

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended June 29, 2019

Commission file number 0-21835

HELIOS TECHNOLOGIES, INC.

(Exact Name of Registration as Specified in its Charter)

FLORIDA
(State or Other Jurisdiction of
Incorporation or Organization)

59-2754337
(I.R.S. Employer
Identification No.)

**1500 WEST UNIVERSITY PARKWAY
SARASOTA, FLORIDA**
(Address of Principal Executive Offices)

34243
(Zip Code)

941/362-1200
(Registrant's Telephone Number, Including Area Code)

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock \$.001 Par Value	HLIO	The NASDAQ Global Select Market

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

The Registrant had 32,026,807 shares of common stock, par value \$.001, outstanding as of July 26, 2019.

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June 29, 2019

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PART I: FINANCIAL INFORMATION

Item 1.

Helios Technologies, Inc.
Consolidated Balance Sheets
(in thousands, except share data)

	<u>June 29, 2019</u>	<u>December 29, 2018</u>
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,283	\$ 23,477
Restricted cash	38	38
Accounts receivable, net of allowance for doubtful accounts of \$1,529 and \$1,336	81,817	72,806
Inventories, net	97,176	85,989
Income taxes receivable	1,262	4,549
Other current assets	14,745	9,997
Total current assets	<u>208,321</u>	<u>196,856</u>
Property, plant and equipment, net	146,607	126,868
Deferred income taxes	7,870	9,463
Goodwill	382,221	383,131
Other intangible assets, net	310,092	320,548
Other assets	4,746	5,299
Total assets	<u>\$ 1,059,857</u>	<u>\$ 1,042,165</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 41,867	\$ 40,879
Accrued compensation and benefits	15,396	13,260
Other accrued expenses and current liabilities	13,642	9,941
Current portion of contingent consideration	1,047	18,120
Current portion of long-term non-revolving debt, net	6,357	5,215
Dividends payable	2,882	2,878
Income taxes payable	1,852	2,697
Total current liabilities	<u>83,043</u>	<u>92,990</u>
Revolving line of credit	250,950	255,750
Long-term non-revolving debt, net	87,766	91,720
Contingent consideration, less current portion	893	840
Deferred income taxes	52,478	57,783
Other noncurrent liabilities	26,473	12,314
Total liabilities	<u>501,603</u>	<u>511,397</u>
Commitments and contingencies	—	—
Shareholders' equity:		
Preferred stock, par value \$0.001, 2,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, par value \$0.001, 100,000,000 and 50,000,000 shares authorized, 32,017,300 and 31,964,775 shares issued and outstanding	32	32
Capital in excess of par value	362,104	357,933
Retained earnings	246,828	219,056
Accumulated other comprehensive loss	(50,710)	(46,253)
Total shareholders' equity	<u>558,254</u>	<u>530,768</u>
Total liabilities and shareholders' equity	<u>\$ 1,059,857</u>	<u>\$ 1,042,165</u>

The accompanying Notes to the Consolidated, Unaudited Financial Statements are an integral part of these financial statements.

Helios Technologies, Inc.
Consolidated Statements of Operations
(in thousands, except per share data)

	Three months ended	
	June 29, 2019	June 30, 2018
	(unaudited)	(unaudited)
Net sales	\$ 143,842	\$ 136,168
Cost of sales	87,615	85,764
Gross profit	56,227	50,404
Selling, engineering and administrative expenses	25,309	25,325
Amortization of intangible assets	4,545	8,076
Operating income	26,373	17,003
Interest expense, net	4,048	4,151
Foreign currency transaction loss, net	501	3,301
Miscellaneous (income) expense, net	(157)	80
Change in fair value of contingent consideration	56	251
Income before income taxes	21,925	9,220
Income tax provision	4,660	2,424
Net income	\$ 17,265	\$ 6,796
Basic and diluted net income per common share	\$ 0.54	\$ 0.22
Basic and diluted weighted average shares outstanding	32,012	31,597
Dividends declared per share	\$ 0.09	\$ 0.09

The accompanying Notes to the Consolidated, Unaudited Financial Statements are an integral part of these financial statements.

Helios Technologies, Inc.
Consolidated Statements of Operations
(in thousands, except per share data)

	Six months ended	
	June 29, 2019	June 30, 2018
	(unaudited)	(unaudited)
Net sales	\$ 290,693	\$ 233,486
Cost of sales	177,958	145,465
Gross profit	112,735	88,021
Selling, engineering and administrative expenses	51,465	43,640
Amortization of intangible assets	9,066	10,124
Operating income	52,204	34,257
Interest expense, net	8,433	4,634
Foreign currency transaction loss, net	62	3,812
Miscellaneous (income) expense, net	(50)	44
Change in fair value of contingent consideration	775	653
Income before income taxes	42,984	25,114
Income tax provision	9,315	6,407
Net income	\$ 33,669	\$ 18,707
Basic and diluted net income per common share	\$ 1.05	\$ 0.61
Basic and diluted weighted average shares outstanding	31,995	30,718
Dividends declared per share	\$ 0.18	\$ 0.18

The accompanying Notes to the Consolidated, Unaudited Financial Statements are an integral part of these financial statements.

Helios Technologies, Inc.
Consolidated Statements of Comprehensive Income
(in thousands)

	Three months ended		Six months ended	
	June 29, 2019 (unaudited)	June 30, 2018 (unaudited)	June 29, 2019 (unaudited)	June 30, 2018 (unaudited)
Net income	\$ 17,265	\$ 6,796	\$ 33,669	\$ 18,707
Other comprehensive income (loss)				
Foreign currency translation adjustments, net of tax	3,498	(27,214)	(1,333)	(24,718)
Unrealized loss on interest rate swap, net of tax	(2,042)	—	(3,124)	—
Total other comprehensive income (loss)	1,456	(27,214)	(4,457)	(24,718)
Comprehensive income (loss)	\$ 18,721	\$ (20,418)	\$ 29,212	\$ (6,011)

The accompanying Notes to the Consolidated, Unaudited Financial Statements are an integral part of these financial statements.

Helios Technologies, Inc.
Consolidated Statements of Shareholders' Equity (unaudited)
(in thousands)

	Preferred shares	Preferred stock	Common shares	Common stock	Capital in excess of par value	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, March 30, 2019	—	\$ —	31,996	\$ 32	\$ 360,195	\$ 232,445	\$ (52,166)	\$ 540,506
Shares issued, restricted stock			(1)					—
Shares issued, other compensation			7					—
Shares issued, ESPP			15		436			436
Shares issued, ESOP					60			60
Stock-based compensation					1,413			1,413
Dividends declared						(2,882)		(2,882)
Net income						17,265		17,265
Other comprehensive income							1,456	1,456
Balance, June 29, 2019	<u>—</u>	<u>\$ —</u>	<u>32,017</u>	<u>\$ 32</u>	<u>\$ 362,104</u>	<u>\$ 246,828</u>	<u>\$ (50,710)</u>	<u>\$ 558,254</u>
Balance, March 31, 2018	—	\$ —	31,588	\$ 32	\$ 336,189	\$ 192,838	\$ (3,983)	\$ 525,076
Shares issued, restricted stock			3					—
Shares issued, other compensation			5					—
Shares issued, ESPP			8		438			438
Stock-based compensation					1,145			1,145
Dividends declared						(2,847)		(2,847)
Net income						6,796		6,796
Other comprehensive loss							(27,213)	(27,213)
Balance, June 30, 2018	<u>—</u>	<u>\$ —</u>	<u>31,604</u>	<u>\$ 32</u>	<u>\$ 337,772</u>	<u>\$ 196,787</u>	<u>\$ (31,196)</u>	<u>\$ 503,395</u>
Balance, December 29, 2018	—	\$ —	31,965	\$ 32	\$ 357,933	\$ 219,056	\$ (46,253)	\$ 530,768
Shares issued, restricted stock			(1)					—
Shares issued, other compensation			13					—
Shares issued, ESPP			28		844			844
Shares issued, ESOP			24		1,152			1,152
Stock-based compensation					2,781			2,781
Cancellation of shares for payment of employee tax withholding			(12)		(606)			(606)
Dividends declared						(5,763)		(5,763)
Net income						33,669		33,669
Other comprehensive loss							(4,457)	(4,457)
Impact of adoption of ASU 2016-02, related to leases						(134)		(134)
Balance, June 29, 2019	<u>—</u>	<u>\$ —</u>	<u>32,017</u>	<u>\$ 32</u>	<u>\$ 362,104</u>	<u>\$ 246,828</u>	<u>\$ (50,710)</u>	<u>\$ 558,254</u>
Balance, December 30, 2017	—	\$ —	27,077	\$ 27	\$ 95,354	\$ 183,770	\$ (6,478)	\$ 272,673
Shares issued, restricted stock			103					—
Shares issued, other compensation			12					—
Shares issued, ESPP			17		809			809
Shares issued, public offering			4,400	5	239,788			239,793
Stock-based compensation					2,061			2,061
Cancellation of shares for payment of employee tax withholding			(5)		(240)			(240)
Dividends declared						(5,690)		(5,690)
Net income						18,707		18,707
Other comprehensive loss							(24,718)	(24,718)
Balance, June 30, 2018	<u>—</u>	<u>\$ —</u>	<u>31,604</u>	<u>\$ 32</u>	<u>\$ 337,772</u>	<u>\$ 196,787</u>	<u>\$ (31,196)</u>	<u>\$ 503,395</u>

The accompanying Notes to the Consolidated, Unaudited Financial Statements are an integral part of these financial statements.

