TECH OPS SEVCON INC
Form 10-Q
August 05, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 28, 2008

o 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	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 x No o

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

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 5, 2008
Common stock, par value $.10	3,271,322

TECH/OPS SEVCON, INC.
FORM 10-Q
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Item 1 Financial Statements

CONSOLIDATED BALANCE SHEETS
Tech/Ops Sevcon, Inc. and Subsidiaries

(in thousands of dollars except per share data)

	June 28, 2008	September 30, 2007
	(unaudited)	(derived from audited statements)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,250	$ 1,014
Receivables, net of allowances for doubtful accounts of $235 at June 28, 2008 and $180 at September 30, 2007	8,142	8,714
Inventories	5,420	5,422
Prepaid expenses and other current assets	978	916
Total current assets	15,790	16,066
Property, plant and equipment:		
At cost	12,612	12,265
Less: accumulated depreciation and amortization	8,753	8,497
Net property, plant and equipment	3,859	3,768
Long-term deferred tax asset	613	657
Goodwill	1,435	1,435
Total assets	$ 21,697	$ 21,926
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current liabilities:		
Accounts payable	$ 3,239	$ 3,398
Dividend payable	98	97
Accrued expenses	3,238	3,162
Accrued and deferred taxes on income	-	530
Total current liabilities	6,575	7,187
Liability for pension benefits	2,179	2,244
Other long term liabilities	60	61
Total liabilities	8,814	9,492
Stockholder 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 3,271,322 shares at June 28, 2008 and 3,238,702 shares at September 30, 2007	327	324
Premium paid in on common stock	4,810	4,623
Retained earnings	8,142	7,961
Cumulative other comprehensive loss	(396)	(474)
Total stockholder equity	12,883	12,434
Total liabilities and stockholder equity	$ 21,697	$ 21,926

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

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
Tech/Ops Sevcon, Inc. and Subsidiaries

	(in thousands of dollars except per share data)			
	Three months ended		Nine months ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Net sales	$ 10,015	$ 10,341	$ 30,818	$ 28,941
Cost of sales	6,799	6,550	20,006	18,138
Gross Profit	3,216	3,791	10,812	10,803
Selling, research and administrative expenses	2,907	3,009	9,283	8,919
Restructuring charge (Note 12)	700	-	700	-
Operating income (loss)	(391)	782	829	1,884
Interest expense	(29)	(10)	(82)	(17)
Interest income	3	3	7	7
Foreign currency loss	(27)	(40)	(7)	(130)
Income (loss) before income taxes	(444)	735	747	1,744
Income taxes	155	(252)	(262)	(605)
Net income (loss)	$ (289)	$ 483	$ 485	$ 1,139
Basic income (loss) per share	$ (.09)	$ .15	$ .15	$ .36
Fully diluted income (loss) per share	$ (.09)	$ .15	$ .15	$ .36

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
Tech/Ops Sevcon, Inc. and Subsidiaries

	(in thousands of dollars)			
	Three months ended		Nine months ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Net income (loss)	$ (289)	$ 483	$ 485	$ 1,139
Foreign currency translation adjustment	(17)	193	126	528
Changes in fair market value of cash flow hedges	115	-	(79)	-
Amortization of pension transition items to income	9	11	31	37
Comprehensive income (loss)	$ (182)	$ 687	$ 563	$ 1,704

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
Tech/Ops Sevcon, Inc. and Subsidiaries

	(in thousands of dollars)	
	Nine months ended	
	June 28, 2008	June 30, 2007
Cash flow from operating activities:		
Net income	$ 485	$ 1,139
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	518	555
Stock-based compensation	163	142
Pension contributions greater than (less than) pension expense	8	(68)
Deferred tax provision	32	-
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Receivables	888	(2,641)
Inventories	(12)	(1,159)
Prepaid expenses and other current assets	(92)	(106)
Accounts payable	(95)	1,855
Accrued expenses	(51)	46
Accrued and deferred taxes on income	(527)	532
Net cash generated from operating activities	1,317	295
Cash flow used by investing activities:		
Acquisition of property, plant and equipment	(678)	(783)
Net cash used by investing activities	(678)	(783)
Cash flow used by financing activities:		
Dividends paid	(293)	(289)
Exercise of stock options	20	4
Net cash used by financing activities	(273)	(285)
Effect of exchange rate changes on cash	(130)	390
Net increase (decrease) in cash	236	(383)
Beginning balance - cash and cash equivalents	1,014	1,290
Ending balance - cash and cash equivalents	$ 1,250	$ 907
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 618	$ 266
Cash paid for interest	$ 82	$ 17
Supplemental disclosure of non-cash financing activity:		
Dividend declared	$ 98	$ 97

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

TECH/OPS SEVCON, INC.

