

HELIX TECHNOLOGY CORP
Form 10-Q
October 22, 2004

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 October 1, 2004,

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 October 1, 2004, was 26,112,979.

HELIX TECHNOLOGY CORPORATION

Form 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

HELIX TECHNOLOGY CORPORATION

CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands except share data)	October 1, 2004	December 31, 2003
ASSETS		
Current:		
Cash and cash equivalents	\$ 14,063	\$ 24,448
Investments	62,406	42,939
Receivables - net of allowances	24,796	21,033
Inventories	20,728	22,032
Other current assets	3,215	1,934
Total Current Assets	<u>125,208</u>	<u>112,386</u>
Property, plant and equipment at cost	65,994	64,908
Less: accumulated depreciation	<u>(47,087)</u>	<u>(44,085)</u>
Net property, plant and equipment	18,907	20,823
Other assets	<u>13,870</u>	<u>12,781</u>
TOTAL ASSETS	<u><u>\$ 157,985</u></u>	<u><u>\$ 145,990</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current:

Accounts payable	\$	8,676	\$	8,918
Payroll and compensation		968		1,628
Accrued restructuring costs		185		689
Income taxes		4,642		4,383
Other accrued liabilities		2,721		3,214
Total Current Liabilities		<u>17,192</u>		<u>18,832</u>
Retirement costs		8,653		8,352
Total Liabilities		<u>25,845</u>		<u>27,184</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 26,119,829 in 2004 and 26,103,204 in 2003;

outstanding 26,112,979 in 2004 and 26,099,364 in 2003

Capital in excess of par value		76,642		76,405
Treasury stock, \$1 par value (6,850 shares in 2004 and 3,840 shares in 2003)		(308)		(232)
Retained earnings		29,110		16,500
Accumulated other comprehensive income		576		30
Total Stockholders' Equity		<u>132,140</u>		<u>118,806</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	<u>157,985</u>	\$	<u>145,990</u>

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

HELIX TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

Three Months Ended		Nine Months Ended	
October 1, 2004	September 26, 2003	October 1, 2004	September 26, 2003

(in thousands except per share data)

Net sales	\$ 40,353	\$ 25,973	\$ 124,753	\$ 74,151
Costs and expenses:				
Cost of sales	24,130	17,133	74,672	49,966
Research and development	2,730	2,333	7,842	7,563
Selling, general and administrative	8,883	7,577	26,084	22,942
	<u>35,743</u>	<u>27,043</u>	<u>108,598</u>	<u>80,471</u>
Operating income (loss)	4,610	(1,070)	16,155	(6,320)
Joint venture income	774	161	2,229	760
Interest and other income	256	229	692	696
Income (loss) before taxes	5,640	(680)	19,076	(4,864)
Income tax (benefit) provision	(129)	8,424	2,289	7,065
Net income (loss)	<u>\$ 5,769</u>	<u>\$ (9,104)</u>	<u>16,787</u>	<u>\$ (11,929)</u>
Net income (loss) per share:				
Basic	<u>\$ 0.22</u>	<u>\$ (0.35)</u>	<u>\$ 0.64</u>	<u>\$ (0.46)</u>
Diluted	<u>\$ 0.22</u>	<u>\$ (0.35)</u>	<u>\$ 0.64</u>	<u>\$ (0.46)</u>
Number of shares used in per share calculations:				
Basic	26,112	26,099	26,109	26,099
Diluted	26,165	26,099	26,194	26,099

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

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HELIX TECHNOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Nine Months Ended
October 1, September 26,

