

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 September 26, 2020

OR

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

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)

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

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

34243
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<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 32,111,864 shares of common stock, par value \$.001, outstanding as of October 23, 2020.

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PART I: FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.
Helios Technologies, Inc.
Consolidated Balance Sheets
(in thousands, except per share data)

	September 26, 2020 (unaudited)	December 28, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 32,444	\$ 22,123
Restricted cash	38	39
Accounts receivable, net of allowance for doubtful accounts of \$1,459 and \$1,131	71,585	66,677
Inventories, net	77,641	85,195
Income taxes receivable	5,553	3,196
Other current assets	16,729	15,359
Total current assets	203,990	192,589
Property, plant and equipment, net	139,318	145,854
Deferred income taxes	6,843	5,803
Goodwill	354,744	377,569
Other intangible assets, net	289,667	294,651
Other assets	4,603	5,285
Total assets	\$ 999,165	\$ 1,021,751
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 31,347	\$ 29,730
Accrued compensation and benefits	18,473	16,898
Other accrued expenses and current liabilities	13,222	13,549
Current portion of contingent consideration	—	828
Current portion of long-term non-revolving debt, net	11,808	7,623
Dividends payable	2,890	2,884
Income taxes payable	8,676	4,941
Total current liabilities	86,416	76,453
Revolving lines of credit	168,398	208,708
Long-term non-revolving debt, net	80,149	84,062
Deferred income taxes	49,434	49,290
Other noncurrent liabilities	26,952	25,602
Total liabilities	411,349	444,115
Commitments and contingencies	—	—
Shareholders' equity:		
Preferred stock, par value \$0.001, 2,000 shares authorized, no shares issued or outstanding	—	—
Common stock, par value \$0.001, 100,000 shares authorized, 32,096 and 32,047 shares issued and outstanding	32	32
Capital in excess of par value	369,510	365,310
Retained earnings	267,660	267,658
Accumulated other comprehensive loss	(49,386)	(55,364)
Total shareholders' equity	587,816	577,636
Total liabilities and shareholders' equity	\$ 999,165	\$ 1,021,751

The accompanying Condensed 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	
	September 26, 2020	September 28, 2019
	(unaudited)	(unaudited)
Net sales	\$ 122,645	\$ 138,045
Cost of sales	75,702	85,926
Gross profit	46,943	52,119
Selling, engineering and administrative expenses	24,042	24,066
Restructuring charges	—	1,724
Amortization of intangible assets	4,558	4,478
Loss on disposal of intangible asset	—	2,713
Operating income	18,343	19,138
Interest expense, net	2,730	3,790
Foreign currency transaction (gain) loss, net	(727)	30
Miscellaneous income, net	(9)	(72)
Change in fair value of contingent consideration	(13)	(72)
Income before income taxes	16,362	15,462
Income tax provision	3,380	2,671
Net income	\$ 12,982	\$ 12,791
Basic and diluted net income per common share	\$ 0.40	\$ 0.40
Basic and diluted weighted average shares outstanding	32,095	32,027
Dividends declared per share	\$ 0.09	\$ 0.09

The accompanying Condensed 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)

	Nine Months Ended	
	September 26, 2020	September 28, 2019
	(unaudited)	(unaudited)
Net sales	\$ 371,422	\$ 428,738
Cost of sales	227,910	263,884
Gross profit	143,512	164,854
Selling, engineering and administrative expenses	73,306	75,531
Restructuring charges	—	1,724
Amortization of intangible assets	13,323	13,544
Goodwill impairment	31,871	—
Loss on disposal of intangible asset	—	2,713
Operating income	25,012	71,342
Interest expense, net	8,572	12,223
Foreign currency transaction (gain) loss, net	(319)	92
Miscellaneous income, net	(85)	(122)
Change in fair value of contingent consideration	(47)	703
Income before income taxes	16,891	58,446
Income tax provision	8,224	11,986
Net income	\$ 8,667	\$ 46,460
Basic and diluted net income per common share	\$ 0.27	\$ 1.45
Basic and diluted weighted average shares outstanding	32,079	32,006
Dividends declared per share	\$ 0.27	\$ 0.27

The accompanying Condensed 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		Nine Months Ended	
	September 26, 2020 (unaudited)	September 28, 2019 (unaudited)	September 26, 2020 (unaudited)	September 28, 2019 (unaudited)
Net income	\$ 12,982	\$ 12,791	\$ 8,667	\$ 46,460
Other comprehensive income (loss)				
Foreign currency translation adjustments, net of tax	8,575	(10,984)	7,237	(12,317)
Unrealized gain (loss) on interest rate swap, net of tax	716	(388)	(1,259)	(3,512)
Total other comprehensive income (loss)	9,291	(11,372)	5,978	(15,829)
Comprehensive income	\$ 22,273	\$ 1,419	\$ 14,645	\$ 30,631

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

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

	Preferred shares	Preferred stock	Common shares	Common stock	Capital in excess of par value	Retained earnings	Accumulated other comprehensive loss	Total
Balance at June 27, 2020	—	\$ —	32,081	\$ 32	\$ 367,841	\$ 257,568	\$ (58,677)	\$ 566,764
Shares issued, restricted stock			(3)					—
Shares issued, other compensation			7					—
Shares issued, ESPP			12		304			304
Stock-based compensation					1,383			1,383
Cancellation of shares for payment of employee tax withholding			(1)		(18)			(18)
Dividends declared						(2,890)		(2,890)
Net income						12,982		12,982
Other comprehensive income							9,291	9,291
Balance at September 26, 2020	<u>—</u>	<u>\$ —</u>	<u>32,096</u>	<u>\$ 32</u>	<u>\$ 369,510</u>	<u>\$ 267,660</u>	<u>\$ (49,386)</u>	<u>\$ 587,816</u>
Balance at June 29, 2019	—	\$ —	32,017	\$ 32	\$ 362,104	\$ 246,828	\$ (50,710)	\$ 558,254
Shares issued, restricted stock			(1)					—
Shares issued, other compensation			6					—
Shares issued, ESPP			12		408			408
Stock-based compensation					1,277			1,277
Cancellation of shares for payment of withholding tax			(1)		(27)			(27)
Dividends declared						(2,884)		(2,884)
Net income						12,791		12,791
Other comprehensive loss							(11,372)	(11,372)
Balance at September 28, 2019	<u>—</u>	<u>\$ —</u>	<u>32,033</u>	<u>\$ 32</u>	<u>\$ 363,762</u>	<u>\$ 256,735</u>	<u>\$ (62,082)</u>	<u>\$ 558,447</u>

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

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

	Preferred shares	Preferred stock	Common shares	Common stock	Capital in excess of par value	Retained earnings	Accumulated other comprehensive loss	Total
Balance at December 28, 2019	—	\$ —	32,047	\$ 32	\$ 365,310	\$ 267,658	\$ (55,364)	\$ 577,636
Shares issued, restricted stock			12					—
Shares issued, other compensation			12					—
Shares issued, ESPP			35		1,027			1,027
Shares issued, discretionary contribution			1		45			45
Stock-based compensation					3,830			3,830
Cancellation of shares for payment of employee tax withholding			(11)		(702)			(702)
Dividends declared						(8,665)		(8,665)
Net income						8,667		8,667
Other comprehensive income							5,978	5,978
Balance at September 26, 2020	<u>—</u>	<u>\$ —</u>	<u>32,096</u>	<u>\$ 32</u>	<u>\$ 369,510</u>	<u>\$ 267,660</u>	<u>\$ (49,386)</u>	<u>\$ 587,816</u>
Balance at December 29, 2018	—	\$ —	31,965	\$ 32	\$ 357,933	\$ 219,056	\$ (46,253)	\$ 530,768
Shares issued, restricted stock			(2)					—
Shares issued, other compensation			19					—
Shares issued, ESPP			40		1,252			1,252
Shares issued, ESOP			24		1,152			1,152
Stock-based compensation					4,058			4,058
Cancellation of shares for payment of employee tax withholding			(13)		(633)			(633)
Dividends declared						(8,647)		(8,647)
Net income						46,460		46,460
Other comprehensive loss							(15,829)	(15,829)
Impact of adoption of ASU 2016-02, related to leases						(134)		(134)
Balance at September 28, 2019	<u>—</u>	<u>\$ —</u>	<u>32,033</u>	<u>\$ 32</u>	<u>\$ 363,762</u>	<u>\$ 256,735</u>	<u>\$ (62,082)</u>	<u>\$ 558,447</u>

The accompanying Condensed 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)

	Nine Months Ended	
	September 26, 2020 (unaudited)	September 28, 2019 (unaudited)
Cash flows from operating activities:		
Net income	\$ 8,667	\$ 46,460
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,805	26,006
(Gain) loss on disposal of assets	(32)	2,793
Goodwill impairment	31,871	—
Stock-based compensation expense	3,830	4,058
Amortization of debt issuance costs	537	545
Benefit for deferred income taxes	(2,937)	(1,381)
Change in fair value of contingent consideration	(47)	630
Forward contract losses (gains), net	2,513	(3,973)
Net investment hedge loss	164	—
Other, net	1,202	1,304
(Increase) decrease in:		
Accounts receivable	(4,685)	(6,533)
Inventories	7,776	(6,674)
Income taxes receivable	(2,874)	(1,598)
Other current assets	(1,382)	(3,448)
Other assets	2,613	1,259
Increase (decrease) in:		
Accounts payable	1,387	(5,046)
Accrued expenses and other liabilities	955	6,249
Income taxes payable	3,548	3,363
Other noncurrent liabilities	(1,884)	(2,386)
Contingent consideration payments in excess of acquisition date fair value	—	(10,731)
Net cash provided by operating activities	77,027	50,897
Cash flows from investing activities:		
Capital expenditures	(7,155)	(19,584)
Proceeds from dispositions of equipment	103	124
Cash settlement of forward contracts	(1,742)	2,256
Software development costs	(227)	—
Net cash used in investing activities	(9,021)	(17,204)
Cash flows from financing activities:		
Borrowings on revolving credit facilities	11,000	107,814
Repayment of borrowings on revolving credit facilities	(55,609)	(135,750)
Borrowings on long-term non-revolving debt	5,812	—
Repayment of borrowings on long-term non-revolving debt	(5,905)	(4,188)
Proceeds from stock issued	1,027	1,252
Dividends to shareholders	(8,660)	(8,641)
Payment of contingent consideration liability	(830)	(7,064)
Other financing activities	(1,107)	(1,370)
Net cash used in financing activities	(54,272)	(47,947)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(3,414)	4,482
Net increase (decrease) in cash, cash equivalents and restricted cash	10,320	(9,772)
Cash, cash equivalents and restricted cash, beginning of period	22,162	23,515
Cash, cash equivalents and restricted cash, end of period	\$ 32,482	\$ 13,743

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

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

1. COMPANY BACKGROUND

Helios Technologies, Inc. (“Helios,” the “Company,” “we,” “our” or “us”), together with its wholly-owned subsidiaries, is an industrial technology leader that develops and manufactures solutions for both the hydraulics and electronics markets. Sun Hydraulics, LLC (“Sun Hydraulics” or “Sun”), Enovation Controls, LLC (“Enovation Controls”), Faster S.r.l. (“Faster”) and Custom Fluidpower Pty Ltd (“Custom Fluidpower”), 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”). 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. The Electronics segment provides complete, fully-tailored display and control solutions for engines, engine-driven equipment and specialty vehicles. This broad range of products is complemented by extensive application expertise and unparalleled depth of software, embedded programming, hardware and sustaining engineering teams. This technology is referred to as Electronic Controls (“EC”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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 (“U.S. GAAP”) 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 28, 2019 (“Form 10-K”), filed by Helios with the Securities and Exchange Commission on February 25, 2020. In management’s opinion, all adjustments necessary for a fair presentation of the Company’s financial statements are reflected in the interim periods presented.

The Company faces various risks related to health epidemics, pandemics and similar outbreaks, including the global outbreak of COVID-19. The current COVID-19 pandemic has had an impact on markets the Company serves, its operations and, as a result, the financial results for the year and the Company’s near-term outlook. The Company cannot at this time predict the impact of the COVID-19 pandemic on its business or economic conditions as a whole, but it could have a material adverse effect on the business, financial position, results of operations and/or cash flows. Operating results for the nine months ended September 26, 2020 are not necessarily indicative of the results that may be expected for the fiscal year ended January 2, 2021.

Goodwill

Goodwill, which represents the excess of the purchase price of an acquisition over the fair value of the net assets acquired, is carried at cost. Goodwill is tested for impairment annually, in the third and fourth quarters, or more frequently if events or circumstances indicate a reduction in the fair value below the carrying value. As part of the impairment test, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after this optional qualitative assessment, the Company determines that impairment is more likely than not, then the Company performs the quantitative impairment test. The carrying value of assets is calculated at the reporting unit level. An impairment loss is recorded to the extent that the carrying value of the reporting unit exceeds its fair value, with the impairment loss limited to the amount of goodwill allocated to the reporting unit.

During the first quarter of 2020, the Company determined that, based on current economic conditions and potential future impacts from the COVID-19 pandemic, it was more likely than not that the fair value of the Faster reporting unit was less than its carrying value. Upon completion of the interim impairment testing, the Company determined that the carrying value of goodwill was impaired. See Note 6 for discussion of interim impairment testing.

Contract Assets and Liabilities

Contract assets are recognized when the Company has a conditional right to consideration for performance completed on contracts. Contract asset balances totaled \$2,826 and \$2,796 at September 26, 2020 and December 28, 2019, 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 satisfying the underlying performance obligation. Contract liabilities totaled \$902 and \$353 at September 26, 2020 and December 28, 2019, respectively, and are presented in Other accrued expenses and current liabilities in the Consolidated Balance Sheets.

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 \$11,821, and \$11,635 for the nine months ended September 26, 2020 and September 28, 2019, respectively.

Capitalized Software Development Costs

The Company sells certain products that contain embedded software that is integral to the functionality of the products. Internal and external costs incurred for developing this software are charged to expense until technological feasibility has been established, at which point the development costs are capitalized. Capitalized software development costs primarily include payroll, benefits and other headcount related expenses. Once the products are available for general release to customers, no additional costs are capitalized.

