

HELIX TECHNOLOGY CORP
Form 10-Q
October 20, 2003

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 26, 2003,

or

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

For the transitional period from _____ to _____

Commission file number: 0-6866

HELIX TECHNOLOGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

04-2423640

(I.R.S. Employer Identification No.)

Mansfield Corporate Center

Nine Hampshire Street

Mansfield, Massachusetts

(Address of principal executive offices)

02048-9171

(Zip Code)

(508) 337-5500

(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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of the registrant's Common Stock, \$1 par value, as of September 26, 2003, was 26,103,204.

HELIX TECHNOLOGY CORPORATION

Form 10-Q

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HELIX TECHNOLOGY CORPORATION

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

(in thousands except per share data)	September 26, 2003 (unaudited)	December 31, 2002 (audited)
ASSETS		
Current:		
Cash and cash equivalents	\$ 12,005	\$ 26,752
Investments	54,310	36,567
Receivables - net of allowances	18,445	15,036
Inventories	21,791	23,946
Income tax receivable	-	10,246
Deferred income taxes	-	8,708
Other current assets	1,562	1,833
Total Current Assets	<u>108,113</u>	<u>123,088</u>
Property, plant and equipment at cost	65,436	64,900
Less: accumulated depreciation	<u>(43,695)</u>	<u>(40,655)</u>
Net property, plant and equipment	21,741	24,245
Other assets	<u>12,350</u>	<u>12,138</u>
TOTAL ASSETS	<u><u>\$ 142,204</u></u>	<u><u>\$ 159,471</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current:

Accounts payable	\$	7,439	\$	8,759
Payroll and compensation		849		1,020
Accrued restructuring costs		1,293		4,344
Retirement costs		9,403		8,928
Income taxes		3,639		3,692
Other accrued liabilities		1,424		486
Total Current Liabilities		<u>24,047</u>		<u>27,229</u>
Commitments and contingencies				
Stockholders' Equity:				
Preferred stock, \$1 par value; authorized 2,000,000 shares; issued and outstanding: none		-		-
Common stock, \$1 par value; authorized 60,000,000 shares; issued and outstanding: 26,103,204 in 2003 and 2002		26,103		26,103
Capital in excess of par value		76,405		76,405
Treasury stock, \$1 par value (3,840 shares in 2003 and 2002)		(232)		(232)
Retained earnings		16,751		31,812
Accumulated other comprehensive loss		(870)		(1,846)
Total Stockholders' Equity		<u>118,157</u>		<u>132,242</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	<u>142,204</u>	\$	<u>159,471</u>

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

HELIX TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands except per share data)	Three Months Ended		Nine Months Ended	
	September 26, 2003	September 27, 2002	September 26, 2003	September 27, 2002
Net sales	\$ 25,973	\$ 27,395	\$ 74,151	\$ 76,790

Costs and expenses:

Cost of sales	17,133	19,279	49,966	54,473
Research and development	2,333	3,601	7,563	11,085
Selling, general and administrative	7,577	9,413	22,942	25,986
Litigation settlement costs	-	-	-	2,800
	<u>27,043</u>	<u>32,293</u>	<u>80,471</u>	<u>94,344</u>
Operating loss	(1,070)	(4,898)	(6,320)	(17,554)
Joint venture income	161	263	760	322
Interest and other income	229	270	696	635
	<u>(680)</u>	<u>(4,365)</u>	<u>(4,864)</u>	<u>(16,597)</u>
Loss before taxes	(680)	(4,365)	(4,864)	(16,597)
Income tax provision (benefit)	8,424	(2,166)	7,065	(6,141)
	<u>8,424</u>	<u>(2,166)</u>	<u>7,065</u>	<u>(6,141)</u>
Net loss	<u>\$ (9,104)</u>	<u>\$ (2,199)</u>	<u>\$ (11,929)</u>	<u>\$ (10,456)</u>
Net loss per share:				
Basic	<u>\$ (0.35)</u>	<u>\$ (0.08)</u>	<u>\$ (0.46)</u>	<u>\$ (0.42)</u>
Diluted	<u>\$ (0.35)</u>	<u>\$ (0.08)</u>	<u>\$ (0.46)</u>	<u>\$ (0.42)</u>

Number of shares used in per share

calculations:

Basic	26,099	26,099	26,099	25,105
Diluted	26,099	26,099	26,099	25,105

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

HELIX TECHNOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)	Nine Months Ended	
	September 26, 2003	September 27, 2002

