

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

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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>(9,104)</u>	<u>(2,199)</u>	<u>(11,929)</u>	<u>(10,456)</u>
Net loss	\$ (9,104)	\$ (2,199)	\$ (11,929)	\$ (10,456)
Net loss per share:				
Basic	\$ (0.35)	\$ (0.08)	\$ (0.46)	\$ (0.42)
	<u>(0.35)</u>	<u>(0.08)</u>	<u>(0.46)</u>	<u>(0.42)</u>
Diluted	\$ (0.35)	\$ (0.08)	\$ (0.46)	\$ (0.42)
	<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
	<u>\$ 21,791</u>	<u>\$ 23,946</u>

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>

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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)