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		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net income	\$ 12,982	\$ 12,791	\$ 8,667	\$ 46,460
Basic and diluted weighted average shares outstanding	32,095	32,027	32,079	32,006
Basic and diluted net income per common share	\$ 0.40	\$ 0.40	\$ 0.27	\$ 1.45

Recently Adopted Accounting Standards

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 Company adopted the standard for the fiscal year beginning December 29, 2019, and conducted its interim impairment testing accordingly.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*. The standard replaces the incurred loss model with the current expected credit loss (“CECL”) model to estimate credit losses for financial assets measured at amortized cost and certain off-balance sheet credit exposures. The CECL model requires a Company to estimate credit losses expected over the life of the financial assets based on historical experience, current conditions and reasonable and supportable forecasts. The Company adopted the standard for the fiscal year beginning December 29, 2019. Adoption of the standard did not have a material impact on the Consolidated, Unaudited Financial Statements.

Recently Issued Accounting Standards

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This update simplifies accounting for income taxes by eliminating some exceptions to the general approach in ASC 740, Income Taxes, related to intraperiod tax allocation, the methodology for calculating income tax in an interim period and the recognition of deferred tax liabilities for outside basis differences. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The amendments in this update should be applied on either a retrospective basis, a modified retrospective basis or prospectively, depending on the provision within the amendment. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

3. 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 September 26, 2020 and December 28, 2019.

	September 26, 2020			
	Total	Quoted Market Prices (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Forward foreign exchange contracts	\$ 416	\$ —	\$ 416	\$ —
Total	<u>\$ 416</u>	<u>\$ —</u>	<u>\$ 416</u>	<u>\$ —</u>
Liabilities				
Interest rate swap contract	\$ 8,599	\$ —	\$ 8,599	\$ —
Forward foreign exchange contracts	593	—	593	—
Total	<u>\$ 9,192</u>	<u>\$ —</u>	<u>\$ 9,192</u>	<u>\$ —</u>

	December 28, 2019			
	Total	Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Forward foreign exchange contracts	\$ 815	\$ —	\$ 815	\$ —
Total	<u>\$ 815</u>	<u>\$ —</u>	<u>\$ 815</u>	<u>\$ —</u>
Liabilities				
Interest rate swap contract	\$ 5,792	\$ —	\$ 5,792	\$ —
Forward foreign exchange contracts	219	—	219	—
Contingent consideration	828	—	—	828
Total	<u>\$ 6,839</u>	<u>\$ —</u>	<u>\$ 6,011</u>	<u>\$ 828</u>

A summary of the changes in the estimated fair value of contingent consideration at September 26, 2020 is as follows:

Balance at December 28, 2019	\$ 828
Change in estimated fair value	(47)
Payment on liability	(830)
Currency remeasurement	49
Balance at September 26, 2020	<u>\$ —</u>

4. INVENTORIES

At September 26, 2020 and December 28, 2019, inventory consisted of the following:

	September 26, 2020	December 28, 2019
Raw materials	\$ 32,118	\$ 34,340
Work in process	27,340	28,667
Finished goods	26,702	29,711
Provision for obsolete and slow moving inventory	(8,519)	(7,523)
Total	<u>\$ 77,641</u>	<u>\$ 85,195</u>

5. OPERATING LEASES

The Company leases machinery, equipment, vehicles, buildings and office space, throughout its locations, that are classified as operating leases. Remaining terms on these leases range from less than one year to ten years. For the nine months ended September 26, 2020 and September 28, 2019, operating lease costs totaled \$2,765 and \$2,724, respectively.

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

	September 26, 2020	December 28, 2019
Right-of-use assets	\$ 10,439	\$ 12,310
Lease liabilities:		
Current lease liabilities	\$ 3,390	\$ 3,155
Non-current lease liabilities	7,234	9,312
Total lease liabilities	<u>\$ 10,624</u>	<u>\$ 12,467</u>

Weighted average remaining lease term (in years):	5.2
Weighted average discount rate:	4.8 %

Supplemental cash flow information related to leases is as follows:

	Nine Months Ended	
	September 26, 2020	September 28, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 2,786	\$ 2,737
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 418	\$ 1,465

Maturities of lease liabilities are as follows:

2020 Remaining	\$ 957
2021	3,776
2022	1,909
2023	1,460
2024	1,011
2025	711
Thereafter	2,316
Total lease payments	12,140
Less: Imputed interest	(1,516)
Total lease obligations	10,624
Less: Current lease liabilities	(3,390)
Non-current lease liabilities	\$ 7,234

6. GOODWILL AND INTANGIBLE ASSETS

Goodwill

A summary of changes in goodwill by segment for the nine months ended September 26, 2020, is as follows:

	Hydraulics	Electronics	Total
Balance at December 28, 2019	\$ 271,196	\$ 106,373	\$ 377,569
Impairment charge	(31,871)	—	(31,871)
Currency translation	9,046	—	9,046
Balance at September 26, 2020	\$ 248,371	\$ 106,373	\$ 354,744

During the first quarter of 2020, the global economy was significantly impacted by the COVID-19 pandemic. Given the economic impact, primarily in Europe, government-mandated facility closures and an unfavorable outlook for certain end markets, the Company concluded that this change in circumstances triggered the need to conduct an interim impairment review of its Faster reporting unit. The interim review was performed as of March 28, 2020. A recoverability test for the long-lived assets within the Faster reporting unit was performed first and resulted in the conclusion that the carrying value of the long-lived assets was fully recoverable. An interim quantitative impairment test for goodwill was then performed.

The fair value of the Faster reporting unit was determined based on a combination of income and market approach methodologies. The income approach utilized a discounted cash flow analysis, which estimates the present value of the projected free cash flows to be generated by the reporting unit. Principal assumptions used in the analysis included the Company's estimates of future revenue and terminal growth rates, margin assumptions and discount rates. While assumptions utilized are subject to a high degree of judgment and complexity, the Company made every effort to estimate future cash flows as accurately as possible, given the high degree of economic uncertainty that existed. The market approaches estimate fair value by comparing to guideline public companies and guideline transactions. Various valuation multiples of companies that are economically and operationally similar were used as data points for selecting multiples. The Company concluded that the estimated fair value of the Faster reporting unit was less than its carrying value, and as a result, recorded a non-cash, non-tax-deductible goodwill impairment charge of \$31,871. If the economic impact from the COVID-19 pandemic is more severe than anticipated, or if the economic recovery takes longer to materialize or does not materialize as strongly as anticipated, it could result in further goodwill impairment charges.

The Company considered the known and anticipated impacts of the COVID-19 pandemic on its other reporting units and concluded that it was more likely than not that their fair value exceeded their carrying value.

Intangible Assets

At September 26, 2020, and December 28, 2019, intangible assets consisted of the following:

	September 26, 2020			December 28, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangibles:						
Trade names and brands	\$ 57,004	\$ (10,002)	\$ 47,002	\$ 56,032	\$ (7,658)	\$ 48,374
Non-compete agreements	950	(728)	222	950	(586)	364
Technology	32,214	(11,127)	21,087	31,704	(8,661)	23,043
Supply agreement	21,000	(8,050)	12,950	21,000	(6,475)	14,525
Customer relationships	235,407	(27,228)	208,179	227,844	(19,499)	208,345
Software development costs - in process	227	—	227	—	—	—
	<u>\$ 346,802</u>	<u>\$ (57,135)</u>	<u>\$ 289,667</u>	<u>\$ 337,530</u>	<u>\$ (42,879)</u>	<u>\$ 294,651</u>

Amortization expense for the nine months ended September 26, 2020, and September 28, 2019, was \$ 13,323 and \$ 13,544, respectively. Future estimated amortization expense, excluding software development in process, is presented below.

Year:	
2020 Remaining	\$ 4,680
2021	18,161
2022	17,898
2023	17,839
2024	17,184
2025	17,121
Thereafter	196,557
Total	<u>\$ 289,440</u>

7. 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 is presented as follows:

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value (1) September 26, 2020	Fair Value (1) December 28, 2019	Balance Sheet Location	Fair Value (1) September 26, 2020	Fair Value (1) December 28, 2019
	Derivatives designated as hedging instruments:					
Interest rate swap contract	Other assets	\$ —	\$ —	Other non-current liabilities	\$ 8,599	\$ 5,792
Derivatives not designated as hedging instruments:						
Forward foreign exchange contracts	Other current assets	340	509	Other current liabilities	254	213
Forward foreign exchange contracts	Other assets	76	306	Other non-current liabilities	339	6
Total derivatives		\$ 416	\$ 815		\$ 9,192	\$ 6,011

(1) See Note 3 for information regarding the inputs used in determining the fair value of derivative assets and liabilities.

The amount of gains and losses related to the Company's derivative financial instruments for the nine months ended September 26, 2020 and September 28, 2019, are presented as follows:

	Amount of Gain or (Loss) Recognized in Other Comprehensive Income on Derivatives (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Earnings (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Earnings (Effective Portion)	
	September 26, 2020	September 28, 2019		September 26, 2020	September 28, 2019
	Derivatives in cash flow hedging relationships:				
Interest rate swap contract	\$ (2,807)	\$ (4,539)	Interest expense, net	\$ (2,630)	\$ (658)

Interest expense presented in the Consolidated Statements of Operations, in which the effects of cash flow hedges are recorded, totaled \$ 8,572 and \$12,223 for the nine months ended September 26, 2020 and September 28, 2019, respectively.

	Amount of Gain or (Loss) Recognized in Earnings on Derivatives		Location of Gain or (Loss) Recognized in Earnings on Derivatives
	September 26, 2020	September 28, 2019	
	Derivatives not designated as hedging instruments:		
Forward foreign exchange contracts	\$ (2,513)	\$ 3,973	Foreign currency transaction gain loss, net

Interest Rate Swap Contract

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 \$150,000, which decreases by \$25,000 annually, 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 will be 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.

At September 26, 2020, the Company had 14 forward foreign exchange contracts with an aggregate notional value of €51,823, maturing at various dates through April 1, 2022.

Net Investment Hedge

The Company utilizes foreign currency denominated debt to hedge currency exposure in foreign operations. The Company has designated €90,000 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 \$104,648 as of September 26, 2020 and is included in the Revolving lines of credit line item in the Consolidated Balance Sheets. The loss on the net investment hedge recorded in accumulated other comprehensive income ("AOCI") as part of the currency translation adjustment was \$3,189, net of tax, for the nine months ended September 26, 2020. A loss of \$164, associated with the net investment hedge, was reclassified from AOCI into earnings for the nine months ended September 26, 2020.

8. CREDIT FACILITIES

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

	<u>Maturity Date</u>	<u>September 26, 2020</u>		<u>December 28, 2019</u>	
Long-term non-revolving debt:					
Term loan credit facility with PNC Bank	4/3/2023	\$	86,250	\$	91,250
Term loan credit facility with Intesa Sanpaolo S.p.A	12/23/2021		5,814		—
Term loan credit facility with Citibank	11/18/2022		219		—
Term loan credit facility with Shinhan Bank	3/30/2020		—		862
Other long-term debt	Various		293		376
Total long-term non-revolving debt			92,576		92,488
Less: current portion of long-term non-revolving debt			11,808		7,623
Less: unamortized debt issuance costs			619		803
Total long-term non-revolving debt, net		\$	80,149	\$	84,062

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

	<u>Maturity Date</u>	<u>Balance</u>		<u>Available Credit</u>					
		<u>September 26, 2020</u>	<u>December 28, 2019</u>	<u>September 26, 2020</u>	<u>December 28, 2019</u>				
Revolving line of credit with PNC Bank	4/3/2023	\$	168,398	\$	231,283	\$	191,292		
Revolving line of credit with Citibank	TBD		—		2,199		—		
		\$	168,398	\$	208,708	\$	233,482	\$	191,292

Future maturities of total debt are as follows:

<u>Year:</u>	
2020 Remaining	\$ 1,926
2021	13,535
2022	8,944
2023	236,569
Total	\$ 260,974

Term Loan and Line of Credit with PNC Bank

The Company has a credit agreement that includes 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 borrowings up to an aggregate maximum principal amount of \$400,000.

The Company has exchanged a portion of the USD denominated borrowings on the line of credit for €90,000 in order to hedge currency exposure in foreign operations. The borrowings have been designated as a net investment hedge, see additional information in Note 7.

The effective interest rate on the credit agreement at September 26, 2020 was 1.84%. Interest expense recognized on the credit agreement during the nine months ended September 26, 2020 and September 28, 2019, totaled \$5,863 and \$11,442, respectively. As of the date of this filing, the Company was in compliance with all debt covenants related to the credit agreement.

Term Loan with Intesa Sanpaolo S.p.A.

On June 23, 2020, Faster entered into an agreement with Intesa Sanpaolo S.p.A. that provided an unsecured term loan of € 5,000. The facility bears interest at 1.25%. Repayment of the facility begins in January 2021 and is due in 12 monthly installments. The loan bears a guarantee from SACE S.p.A. – the Italian export public credit agency operating in the insurance and financial services sectors – pursuant to the Law Decree No. 23 of April 8, 2020, converted (with amendments) into Law No. 40 of June 5, 2020 (the “Liquidity Decree”).

Term Loan and Line of Credit with Citibank

On May 18, 2020, Sun Hydraulics (China) Co., Ltd. (“Sun China”) entered into an uncommitted fixed asset facility agreement (the “Fixed Asset Facility”) and short-term revolving facility agreement (the “Working Capital Facility”) with Citibank (China) Co., Ltd. Shanghai Branch, as lender.

Under the Fixed Asset Facility, Sun China may, from time-to-time for a period of 180 days, borrow amounts on a secured basis up to a total of RMB 50,000. The proceeds of such loans may be used for purchases of certain equipment. Outstanding borrowings under the Fixed Asset Facility accrue interest at a rate equal to the National Interbank Funding Center 1-year loan prime rate plus 1.50%, to be repaid on a specified schedule with the final payment due in November 2022.