(in thousands)	2004	2003
Cash flows from operating activities:		
Net income (loss)	\$ 16,787	\$ (11,929)
Adjustments to reconcile net income (loss) to net cash provided		
by operating activities:		
Depreciation and amortization	3,971	4,542
Deferred income taxes	--	8,708
Other	(502)	754
Change in operating assets and liabilities:		
Receivables - net of allowances	(3,763)	(3,409)
Inventories	1,304	2,155
Income tax receivables	(892)	10,246
Other current assets	(389)	271
Accounts payable	(242)	(1,320)
Accrued restructuring costs	(504)	(3,051)
Other accrued expenses	(593)	1,189
Net cash provided by operating activities	<u>15,177</u>	<u>8,156</u>
Cash flows from investing activities:		
Capital expenditures	(2,076)	(2,074)
Purchase of investments	(30,042)	(65,972)
Sale of investments	10,555	48,275
Net cash used in investing activities	<u>(21,563)</u>	<u>(19,771)</u>
Cash flows from financing activities:		
Net cash provided by employee stock plans	178	--
Cash dividends paid	(4,177)	(3,132)
Net cash used in financing activities	<u>(3,999)</u>	<u>(3,132)</u>
Decrease in cash and cash equivalents	(10,385)	(14,747)
Cash and cash equivalents, at the beginning of the period	<u>24,448</u>	<u>26,752</u>
Cash and cash equivalents, at the end of the period	<u>\$ 14,063</u>	<u>\$ 12,005</u>

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

(unaudited)

Note 1 - Basis of Presentation and Stock Compensation

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 October 1, 2004, and December 31, 2003, and the results of the Company's operations and cash flows for the three- and nine-month periods ended October 1, 2004, and September 26, 2003.

The consolidated financial statements included herein have been prepared by the Company, without audit of the three- and nine-month periods ended October 1, 2004, and September 26, 2003, 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 in conformity with accounting principles generally accepted in the United States of America 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.

Certain reclassifications have been made to the prior year's consolidated financial statements to conform with the current period presentation.

Stock Compensation

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 Issued 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 income and basic and diluted net income per share would have been as follows:

HELIX TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(in thousands except per share data)	Three Months Ended		Nine Months Ended	
	October 1, 2004	September 26, 2003	October 1, 2004	September 26, 2003
Net income (loss), as reported	\$ 5,769	\$ (9,104)	\$ 16,787	\$ (11,929)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	333	297	834	686
Pro forma net income (loss)	\$ 5,436	\$ (9,401)	\$ 15,953	\$ (12,615)
Earnings per share:				
Basic-as reported	\$ 0.22	\$ (0.35)	\$ 0.64	\$ (0.46)
Basic-pro forma	\$ 0.21	\$ (0.36)	\$ 0.61	\$ (0.48)
Diluted-as reported	\$ 0.22	\$ (0.35)	\$ 0.64	\$ (0.46)
Diluted-pro forma	\$ 0.21	\$ (0.36)	\$ 0.61	\$ (0.48)

Note 2 - Inventories

(in thousands)	October 1, 2004	December 31, 2003
Finished goods	\$ 7,311	\$ 8,087
Work in process	8,900	8,849
Materials and parts	4,517	5,096
	\$ 20,728	\$ 22,032

Inventories are stated at the lower of cost or market on a first-in, first-out basis. Cost includes material, labor and applicable manufacturing and engineering overhead costs. 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 it is less than cost. This estimate is based upon management's assumptions of future material usage and obsolescence,

which are a result of future demand and market conditions.

Note 3 - 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 at the time. 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 were paid during 2003, with the remaining cash outlays related to the facility closures occurring during 2004.

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HELIX TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 3 - Accrued Restructuring Costs (continued)

The following table summarizes the cash payments and the remaining accrual as of October 1, 2004:

(in thousands)	Facility Closures
Balance at December 31, 2003	\$ 689
Cash payments in the first nine months of 2004	(504)
Balance at October 1, 2004	<u>\$ 185</u>

Note 4 - Income Taxes

For the third quarter ended October 1, 2004, the Company earned income before taxes of \$5.6 million and recorded a tax benefit of \$129,000, an effective tax rate of -2.3%. For the nine months ended October 1, 2004, the Company earned income before taxes of \$19.1 million and recorded a tax provision of \$2.3 million, an effective tax rate of 12.0%. The change in the effective tax rate during the year reflects the impact of a reduction in the Company's projected 2004 annual income before tax combined with the utilization of prior year net operating losses and tax credits. The 2004 tax rate differs from the U.S. statutory rate primarily due to the release of the valuation allowance associated with the utilization of prior year net operating losses and tax credits.