Notes to Consolidated Financial Statements – June 28, 2008

(Unaudited)

(1) Basis of Presentation

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 Sevcon, Inc. as of June 28, 2008 and the results of operations and cash flows for the three months and nine months ended June 28, 2008 and June 30, 2007. These unaudited interim financial statements should be read in conjunction with the 2007 annual consolidated financial statements and related notes included in the 2007 Tech/Ops Sevcon, Inc. Annual Report filed on Form 10-K (the "2007 10-K").

The significant accounting policies followed by Tech/Ops Sevcon, Inc. are set forth in Note 1 to the financial statements in the 2007 10-K. Other than as set forth below, there have been no changes since the end of fiscal 2007 to the significant accounting policies followed by Tech/Ops Sevcon, Inc.

The results of operations for the nine month periods ended June 28, 2008 and June 30, 2007 are not necessarily indicative of the results to be expected for the full year.

(2) New Accounting Pronouncements

In June 2006 the Financial Accounting Standards Board (FASB) issued Interpretation No. 48. "Accounting for Uncertainty in Income Taxes" ("FIN 48") which is effective for fiscal years beginning after December 15, 2006. FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standard (SFAS) No. 109. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48, and in subsequent periods. The Company has evaluated the impact of adopting FIN 48 on its consolidated results of operations and financial position and has concluded that its adoption does not have a material impact on either the consolidated results from operations or its financial position.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement will be effective for the Company beginning October 1, 2008. This is not expected to have a material impact on the Company's financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159), which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 will be effective for the Company on October 1, 2008. This is not expected to have a material impact on the Company's financial statements.

On December 4, 2007, the FASB issued SFAS No.160," Noncontrolling Interests in Consolidated Financial Statements", which amends Accounting Research Bulletin 51, "Consolidated Financial Statements", to require noncontrolling (equity) interests in a consolidated subsidiary to be accounted for, and presented as, equity in the consolidated financial statements. This statement is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. The statement will be effective for the Company for the fiscal year beginning October 1, 2008. This is not expected to have a material impact on the Company’s financial statements.

On December 4, 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (Statement 141R), which, when effective, will replace existing Statement 141 in its entirety and provide new measurement, recognition, and disclosure guidance for business combinations. The objective is to provide consistency to the accounting and financial reporting of business combinations by using only one method, the purchase method. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The statement will be effective for the Company for the fiscal year beginning October 1, 2008. This is not expected to have a material impact on the Company's financial statements.

(3) Stock-Based Compensation Plans

Under the Company's 1996 Equity Incentive Plan (the "Plan") there were 104,500 shares reserved and available for grant at June 28, 2008. Recipients of grants or options 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). Stock Appreciation Rights 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.

Since the beginning of fiscal 2006 the Company has accounted for stock based compensation under SFAS 123R "Share-Based Payment," which defines a fair value based method of accounting for employee stock options or similar equity instruments.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. There were no option grants in the first nine months of fiscal 2008 or in fiscal 2007 and therefore no assumptions were made as to risk-free interest rate, expected dividend yield, expected life or expected volatility in fiscal 2008 or fiscal 2007. When options are exercised the Company normally issues new shares.

A summary of option activity for all plans for the nine months ended June 28, 2008 is as follows:

	Options No. of shares	Weighted average Exercise Price	Weighted average remaining contractual life (years)	Aggregate Intrinsic Value
Outstanding at September 30, 2007	129,000	$9.47	2.0	204,000
Granted	-			
Exercised	(7,000)	$4.37		
Cancelled	(53,500)	$13.66		
Outstanding at June 28, 2008	68,500	$6.88	3.2	$130,000
Exercisable at June 28, 2008	49,100	$7.08	3.6	$89,000