Under the Working Capital Facility, Sun China may from time to time borrow amounts on an unsecured revolving facility of up to a total of RMB 15,000. Proceeds may only be used for expenditures related to production at the Sun China facility, located in Kunshan City, China. Outstanding borrowings under the Working Capital Facility accrue interest at a rate equal to the National Interbank Funding Center 1-year loan prime rate plus 0.50%. The Working Capital Facility will terminate, and all outstanding loans will mature on the one-year anniversary of the first borrowing under the loan.

Borrowings under the Fixed Asset Facility and the Working Capital Facility are guaranteed by Helios Technologies, Inc.

As of the date of this filing, Sun China was in compliance with all debt covenants related to the Fixed Asset Facility and Working Capital Facility.

Other Credit Facilities

The Company had a credit agreement with Shinhan Bank that provided a term loan of KRW 1,000,000. The loan matured in March 2020, at which time the balance was paid in full.

The Company’s other long-term debt consists of auto loans payable to National Australia Bank. Interest is charged at various rates ranging from 4.5% to 5.1%. Principal and interest payments are due monthly. The loans mature at various dates through July 2023.

9. INCOME TAXES

The provision for income taxes for the nine months ended September 26, 2020 and September 28, 2019 was 16.9% and 20.5% of pretax income, respectively, after adjusting for the impact of the goodwill impairment charge. The provision for taxes includes certain onetime benefits that caused the effective tax rate for the nine months ended September 26, 2020 to be less than the effective tax rate for the nine months ended September 28, 2019. During the nine months ended September 26, 2020, the Company recorded onetime benefits totaling \$2,600, the majority of which is due to the elimination of certain regional tax obligations (“IRAP”) in Italy in response to COVID-19 and availing the Company of the Allowance for Corporate Equity (“ACE”) benefit in Italy. The effective rate for the nine months ended September 26, 2020 before discrete items was 22.1%.

At September 26, 2020, the Company had an unrecognized tax benefit of \$ 8,973 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 September 26, 2020 is not considered material to the Company’s consolidated financial statements.

The Company files United States (“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 not currently under examination by the Internal Revenue Service (“IRS”). 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 and there could be significant increases or decreases to unrecognized tax benefits.

10. 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 options, 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 (“RSUs”) 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. The number of shares ultimately issued for the performance-based units may vary from 0% to 200% of their target amount based on the achievement of defined performance targets.

Compensation expense recognized for restricted stock and RSUs totaled \$ 3,158 and \$2,783, respectively, for the nine months ended September 26, 2020 and September 28, 2019.

The following table summarizes restricted stock and RSU activity for the nine months ended September 26, 2020:

	Number of Shares / Units (in thousands)	Weighted Average Grant-Date Fair Value per Share
Nonvested balance at December 28, 2019	203	\$ 42.73
Granted	182	36.67
Vested	(79)	43.61
Forfeited	(68)	42.04
Nonvested balance at September 26, 2020 ⁽¹⁾	238	\$ 38.82

(1) Includes 61,996 unvested performance-based RSUs.

The Company had \$6,426 of total unrecognized compensation cost related to the restricted stock and RSU awards as of September 26, 2020. That cost is expected to be recognized over a weighted average period of 1.9 years.

Stock Options

The following table summarizes stock options the Company has granted to its officers (in thousands, except per share data):

Date of Grant	Options Granted	Option Exercise (Strike) Price	September 26, 2020		
			Options Forfeited	Options Outstanding	Options Exercisable
February 28, 2020	18	\$ 39.75	10	9	—
July 1, 2020	5	35.04	—	5	—
Total	23		10	14	—

The exercise prices per share are equal to the market price of Helios stock on the respective grant dates. The options vest ratably over a three-year period and have a 10-year expiration. The grant date fair value of the options was estimated using a Black Scholes valuation model. At September 26, 2020, the Company had \$147 of unrecognized compensation cost related to the options which is expected to be recognized over a weighted average period of 2.5 years.

Employee Stock Purchase Plans

The Company maintains an Employee Stock Purchase Plan (“ESPP”) in which U.S. employees 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 (“UK”), 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 33,519 shares at a weighted average price of \$ 30.65, and 37,217 shares at a weighted average price of \$ 33.65, under the ESPP and UK plans during the nine months ended September 26, 2020 and September 28, 2019, respectively. The Company recognized \$220 and \$398 of compensation expense during the nine months ended September 26, 2020 and September 28, 2019, 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 11,775 and 18,875 shares for the nine months ended September 26, 2020 and September 28, 2019, respectively. The Company recognized director stock compensation expense of \$480 and \$856 for the nine months ended September 26, 2020 and September 28, 2019, respectively.

11. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Unrealized Gains and (Losses) on Derivative Instruments	Foreign Currency Items	Total
Balance at December 28, 2019	\$ (5,372)	\$ (49,992)	\$ (55,364)
Other comprehensive (loss) income before reclassifications	(4,781)	9,389	4,608
Amounts reclassified from accumulated other comprehensive loss, net of tax	1,974	—	1,974
Tax effect	1,548	(2,152)	(604)
Net current period other comprehensive (loss) income	(1,259)	7,237	5,978
Balance at September 26, 2020	<u>\$ (6,631)</u>	<u>\$ (42,755)</u>	<u>\$ (49,386)</u>

	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	(5,053)	(17,675)	(22,728)
Amounts reclassified from accumulated other comprehensive loss, net of tax	514	—	514
Tax effect	1,027	5,358	6,385
Net current period other comprehensive loss	(3,512)	(12,317)	(15,829)
Balance at September 28, 2019	<u>\$ (5,821)</u>	<u>\$ (56,261)</u>	<u>\$ (62,082)</u>

12. SEGMENT REPORTING

The Company has two reportable 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 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. For the nine months ended September 26, 2020, the unallocated costs totaled \$47,801 and included certain corporate costs not deemed to be allocable to either business segment of \$2,607, amortization of acquisition-related intangible assets of \$ 13,323, and the goodwill impairment charge of \$31,871. The accounting policies of the Company's operating segments are the same as those used to prepare the accompanying Consolidated, Unaudited Financial Statements.

The following table presents financial information by reportable segment:

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net sales				
Hydraulics	\$ 98,206	\$ 110,089	\$ 304,113	\$ 340,262
Electronics	24,439	27,956	67,309	88,476
Total	\$ 122,645	\$ 138,045	\$ 371,422	\$ 428,738
Operating income				
Hydraulics	\$ 18,942	\$ 17,867	\$ 62,413	\$ 65,752
Electronics	4,683	5,977	10,400	18,977
Corporate and other	(5,282)	(4,706)	(47,801)	(13,387)
Total	\$ 18,343	\$ 19,138	\$ 25,012	\$ 71,342
Capital expenditures				
Hydraulics	\$ 1,109	\$ 3,774	\$ 5,426	\$ 17,606
Electronics	831	397	1,729	1,978
Total	\$ 1,940	\$ 4,171	\$ 7,155	\$ 19,584

	September 26, 2020	December 28, 2019
Total assets		
Hydraulics	\$ 747,708	\$ 768,324
Electronics	246,621	251,252
Corporate	4,836	2,175
Total	\$ 999,165	\$ 1,021,751

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 right-of-use assets.

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net sales				
Americas	\$ 49,167	\$ 67,340	\$ 155,740	\$ 202,974
EMEA	33,628	34,020	102,680	116,802
APAC	39,850	36,685	113,002	108,962
Total	\$ 122,645	\$ 138,045	\$ 371,422	\$ 428,738

	September 26, 2020	December 28, 2019
Tangible long-lived assets		
Americas	\$ 83,877	\$ 87,104
EMEA	27,517	28,436
APAC	17,485	18,004
Total	\$ 128,879	\$ 133,544

13. RELATED PARTY TRANSACTIONS

The Company purchases from and sells inventory to entities partially owned or managed by directors of Helios. For the nine months ended September 26, 2020 and September 28, 2019, inventory sales to the entities totaled \$2,572 and \$1,113, respectively, and inventory purchases from the entities totaled \$2,942 and \$3,857, respectively.

The Company also utilizes the legal services of a law firm where a director of Helios is a partner. Expenses incurred from the entity totaled \$ 251 for the nine months ended September 26, 2020.

At September 26, 2020 and December 28, 2019, amounts due from the entities totaled \$ 536 and \$73, respectively, and amounts due to the entities totaled \$177 and \$361, respectively.

14. 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.

15. SUBSEQUENT EVENTS

Entry into Material Definitive Agreement

On October 9, 2020, Helios entered into a definitive agreement to acquire BWG Holdings I Corp., operating as Balboa Water Group (“Balboa”), for \$218,500 from certain affiliates of AEA Investors LP (“the Acquisition”). Helios plans to fund the Acquisition through a combination of cash and existing and new credit facilities. The transaction is expected to close in the fourth quarter of 2020, subject to customary closing conditions and regulatory approvals.

Balboa is an innovative market leader of electronic controls for the health and wellness industry with proprietary and patented technology that enables end-to-end electronic control systems for therapy baths and spas. Headquartered in Costa Mesa, CA, Balboa is a global operation selling into 47 countries and utilizing a new state-of-the-art manufacturing facility in Baja, Mexico.

The intent to acquire Balboa is in alignment with Helios’s Vision 2025 goals, advancing the Company as a global technology leader in the industrial goods sector while maintaining superior profitability and financial strength. Balboa further diversifies the Company’s electronics product portfolio and broadens the Company’s global footprint.

Amended and Restated Credit Agreement

On October 28, 2020, the Company amended and restated its credit agreement with PNC Bank, National Association, as administrative agent, and the lenders party thereto. The amendment increased the term loan credit facility to an aggregate principal amount of \$200,000. The revolving credit facility’s aggregate maximum principal borrowing amount remained unchanged at \$400,000, and the accordion feature was increased to an aggregate principal amount of \$300,000. The credit facilities are available through October 28, 2025.

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 report and those identified in Item 1A, "Risk Factors" included in our Form 10-K and Part II, Item 1A, "Risk Factors" of our Form 10-Q for the quarter ended March 28, 2020 ("first quarter Form 10-Q"). 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. 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 12 to the Consolidated, Unaudited Financial Statements is also presented on this basis. All differences between our internal management reporting basis and U.S. GAAP, specifically the allocation of certain corporate and acquisition-related costs, are included in Corporate and Other.

Strategic Vision

Vision 2025

Achieve Global Technology Leadership in the Industrial Goods Sector by 2025 with Critical Mass

Exceeding \$1B in Sales While Maintaining Superior Profitability & Financial Strength

Vision 2025 (our "Vision") states our strategic goal of being a technology leader in the industrial goods sector. Important components of the Vision include reaching critical mass of \$1 billion in sales by 2025 through both organic and acquisitive growth. Organic growth in both segments, Electronics and Hydraulics, will drive us toward our revenue goal and will be augmented by additive revenue from companies we choose to acquire. In addition to the topline growth, we are focused on our goal of maintaining superior profitability and financial strength.

Continued 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, we continue to invest in our FLeX series of electro-hydraulic cartridge valves for the mobile and industrial markets in both high and low pressure applications. We have already released over 25 new FLeX series valves and will have a significant number of additional introductions to the the FLeX family. These products allow us to compete in parts of the market where we could not before, including complete valve solutions. Investments in sustaining engineering and simulation development are delivering performance improvements of our existing valves by reducing manufacturing costs through improved first pass yield. In addition, the sophistication process of coupling solutions and the electrification of these products has now entered the second phase of its development. We have identified new products to be developed and tested with selected customers with the goal of reinforcing the technological advantage we have historically had and so that we can continue to expand in this market.

In the Electronics segment, we have launched our new line of ACE™-configurable MCx controllers. Built for market flexibility, the MCx controller series empowers original equipment manufacturers (“OEMs”) and distribution partners with a machine control hardware and software system solution that can be easily adapted to any application using our intuitive ACE configuration software or the widely used CODESYS platform. ACE software allows users to quickly build a solution using our patented drag-and-drop coding blocks and makes it easy to rapidly incorporate Sun Hydraulics’ components and Enovation Controls’ customizable displays into a project. MCx hardware and ACE software, combined with Sun's XMD drivers and FLeX Series directional valves, provide customers a complete solution for a wide range of electro-hydraulic control applications. Enovation Controls has also launched a complete family of edge-to-edge connected PowerView displays for existing recreational and off-highway customers. With new smaller, higher-resolution screen sizes to fit the needs of customers, this new platform has brought us significant new customer wins.

On October 9, 2020, we entered into a definitive agreement to purchase Balboa. Balboa is an innovative market leader in electronic controls for the health and wellness industry with proprietary and patented technology that enables end-to-end electronic control systems for therapy baths and spas. Headquartered in Costa Mesa, CA, Balboa is a global operation selling into 47 countries and utilizing a new state-of-the-art manufacturing facility in Baja, Mexico. The acquisition brings us another step closer to the realization of our Vision. Balboa further diversifies our electronics product portfolio and broadens our global footprint.

Acquisitions of companies that advance our technology capabilities will continue to be critical to achieving our Vision. Target product offerings include hydraulic components and/or systems, electronic controls and instrumentation and linked technologies such as electro-mechanical actuators, factory automation, software, or products relevant to the Internet of Things

Global Economic Conditions

Impact of COVID-19 on our business

The COVID-19 pandemic has caused, and continues to cause, significant economic disruption globally, and substantial uncertainty exists regarding the magnitude and duration of the pandemic and its economic impact. Broad measures taken by governments, businesses and others to limit the spread of the virus are adversely affecting the Company and its customers.

Our primary manufacturing locations are currently fully operational but have been, and continue to be, impacted to differing degrees by various COVID-19 related factors such as:

- Government mandated facility closures.
 - Our Chinese locations were closed throughout February, after the national holiday, and reopened mid-March at about 50% working capacity. We gradually resumed full production in China by the end of the first quarter.
 - Production in our Faster operation located in Italy was shut down for four weeks starting in mid-March. During this time, the facility was permitted to ship finished goods to essential business customers and continue administrative functions through remote working capabilities. Production resumed in mid-April and Faster has since remained fully operational.
 - Our US locations are considered essential businesses and have remained operational; however, production schedules have been adjusted as needed for deep cleaning and social distancing accommodations.
- Reduced workforce. Employees are exercising caution and have quarantined when appropriate which has caused a small reduction in the workforce. We have also executed layoffs and furlough programs as cost containment measures.
- Supply chain constraints. The majority of our suppliers remain open and we currently have experienced limited disruption to production due to supply chain issues.
- Delivery constraints. We experienced some delivery delays towards the end of the first quarter and early in the second quarter, primarily due to OEM customers in the U.S. and Europe having temporarily shut down.
- Softening incoming order rates. While we have not seen a significant number of order cancellations to date, we have experienced a decline in incoming orders. Some OEM customers have requested to delay order delivery dates into later quarters.