In the third quarter of 2003, the Company recorded a provision to establish a valuation allowance against the deferred tax assets in accordance with SFAS 109, "Accounting for Income Taxes." If the Company generates future taxable income domestically against which these tax attributes may be applied, some portion or all of the valuation allowance previously established will be reversed and result in an income tax benefit in the current period. The prior year quarter tax rate differs from the U.S. statutory rate primarily due to the establishment of the valuation allowance against our deferred tax assets and to tax credits and undistributed nontaxable equity income from our joint venture.

The Company has been subject to an IRS audit related to certain tax positions taken on prior year returns. The audit is expected to be resolved in the latter part of the 2004 fourth quarter or early 2005. It is probable that the resolution of

the audit may result in a one-time favorable tax benefit related to the settlement of this audit. This benefit will be recorded in the quarter the audit is settled.

Note 5 - Employee Benefit Plans

The Company's net pension cost included the following components:

(in thousands)	Three Months Ended		Nine Months Ended	
	October 1, 2004	September 26, 2003	October 1, 2004	September 26, 2003
Service cost	\$ 450	\$ 409	\$ 1,351	\$ 1,225
Interest cost	272	288	844	865
Expected return on assets	(135)	(166)	(469)	(499)
Net amortization of:				
Prior service cost	4	4	11	12
Net actuarial gain	8	--	36	--
Transition obligation	--	(7)	--	(21)
Net periodic pension cost	<u>\$ 599</u>	<u>\$ 528</u>	<u>\$ 1,773</u>	<u>\$ 1,582</u>

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HELIX TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 5 - Employee Benefit Plans (continued)

The Company previously disclosed that it expected to contribute the minimum contribution of \$1,758,000 to its pension plan in 2004. In the interest of improving the funded status of the plan, it has contributed \$3,116,000 during the first nine months of 2004 and may make additional payments before year end.

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.

In November 2002, the FASB issued FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34. FIN No. 45 requires that a guarantor recognize, at the

inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee and requires additional disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees it has issued. The adoption of FIN No. 45 did not have a material effect on the Company's financial position or results of operations. The following is a summary of the Company's agreements that it has determined are within the scope of FIN No. 45.

The Company enters into standard indemnification agreements in its ordinary course of business. Pursuant to these agreements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally its business partners or customers, in connection with patent, copyright or other intellectual property infringement claims by any third party with respect to its current products, as well as claims relating to property damage or personal injury resulting from the performance of services by the Company or its subcontractors. The maximum potential amount of future payments it could be required to make under these indemnification agreements is unlimited. Historically, its costs to defend lawsuits or settle claims relating to such indemnity agreements have been minimal and the Company accordingly believes the estimated fair value of these agreements is immaterial.

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 2004 were as follows:

(in thousands)	2004	2003
Balance at beginning of period	\$ 471	\$ 293
Provisions for warranty	438	999
Consumption of reserves	(409)	(844)
Balance at end of period	<u>\$ 500</u>	<u>\$ 448</u>

HELIX TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 7 - Other Comprehensive Income (Loss)

(in thousands)	Three Months Ended		Nine Months Ended	
	October 1, 2004	September 26, 2003	October 1, 2004	September 26, 2003

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Net income (loss)	\$ 5,769	\$ (9,104)	\$ 16,787	\$ (11,929)
Other comprehensive gain (loss) before tax:				
Foreign currency translation adjustment	(949)	176	574	1,082
Unrealized gain (loss) on available-for-sale investments	5	(141)	(21)	46
Other comprehensive gain (loss) before tax	(944)	35	553	1,128
Income tax related to items of other comprehensive gain (loss)	346	(70)	(7)	(152)
Other comprehensive gain (loss), net of tax	(598)	(35)	546	976
Other comprehensive income (loss)	\$ 5,171	\$ (9,139)	\$ 17,333	\$ (10,953)

Note 8 - Net Income (Loss) Per Share

Basic net income (loss) per common share is based on the weighted average number of common shares outstanding during the period. Diluted net income (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 income (loss) per common share:

(in thousands except per share data)	Three Months Ended		Nine Months Ended	
	October 1, 2004	September 26, 2003	October 1, 2004	September 26, 2003
Net income (loss)	\$ 5,769	\$ (9,104)	\$ 16,787	\$ (11,929)
Basic shares	26,112	26,099	26,109	26,099
Add: Common equivalent shares ⁽¹⁾	53	--	85	--
Diluted shares	26,165	26,099	26,194	26,099
Basic net income (loss) per share	\$ 0.22	\$ (0.35)	\$ 0.64	\$ (0.46)
	\$ 0.22	\$ (0.35)	\$ 0.64	\$ (0.46)