Helios Technologies, Inc.
Consolidated Statements of Cash Flows
(in thousands)

	Six months ended	
	June 29, 2019 (unaudited)	June 30, 2018 (unaudited)
Cash flows from operating activities:		
Net income	\$ 33,669	\$ 18,707
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,195	17,076
Loss on disposal of assets	79	8
Stock-based compensation expense	2,781	2,061
Amortization of debt issuance costs	358	371
Benefit for deferred income taxes	(1,095)	—
Amortization of acquisition related inventory step up	—	3,125
Change in fair value of contingent consideration	775	653
Forward contract (gains) losses, net	(409)	3,493
Other, net	940	196
(Increase) decrease in:		
Accounts receivable	(9,586)	(13,666)
Inventories	(12,276)	(4,754)
Income taxes receivable	(488)	(46)
Other current assets	(3,312)	(501)
Other assets	781	270
Increase (decrease) in:		
Accounts payable	1,178	5,908
Accrued expenses and other liabilities	4,176	1,660
Income taxes payable	3,078	(3,405)
Other noncurrent liabilities	(1,668)	(39)
Contingent consideration payments in excess of acquisition date fair value	(10,731)	—
Net cash provided by operating activities	25,445	31,117
Cash flows from investing activities:		
Capital expenditures	(15,413)	(10,581)
Proceeds from dispositions of equipment	597	3
Acquisition of business, net of cash acquired	—	(527,144)
Cash settlement of forward contract	—	(2,535)
Net cash used in investing activities	(14,816)	(540,257)
Cash flows from financing activities:		
Borrowings on revolving credit facility	85,639	258,000
Repayment of borrowings on revolving credit facility	(91,000)	(117,250)
Borrowings on long-term non-revolving debt	—	100,932
Repayment of borrowings on long-term non-revolving debt	(2,910)	(1,250)
Borrowings under factoring arrangements	—	1,044
Proceeds from stock issued	843	240,602
Dividends to shareholders	(5,759)	(5,281)
Debt issuance costs	—	(1,763)
Payment of contingent consideration liability	(7,064)	—
Other financing activities	(1,141)	(570)
Net cash (used in) provided by financing activities	(21,392)	474,464
Effect of exchange rate changes on cash, cash equivalents and restricted cash	569	736
Net decrease in cash, cash equivalents and restricted cash	(10,194)	(33,940)
Cash, cash equivalents and restricted cash, beginning of period	23,515	63,922
Cash, cash equivalents and restricted cash, end of period	\$ 13,321	\$ 29,982

The accompanying Notes to the Consolidated, Unaudited Financial Statements are an integral part of these financial statements.

HELIOS TECHNOLOGIES, INC.
NOTES TO THE CONSOLIDATED, UNAUDITED FINANCIAL STATEMENTS
(Currencies in thousands, except per share data)

1. COMPANY BACKGROUND

Helios Technologies, Inc. (“Helios” or the “Company”), and its wholly-owned subsidiaries, is an industrial technology leader that develops and manufactures solutions for both the hydraulics and electronics markets. On June 13, 2019, the Company changed its legal name from Sun Hydraulics Corporation to Helios Technologies, Inc. Sun Hydraulics, LLC (“Sun Hydraulics” or “Sun”), a Florida limited liability company that holds the historical net operating assets of the Sun Hydraulics brand entities and Custom Fluidpower Pty Ltd (“Custom Fluidpower”), along with Enovation Controls, LLC (“Enovation Controls”) and Faster S.r.l. (“Faster”) are the wholly-owned operating subsidiaries of Helios.

The Company operates in two business segments, Hydraulics and Electronics. There are three key technologies within the Hydraulics segment: cartridge valve technology (“CVT”), quick-release hydraulic coupling solutions (“QRC”) and hydraulic system design (“Systems”). Within CVT, products provide functions important to a hydraulic system: to control rates and direction of fluid flow and to regulate and control pressures. QRC products allow users to connect and disconnect quickly from any hydraulic circuit without leakage and ensure high-performance under high temperature and pressure using one or multiple couplers. Systems provide engineered solutions for machine users, manufacturers or designers to fulfill complete system design requirements including electro-hydraulic, remote control, electronic control and programmable logic controller systems, as well as automation of existing equipment. In the Electronics segment, we are a leader in display and control integration solutions offering rugged and reliable instruments, coupled with expertise in J1939 engine protocol, to produce an industry-leading array of easy-to-read displays and gauges for controller area network (“CAN”) transmitted engine data and faults. This technology is referred to as Electronic Controls (“EC”).

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements are not included herein. The financial statements are prepared on a consistent basis (including normal recurring adjustments) and should be read in conjunction with the consolidated financial statements and related notes contained in the Annual Report on Form 10-K for the fiscal year ended December 29, 2018, filed by Helios Technologies, Inc. (at that time known as Sun Hydraulics Corporation) with the Securities and Exchange Commission on February 26, 2019. In Management’s opinion, all adjustments necessary for a fair presentation of the Company’s financial statements are reflected in the interim periods presented. Operating results for the six month period ended June 29, 2019, are not necessarily indicative of the results that may be expected for the period ending December 28, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires an entity to recognize both assets and liabilities arising from financing and operating leases, along with additional qualitative and quantitative disclosures. The guidance is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The Company adopted the standard for the fiscal year beginning December 30, 2018, using the effective date method which required a cumulative-effect adjustment to be recorded to the opening balance of retained earnings. Under the effective date method, financial results reported in periods prior to fiscal year 2019 are unchanged. The Company also elected the package of practical expedients, which among other things, does not require reassessment of lease classification. As of the adoption date, the Company recorded right-of-use (“ROU”) assets and liabilities of approximately \$13,918 to the balance sheet and a cumulative-effect adjustment of \$ 134 was recognized in retained earnings.

The Company determines whether an arrangement is a lease at its inception. Operating lease ROU assets represent the Company's right to use an underlying asset for the lease term and are presented in Property, plant and equipment in the Consolidated Balance Sheets. Operating lease liabilities represent the Company's obligation to make lease payments arising from the leases and are presented in Other accrued expenses and current liabilities and Other noncurrent liabilities in the Consolidated Balance Sheets. ROU assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Company utilizes an estimated incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments. The Company considers its existing credit facilities when calculating the incremental borrowing rate.

Lease terms include options to extend the lease when it is reasonably certain that the Company will exercise the option. Leases with a term of 12 months or less are not recorded on the balance sheet. There are no residual value guarantees included in the Company's leases.

Contract Assets & Liabilities

Contract assets are recognized when the Company has a conditional right to consideration for performance completed on contracts. Contract asset balances totaled \$1,956 and \$2,851 at June 29, 2019 and December 29, 2018, respectively, and are presented in Other current assets in the Consolidated Balance Sheets. Accounts receivable balances represent unconditional rights to consideration from customers and are presented separate from contract assets in the Consolidated Balance Sheets.

Contract liabilities are recognized when payment is received from customers prior to revenue being recognized. Contract liabilities totaled \$ 451 and \$138 at June 29, 2019 and December 29, 2018, respectively, and are presented in Other accrued expenses and current liabilities in the Consolidated Balance Sheets.

Derivative Instruments and Hedging Activities

All derivative instruments are recorded gross in the Consolidated Balance Sheets at their respective fair values. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is initially reported as a component of Accumulated other comprehensive income ("AOCI") and is subsequently reclassified into the line item within the Consolidated Statements of Operations in which the hedged items are recorded in the same period in which the hedged item affects earnings.

The Company enters into foreign exchange currency contracts that are not designated as hedging instruments for accounting purposes. Changes in the fair value of foreign exchange currency contracts not designated as hedging instruments are recognized in earnings. Derivative financial instruments are utilized as risk management tools and are not used for trading or speculative purposes.

The Company utilizes foreign currency denominated debt to hedge currency exposure in foreign operations. The Company designates certain foreign currency denominated debt as hedges of net investments in foreign operations which reduces the Company's exposure to changes in currency exchange rates on investments in non-U.S. subsidiaries. Gains and losses on net investments in non-U.S. operations are economically offset by losses and gains on foreign currency borrowings. The change in the U.S. dollar value of foreign currency denominated debt is recorded in Foreign currency translation adjustments, a component of AOCI.

Research and Development

The Company conducts research and development (“R&D”) to create new products and to make improvements to products currently in use. R&D costs are charged to expense as incurred and totaled \$7,778, and \$6,301 for the six months ended June 29, 2019 and June 30, 2018, respectively.

Recently Issued Accounting Standards

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment*. ASU 2017-04 eliminates the second step in the goodwill impairment test, which requires an entity to determine the implied fair value of the reporting unit’s goodwill. Instead, an entity should recognize an impairment loss if the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, with the impairment loss not to exceed the amount of goodwill allocated to the reporting unit. The standard is effective for annual and interim goodwill impairment tests conducted in fiscal years beginning after December 15, 2019, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

Earnings Per Share

The following table presents the computation of basic and diluted earnings per common share (in thousands except per share data):

	Three Months Ended		Six Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net income	\$ 17,265	\$ 6,796	\$ 33,669	\$ 18,707
Basic and diluted weighted average shares outstanding	32,012	31,597	31,995	30,718
Basic and diluted net income per common share	\$ 0.54	\$ 0.22	\$ 1.05	\$ 0.61

3. BUSINESS ACQUISITIONS

Acquisition of Faster

On April 5, 2018, the Company completed the acquisition of Faster S.p.A, a worldwide leader in engineering, manufacturing, marketing and distribution of quick release hydraulic coupling solutions headquartered near Milan, Italy. Pursuant to the Share Purchase Agreement, the Company acquired all of the outstanding equity interests of Polyusus Lux IV S.a.r.l., a Luxembourg limited liability company and the owner of 100% of the share capital of Faster S.p.A. The acquisition was completed for cash consideration totaling \$532,408 and was financed with cash on hand from the Company’s registered public stock offering and borrowings of \$358,000 on its credit facility. Subsequent to the acquisition, the legal structure of Faster was changed to Faster S.r.l.

Faster adds adjacent hydraulics products to the Company’s portfolio of products and broadens end market reach, increasing the Company’s presence in the agriculture market. The results of Faster’s operations are reported in the Company’s Hydraulics segment and have been included in the consolidated financial statements since the acquisition date.

The Share Purchase Agreement allows for future payments to the sellers for certain tax benefits realized within two years of the acquisition date. The estimated fair value of the contingent liability was determined to be \$938 as of the acquisition date. See Note 4 for a summary of the change in estimated fair value of the contingent liability.