Employees are working from home when possible, and we have taken significant measures to ensure the health and safety of those working at our facilities.

The impact of the COVID-19 pandemic on our results of operations, liquidity and financial resources and 2020 outlook are discussed in greater detail within the respective sections of this report.

Brexit

In January 2020, the UK exited the European Union (“EU”) (“Brexit”). During the transition period, which ends on December 31, 2020, the details of the UK’s withdrawal and the nature of its future relationship with the EU will be decided. The Company continues to monitor the status of the negotiations and plan for potential impact. The ultimate impact of Brexit on the Company’s financial results is uncertain. However, we do not expect the effects of Brexit to have a material impact on our results of operations or financial position. For additional information, refer to Part I, Item 1A, “Risk Factors” and Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of the Company’s Form 10-K.

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. 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 macro-economic conditions.

Hydraulics

According to the National Fluid Power Association (the fluid power industry’s trade association in the U.S.), the U.S. index of shipments of hydraulic products decreased an additional 22% during the first eight months of 2020, after decreasing 7% in 2019. In Europe, the European Agricultural Machinery Association (“CEMA”) Business Barometer reported the general business climate index for the European agricultural machinery industry is positive after more than a year in negative territory; sales and incoming orders from both within and outside the EU have risen significantly in recent weeks. The CECE (Committee for European Construction Equipment) business climate index saw a sharp drop in March after three months of strong recovery, due to deteriorating future business expectations. However, future expectations and the climate index has gradually improved through July.

Electronics

According to the Federal Reserve’s Industrial Production Index, which measures the real output of all relevant establishments located in the U.S., sales of semiconductors and other electronics components improved during the third quarter of 2020, exceeding fourth quarter 2019 levels. The Institute of Printed Circuits Association reports that total North American printed circuit board shipments in September 2020 were up 7.0% compared with the same month last year; compared with August 2020, September shipments grew 21.3%. In our Electronics segment, we are experiencing declining sales in excess of the overall market, due to softer demand in recreational and oil and gas end markets as well as a strategic change we made to our customer base during 2019. In addition, several of our large OEM customers have requested to adjust the timing of order request dates into later quarters. For additional information, refer to the discussion of 2020 results of our Electronics segment below.

2020 Third Quarter Results and Comparison of the Three and Nine Months Ended September 26, 2020 and September 28, 2019

(in millions except per share data)

	Three Months Ended			
	September 26, 2020	September 28, 2019	\$ Change	% Change
Net sales	\$ 122.6	\$ 138.0	\$ (15.4)	(11.2)%
Gross profit	\$ 46.9	\$ 52.1	\$ (5.2)	(10.0)%
<i>Gross profit %</i>	<i>38.3 %</i>	<i>37.8 %</i>		
Operating income	\$ 18.3	\$ 19.1	\$ (0.8)	(4.2)%
<i>Operating income %</i>	<i>14.9 %</i>	<i>13.8 %</i>		
Net income	\$ 13.0	\$ 12.8	\$ 0.2	1.6%
Basic and diluted net income per common share	\$ 0.40	\$ 0.40	\$ —	(—)%

	Nine Months Ended			
	September 26, 2020	September 28, 2019	\$ Change	% Change
Net sales	\$ 371.4	\$ 428.7	\$ (57.3)	(13.4)%
Gross profit	\$ 143.5	\$ 164.9	\$ (21.4)	(13.0)%
<i>Gross profit %</i>	<i>38.6 %</i>	<i>38.5 %</i>		
Operating income	\$ 25.0	\$ 71.3	\$ (46.3)	(64.9)%
<i>Operating income %</i>	<i>6.7 %</i>	<i>16.6 %</i>		
Net income	\$ 8.7	\$ 46.5	\$ (37.8)	(81.3)%
Basic and diluted net income per common share	\$ 0.27	\$ 1.45	\$ (1.18)	(81.4)%

Third quarter consolidated net sales declined \$15.4 million, 11.2%, compared with the prior-year period. Changes in foreign currency exchange rates favorably impacted sales for the quarter by \$2.0 million, 1.6%, and earnings per share by \$0.01. A large portion of the third quarter sales decline was attributed to the effects of the COVID-19 pandemic on our business, customers and end markets. From a geographic perspective, our sales to the Americas region were impacted significantly during the quarter, declining 27.0% over the 2019 third quarter. Europe, the Middle East and Africa (“EMEA”) experienced some recovery during the quarter, with sales to the region declining only 5.3% compared to the prior third quarter, excluding currency effects. Demand and our recent expansion efforts in the Asia Pacific (“APAC”) region drove growth of 7.1% over the prior third quarter, excluding currency effects.

Consolidated net sales for the year-to-date period declined \$57.3 million, 13.4%, compared with the prior-year period. Changes in foreign currency exchange rates unfavorably impacted sales for the first nine months of 2020 by \$1.8 million, 0.5%, and earnings per share by \$0.01. During the month of April, we experienced a considerable impact on sales due to facility closures, customer shut-downs and regulatory restrictions imposed on shipments. However, our production capabilities recovered throughout the second quarter, with the third quarter returning to more typical levels. Our sales continue to be impacted by a general softness in demand in certain end markets and reduced order intake across both segments compared with the prior year period.

Gross profit trended downward in the third quarter compared with the third quarter of 2019, due to lower sales volume, partially offset by a favorable impact from changes in foreign currency rates of \$0.6 million. Gross margin increased by 0.5 percentage points compared with the prior-year period, driven by successful management of our fixed cost base and favorable product mix, partially offset by increased costs associated with COVID-19. Gross profit for the year-to-date period declined \$21.4 million, 13.0%, compared to the prior-year period while gross margin improved 0.1 percentage points.

Operating income as a percentage of sales increased 1.1 percentage points to 14.9% in the third quarter of 2020 compared with 13.8% in the prior-year period, primarily due to the positive impacts to gross margin and effective cost management efforts partially offset by \$0.6 million of costs incurred related to the separation of a former officer of the company. Comparability was also impacted by one-time charges during the 2019 third quarter for organizational restructuring of \$1.7 million and a loss on disposal of intangible assets of \$2.7 million.

We have employed multiple cost saving measures to mitigate the effects of the downturn, including: decreased use of consultants and contractors, adjustments to our fixed cost labor base by implementing salary reductions, furloughs and layoffs, and reduced travel and other discretionary spend. Our cost saving measures have been partially offset as we have incurred costs related to the purchase of safety equipment, personal protective equipment and higher cleaning costs to ensure our employees' safety during the pandemic.

Operating income for the first nine months of 2020 totaled \$25.0 million. Current and expected economic impacts from the COVID-19 pandemic led to an impairment charge of \$31.9 million of goodwill at our Faster reporting unit during the first quarter of 2020. Continued negative impacts to the global economy and reductions in our expected future cash flows could cause further impairment to our goodwill or other assets.

SEGMENT RESULTS

Hydraulics

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

	Three Months Ended		\$ Change	% Change
	September 26, 2020	September 28, 2019		
Net sales	\$ 98.2	\$ 110.1	\$ (11.9)	(10.8)%
Gross profit	\$ 35.5	\$ 39.1	\$ (3.6)	(9.2)%
<i>Gross profit %</i>	<i>36.1 %</i>	<i>35.5 %</i>		
Operating income	\$ 18.9	\$ 17.9	\$ 1.0	5.6%
<i>Operating income %</i>	<i>19.2 %</i>	<i>16.3 %</i>		

	Nine Months Ended		\$ Change	% Change
	September 26, 2020	September 28, 2019		
Net sales	\$ 304.1	\$ 340.3	\$ (36.2)	(10.6)%
Gross profit	\$ 112.7	\$ 124.2	\$ (11.5)	(9.3)%
<i>Gross profit %</i>	<i>37.1 %</i>	<i>36.5 %</i>		
Operating income	\$ 62.4	\$ 65.8	\$ (3.4)	(5.2)%
<i>Operating income %</i>	<i>20.5 %</i>	<i>19.3 %</i>		

Third quarter net sales for the Hydraulics segment totaled \$98.2 million, a decline of \$11.9 million, 10.8%, compared with the prior-year period, impacted significantly by the effects of the COVID-19 pandemic on our end markets and customers. Changes in foreign currency exchange rates favorably impacted sales for the quarter by \$1.9 million.

Year-to-date net sales totaled \$304.1 million, a decrease of \$36.2 million, 10.6%, compared with the prior comparable period. Changes in foreign currency exchange rates accounted for \$1.7 million of the year-to-date decline. Disruptions caused by the pandemic, including our facility closures and regulatory restrictions on shipments experienced during the first and second quarters, as well as ongoing reduced end market demand and related impacts to our customers led to diminished sales during the year-to-date period. While the pandemic impacted shipments in the third quarter, we continued to ship certain CVT and Systems products from our past due order book which offset some of the impact. In addition, a general softening of demand in certain end markets, which has been occurring since mid-2019, has further reduced incoming orders.

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
	September 26, 2020	September 28, 2019		
Americas	\$ 27.7	\$ 43.3	\$ (15.6)	(36.0)%
EMEA	32.1	31.9	0.2	0.6%
APAC	38.4	34.9	3.5	10.0%
Total	\$ 98.2	\$ 110.1		

	Nine Months Ended		\$ Change	% Change
	September 26, 2020	September 28, 2019		
Americas	\$ 99.4	\$ 126.2	\$ (26.8)	(21.2)%
EMEA	96.7	110.4	(13.7)	(12.4)%
APAC	108.0	103.7	4.3	4.1%
Total	\$ 304.1	\$ 340.3		

Shipments and demand weakened in the Americas region during the third quarter of 2020 with sales declining 36.0% compared with the prior-year third quarter. Sales to the EMEA region declined 3.5% compared to the 2019 third quarter after consideration of positive impacts from foreign currency fluctuations totaling \$1.3 million. Sales to the APAC region expanded 10% compared with the third quarter of 2019, a result of increased demand in China as well as our recent expansion in the region. After consideration of the positive impact from changes in exchange rates, totaling \$0.6 million, sales to the APAC region improved 8.3% over the third quarter of 2019.

Year-to-date shipments and demand weakened in the Americas and EMEA regions by 21.2% and 12.4%, respectively, compared with the same period in 2019. The segment did not experience a material impact on sales due to changes in currency exchange rates in the EMEA region. The APAC region experienced growth of \$4.3 million for the nine months ended September 26, 2020 compared with the same period of 2019. After consideration of a \$1.7 million negative impact from changes in exchange rates, sales to the APAC region improved 5.8% over the same period in 2019.

In the third quarter of 2020, gross profit trended downward compared with the third quarter of the prior year due to lower sales volume, partially offset by a favorable impact from changes in foreign currency rates of \$0.6 million. Gross profit margin increased 0.6 percentage points to 36.1%, from 35.5% in the prior-year period, due to a favorable product mix in sales and savings from cost containment efforts, including management of our fixed cost base by implementing furloughs and temporary salary reductions.

Year-to-date gross profit declined \$11.5 million, 9.3%, from the prior year comparable period, while gross profit as a percentage of sales for the same period increased 0.6 percentage points. In addition to the third quarter impacts noted above, year-to-date margin improvement was attributable to effective cost management efforts, savings from our 2019 organizational restructure at Sun Hydraulics and production efficiencies gained from our CVT manufacturing consolidation project, which was completed in the first quarter of 2019.

Selling, engineering and administrative expenses (“SEA”) decreased \$0.2 million, 1.2%, in the third quarter of 2020 compared with the same period of the prior year, a result of aggressive cost management efforts, partially offset by increased corporate operating costs allocated to the segment that were incurred to support the growth and change in structure of Helios. Reduced leverage of our fixed cost base on lower sales led to SEA as a percent of sales increasing 1.6 percentage points during the quarter compared to the 2019 third quarter.

SEA costs decreased \$3.7 million, 6.9%, in the first nine months of 2020, compared with the prior-year period, a result of successful cost management efforts in light of the COVID-19 pandemic and its economic impact. These efforts included reductions in costs related to wages, travel and marketing, professional fees, training and other discretionary costs, partially offset by increased cost for safety equipment and cleaning services. As a percentage of sales, SEA increased 0.7 percentage points compared with the first nine months of 2019, impacted by reduced leverage of our fixed costs base on lower sales.

During the third quarter of 2019, we incurred one-time costs for an organizational restructure totaling \$1.7 million and \$2.7 million from a loss on disposal of an intangible asset due to the termination of our technology licensing agreement.

As a result of the impacts to gross profit, SEA and other costs noted above, third quarter operating income increased \$1.0 million, 5.6%, compared with the third quarter of the prior year, while operating margin strengthened 2.9 percentage points to 19.2%. Year-to-date operating income decreased \$3.4 million, 5.2%, from the comparative prior period, while operating margin improved 1.2 percentage points to 20.5%.