Diluted net income (loss) per
share

- (1) Common equivalent shares represent shares issuable upon exercise of stock options (using the treasury stock method). For the three- and nine-months ended October 1, 2004, the Company had 614,500 and 445,500 options, respectively, outstanding and not included in the computation of diluted shares, because the option price was greater than the average market price of the common shares and inclusion of such shares would be anti-dilutive. The Company had 762,875 options outstanding and not included in the computation of diluted shares for the three- and nine-months ended September 26, 2003, because the Company was in a net loss position, and the inclusion of such shares would be anti-dilutive.

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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: the development, manufacture, sale and support of cryogenic and vacuum equipment. The Company's management currently uses consolidated financial information in determining how to allocate resources and assess performance.

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
Net sales for the three months ended:			
October 1, 2004	\$ 29,937	\$ 10,416	\$ 40,353
September 26, 2003	\$ 17,693	\$ 8,280	\$ 25,973
Net sales for the nine months ended:			
October 1, 2004	\$ 93,486	\$ 31,267	\$ 124,753
September 26, 2003	\$ 52,564	\$ 21,587	\$ 74,151
Long-lived assets as of:			
October 1, 2004	\$ 30,367	\$ 2,410	\$ 32,777

December 31, 2003	\$	30,811	\$	2,793	\$	33,604
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Note 10 - Recent Accounting Pronouncements

In December 2003, the FASB issued Statement of Financial Accounting Standards No. 132 (revised 2003) (SFAS 132), "Employers' Disclosures about Pensions and Other Postretirement Benefits," that improves financial statement disclosures for defined benefit plans. The change replaces existing SFAS 132 disclosure requirements for pensions and other postretirement benefits and revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by SFAS 87, "Employers' Accounting for Pensions," or SFAS 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." Revised SFAS 132 retains the disclosure requirements contained in the original SFAS 132, but requires additional disclosures about the plan assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. Revised SFAS 132 is effective for annual and interim periods with fiscal years ending after December 15, 2003. The Company has adopted the revised disclosure provisions.

In December 2003, the FASB issued FASB Interpretation No. 46-R (FIN 46-R) a revised interpretation of FASB Interpretation No. 46 (FIN 46). FIN 46-R requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of FIN 46-R are effective for all arrangements entered into after January 31, 2003. The Company does not have any equity interests that would change its current reporting or require additional disclosures outlined in FIN 46-R.

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HELIX TECHNOLOGY CORPORATION

PART I

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.

Overview

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. Our service offerings include our TrueBluesm Service Agreements, our GUTS[®] (Guaranteed Up Time Support) customer response system and our innovative GOLDLink[®] (Global On-Line Diagnostics) support system, which provides a remote e-diagnostics solution that allows us to monitor, in real time, the vacuum system performance of our customers' production tools. Our GOLDLink capability has made us a leading total solution provider in the emerging market for Internet-based, proactive e-diagnostics for the semiconductor and semiconductor capital equipment industries.

The principal market we serve is the global semiconductor capital equipment industry, a highly cyclical business. As a result, we have experienced significant variations in net sales, expenses, and results of operations in the periods presented and such variations are likely to continue.

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.

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HELIX TECHNOLOGY CORPORATION

PART I

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

(continued)

Revenue Recognition and Accounts Receivable. 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. Revenues from contracts with multiple-element arrangements, such as those including products and services, are recognized as each element is earned based on the relative fair value of each element. Amounts billed to customers that relate to shipping costs are included in net sales and in cost of sales. 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 condition of our customers were to deteriorate resulting in an impairment of their ability to make payments, additional allowances may 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. This estimate is 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, which will result in improved margins in the period in which the product is sold.

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.

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 was required in the third quarter of 2003. Until an appropriate level of profitability is reached, this allowance will continue to be required.

Restructuring Charges. During 2002, we recorded charges in connection with our restructuring program. 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 program at the end of each reporting period. Actual experience may be different from these estimates.

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PART I

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

(continued)

Retirement Obligations. We have retirement obligations that 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.

