

SEVCON, INC.
Form 10-Q
May 14, 2013

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 March 30, 2013

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

For the transition period from _____ to _____

Commission File Number 1-9789

SEVCON, INC.

(Exact name of registrant as specified in its charter)

Delaware

04-2985631

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification
No.)

155 Northboro Road, Southborough, Massachusetts 01772

(Address of principal executive offices and zip code)

(508) 281-5510

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 14, 2013
Common stock, par value \$.10	3,478,189

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PART I. FINANCIAL INFORMATION

Item 1 Financial Statements (unaudited)

CONSOLIDATED BALANCE SHEETS

Sevcon, Inc. and Subsidiaries

	(in thousands of dollars except per share data)	
	March 30, 2013	September 30, 2012
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,002	\$ 2,823
Trade receivables, net of allowances for doubtful accounts of \$28 at March 30, 2013 and \$32 at September 30, 2012	5,829	5,289
Other receivables	179	569
Inventories	5,963	6,346
Prepaid expenses and other current assets	2,066	1,922
Total current assets	15,039	16,949
Property, plant and equipment, at cost:		
Land and improvements	21	23
Buildings and improvements	693	734
Equipment	10,196	10,576
	10,910	11,333
Less: accumulated depreciation	(8,895)	(9,188)
Net property, plant and equipment	2,015	2,145
Long-term deferred tax assets	3,354	3,002
Goodwill	1,435	1,435
Other-long term assets	37	30
Total assets	\$ 21,880	\$ 23,561
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current liabilities:		
Current portion of long term debt	\$ 41	\$ 43
Accounts payable	2,978	3,198
Accrued expenses	1,967	1,803
Accrued and deferred taxes on income	50	-
Total current liabilities	5,036	5,044
Liability for pension benefits	9,518	10,264
Long term debt	1,748	1,774
Total liabilities	16,302	17,082
Stockholders' equity:		
Preferred stock, par value \$.10 per share - authorized - 1,000,000 shares; outstanding - none	-	-
	348	348

Common stock, par value \$.10 per share - authorized -
 8,000,000 shares;
 outstanding 3,478,189 shares at March 30, 2013 and
 3,475,306 at
 September 30, 2012

Premium paid in on common stock	5,607	5,492
Retained earnings	8,422	9,662
Accumulated other comprehensive loss	(8,799)	(9,023)
Total stockholders' equity	5,578	6,479
Total liabilities and stockholders' equity	\$ 21,880	\$ 23,561

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

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

Sevcon, Inc. and Subsidiaries

	(in thousands of dollars except per share data)			
	Three months ended		Six months ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Net sales	\$8,017	\$10,101	\$14,657	\$18,616
Cost of sales	(5,010)	(6,479)	(9,410)	(12,012)
Gross profit	3,007	3,622	5,247	6,604
Selling, research and administrative expenses	(2,865)	(2,927)	(6,290)	(5,657)
Restructuring charge	(605)	-	(605)	-
Operating (loss) income	(463)	695	(1,648)	947
Interest expense	(26)	(34)	(50)	(90)
Interest income	1	-	1	23
Foreign currency (loss) gain	(88)	(33)	(289)	121
(Loss) income before income tax	(576)	628	(1,986)	1,001
Income tax benefit (provision)	638	(158)	746	(247)
Net income (loss)	62	470	(1,240)	754
Basic income (loss) per share	\$.02	\$.14	\$(.37)	\$.23
Fully diluted income (loss) per share	\$.02	\$.14	\$(.37)	\$.22

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

Sevcon, Inc. and Subsidiaries

	(in thousands of dollars)			
	Three months ended		Six months ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Net income (loss)	62	470	(1,240)	754
Foreign currency translation adjustment	20	163	121	71
Pension liability adjustment, net of tax	50	46	103	92
Comprehensive income (loss)	\$132	\$679	\$(1,016)	\$917

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Sevcon, Inc. and Subsidiaries