Electronics

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

	Three Months Ended		\$ Change	% Change
	September 26, 2020	September 28, 2019		
Net sales	\$ 24.4	\$ 28.0	\$ (3.6)	(12.9)%
Gross profit	\$ 11.4	\$ 13.0	\$ (1.6)	(12.3)%
<i>Gross profit %</i>	<i>46.8 %</i>	<i>46.4 %</i>		
Operating income	\$ 4.7	\$ 6.0	\$ (1.3)	(21.7)%
<i>Operating income %</i>	<i>19.2 %</i>	<i>21.4 %</i>		

	Nine Months Ended		\$ Change	% Change
	September 26, 2020	September 28, 2019		
Net sales	\$ 67.3	\$ 88.5	\$ (21.2)	(24.0)%
Gross profit	\$ 30.8	\$ 40.7	\$ (9.9)	(24.3)%
<i>Gross profit %</i>	<i>45.7 %</i>	<i>46.0 %</i>		
Operating income	\$ 10.4	\$ 19.0	\$ (8.6)	(45.3)%
<i>Operating income %</i>	<i>15.5 %</i>	<i>21.5 %</i>		

Third quarter net sales for the Electronics segment totaled \$24.4 million, a decrease of \$3.6 million, 12.9%, compared with the prior-year period. Sales for the year-to-date period totaled \$67.3 million, a decline of \$21.2 million, 24.0%, compared with the prior-year period. Decreased demand caused by the COVID-19 pandemic has had a significant impact on our sales as many of our customers shut down operations for a period of time during the second quarter and several of our large OEM customers requested to adjust the timing of order request dates into later quarters. In addition, demand in the oil and gas end market has been severely impacted, and we continue to experience some decline resulting from our intentional shift in our customer base which included the release of certain contractual obligations to customers that allowed us to leverage all of our products to a broader and more diversified customer base. Changes in exchange rates had a minimal impact on third quarter and year-to-date sales.

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
	September 26, 2020	September 28, 2019		
Americas	\$ 21.4	\$ 24.1	\$ (2.7)	(11.2)%
EMEA	1.5	2.1	(0.6)	(28.6)%
APAC	1.5	1.8	(0.3)	(16.7)%
Total	\$ 24.4	\$ 28.0		

	Nine Months Ended		\$ Change	% Change
	September 26, 2020	September 28, 2019		
Americas	\$ 56.4	\$ 76.8	\$ (20.4)	(26.6)%
EMEA	5.9	6.4	(0.5)	(7.8)%
APAC	5.0	5.3	(0.3)	(5.7)%
Total	\$ 67.3	\$ 88.5		

During the third quarter of 2020, sales to the Americas region declined 11.2%. Sales to the EMEA and APAC regions eroded 28.6% and 16.7% or \$0.6 million and \$0.3 million, respectively, compared with the prior-year third quarter. For the 2020 year-to-date period, sales to the Americas region fell by 26.6% while sales to the EMEA and APAC regions decreased 7.8% and 5.7%, respectively, compared with the prior year comparable period.

Third quarter gross profit dropped \$1.6 million, 12.3%, compared with the third quarter of the prior year, primarily due to the lower sales volume. Gross profit margin for the same period improved by 0.4 percentage points driven by favorable product mix and cost management efforts that successfully lowered the segment's fixed cost base. Gross profit for the nine months ended September 26, 2020 decreased by \$9.9 million, 24.3%, compared with the same period in 2019. Gross profit margin contracted from the prior year-to-date period by 0.3 percentage points. Year-to-date margin was heavily impacted by reduced leverage of our fixed cost base on lower sales. Further cost management efforts and a \$0.9 million non-recurring benefit from the release of contractual obligations to customers during the 2020 first quarter helped to mitigate the impact.

SEA expenses decreased by \$0.3 million in the third quarter of 2020 compared with the third quarter of 2019, as non-essential spending was eliminated. Cost saving measures also focused on managing fixed personnel costs. SEA costs as a percentage of sales increased 2.5 percentage points to 27.5%, primarily due to reduced leverage of the fixed costs base on lower sales volume. SEA expenses for the year-to-date period decreased by \$1.3 million, or 6.0%, compared with the prior-year period. While numerous cost management efforts have been implemented, we have continued to invest in the engineering and R&D necessary to support new product development that will drive revenue growth in 2021 and beyond.

As a result of the impacts to gross profit and SEA costs noted above, operating income declined \$1.3 million during the third quarter, and \$8.6 million for the year-to-date period, compared to the 2019 comparable periods.

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 third quarter of 2020, these costs totaled \$5.3 million, of which \$4.6 million was the amortization of acquisition-related intangible assets, \$0.6 million was for costs associated with the separation of a former officer and \$0.1 million was for acquisition related professional fees. Year-to-date, corporate and other costs totaled \$47.8 million, representing an increase of \$34.4 million over the prior-year period caused by a goodwill impairment charge totaling \$31.9 million and \$2.4 million of Chief Executive Officer and officer transition costs. Refer to Note 6 to the Consolidated, Unaudited Financial Statements for additional discussion of the first quarter goodwill impairment charge.

Interest Expense, net

Net interest expense declined to \$2.7 million for the third quarter of 2020 compared with \$3.8 million for the prior-year quarter. Average net debt declined to \$239.2 million compared with \$318.2 million during the third quarter of 2019. Year-to-date net interest expense was down to \$8.6 million compared with \$12.2 million during the comparable period of 2019. Average net debt for the 2020 year-to-date period totaled \$253.1 million compared with \$316.9 million in the comparable period of 2019. The decreases primarily resulted from debt repayments.

Income Taxes

The third quarter provision for income taxes was 20.7% of pretax income compared with 17.3% for the 2019 third quarter. The year-to-date provision was 16.9% and 20.5% of pretax income for 2020 and 2019, respectively, after adjusting for the impact of the goodwill impairment charge. The tax provision for the nine months ended September 26, 2020 included certain one-time benefits that reduced the effective tax rate for the period. These one-time benefits totaled \$2.6 million, the majority of which was due to the elimination of certain IRAP obligations in Italy in response to COVID-19 and availing the Company of the ACE benefit in Italy. The effective rate for the nine months ended September 26, 2020 before discrete items was 22.1%. 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.

On March 27, 2020, the President of the U.S. signed the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, a substantial tax-and-spending package intended to provide additional economic stimulus to address the impact of the COVID-19 pandemic. The Company has evaluated the various income and payroll tax provisions and expects little or no impact to tax expense. However, the Company is taking advantage of the various payment deferrals allowed and employee retention credits afforded by the CARES Act and other similar state and/or foreign liquidity measures.

2020 OUTLOOK

As a result of the continued and evolving economic impact of COVID-19, we believe that our financial results will continue to be impacted, but the magnitude and duration of the impact is uncertain. In addition, production at any of our facilities may be further affected as a result of possible future government, market or Company actions due to COVID-19.

We have implemented the following measures to preserve liquidity and mitigate the effects of the downturn:

- Reductions in our temporary labor force;
- Reductions in overtime;
- A hiring freeze across all business units, except for key positions;
- Furloughs, layoffs and temporary salary reductions;
- Reduction in the use of contingent labor;
- Reductions in discretionary spend;
- Postponement of non-essential capital expenditures;
- Temporary 20% salary reduction for all officers of the Company during the second quarter of 2020;
- 20% reduction in director compensation; and
- Entered into a €5 million note with Intesa Sanpaolo S.p.A.

In the event that economic conditions worsen for a protracted period of time, we have several options available to ensure liquidity as detailed below.

- Further reducing working hours to lower payroll expense;
- Additional salary reductions, furloughs and/or layoffs;
- Further reductions in discretionary spending;
- Drawing on the available balances on our credit lines; and/or
- Reducing or suspending the dividend to shareholders.

The extent of such actions will be determined by the magnitude and duration of the economic downturn.

As of November 2, 2020, we expect net sales to range from \$485 million to \$495 million for the full year 2020, which incorporates expectations of typical seasonality in the fourth quarter for the Electronics segment combined with recovering order levels for the Hydraulics segment. The outlook does not include any contribution from the Balboa acquisition.

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. During the first nine months of 2020, cash provided by operating activities totaled \$77.0 million. At the end of the third quarter, we had \$32.5 million of cash and cash equivalents on hand and \$233.5 million of available credit on our revolving credit facilities. We also have a \$200 million accordion feature available on our credit facility, subject to certain pro forma compliance requirements, intended to support potential future acquisitions. As of the date of this filing, the Company was in compliance with all debt covenants related to the credit agreement.

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

We believe that cash generated from operations and our borrowing availability under our credit facilities will be sufficient to satisfy our operating expenses. In light of current economic uncertainty, we are actively managing operating costs and capital expenditures, which is expected to provide adequate liquidity beyond the next twelve months. In the event that economic conditions were to severely worsen for a protracted period of time, we would have several options available, in addition to increased borrowing to ensure liquidity, as discussed previously.

Cash Flows

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

	Nine Months Ended		
	September 26, 2020	September 28, 2019	\$ Change
Net cash provided by operating activities	\$ 77.0	\$ 50.9	\$ 26.1
Net cash used in investing activities	(9.0)	(17.2)	8.2
Net cash used in financing activities	(54.3)	(48.0)	(6.3)
Effect of exchange rate changes on cash	(3.4)	4.5	(7.9)
Net increase (decrease) in cash	\$ 10.3	\$ (9.8)	\$ 20.1

Cash on hand increased \$10.3 million from \$22.2 million at the end of 2019 to \$32.5 million at September 26, 2020. Changes in exchange rates during the nine months ended September 26, 2020 unfavorably impacted cash and cash equivalents by \$3.4 million. 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. During the first nine months of 2020, we conserved cash to provide liquidity for potential future cash flow needs due to the economic impact of the COVID-19 pandemic.

Operating activities

Cash from operations increased \$26.1 million, 51.3%, compared with the prior-year period. \$10.7 million of the fluctuation resulted from the 2019 payment on the contingent consideration liability related to the Enovation Controls acquisition. The remaining increase of \$15.4 million resulted from improved cash flows from operating assets and liabilities offset by decreased cash earnings. Changes in inventory increased cash by \$7.8 million in the first nine months of 2020 and reduced cash by \$6.7 million in the 2019 comparable period. Days of inventory on hand decreased to 98 as of September 26, 2020, compared with 99 as of September 28, 2019, positively impacted by improved demand planning and supply chain management during the quarter. There has been no decline in the net realizable value of our inventory as a result of recent economic conditions. Changes in accounts receivable reduced cash by \$4.7 million in the first nine months of 2020 and by \$6.5 million in the 2019 comparable period. Third quarter days sales outstanding increased slightly from the prior-year comparable period, up to 53 days from 51 days. We have not experienced significant delays in collection of accounts receivable balances from customers as a result of the COVID-19 pandemic.

We have considered the impacts of the current economic environment on our long-lived assets and determined that there have been no indications that the recorded value of our long-lived assets may not be recoverable.

Investing activities

Capital expenditures totaled \$7.2 million for the first nine months of 2020, a decrease of \$12.4 million over the prior-year comparable period. Current year expenditures primarily consist of purchases of machinery and equipment. Due to the current economic conditions and uncertainty of future cash flows, capital expenditure projects have been evaluated and several have been postponed. We are currently only proceeding with critical projects.

Financing activities

Cash flows used in financing activities totaled \$54.3 million during the first nine months of 2020, compared with cash used of \$48.0 million in the prior-year period. The increase in cash used was due to higher debt repayments, net of additional borrowings, totaling \$12.6 million, and was partially offset by a decrease of \$6.2 million in payments made on our acquisition related contingent consideration liabilities.

During the second quarter, we entered into a term facility with Intesa Sanpaolo S.p.A to provide us with additional liquidity of €5.0 million. We also entered into a term loan and a line of credit with Citibank that allows maximum borrowings of RMB 65.0 million in order to facilitate operational expansion in China.

On October 28, 2020, we amended and restated our credit agreement with PNC Bank, National Association, as administrative agent, and the lenders party thereto. The amendment increased the term loan credit facility to an aggregate principal amount of \$200,000. The revolving credit facility's aggregate maximum principal borrowing amount remained unchanged at \$400,000, and the accordion feature was increased to an aggregate principal amount of \$300,000. The credit facilities will be available through October 28, 2025. We plan to use the proceeds of the amended credit agreement for working capital purposes, to finance acquisitions such as the purchase of Balboa, and for general corporate purposes.

During the third quarter of 2020, we declared a quarterly cash dividend of \$0.09 per share payable on October 20, 2020, to shareholders of record as of October 5, 2020. 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 Form 10-K, and any changes made during the first nine months of 2020, are disclosed in Note 2 to the Consolidated, Unaudited Financial Statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Item 7A – Quantitative and Qualitative Disclosures about Market Risk" in our Form 10-K. There were no material changes during the nine months ended September 26, 2020.

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.

During the third quarter of 2020, we continued to have employees in administrative functions work remotely if they were able to do so effectively. Management has evaluated the effect of this change on internal control over financial reporting and disclosure controls and procedures and determined that it has not had a material effect on our internal control over financial reporting.

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.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors that affect our business and financial results that are discussed in Part I, Item 1A, "Risk Factors" of our Form 10-K and Part II, Item 1A, "Risk Factors" of our first quarter Form 10-Q. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report. Other than as set forth below, there have been no material changes to such risk factors.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES.

None.

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

Item 5. OTHER INFORMATION.

None.

Item 6. EXHIBITS.

Exhibits:

Exhibit Number	Exhibit Description
3.1	<u>Third Amendment and Restated Bylaws dated August 7, 2020 (previously filed as Exhibit 3.1 to the Company's Form 8-K filed on August 10, 2020 and incorporated herein by reference).</u>
10.1+	<u>Separation Agreement dated September 9, 2020.</u>
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
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 2020, has been formatted in Inline XBRL.
+	Executive management contract or compensatory plan or arrangement.

SIGNATURES

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

Date: November 2, 2020

HELIOS TECHNOLOGIES, INC.

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

SEPARATION AGREEMENT

This SEPARATION AGREEMENT (the “**Agreement**”) is entered into as of September 9, 2020 (the “**Effective Date**”), by and between **RAJASEKHAR MENON**, an individual residing in Manatee County, Florida (“Menon”), and **HELIOS TECHNOLOGIES, INC.** (together with its subsidiaries, the “**Company**”), a Florida corporation.