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.

Results of Operations

Net sales for the third quarter ended October 1, 2004, (the "2004 Quarter") were \$40.4 million compared with net sales for the third quarter ended September 26, 2003, (the "2003 Quarter") of \$26.0 million. Net sales for the nine months ended October 1, 2004, (the "2004 Period") were \$124.8 million compared with net sales for the nine months ended September 26, 2003, (the "2003 Period") of \$74.2 million. Sales increased 55.4% over the same quarter in the prior year, as the semiconductor industry began a period of expansion at the end of 2003. This expansion, however, demonstrated signs of softening during the current quarter, and as a result, sales decreased by 8.3% sequentially compared to the prior quarter.

Cost of sales for the 2004 Quarter was \$24.1 million compared with \$17.1 million for the 2003 Quarter, an increase of 40.8%. The gross margin for the 2004 Quarter was 40.2% compared with 34.0% for the 2003 Quarter. Gross margin for the 2004 Period improved to 40.1% from 32.6% for the 2003 Period. The increase in gross margin for the 2004 Period was primarily attributable to the higher manufacturing volume to support the increase in sales.

Research and development expenses were \$2.7 million and \$7.8 million for the 2004 Quarter and 2004 Period, respectively, compared to \$2.3 million and \$7.6 million for the 2003 Quarter and 2003 Period, respectively. The increase in research and development expenses is due to increased spending as we continue to enhance and expand our product offerings.

Total selling, general and administrative expenses were \$8.9 million and \$26.1 million in the 2004 Quarter and 2004 Period, respectively, compared with \$7.6 million and \$22.9 million in the 2003 Quarter and 2003 Period, respectively. The increase in selling, general and administrative expenses is primarily due to higher selling expenses as a result of higher commissionable sales, increased costs of regulatory compliance and higher variable compensation expenses as a result of higher operating profits.

Royalty and equity income from our joint venture in Japan increased by \$0.6 million or 381% in the 2004 Quarter compared to the 2003 Quarter and increased \$1.5 million or 193% in the 2004 Period compared to the 2003 Period, due to the growth in the flat panel display portion of the electronics capital equipment market.

Interest and other income for the 2004 Quarter and 2004 Period were consistent with the prior year, due mainly to higher average cash balances partially offset by lower interest rates.

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(continued)

For the 2004 Quarter and 2004 Period, we had pretax income of \$5.6 million and \$19.1 million, respectively, resulting in a tax benefit of \$0.1 million in the 2004 Quarter and a tax provision of \$2.3 million in the 2004 Period, compared to

a pretax loss of \$0.7 million and \$4.9 million and a tax provision of \$8.4 million and \$7.1 million for the 2003 Quarter and 2003 Period, respectively. Our 2004 Quarter effective tax rate differs from our expected annual rate because of a decrease in projected 2004 annual income before tax combined with an increase in the utilization of our net operating loss carryforwards. The effective tax rate for the 2004 Period was 12.0%.

In the third quarter of 2003, we recorded a provision to establish a valuation allowance against our deferred tax assets in accordance with SFAS 109, "Accounting for Income Taxes." As we generate future taxable income domestically against which these tax attributes may be applied, some portion or all of the valuation allowance previously established will be reversed and result in an income tax benefit in the current period. The current tax rate differs from the U.S. statutory rate primarily due to the release of the valuation allowance associated with the utilization of prior year federal net operating loss and tax credits, current year tax credits and undistributed nontaxable equity income from our joint venture. The prior year tax rate differs from the U.S. statutory rate primarily due to the establishment of the valuation allowance and to tax credits and undistributed nontaxable equity income from our joint venture.

We have been subject to an IRS audit related to certain tax positions taken on prior year returns. The audit is expected to be resolved in the latter part of the 2004 fourth quarter or early 2005. It is probable that the resolution of the audit may result in a one-time favorable tax benefit related to the settlement of this audit. This benefit will be recorded in the quarter the audit is settled.

Liquidity and Capital Resources

Cash, cash equivalents and investments of \$76.5 million increased by \$9.1 million in the 2004 Period as we continued to generate strong cash from operations offset by investments in infrastructure, elective pension contributions and our quarterly dividend payments.