The fair value of total purchase consideration consisted of the following:

Cash	\$ 532,408
Acquisition date fair value of contingent consideration	938
Total purchase consideration	533,346
Less: cash acquired	(5,265)
Total purchase consideration, net of cash acquired	\$ 528,081

The purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The allocation of the total purchase price, net of cash acquired, is as follows:

Accounts receivable	\$	24,638
Inventories		34,835
Other current assets		6,661
Property, plant and equipment		20,242
Goodwill		288,449
Intangible assets		248,823
Other assets		7,040
Total assets acquired		630,688
Accounts payable		(18,668)
Accrued expenses		(12,223)
Incomes taxes payable		(4,862)
Other current liabilities		(1,289)
Other noncurrent liabilities		(65,565)
Total liabilities assumed		(102,607)
Fair value of net assets acquired	\$	528,081

Goodwill is primarily attributable to Faster's assembled workforce and anticipated synergies and economies of scale expected from the operations of the combined company. The synergies include certain cost savings, operating efficiencies, and other strategic benefits projected to be achieved as a result of the acquisition. Of the total goodwill acquired, approximately \$4,337 is expected to be deductible for tax purposes.

Transaction costs of \$4,271 incurred in connection with the acquisition are included in Selling, engineering and administrative expenses in the Consolidated Statement of Operations for the six months ended June 30, 2018.

Intangible Assets

The fair value of identified intangible assets and their respective useful lives are as follows:

	Fair Value	Weighted-Average Amortization Periods (Yrs)
Trade name	\$ 25,740	18
Technology	13,483	13
Customer relationships	202,245	26
Sales order backlog	7,355	0.4
Identified intangible assets	\$ 248,823	24

Unaudited Pro Forma Information

The following unaudited pro forma financial information presents combined results of operations for each of the periods presented, as if Faster had been acquired as of the beginning of 2017. The pro forma information includes adjustments to amortization and depreciation for intangible assets and property, plant and equipment and interest expense from borrowings to fund the acquisition. Non-recurring pro forma adjustments directly attributable to the acquisition included in the pro forma information presented below include the purchase accounting effect of inventory step up to fair value of \$3,125, transaction costs totaling \$4,271, amortization of sales order backlog intangible asset totaling \$3,633, accelerated amortization of Faster pre-acquisition loan costs of \$2,328 and loss on forward contract entered into in connection with the acquisition totaling \$2,535.

The pro forma information does not reflect any operating efficiencies or potential cost savings that may result from the acquisition. Accordingly, the pro forma information is for illustrative purposes only and is not intended to present or be indicative of the actual results of operations of the combined company that may have been achieved had the acquisition actually occurred at the beginning of 2017, nor is it intended to represent or be indicative of future results of operations of the combined business. Consequently, actual results will differ from the unaudited pro forma information presented below.

	Three months ended		Six months ended	
	June 30, 2018		June 30, 2018	
Net sales	\$	136,168	\$	274,426
Operating income		26,972		52,954
Net income		15,600		30,474
Basic and diluted net income per common share		0.49		0.97

Acquisition of Custom Fluidpower

On August 1, 2018, the Company acquired all of the outstanding equity interests of Custom Fluidpower Pty Ltd, an Australian proprietary limited liability company. The acquisition was completed pursuant to a Share Sale Agreement among the Company and the shareholders of Custom Fluidpower. The fair value of consideration paid at closing totaled \$26,655, including 333,065 shares of the Company's common stock and cash of \$9,315; cash paid net of cash acquired totaled \$7,518. The cash consideration was funded with borrowings on the Company's credit facility.

Custom Fluidpower was acquired to further diversify the Company's hydraulics product and service portfolio and broaden the Company's global footprint. The results of Custom Fluidpower's operations are reported in the Company's Hydraulics segment and have been included in the consolidated financial statements since the date of acquisition. Supplemental pro forma information has not been provided as the acquisition did not have a material impact on the Company's consolidated results of operations.

The Company recorded \$6,316 in goodwill and \$7,556 in other identifiable intangible assets in connection with the acquisition; however, the purchase price allocation is preliminary, pending final tax related adjustments, and may be revised during the remainder of the measurement period (which will not exceed 12 months from the acquisition date). Any such revisions or changes to the fair values of the tangible and intangible assets acquired and liabilities assumed may be material.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables provide information regarding the Company's assets and liabilities measured at fair value on a recurring basis at June 29, 2019 and December 29, 2018.

	June 29, 2019			
	Total	Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Forward foreign exchange contracts	\$ 433	\$ —	\$ 433	\$ —
Total	\$ 433	\$ —	\$ 433	\$ —
Liabilities				
Interest rate swap contract	\$ 6,344	\$ —	\$ 6,344	\$ —
Contingent consideration	1,940	—	—	1,940
Total	\$ 8,284	\$ —	\$ 6,344	\$ 1,940

	December 29, 2018			
	Total	Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities				
Interest rate swap contract	\$ 2,309	\$ —	\$ 2,309	\$ —
Forward foreign exchange contracts	137	—	137	—
Contingent consideration	18,960	—	—	18,960
Total	\$ 21,406	\$ —	\$ 2,446	\$ 18,960

A summary of the changes in the estimated fair value of contingent consideration at June 29, 2019 is as follows:

Balance, December 29, 2018	\$	18,960
Change in estimated fair value		775
Payment on liability		<u>(17,795)</u>
Balance, June 29, 2019	\$	<u>1,940</u>

During the first six months of 2019, the Company recorded an adjustment to the estimated fair value of the contingent consideration liability incurred in connection with the acquisition of Faster. The adjustment was the result of revised estimates of future payments owed to the sellers for certain tax benefits to be realized.

5. INVENTORIES

	<u>June 29, 2019</u>	<u>December 29, 2018</u>
Raw materials	\$ 40,942	\$ 39,086
Work in process	32,223	26,871
Finished goods	30,303	23,963
Provision for obsolete and slow moving inventory	(6,292)	(3,931)
Total	<u>\$ 97,176</u>	<u>\$ 85,989</u>

6. OPERATING LEASES

The Company leases machinery, equipment, vehicles, buildings and office space throughout its locations, which are classified as operating leases. Remaining terms on these leases range from less than one year to 11 years. For the six months ended June 29, 2019, operating lease costs totaled \$1,818.

Supplemental balance sheet information related to operating leases is as follows:

	<u>June 29, 2019</u>
Right-of-use assets	\$ 13,592
Current operating lease liabilities	\$ 3,100
Non-current operating lease liabilities	10,634
Total operating lease liabilities	<u>\$ 13,734</u>
Weighted average remaining lease term (in years):	5.8
Weighted average discount rate:	4.7 %

Supplemental cash flow and other information related to leases is as follows:

	<u>Six Months Ended</u>
	<u>June 29, 2019</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 1,825
ROU assets obtained in exchange for new operating lease liabilities	\$ 1,433

Maturities of lease liabilities are as follows:

	June 29, 2019
2019 Remaining	\$ 1,841
2020	3,654
2021	3,517
2022	1,695
2023	1,335
2024	963
Thereafter	2,868
Total lease payments	15,873
Less: Imputed interest	(2,139)
Total lease obligations	13,734
Less: Current lease liabilities	(3,100)
Non-current lease liabilities	\$ 10,634

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

A summary of changes in goodwill by segment for the six months ended June 29, 2019, is as follows:

	Hydraulics	Electronics	Total
Balance at December 29, 2018	\$ 276,758	\$ 106,373	\$ 383,131
Faster acquisition measurement period adjustment	(343)	—	(343)
Custom Fluidpower acquisition measurement period adjustment	1,205	—	1,205
Currency translation	(1,772)	—	(1,772)
Balance at June 29, 2019	\$ 275,848	\$ 106,373	\$ 382,221

Intangible Assets

At June 29, 2019, and December 29, 2018, intangible assets consisted of the following:

	June 29, 2019			December 29, 2018		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Definite-lived intangibles:						
Trade names and brands	\$ 56,454	\$ (6,193)	\$ 50,261	\$ 56,604	\$ (4,712)	\$ 51,892
Non-compete agreements	950	(491)	459	950	(396)	554
Technology	31,926	(7,082)	24,844	32,004	(5,488)	26,516
Supply agreement	21,000	(5,426)	15,574	21,000	(4,375)	16,625
Customer relationships	231,097	(14,877)	216,220	232,275	(10,168)	222,107
Licensing agreement	3,716	(982)	2,734	3,716	(862)	2,854
	<u>\$ 345,143</u>	<u>\$ (35,051)</u>	<u>\$ 310,092</u>	<u>\$ 346,549</u>	<u>\$ (26,001)</u>	<u>\$ 320,548</u>

Amortization expense for the six months ended June 29, 2019, and June 30, 2018, was \$ 9,066 and \$ 10,124, respectively. Remaining amortization for 2019 is approximately \$9,224. Total estimated amortization expense for the years 2020 through 2024 is presented below.

Year:	
2020	\$ 18,284
2021	18,183
2022	17,921
2023	17,861
2024	17,206
Total	\$ 89,455

8. DERIVATIVE INSTRUMENTS & HEDGING ACTIVITIES

The Company addresses certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments and hedging activities.

The fair value of the Company's derivative financial instruments included in the Consolidated Balance Sheets are presented as follows:

	Asset Derivatives			Liability Derivatives		
	Balance Sheet	Fair Value (1)	Fair Value (1)	Balance Sheet	Fair Value (1)	Fair Value (1)
	Location	June 29, 2019	December 29, 2018	Location	June 29, 2019	December 29, 2018
Derivatives designated as hedging instruments:						
Interest rate swap contract	Other assets	\$ —	\$ —	Other non-current liabilities	\$ 6,344	\$ 2,309
Derivatives not designated as hedging instruments:						
Forward foreign exchange contracts	Other current assets	404	—	Other current liabilities	—	137
Forward foreign exchange contracts	Other assets	29	—	Other non-current liabilities	—	—
Total derivatives		\$ 433	\$ —		\$ 6,344	\$ 2,446

The amount of gains and losses related to the Company's derivative financial instruments are presented as follows:

	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)		Location of Gain or (Loss) Reclassified from AOCI into Earnings (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Earnings (Effective Portion)	
	June 29, 2019	June 30, 2018		June 29, 2019	June 30, 2018
	Derivatives in cash flow hedging relationships:				
Interest rate swap contract	\$ (4,035)	\$ —	Interest expense, net	\$ (384)	\$ —

Interest expense presented in the Consolidated Statements of Operations, in which the effects of cash flow hedges are recorded, totaled \$ 8,433 for the six months ended June 29, 2019.