WITNESSETH:

WHEREAS, Menon has elected to terminate his employment with the Company pursuant to a voluntary resignation and the Compensation Committee of the Board of Directors has determined that Menon shall be afforded the separation benefits as set forth in the Executive Officer Severance Agreement dated June 14, 2019 (“**Severance Agreement**”); and

WHEREAS, the Company and Menon have agreed upon the terms for an orderly transition and the continuation of certain services by Menon, as hereinafter set forth;

NOW, THEREFORE, in consideration of the mutual agreements contained herein, Menon and the Company (individually, each a “**Party**” and collectively, the “**Parties**”), intending to be legally bound hereby, agree as follows:

1. **Separation from Service.**

a. On September 25, 2020 (“**Separation Date**”), Menon’s employment shall terminate as the President CVT and Menon shall submit to the Company’s Secretary his resignation, in the form provided by the Company, from all positions with the Company and its Affiliates, including any and all positions held at subsidiaries of the Company.

b. As required by Section 3(b) of the Severance Agreement, promptly after the Effective Date, Menon shall return to the Company all copies, whether in written, electronic or other form or media, of the Company’s Proprietary Information, or destroy (at Menon’s option) all such copies and promptly confirm in writing to the Company that such Proprietary Information has been destroyed. In addition, Menon shall also return or destroy (at Menon’s option) all copies of any notes, analyses, compilations, reports, forecasts, studies, samples, data, statistics, summaries, interpretations and other materials prepared by or for Menon that contain, are based on, or otherwise reflect or are derived from, in whole or in part, the Company’s Proprietary Information, and promptly confirm in writing to the Company that such copies have been destroyed. Additionally, promptly after the Effective Date, Menon shall return to the Company all property belonging to the Company.

2. **Transition Period.** From the Effective Date until the first anniversary thereof, Menon shall perform transition services as requested by the Company's Board or its Chief Executive Officer. Without limiting the foregoing, during such one-year period, Menon shall cooperate with the Company in the transition of his responsibilities to other officers and shall undertake all actions in connection therewith reasonably requested by the Company. The Parties agree that such services shall be nominal and primarily require information exchanges, introductions to third parties and responses to other requests that can generally be handled remotely by Menon. Menon agrees and covenants that, he shall, to the extent reasonably requested in writing by the Company, cooperate in good faith with and assist the Company in the pursuit or defense of any claim, administrative charge, or cause of action by or against the Company or any of its subsidiaries or affiliates as to which Menon, by virtue of his employment with the Company, has relevant knowledge or information, including by acting as the Company's representative in any such proceeding and, without the necessity of a subpoena, providing truthful testimony in any jurisdiction or forum. The Company shall reimburse Menon for his reasonable out-of-pocket expenses in complying with this Section.

a. **Compensation.** Upon receipt of Menon's resignations as required by **Section 1(a)**, and subject to the terms of this Agreement, including but not limited to the satisfaction of the requirements in **Section 3**, the Company shall be obligated to timely pay all compensation and benefits as outlined in Paragraph 5 of the Severance Agreement and as further set forth in Exhibit A attached hereto and incorporated by reference herein. The parties have agreed that in lieu of the continued benefit coverages set forth in Paragraph 5(a)(iii) of the Severance Agreement, the Company will make a lump sum payment to Menon in the amount of Twenty Four Thousand One Hundred Sixty Nine Dollars (\$24,169), less applicable withholdings as required by law. The Severance Agreement is attached hereto as Exhibit B and incorporated by reference herein. In addition, the equity award granted pursuant to the Special Retention Restricted Stock Unit Agreement dated April 27, 2020 shall vest one year from the Separation Date. In the event the company intends to cease any payments to Menon under this Agreement, the Company shall inform Menon of such intent and provide Menon seven (7) calendar days to cure any breach that would result in the Company suspending any payments under the Agreement. The Company shall have all rights and remedies available to it in the event Menon fails to cure within the seven (7) day period.

3. **Restrictive and Other Affirmative Covenants.** Menon acknowledges and reaffirms the restrictive covenants set forth in the Restricted Stock Unit Agreements dated April 1, 2019, and February 28, 2020 ("**RSU Agreements**") which shall remain in full force and effect. For the avoidance of doubt, the Restricted Period as defined in the RSU Agreements shall commence on September 12, 2020 and terminate on September 11, 2021.

4. **Independent Obligations.** It is understood by and between the Parties hereto that the foregoing covenants by Menon contained in **Section 3** of this Agreement shall be construed to be agreements independent of any other element of Menon's employment with the Company. The existence of any claim or cause of action, whether predicated on any other provision in this Agreement, or otherwise, as a result of the relationship between the Parties shall not constitute a defense to the enforcement of the covenants in this Agreement against Menon, and the Company's breach of any term of this Agreement or any other obligation does not waive or release Menon from the restrictions contained in **Section 3**.

5. **Remedies.**

a. Menon acknowledges and agrees that the Company's remedy at law for a breach or threatened breach of any of the provisions of **Section 3** herein would be inadequate and the breach shall be *per se* deemed as causing irreparable harm to the Company. In recognition of this fact, in the event of a breach by Menon of any of the provisions of **Section 3**, Menon agrees that, in addition to any remedy at law available to the Company, including, but not limited to monetary damages, the Company, without posting any bond, shall be entitled to obtain, and Menon agrees not to oppose the Company's request for equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available to the Company.

b. In addition to other remedies described in this Agreement, if at any time Menon breaches **Section 3**, the Company may cease making those payments contemplated by **Section 2(a)** that remain unpaid and Menon shall promptly refund to the Company all amounts previously paid to Menon pursuant to **Section 2**.

c. Nothing herein contained shall be construed as prohibiting the Company from pursuing any other remedies available to it for such breach or threatened breach. The Company agrees to provide Menon with written notice of any alleged breach and, in the event Menon is unable to cure any alleged breach within seven (7) calendar days, the Company shall have all rights and remedies available to it with respect to the alleged breach.

d. Nothing herein contained shall be construed as prohibiting the Company from pursuing any other remedies available to it for such breach or threatened breach.

6. **General Release.** On the Effective Date, Menon shall execute and return to the Company a General Release in the form of **Exhibit C** attached hereto and incorporated herein by reference.

7. **Indemnification Agreement.** The Indemnification Agreement between the Company and Menon dated as of April 20, 2020, shall survive the entry of this Agreement and, pursuant to Section 17 of the Indemnification Agreement, the Indemnification Agreement shall continue in effect regardless of whether Indemnitee continues to serve as an officer of the Company or of any other enterprise at the Company's request.

8. **8-K.** Menon acknowledges the Company's obligation to disclose his termination of employment by filing a Form 8-K with the SEC within such four-day period, and Menon agrees to such filing and disclosure. Furthermore, Menon acknowledges that the Company is required to file a copy of this Agreement with the SEC and make disclosure of its terms in accordance with the regulations of the SEC, and Menon agrees to such filing and disclosure.

9. **Non-Disparagement.** Except as otherwise required by law, (i) Menon shall not make, publish, or disseminate any derogatory statements or comments about the Company or any of its Affiliates, or any of their past or present officers, directors, employees, vendors, partners, suppliers or customers, or take any action which a reasonable person would expect would impair the good will, business reputation, or good name of any of them; and (ii) the Board of Directors and the Company's Section 16 officers shall not make, publish, or disseminate any derogatory statements or comments about Menon, or take any action which a reasonable person would expect would impair his good will, business reputation, or good name.

10. **Assumption of Agreement.** The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree in writing to perform this Agreement. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and, provided that Menon has complied with and is not in breach of his obligations under this Agreement, (i) Menon shall be entitled to immediate payment in an amount equal to the amounts that remain unpaid pursuant to **Section 2(a)**. As used in this **Section 10**, "**Company**" shall mean the Company as herein above defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law or otherwise; and the date on which any such succession becomes effective shall be deemed to be the date on which Menon shall receive the compensation and benefits described herein from the Company.

11. **Waiver.** Unless agreed in writing, the failure of either Party, at any time, to require performance by the other of any provisions hereunder shall not affect its right thereafter to enforce the same, nor shall a waiver by either Party of any breach of any provision hereof be taken or held to be a waiver of any other preceding or succeeding breach of any term or provision of this Agreement. No extension of time for the performance of any obligation or act shall be deemed to be an extension of time for the performance of any other obligation or act hereunder.

12. **Mediation and Arbitration.**

a. **Mediation.** Except as provided in **Section 5**, if there is any dispute or disagreement between the Parties as to the interpretation of any provision of, or the performance of obligations under, this Agreement or any other agreement entered into in connection herewith (a “**Dispute**”), then the Parties shall attempt in good faith to resolve their dispute through mediation (“**Mediation**”) in Sarasota County, Florida, before a single mediator selected by the Party asserting the claim, subject to the reasonable consent of the Party against whom the claim is asserted. The Company shall be represented at the Mediation by an officer of the Company with full authority to agree to the resolution of the dispute. Florida law shall be used for purposes of determining the obligations of the Parties and interpreting this Agreement at the Mediation. The mediator’s fees, and any costs and expenses of the mediator, shall be borne equally by the Company and Menon. All negotiations pursuant to this **Section 12** shall be considered confidential settlement discussions, and neither Party may offer into evidence, mention or otherwise use statements made in connection with such negotiations in any subsequent alternative dispute resolution proceeding or litigation. If, after the thirtieth (30th) day after the above-referenced meeting to resolve the Dispute, either Menon or the Company believes that the Dispute cannot be resolved through negotiation, then such Party may submit the Dispute to arbitration under **Section 12(b)** by filing a request for arbitration with the American Arbitration Association, or such other nationally recognized alternative dispute resolution firm upon which Menon and the Company mutually agree in writing (the “**ADR Firm**”), and delivering a copy of such request for arbitration to the other.

b. **Arbitration.**

- i. **Rules.** Any Dispute that is not resolved by negotiation shall exclusively be resolved by binding arbitration administered by the ADR Firm under the Commercial Arbitration Rules of the ADR Firm in effect as of the date hereof (the “**Arbitration Rules**”), except to the extent otherwise expressly set forth in this **Section 12**. All proceedings related to such arbitration shall be held in Sarasota, Florida, unless the Parties otherwise agree in writing.
- ii. **Arbitrators.** The arbitration proceedings shall be conducted by a single arbitrator (the “**Arbitrator**”), whom shall be an attorney experienced in commercial disputes. If the Parties cannot agree upon the identity of the arbitrator within ten (10) business days after the date on which a request for arbitration is filed with the ADR Firm, then the arbitrator shall be selected by the ADR Firm in accordance with the Arbitration Rules. If the Parties disagree as to whether an arbitrator meets the criteria for arbitrators under this **Section 12**, then the ADR Firm shall determine whether such criteria are met.
- iii. **Procedures; No Appeal.** The Arbitrator shall allow such discovery as it determines appropriate under the circumstances and shall resolve the Dispute as expeditiously as practicable, and if reasonably practicable, within one hundred twenty (120) days after the selection of the Arbitrator. The Arbitrator shall give the Parties written notice of the decision, with the legal and factual reasons therefor set out, and shall have thirty (30) days thereafter to reconsider and modify such decision if any Party so requests within ten (10) days after the decision. Thereafter, the decision of the Arbitrator shall be final, binding and nonappealable with respect to all Parties, including Parties who failed or refused to participate in the arbitration process.

- iv. Entry of Judgment. Judgment upon the decision and award rendered by the Arbitrator may be entered in any court of competent jurisdiction. Each Party agrees to take or cause to be taken all actions necessary to implement the decision and award rendered by the ADR Firm.
 - v. Confidentiality. All proceedings under this **Section 12** and all evidence given or discovered pursuant hereto, shall be maintained in confidence by all Parties and by the ADR Firm.
 - vi. Equitable Relief. The Company may, in its discretion, apply to a court of competent jurisdiction for equitable relief as contemplated by **Section 5**, including to enforce the provisions of **Section 3**.
- c. Nothing in this Agreement is intended to prevent Menon from defending himself in a lawsuit brought against him.

13. **Severability.** Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision, or part thereof, of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law, rule, public policy or court determination in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision in any other jurisdiction, but this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein. If any court determines that any provision of **Section 3** hereof is unenforceable because of the duration or scope of such provision, such court shall have the power to reduce the scope or duration of such provision, as the case may be, and, in its reduced form, such provision shall then be enforceable.

14. **Waiver of Jury Trial.** AS A SPECIFICALLY BARGAINED FOR INDUCEMENT FOR EACH OF THE PARTIES HERETO TO ENTER INTO THIS AGREEMENT (AFTER HAVING THE OPPORTUNITY TO CONSULT WITH COUNSEL), EACH PARTY HERETO EXPRESSLY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY LAWSUIT OR PROCEEDING RELATING TO OR ARISING IN ANY WAY FROM THIS AGREEMENT OR THE MATTERS CONTEMPLATED HEREBY.

15. **Notices.** All notices, requests, consents, claims, demands, waivers and other communications hereunder shall be in writing and shall be deemed to have been given (a) when delivered by hand, (b) when received by the addressee if sent by a nationally recognized overnight courier, (c) on the date sent by facsimile or e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next business day if sent after normal business hours of the recipient, or (d) on the third day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section):

If to Menon:

Rajasekhar Menon
1112 64th Street NW
Bradenton, FL 34209

If to the Company:

Helios Technologies, Inc.
1500 West University Parkway
Sarasota, Florida 34243
Attention: Melanie Nealis, Esq.
Chief Legal and Compliance Officer

16. **General Terms and Conditions.** This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, and all such counterparts together shall constitute one and the same agreement. Electronic or facsimile copies of this Agreement fully executed shall be deemed an original for all purposes, and the Parties waive the “best evidence” rule or any similar law or rule in any proceeding in which this Agreement shall be presented as evidence. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Florida, without regard to its conflicts of laws provision. If any legal action or proceeding is commenced to enforce the terms, policies, representations or warranties herein, the prevailing Party shall be entitled to recover its attorneys’ fees and costs from the other Party. The U.S. District for the Middle District of Florida, or if such court lacks jurisdiction, the Twelfth Judicial Circuit (or its successor) in and for Sarasota County Florida, shall be the venue and exclusive proper forum in which to adjudicate any case or controversy arising either, directly or indirectly, under or in connection with this Agreement. This Agreement constitutes the entire understanding between the Parties with respect to the subject matter hereof. This Agreement may not be changed, altered, modified or amended except in writing signed by both Parties. Any termination of this Agreement shall not, however, affect the ongoing provisions of this Agreement which shall survive such termination in accordance with their terms.