	(in thousands of dollars)	
	Six months ended	
	March 30, 2013	March 31, 2012
Cash flow from operating activities:		
Net (loss) income	\$(1,240)	\$ 754
Adjustments to reconcile net (loss) income to net cash used by operating activities:		
Depreciation	309	303
Gain on sale of fixed assets	(3)	-
Stock-based compensation	168	126
Pension contributions (greater than) less than pension expense	(20)	75
Deferred tax (benefit) provision	(912)	274
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Trade and other receivables	(300)	(1,940)
Inventories	115	(38)
Prepaid expenses and other current assets	54	(172)
Accounts payable	(52)	1,008
Accrued expenses	207	(516)
Accrued and deferred taxes on income	147	(168)
Net cash used by operating activities	(1,527)	(294)
Cash flow used by investing activities:		
Acquisition of property, plant and equipment	(307)	(272)
Proceeds of sale of fixed assets	4	2
Net cash used by investing activities	(303)	(270)
Cash flow used by financing activities:		
Repayments of long term debt	(21)	(20)
Purchase and retirement of common stock	(53)	-
Net cash used by financing activities	(74)	(20)
Effect of exchange rate changes on cash	83	71
Net decrease in cash	(1,821)	(513)
Beginning balance - cash and cash equivalents	2,823	1,797
Ending balance - cash and cash equivalents	\$1,002	\$1,284
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$3	\$79
Cash paid for interest	50	90

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

SEVCON, INC.

Notes to Consolidated Financial Statements – March 30, 2013

(Unaudited)

(1) Basis of presentation

Sevcon, Inc. (“Sevcon” or “the Company”) is a Delaware corporation organized on December 22, 1987 to carry on the electronic controls business previously performed by Tech/Ops, Inc. Through wholly-owned subsidiaries located in the United States, the United Kingdom, France, South Korea and Japan, the Company designs and sells, under the Sevcon name, microprocessor based controls for zero emission and hybrid electric vehicles. The controls are used to vary the speed and movement of vehicles, to integrate specialized functions and to prolong the shift life of vehicles’ power source. The Company’s customers are manufacturers of on-road, off-road and industrial vehicles including automobiles, buses, fork lift trucks, aerial lifts, mining vehicles, airport ground support vehicles, utility vehicles, sweepers and other battery powered vehicles. Through another subsidiary located in the United Kingdom, Sevcon, Inc. manufactures special metalized film capacitors that are used as components in the power electronics, signaling and audio equipment markets.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normally recurring accruals) necessary to present fairly the financial position of Sevcon, Inc. as of March 30, 2013 and the results of operations and cash flows for the six months ended March 30, 2013. These unaudited interim financial statements should be read in conjunction with the 2012 annual consolidated financial statements and related notes included in the 2012 Sevcon, Inc. Annual Report filed on Form 10-K (the “2012 10-K”). Unless otherwise indicated, each reference to a year means the Company’s fiscal year, which ends on September 30.

The results of operations for the six month period ended March 30, 2013 are not necessarily indicative of the results to be expected for the full year.

(2) Summary of significant accounting policies

Other than the new accounting pronouncement as set forth in Note 3 below, there have been no changes since the end of 2012 to the significant accounting policies followed by Sevcon, Inc.

(3) New accounting pronouncement

In February 2013, the Financial Accounting Standards Board (“FASB”) issued new guidance which requires disclosure of information about significant reclassification adjustments from accumulated other comprehensive income in a single note or on the face of the financial statements. This guidance became effective for the company in 2013. Adoption of this standard, which is related to disclosure only, did not have an impact on the company’s consolidated financial position, results of operations or cash flows.

(4) Stock-based compensation plans

Under the Company’s 1996 Equity Incentive Plan (the “Plan”) there were 106,000 shares reserved and available for grant at March 30, 2013. There were 122,800 shares reserved and available for grant at March 31, 2012. There were no options granted or exercised in the periods ended March 30, 2013 and March 31, 2012.

Recipients of grants must execute a standard form of non-competition agreement. The plan provides for the grant of Restricted Stock, Restricted Stock Units, Options, and Stock Appreciation Rights (“SARs”). SARs may be awarded either separately, or in relation to options granted, and for the grant of bonus shares. Options granted are exercisable at a price not less than fair market value on the date of grant.

A summary of option activity for all plans for the six months ended March 30, 2013 is as follows:

	Shares under Option	Weighted average Exercise Price	Weighted average remaining contractual life (years)	Aggregate Intrinsic Value
Outstanding at September 30, 2012	36,000	\$ 4.51	0.6 years	\$ 11,800
Granted	-	-	-	-
Exercised	-	-	-	-
Cancelled	-	-	-	-
Outstanding at March 30, 2013	36,000	\$ 4.51	0.1 years	\$ -
Exercisable at March 30, 2013	33,500	\$ 4.51	0.1 years	\$ -
Exercisable and expected to vest at March 30, 2013	33,500	\$ 4.51	0.4 years	\$ -

The aggregate intrinsic value included in the table above represents the difference between the exercise price of the options and the market price of the Company's common stock for the options that had exercise prices that were lower than the \$3.73 and \$3.50 closing market price of the Company's common stock at March 30, 2013 and September 30, 2012, respectively.