	Amount of Gain or (Loss) Recognized in Earnings on Derivatives		Location of Gain or (Loss) Recognized in Earnings on Derivatives
	June 29, 2019	June 30, 2018	
	Derivatives not designated as hedging instruments:		
Forward foreign exchange contracts	\$ —	\$ 409	Foreign currency transaction gain loss, net

Interest Rate Swap Contract

Helios primarily utilizes variable-rate debt to finance its operations. The debt obligations expose the Company to variability in interest payments. The Company enters into various types of derivative instruments to manage fluctuations in cash flows resulting from interest rate risk attributable to changes in the benchmark interest rates.

The Company has entered into an interest rate swap transaction to hedge the variable interest rate payments on the credit facilities. In connection with this transaction, the Company pays interest based upon a fixed rate as agreed upon with the respective counterparties and receives variable rate interest payments based on the one-month LIBOR. The interest rate swap has an aggregate notional amount of \$200,000, which decreases by \$25,000 annually starting in July 2019, and has been designated as a hedging instrument and is accounted for as a cash flow hedge. The interest rate swap was effective on August 2, 2018 and is scheduled to expire on April 3, 2023. The contract is settled with the respective counterparties on a net basis at each settlement date.

Forward Foreign Exchange Contracts

The Company has entered into forward contracts to economically hedge transactional exposure associated with commitments arising from transactions denominated in a currency other than the functional currency of the respective operating entity. The Company's forward contracts are not designated as hedging instruments for accounting purposes.

As of June 29, 2019, the Company had seven forward foreign exchange contracts with an aggregate notional value of €65,147, maturing at various dates through December 31, 2020.

During the quarter ended March 31, 2018, the Company entered into a forward foreign exchange currency contract, for the purchase of €370,000, to economically hedge transactional exposure associated with the acquisition of Faster, which was denominated in euros. The contract settled upon closing of the acquisition of Faster.

Net Investment Hedge

The Company utilizes foreign currency denominated debt to hedge currency exposure in foreign operations. During the first quarter of fiscal year 2019, the Company designated €60,000 of borrowings on the revolving credit facility as a net investment hedge of a portion of the Company's European operations. The carrying value of the euro denominated debt totaled \$68,200 as of June 29, 2019 and is included in the Revolving line of credit line item on the Consolidated Balance Sheets. The gain or loss on the net investment hedge recorded in AOCI as part of the currency translation adjustment was a loss of \$447, net of tax, for the six months ended June 29, 2019. No amounts associated with the net investment hedge were reclassified from AOCI into income for the quarter ended June 29, 2019.

9. CREDIT FACILITIES

Total long-term non-revolving debt consists of the following:

	<u>Maturity Date</u>	<u>June 29, 2019</u>		<u>December 29, 2018</u>	
Long-term non-revolving debt:					
Term loan credit facility with PNC Bank	4/3/2023	\$	93,750	\$	96,250
Term loan credit facility with Shinhan Bank	3/30/2020		865		895
Other long-term debt	Various		433		838
Total long-term non-revolving debt			95,048		97,983
Less: current portion of long-term non-revolving debt			6,357		5,215
Less: unamortized debt issuance costs			925		1,048
Total long-term non-revolving debt, net		\$	87,766	\$	91,720

Information on the Company's revolving credit facilities is as follows:

	<u>Maturity Date</u>	<u>Balance</u>		<u>Available credit</u>	
		<u>June 29, 2019</u>	<u>December 29, 2018</u>	<u>June 29, 2019</u>	<u>December 29, 2018</u>
Revolving line of credit with PNC	4/3/2023	\$ 250,950	\$ 255,750	\$ 149,050	\$ 144,250

Future maturities of total debt are as follows:

<u>Year:</u>	
2019 Remaining	\$ 2,555
2020	7,876
2021	7,655
2022	9,458
2023	318,454
Total	\$ 345,998

The Company has a revolving line of credit and term loan credit facility with PNC Bank, National Association, as administrative agent, and the lenders party thereto. The revolving line of credit allows for up to an aggregate maximum principal amount of \$400,000. During the first six months of 2019, the Company exchanged a portion of the USD denominated borrowings for €60,000 in order to hedge currency exposure in foreign operations. The Company designated the borrowings as a net investment hedge, see additional discussion in Note 8.

The effective interest rate on the credit agreement at June 29, 2019 was 3.68%. Interest expense recognized on the credit agreement during the six months ended June 29, 2019 and June 30, 2018, totaled \$3,803 and \$4,534, respectively. As of the date of this filing, the Company was in compliance with all debt covenants related to the credit agreement.

The Company has a credit agreement with Shinhan Bank that provides a term loan of 1,000,000 Korean won. The loan matures in March 2020, at which time the full amount will become due. Interest is charged at a one-year variable rate, 1.87% as of June 29, 2019.

The Company had a revolving line of credit with National Australia Bank that allowed for maximum borrowings of 3,000 Australian dollars. Principal and interest were paid in full on January 31, 2019, at which time the facility was closed.

The Company's other long-term debt primarily consists of auto loans payable to National Australia Bank. Principal and interest payments are due monthly. The loans mature at various dates through January 2024. Interest is charged at various rates ranging from 4.0% to 5.3%.

10. PUBLIC STOCK OFFERING

On February 6, 2018, the Company completed a public offering of its common stock, pursuant to which the Company sold 4,400,000 shares at a public offering price of \$57.50 per share. The Company received net proceeds from the sale totaling \$239,793, after deducting the underwriting discount and other offering expenses. The Company used the net proceeds for the repayment of debt under its credit facility and to partially fund the acquisition of Faster, which closed on April 5, 2018.

11. INCOME TAXES

At June 29, 2019, the Company had an unrecognized tax benefit of \$6,958 including accrued interest. If recognized, the unrecognized tax benefit would have a favorable effect on the effective tax rate in future periods. The Company recognizes interest and penalties related to income tax matters in income tax expense. Interest accrued as of June 29, 2019 is not considered material to the Company's consolidated financial statements.

The Company files U.S. federal income tax returns as well as income tax returns in various states and foreign jurisdictions. The Company is no longer subject to income tax examinations by tax authorities for years prior to 2008 for the majority of tax jurisdictions where the Company files tax returns.

The Company's U.S. federal income tax returns are currently under examination by the Internal Revenue Service (IRS) in the United States for the periods 2008 through 2012 as well as the pre-acquisition 2016 return for Enovation Controls LLC. Florida income tax returns for tax years 2015 and 2016 are under examination. The 2016 pre-acquisition Italian income tax return for Faster is also under examination. To date, there have not been any significant proposed adjustments that have not been accounted for in the Company's consolidated financial statements.

Audit outcomes and the timing of audit settlements are subject to significant uncertainty. It is reasonably possible that within the next twelve months, the Company will resolve some or all of the matters presently under consideration for both its federal and state examinations and there could be significant increases or decreases to unrecognized tax benefits.

12. STOCK-BASED COMPENSATION

Equity Incentive Plan

The Company's 2019 Equity Incentive Plan and its predecessor equity plan provide for the grant of shares of restricted stock, restricted share units, stock appreciation rights, dividend or dividend equivalent rights, stock awards and other awards valued in whole or in part by reference to or otherwise based on the Company's common stock, to officers, employees and directors of the Company.

Restricted Stock and Restricted Stock Units

The Company grants restricted shares of common stock and restricted stock units (“RSU”) in connection with a long-term incentive plan. Awards with time-based vesting requirements primarily vest ratably over a three-year period. Awards with performance based vesting requirements cliff vest after a three-year performance cycle and only after the achievement of certain performance criteria over that cycle.

Compensation expense recognized for restricted stock and RSUs totaled \$ 1,859 and \$ 1,279, respectively, for the six months ended June 29, 2019, and June 30, 2018.

The following table summarizes restricted stock and RSU activity for the six months ended June 29, 2019:

	Number of shares (in thousands)	Weighted average grant-date fair value
Nonvested balance at December 29, 2018	146	\$ 48.66
Granted (1)	130	38.39
Vested	(43)	47.14
Forfeited	(15)	47.40
Nonvested balance at June 29, 2019	218	\$ 42.90

(1) Approximately 36,500 performance based RSUs were granted during 2019 and are included as granted in the table above. The number of shares that ultimately vest may vary from 0% to 150% of their target vesting amount based on the achievement of defined performance targets.

The Company had \$7,806 of total unrecognized compensation cost related to the restricted stock and RSU awards as of June 29, 2019. That cost is expected to be recognized over a weighted average period of 1.9 years.

Employee Stock Purchase Plans

The Company maintains an Employee Stock Purchase Plan (“ESPP”) in which the U.S. employees of Helios, Sun Hydraulics and Enovation Controls are eligible to participate. Employees who choose to participate are granted an opportunity to purchase common stock at 85 percent of market value on the first or last day of the quarterly purchase period, whichever is lower. Employees in the United Kingdom, under a separate plan, are granted an opportunity to purchase the Company’s common stock at market value, on the first or last day of the quarterly purchase period, whichever is lower, with the Company issuing one additional free share of common stock for each six shares purchased by the employee under the plan. Employees purchased 25,481 shares at a weighted average price of \$ 33.09, and 18,728 shares at a weighted average price of \$ 43.24, under the ESPP and U.K. plans during the six months ended June 29, 2019, and June 30, 2018, respectively. The Company recognized \$329 and \$ 138 of compensation expense during the six months ended June 29, 2019, and June 30, 2018, respectively.

Nonemployee Director Fees Plan

The Company’s 2012 Nonemployee Director Fees Plan compensates nonemployee Directors for their board service with shares of common stock. Directors were granted 12,500 shares for each of the six months ended June 29, 2019 and June 30, 2018. The Company recognized director stock compensation expense of \$582 and \$660 for the six months ended June 29, 2019 and June 30, 2018, respectively.

