

TECH OPS SEVCON INC
Form 10-Q
August 11, 2010

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 July 3, 2010

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

TECH/OPS SEVCON, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

04-2985631
(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.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

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 August 11, 2010
Common stock, par value \$.10	3,340,322

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PART I. FINANCIAL INFORMATION

Item 1 Financial Statements

CONSOLIDATED BALANCE SHEETS

Tech/Ops Sevcon, Inc. and Subsidiaries

(in thousands of dollars except per share data)

	July 3, 2010	September 30, 2009
	(unaudited)	(derived from audited statements)
ASSETS		
Current assets:		
Cash and cash equivalents	\$983	\$632
Receivables, net of allowances for doubtful accounts of \$42 at July 3, 2010 and \$92 at September 30, 2009	4,537	3,383
Inventories	4,648	4,723
Prepaid expenses and other current assets	915	1,398
Total current assets	11,083	10,136
Property, plant and equipment:		
At cost	10,702	10,745
Less: accumulated depreciation and amortization	7,804	7,874
Net property, plant and equipment	2,898	2,871
Long-term deferred tax asset	2,277	2,357
Goodwill	1,435	1,435
Other long-term assets	14	11
Total assets	\$17,707	\$16,810
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current liabilities:		
Accounts payable	\$2,816	\$1,730
Accrued expenses	1,387	1,611
Accrued and deferred taxes on income	47	-
Total current liabilities	4,250	3,341
Liability for pension benefits	7,022	7,166
Other long term liabilities	203	48
Total liabilities	11,475	10,555
Stockholders' equity:		
Preferred stock, par value \$.10 per share - authorized - 1,000,000 shares; outstanding - none	-	-
Common stock, par value \$.10 per share - authorized - 8,000,000 shares; Outstanding 3,340,322 shares at July 3, 2010 and 3,326,322 shares at September 30, 2009	334	333
Premium paid in on common stock	5,118	5,033
Retained earnings	7,194	6,889

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Accumulated other comprehensive loss	(6,414)	(6,000)
Total stockholders' equity	6,232	6,255
Total liabilities and stockholders' equity	\$17,707	\$16,810

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

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CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

Tech/Ops Sevcon, Inc. and Subsidiaries

	(in thousands of dollars except per share data)			
	Three months ended		Nine months ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Net sales	\$6,490	\$4,060	\$19,022	\$15,770
Cost of sales	4,230	2,579	12,157	9,946
Gross Profit	2,260	1,481	6,865	5,824
Selling, research and administrative expenses	2,322	2,055	6,703	6,496
Restructuring charge	-	(5)	-	298
Operating (loss) income	(62)	(569)	162	(970)
Interest expense	(6)	(6)	(16)	(21)
Interest income	-	-	26	4
Foreign currency gain (loss)	205	79	252	(137)
Income (loss) before income taxes	137	(496)	424	(1,124)
Income tax (provision) benefit	(18)	196	(119)	390
Net income (loss)	\$119	\$(300)	\$305	\$(734)
Basic income (loss) per share	\$.03	\$(.09)	\$.09	\$(.23)
Fully diluted income (loss) per share	\$.03	\$(.09)	\$.09	\$(.23)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

Tech/Ops Sevcon, Inc. and Subsidiaries

	(in thousands of dollars)			
	Three months ended		Nine months ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Net income (loss)	\$119	\$(300)	\$305	\$(734)
Foreign currency translation adjustment	(190)	934	(439)	(528)
Amortization of pension transition items to income	8	8	25	24
Comprehensive (loss) income	\$(63)	\$642	\$(109)	\$(1,238)

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Tech/Ops Sevcon, Inc. and Subsidiaries

