31, 2018 are as follows (in thousands):

Accumulated

	Foreign Currency Translation	Pension Benefit Obligation	Other Comprehensive Loss
Balances as of October 31, 2017	($9,533)	($1,023)	($10,556)
Unrealized gain	1,137	221	1,358
Amortization of unrealized loss	—	11	11
Balances as of July 31, 2018	($8,396)	($791)	($9,187)

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4. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill by operating segment for the nine months ended July 31, 2018 are as follows (in thousands):

	Segment FSG	ETG	Consolidated Totals
Balances as of October 31, 2017	$388,606	$692,700	$1,081,306
Goodwill acquired	—	22,831	22,831
Adjustments to goodwill	972	(3,091)	(2,119)
Foreign currency translation adjustments	270	64	334
Balances as of July 31, 2018	$389,848	$712,504	$1,102,352

The goodwill acquired pertains to the fiscal 2018 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 and noncontrolling interests assumed. The Company estimates that nearly all of the goodwill acquired in fiscal 2018 will be deductible for income tax purposes. The adjustments to goodwill represent immaterial measurement period adjustments to the purchase price allocation of certain fiscal 2017 acquisitions. Foreign currency translation adjustments are included in other comprehensive income (loss) in the Company's Condensed Consolidated Statements of Comprehensive Income.

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

	As of July 31, 2018			As of October 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizing Assets:						
Customer relationships	$381,090	($134,855)	$246,235	$379,966	($117,069)	$262,897
Intellectual property	184,626	(52,757)	131,869	181,811	(44,861)	136,950
Licenses	6,559	(3,375)	3,184	6,559	(2,928)	3,631
Patents	932	(600)	332	870	(551)	319
Non-compete agreements	815	(815)	—	817	(817)	—
Trade names	466	(148)	318	466	(118)	348
	574,488	(192,550)	381,938	570,489	(166,344)	404,145
Non-Amortizing Assets:						
Trade names	134,516	—	134,516	133,936	—	133,936
	$709,004	($192,550)	$516,454	$704,425	($166,344)	$538,081

The increase in the gross carrying amount of customer relationships, intellectual property and non-amortizing trade names as of July 31, 2018 compared to October 31, 2017 principally relates to such intangible assets recognized in connection with the fiscal 2018 acquisitions (see Note 2, Acquisitions). The weighted-average amortization period of the customer relationships and intellectual property acquired during fiscal 2018 is 7 and 10 years, respectively.

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Amortization expense related to intangible assets for the nine months ended July 31, 2018 and 2017 was $37.5 million and $28.2 million, respectively. Amortization expense related to intangible assets for the three months ended July 31, 2018 and 2017 was $12.7 million and $9.9 million, respectively. Amortization expense related to intangible assets for the remainder of fiscal 2018 is estimated to be $12.5 million. Amortization expense for each of the next five fiscal years and thereafter is estimated to be $48.7 million in fiscal 2019, $45.8 million in fiscal 2020, $43.0 million in fiscal 2021, $36.7 million in fiscal 2022, $31.7 million in fiscal 2023, and $163.5 million thereafter.

5. LONG-TERM DEBT

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

	July 31, 2018	**October 31, 2017**
Borrowings under revolving credit facility	$614,000	$671,000
Capital leases and note payable	9,818	2,979
	623,818	673,979
Less: Current maturities of long-term debt	(929)	(451)
	$622,889	$673,528

The Company's borrowings under its revolving credit facility mature in fiscal 2023. As of July 31, 2018 and October 31, 2017, the weighted average interest rate on borrowings under the Company’s revolving credit facility was 3.2% and 2.4%, respectively. The revolving credit facility contains both financial and non-financial covenants. As of July 31, 2018, the Company was in compliance with all such covenants.

The increase in capital leases and note payable as of July 31, 2018 compared to October 31, 2017 principally relates to a 14-year capital lease for a manufacturing facility that a subsidiary of HEICO Flight Support Corp. became party to during the third quarter of fiscal 2018.

6. INCOME TAXES

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

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compensation. The Company has not yet determined the impact of the provisions of the Tax Act which do not become effective for HEICO until fiscal 2019.

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

As a result of the Tax Act, the Company has revised its estimated annual effective federal statutory income tax rate to reflect a reduction in the rate from 35% to 21% effective January 1, 2018, which results in a blended rate of 23.3% for HEICO in fiscal 2018. Additionally, the Company remeasured its U.S. federal net deferred tax liabilities and recorded a provisional discrete tax benefit of $16.6 million in the first quarter of fiscal 2018. Further, the Company recorded a provisional discrete tax expense of $4.7 million in the first quarter of fiscal 2018 related to a one-time transition tax on the unremitted earnings of the Company's foreign subsidiaries. The Company intends to pay this tax over the eight-year period allowed for in the Tax Act.

The Company's effective tax rate in the first nine months of fiscal 2018 decreased to17.9% from 29.8% in the first nine months of fiscal 2017. The decrease principally reflects the previously mentioned discrete tax benefit from the remeasurement of the Company's U.S. federal net deferred tax liabilities and the net benefit of a lower federal statutory income tax rate, which were partially offset by the aforementioned one-time transition tax expense.

The Company's effective tax rate in the third quarter of fiscal 2018 decreased to 23.1% from 30.3% in the third quarter of fiscal 2017. The decrease principally reflects the previously mentioned net benefit of a lower federal statutory income tax rate.

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7. FAIR VALUE MEASUREMENTS

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

	As of July 31, 2018			
	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	$—	$131,170	$—	$131,170