Cash flows from operating activities:		
Net loss	\$ (11,929)	\$ (10,456)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,542	4,699
Deferred income taxes	8,708	-
Other	754	(123)
Change in operating assets and liabilities:		
Receivables - net of allowances	(3,409)	(5,848)
Inventories	2,155	2,126
Income tax receivables	10,246	725
Other current assets	271	(283)
Accounts payable	(1,320)	3,015
Accrued restructuring costs	(3,051)	-
Other accrued expenses	1,189	1,938
Net cash provided by (used in) operating activities	<u>8,156</u>	<u>(4,207)</u>
Cash flows from investing activities:		
Capital expenditures	(2,074)	(4,894)
Purchase of investments	(65,972)	(45,657)
Sale of investments	48,275	38,890
Net cash used in investing activities	<u>(19,771)</u>	<u>(11,661)</u>
Cash flows from financing activities:		
Net proceeds from stock offering	-	65,246
Net cash provided by employee stock plans	-	711
Cash dividends paid	(3,132)	(5,987)
Net cash (used in) provided by financing activities	<u>(3,132)</u>	<u>59,970</u>
(Decrease) increase in cash and cash equivalents	(14,747)	44,102
Cash and cash equivalents, at the beginning of the period	<u>26,752</u>	<u>7,789</u>
Cash and cash equivalents, at the end of the period	<u>\$ 12,005</u>	<u>\$ 51,891</u>

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

*(unaudited)*Note 1 - Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated balance sheets, statements of operations and cash flows contain all adjustments necessary to present fairly the financial position of Helix Technology Corporation and its wholly owned subsidiaries (the "Company") at September 26, 2003, and December 31, 2002, and the results of the Company's operations and cash flows for the three and nine-month periods ended September 26, 2003, and September 27, 2002.

The consolidated financial statements included herein have been prepared by the Company, without audit of the three- and nine-month periods ended September 26, 2003, and September 27, 2002, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to present fairly the Company's financial position and results of operations. These consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's latest Annual Report on Form 10-K.

The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates these estimates and judgments, including those related to revenue recognition, adequacy of reserves, valuation of investments and income taxes. The Company bases these estimates on historical and anticipated results and trends and on various other assumptions that the Company believes are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from our estimates.

Note 2 - Inventories

(in thousands)	September 26, 2003	December 31, 2002
Finished goods	\$ 6,771	\$ 8,383
Work in process	11,721	12,185
Materials and parts	3,299	3,378
	\$ 21,791	\$ 23,946

Inventories are stated at the lower of cost or market on a first-in, first-out basis. Cost includes material, labor and applicable manufacturing overhead costs. Based upon management's assumptions of future material usage and obsolescence, which are a result of future demand and market conditions, the Company regularly reviews inventory quantities on hand and records a provision to write down excess and obsolete inventory to its estimated net realizable value, if less than cost.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(unaudited)*Note 3 - Income Taxes

For the nine-month period ended September 26, 2003, the Company recorded a tax provision of \$7,065,000, primarily due to the establishment of a full valuation allowance against net deferred tax assets and recording state and foreign income tax for the period. As a result of the Company's review performed at September 26, 2003, the Company, under SFAS 109, "Accounting for Income Taxes," is required to establish this allowance.

If the Company generates future taxable income domestically against which these tax attributes may be applied, some portion or all of the valuation allowance would be reversed and increase net income reported in future periods.

The effective income tax rate for the nine-month period ended September 27, 2002, was 37%. Tax credits are treated as reductions of income tax provisions in the year in which the credits are realized. The Company does not provide for federal income taxes on the undistributed earnings of its wholly owned foreign subsidiaries, since these earnings are indefinitely reinvested.

Note 4 - Other Accrued Liabilities

The Company adopted Financial Accounting Standards Board Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Indebtedness of Others" (FIN 45) during the first quarter of 2003. FIN 45 requires disclosures concerning the Company's obligations under certain guarantees.

The Company's products and services are generally sold with warranty coverage for periods ranging from 12 to 18 months after shipment. Parts and labor are covered under the terms of the warranty agreement. The warranty provision is based on historical experience by product family.