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following tables presents changes in accumulated other comprehensive loss by component:

	Unrealized Gains and Losses on Derivative Instruments	Foreign Currency Items	Total
Balance at December 29, 2018	\$ (2,309)	\$ (43,944)	\$ (46,253)
Other comprehensive loss before reclassifications	(4,336)	(2,033)	(6,369)
Amounts reclassified from accumulated other comprehensive loss, net of tax	301	—	301
Tax effect	911	700	1,611
Net current period other comprehensive loss	(3,124)	(1,333)	(4,457)
Balance at June 29, 2019	<u>\$ (5,433)</u>	<u>\$ (45,277)</u>	<u>\$ (50,710)</u>

	Unrealized Gains and Losses on Derivative Instruments	Foreign Currency Items	Total
Balance at December 30, 2017	\$ —	\$ (6,478)	\$ (6,478)
Other comprehensive loss before reclassifications	—	(24,718)	(24,718)
Amounts reclassified from accumulated other comprehensive loss	—	—	—
Net current period other comprehensive loss	—	(24,718)	(24,718)
Balance at June 30, 2018	<u>\$ —</u>	<u>\$ (31,196)</u>	<u>\$ (31,196)</u>

14. SEGMENT REPORTING

The Company has two reportable business segments: Hydraulics and Electronics. These segments are organized primarily based on the similar nature of products offered for sale, the types of customers served and the methods of distribution and are consistent with how the segments are managed, how resources are allocated and how information is used by the chief operating decision makers.

The Company evaluates performance and allocates resources based primarily on segment operating income. Certain costs were not allocated to the business segments as they are not used in evaluating the results of, or in allocating resources to the Company's segments. These costs are presented in the Corporate and other line item below. For the six months ended June 29, 2019, the unallocated costs included certain corporate costs not deemed to be allocable to either business segment of \$4,238 which primarily relate to the amortization of acquisition-related intangible assets. The accounting policies of the Company's business segments are the same as those used to prepare the accompanying consolidated financial statements.

The following table presents financial information by reportable segment:

	Three months ended		Six months ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net sales				
Hydraulics	\$ 113,710	\$ 103,634	\$ 230,173	\$ 166,243
Electronics	30,132	32,534	60,520	67,243
Total	<u>\$ 143,842</u>	<u>\$ 136,168</u>	<u>\$ 290,693</u>	<u>\$ 233,486</u>
Operating income				
Hydraulics	\$ 24,123	\$ 25,401	\$ 47,885	\$ 38,844
Electronics	6,488	6,532	13,000	13,639
Corporate and other	(4,238)	(14,930)	(8,681)	(18,226)
Total	<u>\$ 26,373</u>	<u>\$ 17,003</u>	<u>\$ 52,204</u>	<u>\$ 34,257</u>
Capital expenditures				
Hydraulics	\$ 5,686	\$ 6,172	\$ 13,832	\$ 10,149
Electronics	935	172	1,581	432
Total	<u>\$ 6,621</u>	<u>\$ 6,344</u>	<u>\$ 15,413</u>	<u>\$ 10,581</u>

	June 29, 2019	December 29, 2018
Total assets		
Hydraulics	\$ 792,686	\$ 771,409
Electronics	262,016	263,412
Corporate	5,155	7,344
Total	<u>\$ 1,059,857</u>	<u>\$ 1,042,165</u>

Geographic Region Information

Net sales are measured based on the geographic destination of sales. Tangible long-lived assets are shown based on the physical location of the assets and primarily include net property, plant and equipment and exclude ROU assets:

	Three months ended		Six months ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net sales				
Americas	\$ 67,928	\$ 67,553	\$ 135,634	\$ 124,024
Europe/Middle East/Africa	38,562	43,233	82,782	65,584
Asia/Pacific	37,352	25,382	72,277	43,878
Total	<u>\$ 143,842</u>	<u>\$ 136,168</u>	<u>\$ 290,693</u>	<u>\$ 233,486</u>

	June 29, 2019	December 29, 2018
Tangible long-lived assets		
Americas	\$ 85,570	\$ 83,664
Europe/Middle East/Africa	29,331	26,724
Asia/Pacific	18,114	16,480
Total	<u>\$ 133,015</u>	<u>\$ 126,868</u>

15. RELATED PARTY TRANSACTIONS

Enovation Controls purchases and sells inventory to entities partially owned by a director of Helios. For the six months ended June 29, 2019, and June 30, 2018, inventory sales to the entities totaled \$712 and \$1,525, respectively, and inventory purchases from the entities totaled \$2,694 and \$1,751, respectively.

At June 29, 2019, and December 29, 2018, amounts due from the entities totaled \$ 90 and \$296, respectively, and amounts due to the entities totaled \$326 and \$631, respectively.

16. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is not a party to any legal proceedings other than routine litigation incidental to its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the results of operations, financial position or cash flows of the Company.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. The words "expects," "anticipates," "believes," "intends," "plans" and similar expressions identify forward-looking statements. In addition, any statements which refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. We undertake no obligation to publicly disclose any revisions to these forward-looking statements to reflect events or circumstances occurring subsequent to filing this Form 10-Q with the Securities and Exchange Commission. These forward-looking statements are subject to risks and uncertainties, including, without limitation, those discussed in this section and those identified in Item 1A, "Risk Factors" included in our 2018 Annual Report on Form 10-K. In addition, new risks emerge from time to time and it is not possible for management to predict all such risk factors or to assess the impact of such risk factors on our business. Accordingly, our future results may differ materially from historical results or from those discussed or implied by these forward-looking statements. Given these risks and uncertainties, the reader should not place undue reliance on these forward-looking statements.

OVERVIEW

We are an industrial technology leader that develops and manufactures solutions for both the hydraulics and electronics markets, each of which serves as a reportable segment. There are three key technologies within our Hydraulics segment: cartridge valve technology ("CVT"), quick-release hydraulic couplings solutions ("QRC") and hydraulic system design ("Systems"). Within CVT, our products provide functions important to a hydraulic system: to control rates and direction of fluid flow and to regulate and control pressures. QRC products allow users to connect and disconnect quickly from any hydraulic circuit without leakage and ensure high-performance under high temperature and pressure using one or multiple couplers. Systems provide engineered solutions for machine users, manufacturers or designers to fulfill complete system design requirements including electro-hydraulic, remote control, electronic control and programmable logic controller systems, as well as automation of existing equipment. In our Electronics segment, we are a leader in display and control integration solutions offering rugged and reliable instruments, coupled with expertise in J1939 engine protocol, to produce an industry-leading array of easy-to-read displays and gauges for controller area network ("CAN") transmitted engine data and faults. We refer to this technology as Electronic Controls ("EC").

On June 13, 2019, we changed our legal name from Sun Hydraulics Corporation to Helios Technologies, Inc. Sun Hydraulics, LLC (a Florida limited liability company that holds the historical net operating assets of the Sun Hydraulics brand entities and Custom Fluidpower), along with Enovation Controls and Faster are the three wholly-owned operating subsidiaries of Helios. Our corporate name change is a reflection of the tremendous growth the Company has accomplished over the last two years, including the addition of various operating companies under our umbrella. On June 17, 2019, shares of Helios began trading on the Nasdaq under the new ticker symbol of "HLIO".

The operating results of the Hydraulics and Electronics segments included in this MD&A are presented on a basis consistent with our internal management reporting. Segment information included in Note 14 to the Financial Statements is also presented on this basis. All differences between our internal management reporting basis and accounting principles generally accepted in the United States ("U.S. GAAP"), specifically the allocation of certain corporate and acquisition-related costs, are included in Corporate and Other.

Vision 2025

In 2016, we introduced our vision for the Company for the next decade. We believe it is important to reach a critical mass of \$1 billion in sales by 2025 while remaining a technology leader in the industrial goods sector. To achieve our goal, we are targeting organic sales of our Hydraulics segment, including Faster and Custom Fluidpower, of \$730 million, sales of our Electronics segment of \$200 million and acquisitions of \$70 million of revenue. Through this growth, our decision-making process will consider our desire to maintain superior profitability and financial strength. While acquisitions remain an important component of our long-term strategy, our near-term focus is on integrating our recently acquired businesses and improving operating performance.

Product development is a key factor to organic and synergistic growth in both the Hydraulics and Electronics segments, including joint development between the two segments. In the Hydraulics segment, our most recent product introductions have been electro-hydraulics products: the FLeX™ Series Solenoid Valves and the XMD Bluetooth-configurable electro-hydraulics driver. XMD represents the second of its kind from Sun Hydraulics and was jointly engineered by a team comprised of Hydraulics and Electronics segment personnel. We expect the trend for development of similar types of products to continue as capital goods markets move toward further electrification and digitalization of machines.

Acquisitions of companies that advance our technology capabilities will be critical to achieving our Vision 2025. Target product offerings include additional CVT, CVT-adjacent hydraulic products, electronic controls and instrumentation, and linked technologies such as electro-mechanical actuators, factory automation, software or products relevant to the Internet of Things. Cultivating relationships with potential acquisition targets can often be a lengthy process, but we believe it is key to creating successful acquisitions with sustainable business results. We have an established list of potential targets at any given time and entertain reviewing other opportunities for acquisition as they become known to us.

Acquisitions

In April 2018 we completed our acquisition of Faster, an Italian company headquartered near Milan, Italy. Faster is a worldwide leader in engineering, manufacturing, marketing and distribution of quick release hydraulic coupling solutions. The completion of this acquisition brings us another step closer to the realization of our Vision 2025. Faster fits this strategy well and upholds a strongly innovative culture, driving new product development and market leadership. Faster further diversifies the Company more deeply into the global agriculture market. The business also broadens our global footprint, advancing our ‘in the region, for the region’ initiative.

On August 1, 2018, we completed our acquisition of Custom Fluidpower, a leading provider of hydraulic, pneumatic, electronic and instrumentation solutions. The company supplies hydraulic, pneumatic, filtration and lubrication products and offers complete system design, installation and commissioning, and service and repairs, to a broad range of industries including agriculture, aerospace, exploration, industrial, marine, mobile, mining and material handling. Headquartered in Newcastle, NSW, Australia, Custom Fluidpower has operational branches co-located with its headquarters as well as throughout Australia. Custom Fluidpower further diversifies our hydraulics product and service portfolio and broadens our global footprint.