17. **Older Workers’ Benefit Protection Act Provisions.** In accordance with the requirements of the Older Workers’ Benefits Protection Act, Menon expressly acknowledges the following:

a. **Consideration.** The consideration provided pursuant to this Agreement is in addition to any consideration that he would otherwise be entitled.

b. Independent Legal Counsel. Menon has been advised and encouraged to consult with an attorney before signing this Agreement. Menon acknowledges that if he desired to, Menon had an adequate opportunity to do so.

c. Consideration Period. Menon has 21 calendar days from the date the original Agreement was given to him, September 8, 2020, to consider this Agreement before signing it. The 21-day period expires on September 29, 2020. Menon may use as much or as little of this 21-day period as Menon wishes before signing. If Menon does not sign and return this Agreement within this 21-day period, it shall not become effective or enforceable and Menon shall not receive all of the benefits described in this Agreement.

d. Revocation Period and Effective Date. Menon has seven (7) calendar days after signing this Agreement to revoke it. To revoke this Agreement after signing it, Menon must deliver a written notice of revocation to the Company before the seven (7) day period expires. This Agreement shall not become effective until the eighth (8th) calendar day after Menon signs it ("**Revocation Expiration Date**"). If Menon revokes this Agreement, it shall not become effective or enforceable and Menon shall not receive the benefits described in this Agreement.

[Remainder of this page intentionally left blank; signatures to follow]

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed as of the date and year first above written.

HELIOS TECHNOLOGIES, INC.

RAJASEKHAR MENON

By: _____
Josef Matosevic, President & Chief Executive Officer

EXHIBIT A

COMPENSATION AND BENEFITS

Provided that Menon submits his resignation as President of CVT as required by **Section 1(a)**, and subject to the terms of this Agreement, including but not limited to the satisfaction of the requirements in **Section 3** and following the revocation period set forth in Section 17(d), Menon shall be entitled to receive the following payments and benefits:

i. continuation of Menon's annual base salary at the time of termination for the twelve (12) month period following the date of the Effective Date, payable bi-weekly according to the Company's normal payroll cycle (\$386,000 for 12 months), paid through September 24, 2021;

ii. the target value at the time of grant of the annual short-term incentive compensation award to Menon granted during the current fiscal year (2020 target at 50% of \$386,000, awarded as if earned is \$193,000), payable within fifteen (15) days following the expiration of the period in which Menon has the right to revoke the Release described in **Section 6**;

iii. a lump sum payment in the amount of Twenty Four Thousand Six One Hundred and Sixty Nine Dollars (\$24,169), less applicable withholdings, payable within fifteen (15) days following the expiration of the period in which Menon has the right to revoke the Release described in **Section 6**; and

iv. vesting of the 5,418 Restricted Stock Units (RSUs) awarded pursuant to the Special Retention Restricted Stock Unit Agreement dated April 27, 2020 shall accelerate to one year from the Separation Date.

EXHIBIT B

EXECUTIVE OFFICER SEVERANCE AGREEMENT

THIS EXECUTIVE OFFICER SEVERANCE AGREEMENT (“Agreement”) made and entered into as of the ____ day of June, 2019, by and between **HELIOS TECHNOLOGIES, INC.**, a Florida corporation, along with its affiliates and subsidiaries (together, the “Company”) and _____ (“Executive”).

W I T N E S S E T H:

WHEREAS, Executive is the _____ of _____; and

WHEREAS, the Company wishes to provide severance benefits to Executive in the event of an involuntary terminations of Executive’s employment, as specified herein;

NOW, THEREFORE, in consideration of the foregoing recitals and the agreements of the parties contained herein, the parties do hereby agree as follows:

1. Purpose and Intent. The Board of Directors of the Company (the “Board”) desires to provide certain protections to the Executive in the event of an involuntary termination of his or her employment that does not occur in connection with a change in ownership or control of the Company. Accordingly, the Board has determined that appropriate steps should be taken to enter into an agreement to provide such protections to the Executive. This Agreement is not intended to alter materially the compensation and benefits that Executive could reasonably expect in the absence of an “Involuntary Termination of Employment” (as defined below in Section 4) and, accordingly, this Agreement, although taking effect upon the parties’ execution hereof, will be operative only upon an Involuntary Termination of Employment.

2. Term of Agreement. This Agreement shall be effective upon the execution by the parties, and shall remain in effect until the date Executive’s employment by the Company is terminated; provided, however, that if Executive experiences an Involuntary Termination of Employment, the term shall continue in effect until all payments and benefits have been made or provided to Executive under this Agreement.

3. Eligibility for Severance. Executive becomes eligible to receive Severance (as defined below in Section 5) under this Agreement upon an Involuntary Termination of Employment, provided that the Executive:

(a) performs all transition and other matters required of the Executive by the Company prior to Executive’s Involuntary Termination of Employment;

(b) returns to the Company any property of the Company which has come into the Executive’s possession;

(c) returns (and does not thereafter revoke), within sixty (60) days from receipt, a signed original general release in a form acceptable to the Company, in its sole and absolute discretion (the "Release"), under which the Executive, among other things, release and discharges the Company and its subsidiaries and affiliates from all claims and liabilities, including without limitation, claims under Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Family and Medical Leave Act, the Equal Pay Act, ERISA, the Age Discrimination in Employment Act, the Civil Rights Act of 1991, Section 1981 of U.S.C. Title 42, the Sarbanes-Oxley Act of 2002, the Worker Adjustment and Retraining Notification Act of 1988, and the Older Workers' Benefit Protection Act of 1990; and

(d) complies with the restrictive covenants set forth in any other agreement between the Company and Executive. Executive shall forfeit, and repay if already paid by the Company, the Severance, if he or she violates any of these restrictive covenants.

4. Involuntary Termination. For purposes of this Agreement, an Involuntary Termination of Employment shall be deemed to occur if:

(a) there has been an actual termination by the Company of Executive's employment, other than (i) "For Cause" (as defined in Section 7 below), (ii) Executive's death, (iii) on account of an accident or illness which renders Executive unable, for a period of at least six (6) consecutive months, to perform the essential functions of his or her job notwithstanding the provision of reasonable accommodation by the Company; or (iv) a Termination in Connection with a Change in Control, as defined in the Executive Continuity Agreement between Executive and Company dated June __, 2019.

(b) the Company reduces Executive's salary (except in the case of a reduction of no more than ten percent (10%) that applies to all similarly-situated executives of the Company), reduces reward opportunities (which will be evaluated in light of the performance requirements therefor), reduces other compensation, deprives Executive of any material fringe benefit, a material diminution in Executive's authority, duties, or responsibilities, a material diminution in the authority, duties, or responsibilities of the person to whom Executive is required to report, a material diminution in the budget over which Executive retains authority, or a relocation of Executive's primary office more than seventy-five (75) miles from his or her then current office location, but not closer to his or her principal residence (each, a "Good Reason" event), without his or her prior express written approval; provided that the Executive must notify the Company of such event in writing within thirty (30) days of its occurrence, specifying the circumstance that the Executive claims constitutes Good Reason, at which time the Company will then have fifteen (15) days to cure such Good Reason event, and if the Company fails to do so, the Executive must provide a notice of termination within ten (10) days of the expiration of the fifteen-day cure period in order for his or her resignation to constitute a resignation for Good Reason and qualify under this subsection (b); or

(c) any material breach by the Company of any provision of this Agreement.

5. Compensation Upon an Involuntary Termination of Employment.

(a) Subject to the terms of this Agreement, including but not limited to the satisfaction of the requirements in Section 3, upon an Involuntary Termination of Employment during the term of this Agreement, Executive shall be entitled to receive the following payments and benefits:

- (i) continuation of Executive's annual base salary at the time of termination for the twelve (12) month period following the date of the Involuntary Termination of Employment, payable according to the Company's normal payroll cycle;
- (ii) the target value at the time of grant of the annual short-term incentive compensation award to the Executive, if any, granted during the current fiscal year or, if the Compensation Committee of the Board of Directors has not yet met to consider the annual short-term incentive compensation award to the Executive for the current fiscal year, then the target value at the time of grant of the annual short-term incentive compensation award to the Executive, if any, granted during the immediately preceding fiscal year, payable within fifteen (15) days following the expiration of the period in which the Executive has the right to revoke the Release described in Section 3(c); and
- (iii) continuing medical, dental, life, disability and hospitalization benefits as elected by the Executive under the Company's employee benefit plans after termination pursuant to the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), at Company expense, for Executive and his or her family as then in effect, for a period of twelve (12) months following the date of termination.

The employer contribution for COBRA coverage will not be provided to the Executive, however, to the extent that the Company reasonably determines that doing so would subject the Company to the excise tax under Section 4980D of the Code (as a result of discriminatory coverage under an insured health plan). Except as required by law, under no circumstances shall the Company have the right to delay payment of any amounts due under this Agreement.

(b) Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Agreement be reduced by any amounts earned or accrued through the date of termination or by any amounts to which Executive shall be entitled by law (nor shall payment hereunder be deemed in lieu of such amounts), by any retirement benefits after the date of termination, or otherwise.

(c) The treatment of any equity incentive awards that are held by Executive upon an Involuntary Termination of Employment shall be governed under the terms of the Company's equity incentive plans and the award agreements under which such awards were granted. No awards shall be subject to accelerated vesting or exercisability as a result of an Involuntary Termination of Employment.

(d) Anything to the contrary notwithstanding, all payments required to be made by the Company hereunder to Executive or his or her estate or beneficiaries shall be subject to the withholding of such amounts, if any, relating to tax and other payroll deductions as the Company may reasonably determine it should withhold pursuant to applicable law or regulation. In lieu of

withholding such amounts, the Company may accept other provisions to the end that it has sufficient funds to pay all taxes required to be withheld in respect of any of such payments.

6. Tax Matters.

(a) Section 409A of the Code.

- (i) Notwithstanding anything herein to the contrary, this Agreement is intended to be interpreted and applied so that the payments and benefits set forth herein shall either be exempt from the requirements of Section 409A of the Internal Revenue Code (the “Code”) or shall comply with the requirements of Section 409A of the Code, and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted to be exempt from or in compliance with Section 409A of the Code. Notwithstanding anything in this Agreement or elsewhere to the contrary, a termination of employment of Executive shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits that constitute “non-qualified deferred compensation” within the meaning of Code Section 409A upon or following a termination of Executive’s employment unless such termination is also a “separation from service” within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a “termination,” “termination of employment” or like terms shall mean “separation from service” and the date of such separation from service shall be the date of an Involuntary Termination of Employment for purposes of any such payment or benefits.
- (ii) To the extent that the Company determines that any provision of this Agreement would cause Executive to incur any additional tax or interest under Section 409A of the Code, the Company shall be entitled to reform such provision to attempt to comply with or be exempt from Section 409A of the Code through good faith modifications. To the extent that any provision hereof is modified in order to comply with Section 409A of the Code, such modification shall be made in good faith and shall, to the maximum extent reasonably possible, maintain the original intent and economic benefit to the Executive and the Company without violating the provisions of Section 409A of the Code.
- (iii) Notwithstanding any provision in this Agreement or elsewhere to the contrary, if on the date of Executive’s termination of employment with the Company Executive is deemed to be a “specified employee” within the meaning of Section 409A of the Code, any payments or benefits due upon a termination of Executive’s employment under any arrangement that constitutes a “deferral of compensation” within the meaning of Section 409A of the Code (whether under this Agreement, any other plan, program, payroll practice or any equity grant) and which do not otherwise qualify under the exemptions under Treas. Reg. § 1.409A-1 (including without limitation, the short-term deferral exemption and the permitted payments under Treas. Reg. § 1.409A-1(b)(9)(iii)(A)), shall be delayed and paid or provided to Executive in a lump sum (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) on the earlier of (i) the date which is six (6) months and one (1) day after the Executive’s “separation from service” (as such term is defined in Section 409A of the Code) for any reason other than death, and (ii) the date of Executive’s death, and any remaining payments and

benefits shall be paid or provided in accordance with the normal payment dates specified for such payment or benefit.

- (iv) For purposes of the application of Treas. Reg. § 1.409A-1(b)(4) (or any successor provision), each payment under this Agreement to Executive (including any installment payments) shall be deemed a separate payment.
- (v) In no event may Executive, directly or indirectly, designate the calendar year of any payment to be made under this Agreement or otherwise which constitutes a “deferral of compensation” within the meaning of Section 409A of the Code. If the period for signing and returning or revoking the Release designated by the Company extends into a later taxable year, any payments that are subject to Code Section 409A and contingent upon the Release will be made (or begin) in the later taxable year.
- (vi) With respect to any expense, reimbursement or in-kind benefit provided pursuant to this Agreement that constitutes a “deferral of compensation” within the meaning of Section 409A of the Code, (a) the expenses eligible for reimbursement or in-kind benefits provided to Executive must be incurred during the Executive’s employment with the Company or the term of this Agreement (or applicable survival period), (b) the amount of expenses eligible for reimbursement or in-kind benefits provided to the Executive during any calendar year will not affect the amount of expenses eligible for reimbursement or in-kind benefits provided to Executive in any other calendar year, (c) the reimbursements for expenses for which Executive is entitled to be reimbursed shall be made on or before the last day of the calendar year following the calendar year in which the applicable expense is incurred, and (d) the right to payment or reimbursement or in-kind benefits hereunder may not be liquidated or exchanged for any other benefit.

(b) Section 280G of the Code. If any payments or benefits otherwise payable to the Executive under this Agreement are determined to be in connection with a change in ownership or control (as defined in Treasury Regulation Section 1.280G-1) and would, when combined with any other payments or benefits the Executive becomes entitled to receive that are contingent on the same change in ownership or control (such payments and benefits to be referred to as “Parachute Payments”) would: (i) constitute a “parachute payment” within the meaning of Section 280G of the Code; and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the “Excise Tax”), then the payments and benefits payable to the Executive under this Agreement shall be reduced to the largest amount which can be paid to Executive without triggering the Excise Tax, but only if and to the extent that such reduction would result in Executive retaining larger aggregate after-tax payments (the “Reduced Amount”). Any determination of the Excise Tax or the Reduced Amount required under this Section 6(b) shall be made in writing by the Company’s independent public accountants, whose determination shall be conclusive and binding upon the Company and the Executive for all purposes. For purposes of making the calculations required by this Section 6(b), the accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Executive shall furnish such information and documents as the accountants may reasonably request in order to make a determination under this Section 6(b). The Company shall bear all costs the

accountants may reasonably incur in connection with any calculations contemplated by this Section 6(b).