Changes in the warranty reserves during the first nine months of 2003 were as follows:

<u>(in thousands)</u>	
Balance at December 31, 2002	\$ 293
Provisions for warranty	999
Consumption of reserves	(844)
Balance at September 26, 2003	<u>\$ 448</u>

(unaudited)

Note 5 - Accrued Restructuring Costs

In the fourth quarter of 2002, the Company initiated a worldwide cost-reduction program in response to the continued duration and severity of the slowdown in the semiconductor capital equipment industry. The cost-reduction program included severance and fringe benefits to terminate approximately 130 employees and included closure or consolidation of selected facilities worldwide. We recorded a \$5,851,000 charge for these restructuring activities in the fourth quarter of 2002. The majority of the cash outlays have been incurred or are expected to be paid during 2003, with the remaining cash outlays related to the facility closures occurring during 2004.

The following table summarizes the components of the restructuring charges, the cash payments, non-cash activities, and the remaining accrual as of September 26, 2003:

	Employee Severance and Fringe Benefits	Facility Closures	Asset Writedowns	Total
Fourth quarter 2002 restructuring charges	\$ 3,046	\$ 1,486	\$ 1,319	\$ 5,851
Non-cash activity	-	20	(1,319)	(1,299)
Cash payments	(208)	-	-	(208)
Balance at December 31, 2002	2,838	1,506	-	4,344
Cash payments	(2,418)	(633)	-	(3,051)
Balance at September 26, 2003	\$ 420	\$ 873	\$ -	\$ 1,293

Note 6 - Commitments and Contingencies

The Company may be involved in various legal proceedings in the normal course of business. The Company is not a party to any proceedings that involve amounts that would have a material effect on our financial position or results of operations if such proceedings were resolved unfavorably. The Company accrues loss contingencies when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

HELIX TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 7 - Other Comprehensive Loss

(in thousands except per share data)	Three Months Ended		Nine Months Ended	
	September 26, 2003	September 27, 2002	September 26, 2003	September 27, 2002
Net loss	\$ (9,104)	\$ (2,199)	\$ (11,929)	\$ (10,456)
Other comprehensive loss before tax:				
Foreign currency translation adjustment	176	1,525	1,082	(2)
Unrealized gain (loss) on available-for-sale investment	(141)	(20)	46	(57)
Other comprehensive gain (loss) before tax	35	1,505	1,128	(59)
Income tax related to items of other comprehensive (loss) gain	(70)	(396)	(152)	(74)
Other comprehensive gain (loss), net of tax	(35)	1,109	976	(133)
Comprehensive loss	\$ (9,139)	\$ (1,090)	\$ (10,953)	\$ (10,589)

Note 8 - Net Loss Per Share

Basic net loss per common share is based on the weighted average number of common shares outstanding during the period. Diluted net loss per common share reflects the potential dilution that could occur if outstanding stock options were exercised and converted into common stock at the beginning of the period.

The following table sets forth the computation of basic and diluted net loss per common share:

(in thousands except per share data)	Three Months Ended		Nine Months Ended	
	September 26, 2003	September 27, 2002	September 26, 2003	September 27, 2002
Net loss	\$ (9,104)	\$ (2,199)	\$ (11,929)	\$ (10,456)
Basic shares	26,099	26,099	26,099	25,105
Add: Common equivalent shares ⁽¹⁾	-	-	-	-
Diluted shares	26,099	26,099	26,099	25,105

Basic net loss per share	\$ (0.35)	\$ (0.08)	\$ (0.46)	\$ (0.42)
Diluted net loss per share	\$ (0.35)	\$ (0.08)	\$ (0.46)	\$ (0.42)

- (1) Common equivalent shares represent shares issuable upon exercise of stock options (using the treasury stock method). The Company had 762,875 and 552,375 options outstanding not included in the computation of diluted shares for the three- and nine-month periods ended September 26, 2003, and September 27, 2002, respectively. The Company was in a net loss position, and the inclusion of such shares would be anti-dilutive.

HELIX TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 9 - Segment Information

Line of Business and Foreign Operations

The Company operates in one reportable segment for the design, manufacture and service of vacuum technology primarily for the semiconductor, data storage and flat panel display markets. In accordance with SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," the Company's chief operating decision maker has been identified as the Chief Executive Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. SFAS No. 131, which is based on a management approach to segment reporting, establishes requirements to report selected segment information quarterly and to report quarterly entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets and reports revenue. All material operating units qualify for aggregation under SFAS No. 131 due to their similar customer base and similarities in: economic characteristics; nature of products and services; and procurement, manufacturing and distribution processes. Since the Company operates in one segment, all financial information required by SFAS No. 131 can be found in the accompanying condensed consolidated financial statements.