Global economic conditions

In June 2016, voters in the United Kingdom (“UK”) approved the UK’s exit from the European Union (“EU”) (“Brexit”). The timing of the UK’s exit from the EU remains uncertain; the EU has extended the deadline for the UK to exit the EU until October 31, 2019. With the terms of the UK’s withdrawal and the nature of its future relationship with the EU still being decided, the Company continues to monitor the status of the negotiations and plan for potential impact. We have considered the following factors that mitigate the potential impact of Brexit on the import and export of goods to and from the UK:

- Helios locations outside of the UK do not source raw materials or parts from UK suppliers;
- Parts and raw materials sourced by our UK locations from EU suppliers can also be sourced from local UK suppliers;
- EU customers served by our UK entities can be serviced by any of our global subsidiaries;
- Customers who relocate outside of the UK can be serviced by any of our global subsidiaries; and
- The level and type of business conducted at our UK entities limits our exposure to new regulatory risk resulting from Brexit.

The ultimate impact of Brexit on the Company's financial results is uncertain. However, based on the above noted mitigating factors, we do not expect the effects of Brexit to have a material impact on our results of operations or financial position. We are not aware of any material contracts that may require renegotiation or termination due to the impact of Brexit. For additional information, refer to the "Item 1A—Risk Factors" section of the Company's 2018 Annual Report on Form 10-K filed on February 26, 2019.

Industry conditions

Market demand for our products is dependent on demand for the industrial goods in which the products are incorporated. The capital goods industries in general, and the Hydraulics and Electronics segments specifically, are subject to economic cycles. According to the National Fluid Power Association (the fluid power industry's trade association in the United States), the U.S. index of shipments of hydraulic products decreased 2% during the first six months of 2019 while orders decreased 10% during the same period. The Institute of Printed Circuits Association reported that North American electronics industry sales growth remained positive for printed circuit boards (PCB) and electronics manufacturing services (EMS), while semiconductor sales growth continued to decline into negative territory.

We utilize industry trend reports from various sources, as well as feedback from customers and distributors to evaluate economic trends. We also rely on global government statistics such as Gross Domestic Product and Purchasing Managers Index to understand higher level economic conditions.

2019 Second Quarter Results and Comparison of the Three and Six Months Ended June 29, 2019 and June 30, 2018

Our acquisition activity impacts the comparability of our financial information. Faster was acquired on April 5, 2018 and Custom Fluidpower was acquired on August 1, 2018. The results of operations and estimated fair value of assets acquired and liabilities assumed from these acquisitions are included in our financial information for all periods subsequent to the acquisition dates.

(in millions except net income per share)

	Three Months Ended		\$ Change	% Change
	June 29, 2019	June 30, 2018		
Net sales	\$ 143.8	\$ 136.2	\$ 7.6	5.6%
Gross profit	\$ 56.2	\$ 50.4	\$ 5.8	11.5%
Gross profit %	39.1%	37.0%		
Operating income	\$ 26.4	\$ 17.0	\$ 9.4	55.3%
Operating income %	18.4%	12.5%		
Net income	\$ 17.3	\$ 6.8	\$ 10.5	154.4%
Basic and diluted net income per common share	\$ 0.54	\$ 0.22	\$ 0.32	145.5%

	Six Months Ended		\$ Change	% Change
	June 29, 2019	June 30, 2018		
Net sales	\$ 290.7	\$ 233.5	\$ 57.2	24.5%
Gross profit	\$ 112.7	\$ 88.0	\$ 24.7	28.1%
Gross profit %	38.8%	37.7%		
Operating income	\$ 52.2	\$ 34.3	\$ 17.9	52.2%
Operating income %	18.0%	14.7%		
Net income	\$ 33.7	\$ 18.7	\$ 15.0	80.2%
Basic and diluted net income per common share	\$ 1.05	\$ 0.61	\$ 0.44	72.1%

Second quarter consolidated sales improved \$7.6 million, 5.6%, over the prior-year period; \$12.6 million of sales were contributed by Custom Fluidpower. Organic business sales declined \$5.0 million over the prior year second quarter. Changes in foreign currency exchange rates negatively impacted sales of our historical businesses during the second quarter by \$2.6 million when compared to the prior-year quarter and had an unfavorable impact on earnings per share (“EPS”) for the second quarter of \$0.01. Compared with foreign currency exchange rates in effect at the acquisition date, changes in exchange rates unfavorably impacted sales of Custom Fluidpower during the second quarter by \$0.7 million, and had a minimal impact on EPS for the quarter. Price increases favorably impacted sales during the quarter by \$2.0 million. During the second quarter softening in certain end markets caused a decline in order intake across both segments compared to the prior second quarter. The agriculture market in Europe remains weak as does the oil and gas market in the Americas. We have also recently seen a decline in both the construction equipment market in the Asia/Pacific region and the recreational market in the Americas. We continued to maintain a large order backlog for CVT products during the quarter due to strong order intake and an unfavorable product mix which impacted our ability to maximize manufacturing capacity at our Sarasota facilities.

Gross profit margin increased 2.1 percentage points during the second quarter of 2019 to 39.1% compared to 37.0% in the prior-year second quarter. The improvement was driven by a reduction of \$3.1 million of amortization of acquisition related inventory step up costs and margin improvement from our organic businesses with the Hydraulics and Electronics segments of 0.8 and 2.4 percentage points, respectively which resulted from production efficiencies and successful cost management efforts. These improvements were offset by lower gross profit margin contributed by Custom Fluidpower, due to their value-add integrator business model.

Operating income as a percentage of sales increased to 18.4% in the second quarter of 2019 compared to 12.5% in the prior-year period due to a decrease in acquisition related costs such as the inventory step up amortization costs noted above, \$3.2 million of transaction costs incurred for the acquisition of Faster and \$3.5 million in amortization of intangible assets.

2019 Outlook

Consolidated revenue for the full year 2019 is expected to be between \$565 million and \$575 million, with the Hydraulics segment contributing between \$453 million and \$458 million and the Electronics segment contributing between \$112 million and \$117 million. Consolidated U.S. GAAP EPS is expected to be \$1.95 to \$2.05 for the full year 2019. Consolidated non-GAAP cash EPS, which excludes amortization expense and certain one-time costs, is expected to be between \$2.40 and \$2.50. The full year adjusted EBITDA margin, prior to certain one-time costs, is anticipated to be 23.5% to 24.0%.

We are updating our guidance for 2019 in light of the changes in foreign currency exchange rates as well as softening end market conditions, exacerbated by the potential impact of recently announced tariffs. A high percentage of the change in our revenue guidance is attributable to the unfavorable impact of currency changes. The remainder is due to the impact of further softening in the recreational and oil and gas markets in our Electronics segment, as well as the impact of general market softening in our Hydraulics segment, partially offset by the revenue anticipated from our strong backlog.

The reduction in our revenue expectations will only have a modest impact on our adjusted EBITDA margin expectations and we still expect to grow our bottom line. We are adapting and adjusting our business processes to respond to the current environment, while continuing to capture the synergies from our acquisitions and executing on our long-term strategic initiatives. Our focus remains on making investments to further globalize our business, advancing our state-of-the-art manufacturing technologies, and introducing innovative market-leading products and solutions that result in market share gains. We reiterate the goals we established for Vision 2025.

SEGMENT RESULTS

Hydraulics

The following table sets forth the results of operations for the Hydraulics segment (in millions):

	Three months ended		\$ Change	% Change
	June 29, 2019	June 30, 2018		
Net sales	\$ 113.7	\$ 103.6	\$ 10.1	9.7%
Gross profit	\$ 42.4	\$ 39.4	\$ 3.0	7.6%
Gross profit %	37.3 %	38.0 %		
Operating income	\$ 24.1	\$ 25.4	\$ (1.3)	(5.1)%
Operating income %	21.2 %	24.5 %		

	Six Months Ended		\$ Change	% Change
	June 29, 2019	June 30, 2018		
Net sales	\$ 230.2	\$ 166.2	\$ 64.0	38.5%
Gross profit	\$ 85.0	\$ 62.9	\$ 22.1	35.1%
Gross profit %	36.9 %	37.8 %		
Operating income	\$ 47.9	\$ 38.8	\$ 9.1	23.5%
Operating income %	20.8 %	23.3 %		

The following table presents organic and acquisition related results for the second quarter and year-to-date period of 2019 (in millions). The results of Faster are included in acquisition results for the first quarter and organic results for the second quarter of 2019, while the results of Custom Fluidpower are included in acquisition results for both periods.

	Three months ended June 29, 2019	
	Organic	Acquisition
Net sales	\$ 101.1	\$ 12.6
Gross profit	\$ 39.2	\$ 3.2
Gross profit %	38.8 %	25.4 %
Operating income	\$ 23.2	\$ 0.9
Operating income %	22.9 %	7.1 %

	Six months ended June 29, 2019	
	Organic	Acquisition
Net sales	\$ 168.6	\$ 61.6
Gross profit	\$ 64.2	\$ 20.8
Gross profit %	38.1 %	33.8 %
Operating income	\$ 37.6	\$ 10.3
Operating income %	22.3 %	16.7 %

Second quarter net sales for the Hydraulics segment totaled \$113.7 million, representing growth of \$10.1 million, 9.7%, over the prior-year period. Organic sales decreased \$2.5 million, 2.4%, over the second quarter of 2018, which resulted from the strengthening of the U.S. dollar compared to the currencies of the countries we operate in. Changes in exchange rates at the Sun and Faster businesses had a negative impact on the Hydraulics segment second quarter sales of \$2.5 million. In addition, since the acquisition of Custom Fluidpower in August 2018, the Australian dollar declined in value to the U.S. dollar resulting in an unfavorable impact on Custom Fluidpower sales of \$0.7 million during the period. Price increases, which partially offset material cost increases, resulted in an estimated \$1.3 million positive impact to sales during the quarter. Sales growth was limited during the quarter due to softer end market demand and capacity constraints at our Sarasota facilities related to specific CVT product families. We continue to ship CVT and Systems product orders from our backlog due to extended lead times.