7. Definition of "For Cause". The termination of Executive's employment by the Company shall be deemed "For Cause" if it results from (a) the commission of an act of fraud, embezzlement, theft or proven dishonesty, or any other illegal act or practice (whether or not resulting in criminal prosecution or conviction), including theft or destruction of property of the Company, or any other act or practice which the Board of Directors of the Company (the "Board") shall, in good faith, deem to have resulted in the recipient's becoming unbondable under the Company's fidelity bond; (b) the willful engaging in misconduct which is deemed by the Board, in good faith, to be materially injurious to the Company, monetarily or otherwise, including, but not limited to, improperly disclosing trade secrets or other confidential or sensitive business information and data about the Company and competing with the Company, or soliciting employees, consultants or customers of the Company in violation of law or any employment or other agreement to which the recipient is a party; (c) the continued failure or habitual neglect by the Executive to perform his or her duties with the Company; or (d) other disregard of the Company's Bylaws, Code of Business Conduct and Ethics, or other rules or policies of the Company or any subsidiary, or conduct evidencing willful or wanton disregard of the interests of the Company. For purposes of this Agreement, no act or failure to act by the recipient shall be deemed "willful" unless done or omitted to be done by the Executive not in good faith and without reasonable belief that the Executive's action or omission was in the best interest of the Company. Notwithstanding the foregoing, if Executive has entered into an employment agreement that is binding as of the date of such event, and if such employment agreement defines "Cause," then the definition of "Cause" in such agreement shall apply. The determination of whether the Executive has engaged in an act that constitutes Cause shall be made by the Board, which prior to making such determination shall provide written notice of the event of Cause to the Executive and allow the Executive a reasonable opportunity to cure such event.

8. Miscellaneous.

(a) Intent. This Agreement is made by the Company in order to induce Executive to remain in the Company's employ, with the Company's acknowledgment and intent that it will be relied upon by Executive, and in consideration of the services to be performed by Executive from time to time hereafter. However, this Agreement is not an agreement to employ Executive for any period of time or at all. This Agreement is intended only as an agreement to provide Executive with specified compensation and benefits if there is an Involuntary Termination of Employment.

(b) Governing Law. This Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of Florida. Any action brought by a party to this Agreement shall be brought and maintained in a court of competent jurisdiction in Sarasota County, Florida.

(c) Assumption of Agreement. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree in writing to perform this Agreement. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall require the Company to pay to Executive compensation from the Company in the same amount and on the same terms as Executive would be entitled hereunder in the event of an Involuntary Termination of Employment, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed to be the date on which Executive shall receive such compensation from the Company. As used in this Agreement, "Company" shall mean the Company as herein above defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law or otherwise.

(d) Successors and Assigns. This Agreement shall inure to the benefit of, and be enforceable by, Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Executive should die while any amount would still be payable to Executive hereunder if Executive had continued to live, all such amounts, shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee or other designee or, if there is no such designee, to Executive's estate.

(e) Notices. Except as otherwise expressly provided herein, any notice, demand or payment required or permitted to be given or paid shall be deemed duly given or paid only if personally delivered or sent by United States mail and shall be deemed to have been given when personally delivered or three (3) days after having been deposited in the United States mail, certified mail, return receipt requested, properly addressed with postage prepaid. All notices or demands shall be effective only if given in writing. For the purpose hereof, the addresses of the parties hereto (until notice of a change thereof is given as provided in this Section 8(e), shall be as follows:

The Company: Melanie M. Nealis, Esq.
 Chief Legal & Compliance Officer
 Helios Technologies, Inc.
 1500 W. University Parkway
 Sarasota, FL 34243

Executive: [address]

(f) Severability. In the event any provision in this Agreement shall be invalid, illegal or unenforceable, such provision shall be severed from the rest of this Agreement and the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

(g) Entirety. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes any prior or contemporaneous agreement or understandings relating to the subject matter hereof.

(h) Non-Exclusivity of Rights. Nothing in this Agreement shall prevent or limit Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by the Company (except for any severance or termination policies, plans, programs or practices) and for which Executive may qualify, nor shall anything in this Agreement limit or reduce such rights as Executive may qualify, nor shall anything in this Agreement limit or reduce such rights as Executive may have under any other agreements with the Company (except for any severance or termination agreement). In the event Executive qualifies for severance benefits under another policy, program or by local law/statute, such severance shall offset (and not paid in addition to) any amounts or benefits due herein. Amounts that are vested benefits or that Executive is otherwise entitled to receive under any plan or program of the Company shall be payable in accordance with such plan or program, except as explicitly modified by this Agreement.

(i) Amendment. This Agreement may be amended only by a written instrument signed by the Company and Executive, which makes specific reference to this Agreement.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

HELIOS TECHNOLOGIES, INC.

EXECUTIVE

By: _____

Josef Matosevic

President and Chief Executive Officer

EXHIBIT C

GENERAL RELEASE

In consideration of the payments made and to be made to Menon under the Separation Agreement dated as of September 9, 2020 (the “**Separation Agreement**”), and the mutual promises contained in that Agreement, Menon, individually, and on behalf of, as applicable, Menon’s current, former, and successor agents, representatives, guardians, heirs, assigns, successors, executors, administrators and insurers does hereby irrevocably release, acquit, and discharge HELIOS TECHNOLOGIES, INC. (the “**Company**”) and the Other Released Parties (as defined below), from any and all Claims and Controversies (as defined below); *provided, however*, that this Release will not limit or release (i) Menon’s rights under this Separation Agreement or Menon’s rights under the Executive Officer Severance Agreement dated June 14, 2019 that survive the Effective Date, (ii) Menon’s rights to indemnification from any Other Released Party in respect of his services as an officer or employee of any Other Released Party (or of any entity for which Menon has served in any such capacity or a similar capacity at the request of the Company) as provided by law, that certain Indemnification Agreement dated as of April 20, 2020, by and between the Company and Menon (the “Indemnification Agreement”), the certificates of incorporation or bylaws (or like constitutive documents) of any Other Released Party or Menon’s rights to payment under any director's and officer's liability insurance carried by the Company or the Other Released Parties from time to time, (iii) Menon’s rights under the Restricted Stock Unit Agreement dated April 1, 2019, the Restricted Stock Unit and Stock Option Agreement dated February 28, 2020 , and Special Retention Restricted Stock Unit Agreement dated April 27, 2020 (collectively the “RSU Agreements”), any incentive, savings, stock option, equity-based, profit sharing and retirement plans, practices, policies and programs in which Menon participated prior to the Effective Date (collectively, “Investment Plans”) or any agreement entered into in order to evidence rights granted pursuant to an Investment Plan, (iv) Menon’s entitlement, if any, to continued medical and dental insurance coverage under and pursuant to COBRA, or (v) any rights of Menon under any welfare benefit plan, practice or program provided by the Company (including medical, prescription, dental, short-term and long-term disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) in which Menon participated prior to the Effective Date.

1) **Certain Definitions.**

a) “**Other Released Parties**” means the Company and its Affiliates, each of their respective predecessors and successors, and each of their past, present and future employees, officers, directors, shareholders, trustees, owners, partners, members, representatives, administrators, assigns, attorneys, agents, insurers, employee benefit programs (and the trustees, administrators, fiduciaries, and insurers of such programs).

b) **“Claims and Controversies”** means any and all claims, debts, damages, demands, liabilities, benefits, suits in equity, complaints, grievances, obligations, promises, agreements, rights, controversies, costs, losses, remedies, attorneys’ fees and expenses, back pay, front pay, severance pay, percentage recovery, injunctive relief, lost profits, emotional distress, mental anguish, personal injuries, liquidated damages, punitive damages, disability benefits, interest, expert fees and expenses, reinstatement, other compensation, suits, appeals, actions, and causes of action, of whatever kind or character, including without limitation, any dispute, claim, charge, or cause of action arising under the Civil Rights Act of 1964, Title VII (including the Civil Rights Act of 1991 and the Pregnancy Discrimination Act of 1979), the Civil Rights Act of 1866, 42 U.S.C. §§ 1981, the Equal Pay Act of 1963, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, the Rehabilitation Act of 1973, the Employee Retirement Income Security Act, the Consolidated Budget and Reconciliation Act of 1985, the Fair Labor Standards Act, the Family and Medical Leave Act, the Labor Management Relations Act, the Employee Polygraph Protection Act, the Racketeer Influenced and Corrupt Organizations Act, the Occupational Safety and Health Act, the Electronic Communications Privacy Act, the Uniform Services Employment and Re-Employment Rights Act, the Sarbanes-Oxley Act, the Florida Civil Rights Act, the Genetic Information Non-Discrimination Act, Florida’s Minimum Wage Act, all other applicable state and federal fair employment laws, state and federal equal employment opportunity laws, and state and federal labor statutes and regulations, and all other constitutional, federal, state, local, and municipal law claims, whether statutory, regulatory, or common law, other breach of express or implied contract, wrongful discharge in violation of public policy, breach of covenant of good faith and fair dealing, promissory estoppel, quantum meruit, fraud, fraud in the inducement, fraud in the factum, statutory fraud, negligent misrepresentation, defamation, libel, slander, slander per se, retaliation, tortious interference with prospective contract, tortious interference with business relationship, tortious interference with contract, invasion of privacy, intentional infliction of emotional distress, and any other common law theory of recovery, whether legal or equitable, negligent or intentional), or otherwise, whether known or unknown to Menon or the Company, foreseen or unforeseen, fixed or contingent, liquidated or unliquidated, directly or indirectly arising out of or relating to any and all disputes now existing between Menon on the one hand, and the Company or the Other Released Parties on the other hand, whether related to or in any way growing out of, resulting from or to result from Menon’s employment with and/or termination from the Company, for or because of any matter or thing done, omitted, or allowed to be done by the Company or the Other Released Parties, as applicable, for any incidents, including those past and present, which existed or may have existed at any time prior to and/or contemporaneously with the execution of this Release, including all past, present, and future damages, injuries, costs, expenses, attorney’s fees, other fees, effects and results in any way related to or connected with such incidents.

c) Other capitalized terms contained herein that are not defined herein shall have the meaning assigned to them in the Separation Agreement.

2) Menon understands that Menon is releasing Claims and Controversies of which Menon may not be aware. This is Menon's knowing and voluntary intent, even though Menon recognizes that someday Menon might learn that some or all of the facts that Menon currently believes to be true are untrue and even though Menon might then regret having signed this Release. Nevertheless, Menon is assuming that risk and Menon agrees that this Release shall remain effective in all respects in any such case. It is further understood and agreed that Menon is waiving all rights under any statute or common law principle which otherwise limits application of a general release to claims which the releasing party does not know or suspect to exist in his favor at the time of signing the release which, if known by him, would have materially affected his settlement with the Person being released and Menon understands the significance of doing so.

3) Menon warrants that he has not filed any complaints, charges or claims for relief against the Company with any local, state or federal court or administrative agency that are currently outstanding. Menon further agrees and covenants not to sue, or to bring any claims or charges against, the Company with respect to any matter arising at the time of Menon's execution of this Agreement or covered by the release set forth above, and not to assert against the Company in any action, suit, litigation or proceeding any matter arising before Menon's execution of this Agreement or covered by the release set forth above.

Nothing in this Agreement (i) limits or affects Menon's right to challenge the validity of this Agreement; (ii) prevents or precludes Menon from filing a charge or complaint with or from participating in an investigation or proceeding conducted by the EEOC, the National Labor Relations Board, the Securities and Exchange Commission, or any other federal, state or local agency charged with the enforcement of any laws, including providing documents or other information; or (iii) prevents Employee from exercising his or her rights under Section 7 of the National Labor Relations Act ("NLRA") to engage in protected, concerted activity with other employees, although by signing this Agreement Menon waives any right to recover any individual relief (including back pay, front pay, reinstatement or other legal or equitable relief) in any charge, complaint, or lawsuit or other proceeding brought by Menon or on his or her behalf by any third party, either individually, or as part of any class or collective action, except for any right Menon may have to receive a payment from a government agency (and not the Company) for information provided to the government agency.

4) Participation in Litigation, Governmental Proceedings and Protected Activity. No provision of this Agreement shall be construed or enforced in a manner that would prevent Menon from testifying fully and truthfully under oath in any court, arbitration, governmental or administrative agency proceeding, or from providing complete and truthful information in the course of any government investigation. No provision of this Agreement shall be construed or enforced in a manner that would interfere with Menon's rights under the NLRA to discuss or comment on terms and conditions of employment.

5) Menon agrees that he has been paid and/or has received from the Company all compensation, wages, bonuses, commissions, leave (paid or unpaid) and/or benefits to which he may be entitled and that no other compensation, wages, bonuses, commissions, leave (paid or unpaid) and/or benefits are or shall be due to him, except as provided for in the Separation Agreement. Menon furthermore affirms that he has no known workplace injuries or occupational disease and has been provided and/or has not been denied any leave requested under the Family Medical Leave Act.

Date: September __, 2020

RAJASEKHAR MENON

CERTIFICATION

I, Josef Matosevic, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 26, 2020, 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: November 2, 2020

/s/ Josef Matosevic

Josef Matosevic

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 September 26, 2020, 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: November 2, 2020

/s/ Tricia L. Fulton

Tricia L. Fulton
Chief Financial Officer
(Principle Financial and Accounting Officer)

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

I, Josef Matosevic, 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 September 26, 2020 (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.

Date: November 2, 2020

/s/ Josef Matosevic

Josef Matosevic

President, Chief Executive Officer

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 September 26, 2020 (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.

November 2, 2020

/s/ Tricia L. Fulton

Tricia L. Fulton

Chief Financial Officer

(Principle Financial and Accounting Officer)