The consolidated financial statements include the accounts of wholly owned international subsidiaries that operate customer support facilities to sell and service products manufactured in the United States. A summary of net sales and long-lived assets by geographical operation follows:

(in thousands)	United States	International	Consolidated
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Net sales for:

Three months ended:

September 26, 2003	\$	17,693	\$	8,280	\$	25,973
September 27, 2002	\$	20,443	\$	6,952	\$	27,395
Nine months ended:						
September 26, 2003	\$	52,564	\$	21,587	\$	74,151
September 27, 2002	\$	59,229	\$	17,561	\$	76,790
Long-lived assets as of:						
September 26, 2003	\$	30,760	\$	3,331	\$	34,091
December 31, 2002	\$	32,647	\$	3,736	\$	36,383

 HELIX TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(unaudited)*Note 10 - Capital Stock

Options for the purchase of the Company's stock have been granted to officers, directors and key employees under various nonqualified stock option agreements. The Company accounts for these grants under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issues to Employees, and Related Interpretations." No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. If the recognition provisions of FASB Statement No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123, had been adopted, the effect on net loss and basic and diluted net loss per share would have been as follows:

(in thousands except per share data)	Three Months Ended		Nine Months Ended	
	September 26, 2003	September 27, 2002	September 26, 2003	September 27, 2002
Net loss, as reported	\$ (9,104)	\$ (2,199)	\$ (11,929)	\$ (10,456)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>297</u>	<u>166</u>	<u>686</u>	<u>524</u>

Pro forma net loss	\$ (9,401)	\$ (2,365)	\$ (12,615)	\$ (10,980)
Earnings per share:				
Basic-as reported	\$ (0.35)	\$ (0.08)	\$ (0.46)	\$ (0.42)
Basic-pro forma	\$ (0.36)	\$ (0.09)	\$ (0.48)	\$ (0.44)
Diluted-as reported	\$ (0.35)	\$ (0.08)	\$ (0.46)	\$ (0.42)
Diluted-pro forma	\$ (0.36)	\$ (0.09)	\$ (0.48)	\$ (0.44)

Note 11 - Recent Accounting Pronouncements

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146 (SFAS 146), "Accounting for Costs Associated with Exit or Disposal Activities," which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force Issue (EITF) No. 94-3. The Company adopted the provisions of SFAS 146 for restructuring activities initiated after December 31, 2002. SFAS 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of the Company's commitment to the worldwide cost-reduction program during the fourth quarter of 2002.

HELIX TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(unaudited)*Note 11 - Recent Accounting Pronouncements

(continued)

SFAS 146 also establishes that initially the liability should be measured and recorded at fair value. Accordingly, SFAS 146 may affect the timing of recognizing future restructuring costs as well as the amounts recognized.

In November 2002, the EITF issued No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." EITF No. 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. EITF No. 00-21 establishes three principles: revenue should be recognized separately for separate units of accounting; revenue for a separate unit of accounting should be recognized only when the arrangement consideration is reliably measurable and the earnings process is substantially complete, and consideration should be allocated among the separate units of accounting in an arrangement based on their fair values. The Company adopted the provisions of EITF No. 00-21 for all revenue arrangements entered into after June 15, 2003. The adoption of EITF No. 00-21 did not have a material impact on the Company's results of operations or financial condition.

In January 2003, the FASB issued FIN No. 46 "Consolidation of Variable Interest Entities, an interpretation of ARB 51." FIN No. 46 provides guidance on the identification of entities for which control is achieved through means other than through voting rights called "variable interest entities" or "VIEs" and how to determine when and which business enterprise should consolidate the VIE (the "primary beneficiary"). This new model for consolidation applies to an entity in which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN No. 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. Certain transitional disclosures are required in financial statements initially issued after January 31, 2003, if it is reasonably possible that once this guidance is effective the enterprise will either be required to consolidate a VIE or will hold a significant variable interest in a VIE. The Company does not have any interests that would change our current reporting entity or require additional disclosure outlined in FIN No. 46.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149 (SFAS 149), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends SFAS 133 to provide clarification on the financial accounting and reporting of derivative instruments and hedging activities and requires contracts with similar characteristics to be accounted for on a comparable basis. The adoption of SFAS 149, which is effective for contracts entered into or modified after June 30, 2003, did not have a material effect on the Company's financial condition or results of operations.

HELIX TECHNOLOGY CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis together with our financial statements, related notes and other financial information appearing elsewhere in this report. In addition to historical information, the following discussion and other parts of this report contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to competitive factors and other factors discussed under "Important Factors That May Affect Future Results" below.