Year-to-date net sales totaled \$230.2 million, an increase of \$64.0 million, 38.5%, over the prior comparable period. Organic sales grew by \$2.4 million, 1.4%, during the year-to-date period, which was driven by increased sales to the Americas and Asia/Pacific regions offset by a negative impact from fluctuations in foreign currency exchange rates. Changes in exchange rates at the Sun and Faster businesses had a negative impact on sales of the Hydraulics segment for the year-to-date period of \$3.6 million. In addition, the impact of exchange rates fluctuations since the acquisitions of Faster in April 2018 and Custom Fluidpower in August 2018, resulted in an unfavorable impact on sales of \$3.1 million during the year-to-date period. Price increases resulted in an estimated \$2.9 million positive impact to sales for the six month period ended June 29, 2019.

The following table presents net sales based on the geographic region of the sale for the Hydraulics segment (in millions):

	Three months ended		\$ Change	% Change
	June 29, 2019	June 30, 2018		
Americas	\$ 41.2	\$ 39.7	\$ 1.5	3.8%
Europe/Middle East/Africa	36.8	40.5	(3.7)	(9.1)%
Asia/Pacific	35.7	23.4	12.3	52.6%
Total	\$ 113.7	\$ 103.6		

	Six Months Ended		\$ Change	% Change
	June 29, 2019	June 30, 2018		
Americas	\$ 82.9	\$ 66.0	\$ 16.9	25.6%
Europe/Middle East/Africa	78.5	60.2	18.3	30.4%
Asia/Pacific	68.8	40.0	28.8	72.0%
Total	\$ 230.2	\$ 166.2		

During the second quarter, Custom Fluidpower contributed \$12.6 million to our sales in the Asia/Pacific region. For the year-to-date period, comparability of sales by region was impacted by Faster and Custom Fluidpower sales of \$11.6 million, \$21.7 million and \$28.3 million in the Americas, Europe, the Middle East and Africa (“EMEA”) and Asia/Pacific regions, respectively.

Demand continued to be strong in the Americas region with organic sales increasing \$1.5 million, 3.8%, in the second quarter of 2019 and \$5.3 million, 8.0% year to date. Organic sales to the EMEA region decreased \$3.7 million, 9.2%, in the second quarter of 2019 and decreased \$3.4 million, 5.7%, year-to-date. Exchange rates had a negative impact on organic sales to EMEA in the second quarter of 2019 totaling \$2.2 million and \$2.9 million for the six months ended June 29, 2019. Organic sales to the Asia/Pacific region fell \$0.3 million, 1.3%, in the second quarter of 2019 and increased \$0.5 million, 1.2%, year to date. Exchange rates had a negative impact on organic sales to Asia/Pacific in the second quarter of 2019 totaling \$0.4 million and \$0.7 million year to date.

Second quarter gross profit grew \$3.0 million, 7.6%, compared to the second quarter of the prior year. Custom Fluidpower contributed \$3.2 million of the increase representing a 25.4% gross profit margin. Organic gross profit decreased slightly, \$0.2 million over the second quarter of 2018, while organic gross profit margin increased 0.8 percentage points to 38.8%, from 38.0% in the prior-year period. Price increases, net of related material cost increases, positively impacted the gross profit of our organic businesses by approximately \$0.4 million during the quarter while changes in foreign currency negatively impacted gross profit for the quarter by approximately \$1.1 million.

Year-to-date gross profit grew \$22.1 million, 35.1% compared to the 2018 comparable period. Organic gross profit margin improved 0.3 percentage points year over year to 38.1%, while acquisitions contributed \$20.8 million and 33.8% gross margin for the six months ended June 29, 2019. Price increases, net of related material cost increases, and increased sales volume positively impacted the gross profit of our organic businesses by approximately \$0.8 million and \$2.0 million year to date, respectively. Changes in foreign currency had a negative impact of approximately \$1.8 million on gross profit during the year-to-date period.

Selling, engineering and administrative expenses (“SEA”) rose \$ 4.3 million in the second quarter of 2019 compared to the second quarter of the prior year. Custom Fluidpower SEA costs totaled \$2.3 million during the quarter. The SEA costs of our organic business increased \$2.0 million over the prior-year quarter while SEA as a percent of sales increased 2.3 percentage points. We also realized increases in corporate operating costs allocated to the Hydraulics segment for salaries and benefits, travel, insurance, talent development programs and legal and professional fees to support the growth and change in structure of Helios that has occurred over the past year and is expected to continue in to future periods. These costs accounted for approximately \$1.3 million of the year-over-year quarterly increase in the Hydraulics segment.

Year-to-date SEA expenses grew \$13.0 million, 7.8%, to \$37.1 million from \$24.1 million in 2018. Acquisitions contributed \$10.5 million to the increase while organic SEA costs grew \$2.5 million, 10.4%, to \$26.6 million. The remaining increase in SEA costs during the year-to-date period relate to the increase in corporate operating costs previously noted as well as minor increases in sales and administrative costs at the operating business level.

As a result of the impacts to gross profit and SEA costs noted above, second quarter operating income declined \$1.3 million, 5.1%, compared to the second quarter of the prior year. Custom Fluidpower contributed \$0.9 million to operating income, representing a 7.1% operating margin for the quarter. The second quarter operating margin of our organic business declined to 22.9% compared to 24.5% during the prior-year period. Year-to-date operating income increased \$9.1 million, 23.5%, to \$47.9 million compared to \$38.8 million during the prior-year period. Acquisitions contributed \$10.3 million to operating income, representing a 16.7% operating margin and organic operating margin fell 1.0 percentage points compared to the prior-year period.

Electronics

The following table sets forth the results of operations for the Electronics segment (in millions):

	Three months ended		\$ Change	% Change
	June 29, 2019	June 30, 2018		
Net sales	\$ 30.1	\$ 32.5	\$ (2.4)	(7.4)%
Gross profit	\$ 13.8	\$ 14.1	\$ (0.3)	(2.1)%
Gross profit %	45.8 %	43.4 %		
Operating income	\$ 6.5	\$ 6.5	\$ —	—
Operating income %	21.6 %	20.0 %		

	Six Months Ended		\$ Change	% Change
	June 29, 2019	June 30, 2018		
Net sales	\$ 60.5	\$ 67.2	\$ (6.7)	(10.0)%
Gross profit	\$ 27.7	\$ 28.3	\$ (0.6)	(2.1)%
Gross profit %	45.8 %	42.1 %		
Operating income	\$ 13.0	\$ 13.6	\$ (0.6)	(4.4)%
Operating income %	21.5 %	20.2 %		

Second quarter net sales for the Electronics segment totaled \$30.1 million, a decrease of \$2.4 million, 7.4%, from the prior-year period. The decline was partially due to due softer demand in recreational and oil and gas end markets, as well as our intentional shift in customer base which included the release of certain contractual obligations to customers that allowed us to leverage all products to a broader and more diversified customer base. Price increases positively impacted sales by approximately \$0.7 million for the quarter. Changes in exchange rates had a negative impact on second quarter sales of \$0.1 million.

Net sales for the Electronics segment during the first six months of 2019 totaled \$60.5 million, a decrease of \$6.7 million, 10.0%, from the prior-year period. The decline was related to the intentional shift in customer base as well as softening end market conditions. Price increases positively impacted year-to-date sales by approximately \$1.2 million while changes in exchange rates had a negative impact of \$0.4 million.

The following table presents net sales based on the geographic region of the sale for the Electronics segment (in millions):

	Three months ended		\$ Change	% Change
	June 29, 2019	June 30, 2018		
Americas	\$ 26.6	\$ 27.9	\$ (1.3)	(4.7)%
Europe/Middle East/Africa	1.8	2.7	(0.9)	(33.3)%
Asia/Pacific	1.7	1.9	(0.2)	(10.5)%
Total	\$ 30.1	\$ 32.5		

	Six Months Ended		\$ Change	% Change
	June 29, 2019	June 30, 2018		
Americas	\$ 52.8	\$ 58.0	\$ (5.2)	(9.0)%
Europe/Middle East/Africa	4.3	5.4	(1.1)	(20.4)%
Asia/Pacific	3.4	3.8	(0.4)	(10.5)%
Total	\$ 60.5	\$ 67.2		

During the three months ended June 29, 2019, sales to the Americas decreased \$1.3 million, 4.7%, sales to EMEA decreased \$0.9 million, 33.3%, and sales to Asia/Pacific decreased \$0.2 million, 10.5% over the prior second quarter. Exchange rates minimally impacted sales to EMEA and had a negative impact on sales to Asia/Pacific of \$0.1 million during the second quarter. For the year-to-date period, sales to the Americas decreased \$5.2 million, 9.0%, sales to EMEA decreased \$1.1 million, 20.4%, and sales to Asia/Pacific decreased \$0.4 million, 10.5%. Exchange rates had a negative impact on sales to EMEA and Asia/Pacific of \$0.2 million and \$0.1 million, respectively, during the first six months of 2019.

Second quarter gross profit decreased \$0.3 million, 2.1%, compared to the second quarter of the prior year, while gross profit margin expanded 2.4 percentage points to 45.8% from 43.4% in 2018. The improvement in margin was primarily due to cost management efforts which resulted in production efficiencies as well as price increases, net of related material cost increases, totaling approximately \$0.5 million. Gross profit for the first six months of 2019 decreased \$0.6 million, 2.1%, compared to the same period of the prior year, while gross profit margin expanded 3.7 percentage points to 45.8% from 42.1% in 2018. The improvement in margin was due to material cost reductions, price increases and cost management efforts which resulted in production efficiencies.

SEA expenses fell \$0.3 million, 3.9%, to \$7.3 million in the second quarter of 2019, compared to \$7.6 million in the second quarter of the prior year. While increased corporate related costs allocated to the Electronics segment resulted in higher SEA costs of \$0.2 million during the second quarter of 2019 compared to the prior year second quarter, cost reduction efforts offset the impact. SEA costs for the first six months of 2019 totaled \$14.7 million and remained flat over the prior year period. Cost reduction efforts during the period offset higher research and development costs incurred to support future product development as well as increased corporate related costs.