In January 2013, the Company granted 16,800 shares of restricted stock to eight non-employee directors, which will vest on the day before the 2014 annual meeting providing that the grantee remains a director of the Company, or as otherwise determined by the Compensation Committee. The aggregate fair value of the stock measured on the date of grant was \$72,000, based on the closing sale price of the stock on the date of grant. Compensation expense is being charged to income on a straight line basis over the twelve month period during which the forfeiture conditions lapse. The charge to income for these restricted stock grants in the first six months of fiscal 2013 was \$12,000 and the subsequent charge will be approximately \$18,000 on a quarterly basis.

A summary of restricted stock activity for the six months ended March 30, 2013 is as follows:

	Number of shares of Restricted Stock	Weighted Average Grant-Date Fair Value
Non-vested balance as of September 30, 2012	144,200	\$5.22
Granted	16,800	\$4.26
Vested	(57,200)	\$5.24
Non-vested balance as of March 30, 2013	103,800	\$5.05

Stock-based compensation expense was \$97,000 and \$168,000 for the three and six month periods ended March 30, 2013. In the three month period ended March 30, 2013, the stock-based compensation expense of \$97,000 included \$47,000 in respect of the cost of the acceleration of restricted stock awards for one employee who left the Company during the period. The severance cost for that employee, including the \$47,000 accelerated stock-based compensation expense, is included in the restructuring charge outlined in Note 15 below. At March 30, 2013, there was \$454,000 of unrecognized compensation expense related to share options and restricted stock granted under the Plan. The Company expects to recognize that cost over a weighted average period of 2.9 years.

(5) Cash dividends

The Board of Directors suspended dividends to conserve cash during the global recession that began in 2009 and will consider whether to resume paying dividends as conditions and the Company's operating results improve.

(6) Calculation of earnings per share and weighted average shares outstanding

Basic and fully diluted earnings per share were calculated as follows:

	(in thousands except per share data)			
	Three Months ended		Six Months ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Net income (loss)	\$ 62	\$ 470	\$ (1,240)	\$ 754
Weighted average shares outstanding – basic	3,363	3,336	3,351	3,313
Basic income (loss) per share	\$ 0.02	\$.14	\$ (0.37)	\$.23
Common stock equivalents	-	41	2	43
Weighted average shares outstanding – diluted	3,363	3,377	3,353	3,356
Diluted income (loss) per share	\$ 0.02	\$.14	\$ (0.37)	\$.22
No. of options that are anti-dilutive excluded from calculation of common stock equivalents	36	36	-	36

(7) Segment information

The Company has two reportable segments: electronic controls and capacitors. The electronic controls segment produces microprocessor based control systems for zero emission and hybrid electric vehicles. The capacitors segment produces metalized film capacitors for sale to electronic equipment manufacturers. Each segment has its own management team and sales force and the capacitors segment has its own manufacturing facility.

The significant accounting policies of the segments are the same as those described above and in Note 1 to the Notes to Consolidated Financial Statements in the 2012 10-K. Inter-segment revenues are accounted for at current market prices. The Company evaluates the performance of each segment principally based on operating income. The Company does not allocate income taxes, interest income and expense or foreign currency translation gains and losses to segments. Information concerning operations of these businesses is as follows:

	(in thousands of dollars)			
	Three months ended March 30, 2013			
	Controls	Capacitors	Corporate	Total
Sales to external customers	7,581	436	-	8,017
Inter-segment revenues	-	4	-	4
Operating loss	(293)	(7)	(163)	(463)
Identifiable assets	20,242	1,147	491	21,880

Three months ended March 31, 2012

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	Controls	Capacitors	Corporate	Total
Sales to external customers	\$9,702	\$399	\$-	\$10,101
Inter-segment revenues	-	9	-	9
Operating income (loss)	743	(18)	(30)	695
Identifiable assets	23,159	1,144	344	24,647

Six months ended March 30, 2013

	Controls	Capacitors	Corporate	Total
Sales to external customers	\$13,783	\$874	\$-	\$14,657
Inter-segment revenues	-	6	-	6
Operating loss	(1,436)	(21)	(191)	(1,648)
Identifiable assets	20,242	1,147	491	21,880

Six months ended March 31, 2012

	Controls	Capacitors	Corporate	Total
Sales to external customers	\$17,775	\$841	\$-	\$18,616
Inter-segment revenues	-	14	-	14
Operating income (loss)	1,039	(46)	(46)	947
Identifiable assets	23,159	1,144	344	24,647