Critical Accounting Policies

Our discussion and analysis of our results of operations and liquidity and capital resources are based on our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, adequacy of reserves, valuation of investments and income taxes. We base our estimates on historical and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from our estimates. We believe that the following significant accounting policies and assumptions may involve a higher degree of judgment and complexity than others.

Revenue Recognition. We recognize net sales from product sales upon shipment provided title and risk of loss have been transferred to the customer, there is persuasive evidence of an arrangement, fees are fixed or determinable, and collection is reasonably assured. Net sales from global support services is recognized as performed or ratably over the period of the related agreements. We recognize net sales from upgrade sales upon customer acceptance, provided installation has been completed. As part of a sale, we offer customers a warranty on defects in materials and workmanship. We continuously monitor and track the related product returns and record a provision for the estimated amount of such future returns, based on historical experience and any notification we receive of pending returns. While such returns have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same return rates that we have in the past. Any significant increase in material and workmanship defect rates and the resulting credit returns could have a material adverse impact on our operating results for the period or periods in which such returns materialize. We also maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial conditions of our customers were to deteriorate resulting in an impairment of their ability to make payments, additional allowances might be required.

Inventory and Reserves for Excess and Obsolescence. We value inventory at the lower of cost (first-in, first-out method) or market. We regularly review inventory quantities on hand and record a provision to write down inventory to its estimated net realizable value, if less than cost, based upon management's assumptions of future material usage and obsolescence, which are a result of future demand and market conditions. If actual market conditions become less favorable than those projected by management, additional inventory provisions may be required. If inventory is written down to its net realizable value and subsequently there is an increased demand for the inventory at a higher value, the increased value of the inventory is not realized until the inventory is sold, resulting in improved margins in the period.

HELIX TECHNOLOGY CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(continued)

Tax Contingencies. Tax contingencies are recorded to address potential exposures involving tax positions we have taken that could be challenged by taxing authorities. These potential exposures result from the varying application of statutes, rules, regulations and interpretations. Our estimate of the value of our tax contingencies contains assumptions based on past experiences and judgments about potential actions by taxing jurisdictions. It is reasonably likely that the ultimate resolutions of these matters may be greater or less than the amount that we have accrued.

Deferred Income Taxes. Each reporting period we estimate our ability to realize our net deferred tax assets. Realization of our net deferred tax assets is dependent upon our generating sufficient taxable income in the appropriate tax jurisdictions in future years to obtain benefit from the reversal of net deductible temporary differences and from tax loss and tax credit carryforwards. We reassessed our need for a valuation allowance and determined under applicable accounting criteria that a full valuation allowance is required. Until an appropriate level of profitability is reached, we will not record Federal tax benefits or provisions on future results of operations.

Investments. We own 50% of a joint venture, ULVAC Cryogenics, Inc., or UCI, which manufactures and sells cryogenic vacuum pumps in Japan, principally to ULVAC Corporation. We account for the joint venture using the equity method of accounting, and we also receive royalties from the joint venture under the terms of a license and technology agreement. The royalties we receive from UCI, as well as our equity in the income and losses of UCI, are both included in our financial statements under joint venture income.

Restructuring Charges. During 2002, we recorded charges in connection with our restructuring programs. The related reserves reflect estimates, including those pertaining to severance costs and settlements of contractual obligations. We reassess the reserve requirements to complete each individual plan under our restructuring programs at the end of each reporting period. Actual experience may be different from these estimates. For more information, see Note 5 to the consolidated financial statements.

Retirement Obligations. We have retirement obligations which are developed from actuarial valuations. Inherent in these valuations are key assumptions, including discount rates, rates of compensation increases and expected long-term rates of return on plan assets, which are usually updated on an annual basis at the beginning of each fiscal year. We are required to consider current market conditions, including changes in interest rates, in making these assumptions. Changes in the related retirement benefit costs may occur due to changes in assumptions.

Results of Operations

We design, develop and manufacture innovative vacuum technology solutions for the semiconductor, data storage, and flat panel display markets. Our vacuum systems provide enabling technology for several key steps within the semiconductor manufacturing process, including ion implantation, physical vapor deposition, chemical vapor deposition, and etching. Semiconductor manufacturers use our systems to create and maintain a vacuum environment, which is critical to their manufacturing processes. Our products are also used in a broad range of industrial manufacturing applications and advanced research and development laboratories.