As a result of the impacts to gross profit and SEA costs during the periods noted above, second quarter operating income remained consistent with the prior year period while operating income margin increased 1.6 percentage points to 21.6%. Operating income for the first six months of 2019 declined \$0.6 million while operating income margin increased 1.3 percentage points to 21.5%.

Corporate and Other

Certain costs are excluded from business segment results as they are not used in evaluating the results of, or in allocating resources to, our operating segments. For the three months and six months ended June 29, 2019, these costs totaled \$4.2 million and \$8.7 million, respectively, primarily for amortization of acquisition-related intangible assets. Year-to-date corporate and other costs decreased \$9.5 million over the prior year period due to 2018 Faster transaction costs of \$4.3 million, reduced amortization of inventory step up to fair value costs totaling \$3.1 million, reduced amortization of acquisition related intangibles assets of \$1.1 million and a reduction in costs related to corporate projects and initiatives of \$0.8 million.

Interest Expense, net

Net interest expense was \$4.0 million for the second quarter of 2019 compared to \$4.2 million for the prior-year quarter. Average net debt declined to \$326.5 million compared to \$330.3 million during the second quarter of 2018. Year-to-date net interest expense was \$8.4 million compared to \$4.6 million during the comparable period of 2018. Average net debt for the 2019 year to date period totaled \$330.5 million compared to \$188.7 million in the comparable period of 2018. The increase was due to debt issued to fund the Faster acquisition in April of 2018.

Income Taxes

The provision for income taxes for the second quarter of 2019 was 21.3% of pretax income compared to 26.3% for the prior-year second quarter. The year-to-date provision for income taxes was 21.7% of pretax income compared to 25.5% in the prior year. These effective rates fluctuate relative to the levels of income and different tax rates in effect among the countries in which we sell our products. In addition, the decrease in the second quarter 2019 effective tax rate versus the second quarter 2018 effective tax rate was primarily related an increase in the Foreign Derived Intangible Income (FDII) deduction.

LIQUIDITY AND CAPITAL RESOURCES

Historically, our primary source of capital has been cash generated from operations. In recent years, we have used borrowings on our credit facilities to fund acquisitions, and during 2018 we raised \$240 million in net proceeds from our public stock offering which was also used to fund acquisition activity during 2018. During the first six months of 2019, cash provided by operating activities totaled \$25.4 million and as of June 29, 2019, we had \$13.3 million of cash and cash equivalents on hand and \$149.1 million of available credit on our revolving credit facility. We also have a \$200 million accordion feature available on our credit facility, subject to certain pro forma compliance requirements.

Our principal uses of cash have been paying operating expenses, paying dividends to shareholders, making capital expenditures, acquisition-related payments and servicing debt.

We believe that cash generated from operations and our borrowing availability under our credit facilities will be sufficient to satisfy our operating expenses and capital expenditures for the foreseeable future. In the event that economic conditions were to severely worsen for a protracted period of time, we would have several options available to ensure liquidity in addition to increased borrowing. Capital expenditures could be postponed since they primarily pertain to long-term improvements in operations. Additional operating expense reductions also could be made. Finally, the dividend to shareholders could be reduced or suspended.

Cash Flows

The following table summarizes our cash flows for the periods (in millions):

	Six months ended		\$ Change
	June 29, 2019	June 30, 2018	
Net cash provided by operating activities	\$ 25.4	\$ 31.1	\$ (5.7)
Net cash used in investing activities	(14.8)	(540.2)	525.4
Net cash (used in) provided by financing activities	(21.4)	474.5	(495.9)
Effect of exchange rates on cash	0.6	0.7	(0.1)
Net decrease in cash	<u>\$ (10.2)</u>	<u>\$ (33.9)</u>	<u>\$ 23.7</u>

Cash on hand declined \$10.2 million from \$23.5 million at the end of 2018 to \$13.3 million at June 29, 2019. Cash balances on hand are a result of our cash management strategy which focuses on maintaining sufficient cash to fund operations while reinvesting cash in the Company and also paying down borrowings on our credit facilities. Cash and cash equivalents were favorably impacted by changes in exchange rates during the six months ended June 29, 2019 by \$0.6 million.

Operating activities

Cash from operations declined \$5.7 million, 18.3%, compared to the prior-year period. \$10.7 million of the second quarter payment made on the contingent consideration liability related to the Enovation acquisition was included in operating cash flows for the period as the total payments exceeded the acquisition date fair value of the liability. The remaining increase of \$5.0 million of operating cash flows resulted from improved cash earnings partially offset by a net increase in operating assets and liabilities. Changes in inventory and accounts receivable reduced cash by \$21.9 million and \$18.4 million during the first six months of 2019 and 2018, respectively. Days sales outstanding increased slightly during the current period, up to 52 days from 50 days as of June 30, 2018. Days of inventory on hand went up to 96 as of June 29, 2019, from 85 as of June 30, 2018. Inventory levels have increased as a result of capacity constraints at our Sarasota facilities as well as softer than expected demand during the current year period.

Investing activities

Capital expenditures totaled \$15.4 million for the six months ended June 29, 2019, an increase of \$4.8 million over the prior year period, primarily made up of purchases of machinery and equipment, Sun's manufacturing consolidation project, the initial phase of construction of Sun's state-of-the-art engineering center and equipment and leasehold improvements for our new China facility. Capital expenditures for the full year 2019 are estimated to be between \$30 million and \$35 million for additional investments in machinery and equipment, construction of the state-of-the-art engineering center, and expansion of our China operations.

Financing activities

Cash flows used in financing activities totaled \$21.4 million in the first half of 2019, compared to cash provided by financing activities of \$474.5 million in the prior year period.

On February 6, 2018, the Company issued and sold 4.4 million shares of its common stock at \$57.50 per share in a registered public offering. The net increase to shareholders' equity and cash proceeds from the offering was approximately \$240 million. We initially used \$116 million of the proceeds to repay the outstanding debt under our credit facility and used the remaining proceeds in April of 2018 to fund the Faster acquisition.

On April 1, 2018, we amended our credit facility to increase the limit on our revolving credit facility to \$400 million and add a term loan of \$100 million. We also increased the accordion feature to \$200 million. During the second quarter of 2018, we paid cash of approximately \$175.0 million and borrowed \$358.0 million on our term loan and line of credit to complete the acquisition of Faster. During the third quarter of 2018, we borrowed additional amounts on our revolving credit facility to fund the acquisition of Custom Fluidpower. Cash paid for the Custom Fluidpower acquisition totaled approximately \$9.3 million. Amounts due on our revolving credit facility and our long-term non-revolving debt as of June 29, 2019 totaled \$251.0 million and \$95.0 million, respectively.

In April 2019, we paid \$17.8 million to the former owners of Enovation Controls in connection with the third and final payment due on the contingent consideration liability, of which \$10.7 million was presented in operating cash flows for the period as it exceeded the acquisition date fair value of the liability, and the remaining \$7.1 million was classified as financing cash flows.

During the second quarter of 2019, we declared a quarterly cash dividend of \$0.09 per share payable on July 20, 2019, to shareholders of record as of July 5, 2019. The declaration and payment of future dividends is subject to the sole discretion of the Board of Directors, and any determination as to the payment of future dividends will depend upon our profitability, financial condition, capital needs, future prospects and other factors deemed pertinent by the Board of Directors.

Off Balance Sheet Arrangements

We do not engage in any off balance sheet financing arrangements. In particular, we do not have any material interest in variable interest entities, which include special purpose entities and structured finance entities.

Inflation

The impact of inflation on our operating results has been moderate in recent years, reflecting generally lower rates of inflation in the economies in which we operate. While inflation has not had, and we do not expect that it will have, a material impact upon operating results, there is no assurance that our business will not be affected by inflation in the future.

Critical Accounting Policies and Estimates

We currently apply judgment and estimates which may have a material effect on the eventual outcome of assets, liabilities, revenues and expenses for impairment of long-lived assets, inventory, goodwill, accruals, income taxes and fair value measurements. Our critical accounting policies and estimates are included in our Annual Report on Form 10-K for the year ended December 29, 2018, and any changes made during the six months of 2019, including the adoption of ASC 842, are disclosed in Note 2 to the Financial Statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Item 7A – Quantitative and Qualitative Disclosures about Market Risk” in our 2018 Annual Report on Form 10-K filed on February 26, 2019. There were no material changes during the six months ended June 29, 2019.

Item 4. CONTROLS AND PROCEDURES

The Company’s management, with the participation of the Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company’s “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 report, have concluded that our disclosure controls and procedures are effective and are designed to ensure that the information we are required to disclose is recorded, processed, summarized and reported within the necessary time periods. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports that we file or submit pursuant to the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Securities Exchange Act of 1934, as amended, during the period covered by this report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

For information regarding risk factors, please refer to Part I, Item 1A in the Company's Annual Report on Form 10-K for the year ended December 29, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosure

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibits:

Exhibit Number	Exhibit Description
31.1	<u>CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>CEO Certification pursuant to 18 U.S.C. § 1350.</u>
32.2	<u>CFO Certification pursuant to 18 U.S.C. § 1350.</u>
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Sarasota, State of Florida on August 6, 2019.

HELIOS TECHNOLOGIES, INC.

By: /s/ Tricia L. Fulton
Tricia L. Fulton
Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATION

I, Wolfgang H. Dangel, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 29, 2019, of Helios Technologies;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ Wolfgang H. Dangel

Wolfgang H. Dangel
President, Chief Executive Officer

CERTIFICATION

I, Tricia L. Fulton, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 29, 2019, of Helios Technologies;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ Tricia L. Fulton

Tricia L. Fulton

Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. § 1350

I, Wolfgang H. Dangel, the Chief Executive Officer of Helios Technologies (the "Company"), certify that (i) the Quarterly Report on Form 10-Q for the Company for the quarter ended June 29, 2019 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Wolfgang H. Dangel

Chief Executive Officer

August 6, 2019

CERTIFICATION PURSUANT TO 18 U.S.C. § 1350

I, Tricia L. Fulton, the Chief Financial Officer of Helios Technologies (the “Company”), certify that (i) the Quarterly Report on Form 10-Q for the Company for the quarter ended June 29, 2019 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Tricia L. Fulton
Chief Financial Officer
August 6, 2019