In the electronic controls segment, revenues derive from the following products and services:

	(in thousands of dollars)			
	Three Months ended		Six Months ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Electronic controls for zero emission and hybrid electric vehicles	\$6,043	\$7,595	\$10,128	\$13,179
Accessory and aftermarket products and services	1,538	2,107	3,655	4,596
Total electronic controls segment revenues	\$7,581	\$9,702	\$13,783	\$17,775

(8) Research and development

The cost of research and development programs is charged against income as incurred and was as follows:

	(in thousands of dollars)			
	Three Months ended		Six Months ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Research and development expense, net of grants receivable	\$1,004	\$826	\$2,087	\$1,643
Percentage of sales	13	% 8	% 14	% 9

(9) Employee benefit plans

Sevcon has defined contribution plans covering the majority of its U.S. and U.K. employees in the controls business. There is also a small defined contribution plan covering senior managers in the capacitor business. The Company has frozen U.K. and U.S. defined benefit plans for which no future benefits are being earned by employees. The following table sets forth the components of the net pension cost for the three and six month periods ended March 30, 2013 and March 31, 2012, respectively:

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	(in thousands of dollars)			
	Three Months ended		Six Months ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Service cost	\$ -	\$ 65	\$ -	\$ 131
Interest cost	313	338	636	650
Expected return on plan assets	(297)	(291)	(590)	(570)
Amortization of net loss	68	67	140	134
Amortization of prior service cost	-	(6)	-	(12)
Net periodic benefit cost	84	173	186	333
Net cost of defined contribution plans	\$ 121	\$ 51	\$ 243	\$ 90
Net cost of all employee benefit plans	\$ 205	\$ 224	\$ 429	\$ 423

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The following table sets forth the movement in the liability for pension benefits in the six month period ended March 30, 2013:

	(in thousands of dollars)
	Six Months ended March 30, 2013
Liability for pension benefits at beginning of period	\$10,264
Net periodic benefit cost	186
Plan contributions	(206)
Amortization of net loss	(140)
Effect of exchange rate changes	(586)
Balance at end of period	\$9,518

Amounts recognized in the balance sheet consist of:

	(in thousands of dollars)	
	March 30, 2013	September 30, 2012
Non-current liabilities	\$ 9,518	\$ 10,264

Amounts recognized in accumulated other comprehensive loss consist of:

	(in thousands of dollars)			
	Three Months ended		Six Months ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Actuarial loss, net of \$37,000 tax benefit for the six month period				
(2012 : net of \$33,000 tax benefit)	\$50	\$51	\$103	\$101
Prior service gain, (2012 : net of \$3,000 tax charge for the six month period)	-	(5)	-	(9)
	\$50	\$46	\$103	\$92

Sevcon, Inc. contributed \$29,000 to its frozen U.S. defined benefit plan in the six months ended March 30, 2013; it presently anticipates contributing \$57,000 to fund its U.S. plan in the remainder of fiscal 2013. In addition, employer contributions to the U.K. defined benefit plan were \$177,000 in the first six months and are estimated to total \$404,000 in 2013.

The table below presents information about the Company's pension plan assets measured and recorded at fair value as of March 30, 2013 and indicates the fair value hierarchy of the inputs utilized by the Company to determine the fair values.

	(in thousands of dollars)		
	Level 1* (Quoted prices in active markets)	Level 2** (Significant observable inputs)	Level 3*** (Unobservable inputs)
Mutual Funds			
Standard Life Pension Global Absolute Returns Strategies Fund	6,086	-	-
Standard Life U.K. Indexed Linked Fund	1,691	-	-
Standard Life Long Corporate Bond Fund	1,523	-	-
CF Ruffer Absolute Return Fund	6,492	-	-
U.S. Equity Funds	1,171	-	-
U.S. Fixed Income Funds	1,051	-	-
Other Types of Investments			
Cash	287	-	-
Total	18,301	-	-

*Level 1 investments represent mutual funds for which a quoted market price is available on an active market. These investments will primarily hold stocks or bonds, or a combination of stocks and bonds.

** The Company currently does not have any Level 2 pension plan financial assets.

*** The Company currently does not have any Level 3 pension plan financial assets.

The following estimated benefit payments, which reflect future service, as appropriate, have been or are expected to be paid:

	(in thousands of dollars)
2013	\$ 390
2014	535
2015	689
2016	757
2017	765
2018 – 2022	4,252

(10) Inventories

Inventories were comprised of:

	(in thousands of dollars)	
	March 30, 2013	September 30, 2012