We also provide an extensive range of global support and vacuum system monitoring services that lower our end-users' total costs of ownership. We increase our customers' system uptime through rapid response to potential operating problems. We also develop and deliver enhancements to our customers' installed base of production tools.

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HELIX TECHNOLOGY CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(continued)

Results of Operations (continued)

We continue to be impacted by the slowdown in the global market for semiconductor capital equipment that began in 2001. Net sales for the third quarter ended September 26, 2003, (the "2003 Quarter") were \$26.0 million compared with net sales for the third quarter ended September 27, 2002, (the "2002 Quarter") of \$27.4 million, a decrease of 5.2%. Net sales for the nine months ended September 26, 2003, (the "2003 Period") were \$74.2 million compared with net sales for the nine months ended September 27, 2002, (the "2002 Period") of \$76.8 million. On a sequential quarter-over-quarter basis, however, sales for the 2003 Quarter increased 5.8% from the prior quarter ended June 27, 2003, primarily due to growth in our service offerings.

In the fourth quarter of 2002, we initiated a worldwide cost-reduction program and the suspension of an internal-use software development program in response to the continued duration and severity of the slowdown in the semiconductor capital equipment industry. The cost-reduction program included severance and fringe benefits to terminate approximately 130 employees and included closure or consolidation of selected facilities worldwide. We recorded an \$8.7 million charge for restructurings and other charges in the fourth quarter of 2002 and expect to save approximately \$2.4 million quarterly which will significantly reduce our breakeven point. This program was substantially completed in the first quarter of 2003.

Cost of sales for the 2003 Quarter was \$17.1 million compared with \$19.3 million for the 2002 Quarter, a decrease of 11.1%. The gross margin for the 2003 Quarter was 34.0% compared with the 2002 Quarter at 29.6%. Gross margin for the 2003 Period improved to 32.6% from 29.1% for the 2002 Period. The gross margin for the 2003 Quarter increased from the 2002 Quarter due primarily to product mix and lower overhead costs. On a sequential quarter-over-quarter basis, gross margin increased primarily due to product mix as well as the reduction in temporary production and customer support costs incurred in the prior quarter related to our new generation of vacuum technology. The improvement in gross margin over the 2002 Period is primarily due to the lower overhead costs resulting from our cost reduction actions taken in the fourth quarter of 2002 offset by the aforementioned temporary cost issues in the year.

Research and development expenses were \$2.3 million for the 2003 Quarter, or 8.9% of net sales, compared to \$3.6 million, or 13.1% of net sales, for the 2002 Quarter. On a year-to-date basis spending on research and development activities decreased \$3.5 million to \$7.6 million in the 2003 Period from \$11.1 million in the 2002 Period. The decrease in overall research and development expenses from the prior year is due to cost reduction actions taken in the fourth quarter of 2002 as well as the completion of several major research and development projects during the past year. We intend to maintain our current level of spending on research and development for the foreseeable future.

Total selling, general and administrative expenses were \$7.6 million and \$22.9 million in the 2003 Quarter and 2003 Period, respectively, compared with \$9.4 million and \$28.8 million in the 2002 Quarter and 2002 Period. Excluding the \$2.8 million nonrecurring litigation charge included in the 2002 Period, total selling, general and administrative expenses declined from the prior year quarter and period by 19.5% and 11.7%, respectively, reflecting cost savings realized from the restructuring program implemented in the fourth quarter of 2002.

Royalty and equity income from our joint venture in Japan decreased by \$0.1 million in the 2003 Quarter compared to the 2002 Quarter and increased \$0.4 million in the 2003 Period compared to the 2002 Period. The decline in the 2003 Quarter resulted from the joint venture's reassessment of its tax liabilities. Although the Japanese semiconductor capital equipment market reflects the same uncertainty as the global market, the improvement over the 2002 Period reflects improvement in the Flat Panel Display market.

HELIX TECHNOLOGY CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(continued)

Results of Operations (continued)

Interest and other income for the 2003 Quarter was \$0.2 million, compared with \$0.3 million for the 2002 Quarter, reflecting lower interest rates and lower average cash, cash equivalent and investment balances during the 2003 Quarter. On a year-to-date basis interest and other income for the 2003 Period was slightly higher than the 2002 Period, due to higher average cash balances over the 2003 Period as compared to the 2002 Period, partially offset by lower interest rates.