	(in thousands of dollars)	
	Nine months ended	
	July 3, 2010	June 27, 2009
Cash flow from operating activities:		
Net income (loss)	\$305	\$(734)
Adjustments to reconcile net income (loss) to net cash from (used by) operating activities:		
Depreciation	425	412
Loss on disposal of fixed assets	6	-
Stock-based compensation	87	124
Pension contributions less than (greater than) pension expense	222	(6)
Deferred tax provision	-	19
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Receivables	(1,358)	3,062
Inventories	(102)	(642)
Prepaid expenses and other current assets	(68)	(139)
Accounts payable	1,189	(1,766)
Accrued expenses	(135)	(532)
Accrued and deferred taxes on income	526	(615)
Net cash generated from (used by) operating activities	1,097	(817)
Cash flow used by investing activities:		
Acquisition of property, plant and equipment	(608)	(194)
Net cash used by investing activities	(608)	(194)
Cash flow generated from (used by) financing activities:		
Dividends paid	-	(98)
Proceeds of long-term debt	161	-
Net cash generated from (used by) financing activities	161	(98)
Effect of exchange rate changes on cash	(299)	(328)
Net increase (decrease) in cash	351	(1,437)
Beginning balance - cash and cash equivalents	632	1,630
Ending balance - cash and cash equivalents	\$983	\$193
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$-	\$235
Cash paid for interest	\$13	\$21
Supplemental disclosure of non-cash financing activity:		
Dividend declared	\$-	\$-

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

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TECH/OPS SEVCON, INC.

Notes to Consolidated Financial Statements – July 3, 2010

(Unaudited)

(1) Basis of presentation

Tech/Ops Sevcon, Inc. (“Tech/Ops”) 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 electrically powered vehicles

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normally recurring accruals) necessary to present fairly the financial position of Tech/Ops as of July 3, 2010 and the results of operations and cash flows for the nine months ended July 3, 2010. These unaudited interim financial statements should be read in conjunction with the 2009 annual consolidated financial statements and related notes included in the 2009 Tech/Ops Annual Report filed on Form 10-K (the “2009 10-K”). Unless otherwise indicated, each reference to a year means the Company’s fiscal year, which ends on September 30.

The significant accounting policies followed by Tech/Ops are set forth in Note 1 to the financial statements in the 2009 10-K. Other than as set forth in Item 2, there have been no changes since the end of fiscal 2009 to the significant accounting policies followed by Tech/Ops.

The results of operations for the nine month period ended July 3, 2010 are not necessarily indicative of the results to be expected for the full year.

(2) New accounting pronouncements

In December 2008 the Financial Accounting Standards Board (“FASB”) issued authoritative guidance regarding disclosures about postretirement benefit plan assets. The new guidance requires employers of public and nonpublic companies to disclose more information about how investment allocation decisions are made, more information about major categories of plan assets, including concentration of risk and fair-value measurements, and the fair-value techniques and inputs used to measure plan assets. The disclosure requirements are effective for annual financial statements for years ending after December 15, 2009. The disclosure requirements will be adopted for our annual financial statements for the year ended September 30, 2010, on a prospective basis.

(3) Stock-based compensation plans

Under the Company’s 1996 Equity Incentive Plan (the “Plan”) there were 258,000 shares reserved and available for grant at July 3, 2010. 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.

The fair value of each grant is measured on the date of grant and is recognized over the period during which the recipient is required to provide service in connection with the grant. The fair value of stock grants is determined using the market price of our common stock on the date of grant, while the value of option grants is estimated using the Black-Scholes option pricing model. There were no option grants in the first nine months of 2010 or in fiscal 2009 and therefore no assumptions were made as to risk-free interest rate, expected dividend yield, expected life or expected volatility in 2010 or 2009. When options are exercised the Company normally issues new shares.

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A summary of option activity for all plans for the nine months ended July 3, 2010 is as follows:

	Options No. of shares	Weighted average Exercise Price	Weighted average remaining contractual life (years)	Aggregate Intrinsic Value
Outstanding at September 30, 2009	63,500	\$7.03	2.0 years	\$-
Granted	-	-	-	-
Exercised	-	-	-	-
Cancelled	(17,500)	10.75	-	-