Cash provided by operating activities was \$15.2 million for the 2004 Period compared to \$8.2 million in the 2003 Period. The cash provided by operating activities for the 2004 Period was primarily due to net operating income offset by changes in working capital, primarily receivables. Receivables at October 1, 2004, were \$24.8 million, an increase of \$3.8 million from December 31, 2003. This increase was entirely due to higher sales volumes, as our days sales outstanding improved to 55 days as of October 1, 2004. The cash provided by operating activities for the 2003 Period was primarily due to our receipt of \$12.0 million in tax refunds, which resulted from the carryback of net operating losses, and by \$3.1 million of severance and facility closure payments related to the 2002 restructuring.

In both the 2004 Period and 2003 Period, we spent \$2.1 million to support existing infrastructure. We expect full year spending for 2004 to be approximately \$3.0 million to \$3.5 million. We continue to closely manage our capital expenditures.

In the 2004 Period and 2003 Period, cash dividends paid to stockholders totaled \$4.2 million and \$3.1 million, respectively. We paid a dividend of \$0.04 per share in the first and second quarters of 2004. After considering the significant improvement in our financial performance and the strength of our balance sheet and cash position, our Board of Directors increased the dividend to \$0.08 per share in the third quarter of 2004. We paid a quarterly dividend of \$0.04 per share during the 2003 Period.

(continued)

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.

Recent Accounting Pronouncements

In December 2003, the FASB issued Statement of Financial Accounting Standards No. 132 (revised 2003) (SFAS 132), "Employers' Disclosures about Pensions and Other Postretirement Benefits," that improves financial statement disclosures for defined benefit plans. The change replaces existing SFAS 132 disclosure requirements for pensions and other postretirement benefits and revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement of recognition of those plans required by SFAS 87, "Employers' Accounting for Pensions," or SFAS 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." Revised SFAS 132 retains the disclosure requirements contained in the original SFAS 132, but requires additional disclosures about the plan assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. Revised SFAS 132 is effective for annual and interim periods with fiscal years ending after December 15, 2003. We have adopted the revised disclosure provisions.

In December 2003, the FASB issued FASB Interpretation No. 46-R (FIN 46-R) a revised interpretation of FASB Interpretation No. 46 (FIN 46). FIN 46-R requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of FIN 46-R are effective for all arrangements entered into after January 31, 2003. We do not have any equity interests that would change our current reporting or require additional disclosures outlined in FIN 46-R.

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PART I

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

(continued)

Important Factors That May Affect Future Results

This quarterly report on Form 10-Q contains forward-looking statements. These forward-looking statements appear principally in the section entitled "Management's Discussion and Analysis of Financial Condition 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 include such words as "expect," "anticipate," "plan," "intend," "believe," "seek," "estimate," and similar expressions.

The forward-looking statements include, but are not limited to, statements regarding:

- Our strategic plans;
- The outlook for our business and industry;
- Anticipated sources of future revenues;
- Anticipated expenses and spending;
- Anticipated levels of capital expenditures;
- Anticipated tax benefits; 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 our products, the success of our strategic initiatives, including our 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 industry conditions, our 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, 2003. 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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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 October 1, 2004, was \$7.8 million. The potential fair value loss for a hypothetical 10% adverse change in forward currency exchange rates at October 1, 2004, would be \$0.8 million, which would be essentially offset by corresponding gains related to underlying assets. The potential loss was estimated calculating the fair value of the forward exchange contracts at October 1, 2004, 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 our 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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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We may be involved in the normal course in ordinary routine litigation incidental to the 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

a. Exhibits:

The Exhibits filed as part of this report are listed on the Exhibit Index immediately preceding the exhibits, which Exhibit Index is incorporated herein by reference.

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 22, 2004

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

Date: October 22, 2004

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

HELIX TECHNOLOGY CORPORATION

Exhibit Index

<u>Exhibit Number</u>	<u>Description of Exhibits</u>
10.1	Form of Helix's Non-Statutory Stock Option Certificate under Helix's 1996 Equity Incentive Plan for all its employees, including executive officers. Filed herewith.
10.2	Form of Helix's Non-Statutory Stock Option Certificate under Helix's 1996 Equity Incentive Plan for its directors. Filed herewith.

- 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.