For the 2003 Quarter and 2003 Period, we recorded an income tax provision of \$8.4 million and \$7.1 million on a pre-tax loss of \$0.7 million and \$4.9 million, respectively. This provision is primarily attributable to the establishment of the valuation allowance against our deferred tax assets in accordance with SFAS 109, "Accounting for Income Taxes" and to record state and foreign income taxes for the 2003 period. If we generate future taxable income domestically against which these tax attributes may be applied, some portion or all of the valuation allowance would be reversed and increase net income reported in future periods. The effective tax rate was 50.0% and 37.0% for the

2002 Quarter and 2002 Period, respectively, as a result of our adjustment of our full year effective tax rate to 37.0% in the 2002 Quarter. The tax rates differ from the United States statutory rate primarily due to tax credits and undistributed nontaxable equity income from our joint venture.

Liquidity and Capital Resources

Cash provided by operating activities for the 2003 Period was \$8.2 million compared with cash used by operations of \$4.2 million for the 2002 Period. The cash provided by operating activities for the 2003 Period was primarily due to our receipt of \$12.0 million in tax refunds, resulting from the carryback of the 2002 net operating loss, offset by the loss in the 2003 Period, by \$3.1 million of severance and facility closure payments related to the 2002 restructuring activity and by a \$1.4 million payment to fund our pension plan.

In the 2003 Period we spent \$2.1 million to support the existing infrastructure. In the 2002 Period capital expenditures were \$4.9 million, primarily for implementation of our global information system. We expect full-year spending for 2003 to be approximately \$3.0 million to \$4.0 million. We continue to closely manage our capital expenditures.

Cash dividends paid to stockholders were \$3.1 million, or \$0.04 per common share, on a quarterly basis during the 2003 Period and \$6.0 million, or \$0.08 per common share, on a quarterly basis during the 2002 Period. In October 2002, our Board of Directors reduced the quarterly dividend to \$0.04 per share, due to the continuing uncertain business environment and lack of stability in the semiconductor capital equipment market.

We manage our foreign exchange rate risk arising from intercompany foreign currency denominated transactions through the use of foreign currency forward contracts. The gains and losses on these transactions are not material.

We believe that our existing funds and anticipated cash flow from operations will satisfy our working capital and capital expenditure requirements for at least the next 12 months.

HELIX TECHNOLOGY CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(continued)

Recent Accounting Pronouncements (continued)

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146 (SFAS 146), "Accounting for Costs Associated with Exit or Disposal Activities," which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force Issue (EITF) No. 94-3. We adopted the provisions of SFAS 146 for restructuring activities initiated after December 31, 2002. SFAS 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of our commitment to the worldwide cost-reduction program during the fourth quarter of 2002. SFAS 146 also establishes that initially the liability should be measured and recorded at fair value. Accordingly, SFAS 146 may affect the timing of recognizing future restructuring costs, as well as the amounts recognized.

In November 2002, the EITF issued No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." EITF No. 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. EITF No. 00-21 establishes three principles: revenue should be recognized

separately for separate units of accounting; revenue for a separate unit of accounting should be recognized only when the arrangement consideration is reliably measurable and the earnings process is substantially complete; and consideration should be allocated among the separate units of accounting in an arrangement based on their fair values. We adopted the provisions of EITF No. 00-21 for all revenue arrangements entered into after June 15, 2003. The adoption of EITF No. 00-21 did not have a material impact on our results of operations or financial condition.

In January 2003, the FASB issued FIN No. 46 "Consolidation of Variable Interest Entities, an interpretation of ARB 51." FIN No. 46 provides guidance on the identification of entities for which control is achieved through means other than through voting rights called "variable interest entities" or "VIEs" and how to determine when and which business enterprise should consolidate the VIE (the "primary beneficiary"). This new model for consolidation applies to an entity in which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN No. 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. Certain transitional disclosures are required in financial statements initially issued after January 31, 2003, if it is reasonably possible that, once this guidance is effective, the enterprise will either be required to consolidate a VIE or will hold a significant variable interest in a VIE. We do not have any interests that would change our current reporting entity or require additional disclosure outlined in FIN No. 46.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149 (SFAS 149), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends SFAS 133 to provide clarification on the financial accounting and reporting of derivative instruments and hedging activities and requires contracts with similar characteristics to be accounted for on a comparable basis. The adoption of SFAS 149, which is effective for contracts entered into or modified after June 30, 2003, did not have a material effect on our financial condition or results of operations.

HELIX TECHNOLOGY CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(continued)

Important Factors That May Affect Future Results

This Form 10-Q contains forward-looking statements. These forward-looking statements appear principally in the section entitled "Management's Discussion and Analysis of Financial Conditions and Results of Operations." Forward-looking statements may appear in other sections of this report as well. Generally, the forward-looking statements in this report use words like "expect," "anticipate," "plan," "intend," "believe," "seek," "estimate," and similar expressions. The forward-looking statements include, but are not limited to, statements regarding:

- Our strategic plan;
- The outlook for our business and industry;
- Anticipated sources of future revenues;
- Anticipated expenses, spending and savings from our cost reduction program;
- Anticipated levels of capital expenditures; and
- The sufficiency of capital to meet working capital and capital expenditure requirements.

Forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions. Important factors that could cause our future results to differ materially from those expressed in any

forward-looking statements made by us or on our behalf include, but are not limited to, market acceptance of and demand for the Company's products, the success of the Company's strategic initiatives, including its global support operations and new product introductions, the health of the global semiconductor capital equipment market and the timing and scope of any change in the current depressed industry conditions, the Company's success in sustaining order bookings, and the other risk factors contained in Exhibit 99.1 to our Annual Report on Form 10-K filed for the year ended December 31, 2002. As a result of the foregoing, we may experience material fluctuations in our operating results on a quarterly basis, which could materially affect our business, financial position, results of operations and stock price. We undertake no obligation to update the information contained in this report to reflect subsequently occurring events or circumstances.

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HELIX TECHNOLOGY CORPORATION

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Rate Risk

A portion of our business is conducted outside the United States through our foreign subsidiaries. Our foreign subsidiaries maintain their accounting records in their local currencies. Consequently, fluctuations in exchange rates affect the period-to-period comparability of results. To reduce the risks associated with foreign currency rate fluctuations, we have entered into forward exchange contracts on a continuing basis to offset the currency exposures. The gains and losses on these transactions partially offset the unrealized and realized foreign exchange gains and losses of the underlying exposures. The net gains and losses were immaterial for the periods presented and were included in cost of sales. We plan to continue to use forward exchange contracts to mitigate the impact of exchange rate fluctuations. The notional amount of our outstanding foreign currency contracts at September 26, 2003, was \$6.6 million. The potential fair value loss for a hypothetical 10% adverse change in forward currency exchange rates at September 26, 2003, would be \$0.7 million, which would be essentially offset by gains in the corresponding assets. The potential loss was estimated calculating the fair value of the forward exchange contracts at September 26, 2003, and comparing that with the value calculated using the hypothetical forward currency exchange rates.

Credit Risk

We are exposed to concentration of credit risk in cash and cash equivalents, investments, trade receivables, and short-term foreign exchange forward contracts. We place our cash and cash equivalents with our primary bank, a major financial institution, with a high-quality credit rating. Our investments consist of money market funds, municipal and other tax-free bonds, or investment-grade securities. We enter into short-term foreign currency exchange contracts with our primary bank.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer concluded that these disclosure controls and procedures are effective and designed to ensure that the information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the requisite time periods.

While the Company's disclosure controls and procedures provide reasonable assurance that the appropriate information will be available on a timely basis, this assurance is subject to limitations inherent in any control system, no matter how well designed and administered.

Changes in Internal Controls

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) identified in connection with the evaluation of our internal control performed during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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HELIX TECHNOLOGY CORPORATION

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We may be involved in various legal proceedings in the normal course of business. We are not a party to any proceedings that involve amounts that would have a material effect on our financial position or results of operations if such proceedings were resolved unfavorably.

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits:

<u>Exhibit Number</u>	<u>Description of Exhibits</u>
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
32.1	Certification of the Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.
32.2	Certification of the Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.

b. Reports on Form 8-K:

1. A Report on Form 8-K was furnished on July 21, 2003 (Item 9.). The report contained information announcing Helix Technology Corporation's earnings release issued on July 21, 2003. *

*Information furnished under Item 9 or Item 12 of Form 8-K is not incorporated by reference, is not deemed filed and is not subject to liability under Section 11 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934.

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HELIX TECHNOLOGY CORPORATION

SIGNATURES

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

HELIX TECHNOLOGY CORPORATION
(Registrant)

Date: October 20, 2003

By: /s/Robert J. Lepofsky
Robert J. Lepofsky
President and Chief Executive Officer

Date: October 20, 2003

By: /s/Jay Zager
Jay Zager
Senior Vice President and
Chief Financial Officer

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