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 $7.75 market price of the Company's common stock at June 28, 2008. Options for 7,000 shares were exercised during the nine month period ended June 28, 2008. The total intrinsic value of options exercised in the nine month period ended June 28, 2008, was $27,000. Proceeds received on the exercise of these options were $20,000. In connection with the exercise of options in the first nine months of fiscal 2008, the Company issued 620 shares of common stock pursuant to a cashless exercise of options to purchase 1,380 shares. The total intrinsic value of options exercised in the nine month period ended June 30, 2007, was $46,000 and the proceeds received on the exercise of these options was $4,000. In connection with the exercise of options in the first nine months of fiscal 2007, the Company issued 3,404 shares of common stock pursuant to a cashless exercise of options to purchase 4,596 shares. At June 28, 2008 there was $40,000 of total unrecognized compensation expense related to options granted under all equity compensation plans. The Company expects to recognize that cost over a weighted average period of 2.4 years.

In December 2007, the Company granted 15,000 shares of restricted stock to one employee which will vest in five equal annual installments so long as the employee is then employed by the Company or as determined by the Compensation Committee. The estimated fair value of the stock on the date of grant was $117,000 based on the fair market value of the Company's stock on the date of issue. This compensation expense is being charged to income on a straight line basis over five years. The charge to income for this employee's restricted stock grant is approximately $6,000 on a quarterly basis.

In January 2008, the Company granted 12,000 shares of restricted stock to six non-employee directors which will vest on the day before the 2009 annual meeting providing that the grantee remains a director of the Company, or as determined by the Compensation Committee. The estimated fair value of the stock on the date of grant was $79,000 based on the fair market value of the Company's stock on date of issue. This 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 director restricted stock grants in the third quarter of fiscal 2008 was $20,000 and the charge for the first nine months of fiscal 2008 was $33,000; the subsequent charge will be approximately $20,000 on a quarterly basis.

During the restriction period ownership of unvested shares cannot be transferred. Restricted stock has the same cash dividend and voting rights as other common stock and is considered to be currently issued and outstanding. For the purposes of calculating average issued shares for earnings per share these shares are only considered to be outstanding when the forfeiture conditions lapse and the shares vest.

Restricted stock activity for the nine months ended June 28, 2008 was as follows:

	Number of shares of Restricted Stock	Weighted Average Grant-Date Fair Value
Non-vested balance as of September 30, 2007	55,000	$6.22
Granted	27,000	$7.82
Vested	(28,000)	$6.76
Forfeited	-	N/A
Non-vested balance as of June 28, 2008	54,000	$6.74

As of June 28, 2008, there was $258,000 of total restricted stock compensation expense related to non-vested awards not yet recognized, which is expected to be recognized over a weighted average period of 2.8 years.

The stock-based compensation expense was as follows:

	(in thousands of dollars)			
	Three Months ended		Nine Months ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Stock option expense under SFAS No. 123R	$ 6	$ 6	$ 19	$ 27
Restricted stock grants:				
Employees	20	19	80	54
Non-employee directors	20	23	64	61
Total stock based compensation expense	$ 46	$ 48	$ 163	$ 142

(4) Cash Dividends

On June 17, 2008, the Company declared a quarterly dividend of $.03 per share for the third quarter of fiscal 2008, which was paid on July 17, 2008 to stockholders of record on July 2, 2008. The Company has paid regular quarterly cash dividends since the first quarter of fiscal 1990.

(5) 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		Nine Months ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Net income (loss)	$ (289)	$ 483	$ 485	$ 1,139
Weighted average shares outstanding - basic	3,217	3,172	3,206	3,162
Basic (loss) income per share	$ (.09)	$ .15	$ .15	$ .36
Common stock equivalents	-	53	33	44
Weighted average shares outstanding - diluted	3,217	3,225	3,239	3,206
Diluted income (loss) per share	$ (.09)	$ .15	$ .15	$ .36
No. of options that are anti-dilutive excluded from calculation of common stock equivalents	69	80	38	100
No. of shares of restricted stock that are anti-dilutive excluded from calculation of common stock equivalents	54	-	-	-

(6) Segment information

The Company has two reportable segments: electronic controls and capacitors. The electronic controls segment produces control systems and accessories for battery powered vehicles. The capacitor segment produces electronic components for sale to electronic equipment manufacturers. Each segment has its own management team and sales force and the capacitor segment has its own manufacturing facility.

The significant accounting policies of the segments are the same as those described in Note (1) to the 2007 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 June 28, 2008			
	Controls	Capacitors	Corporate	Total
Sales to external customers	$ 9,499	$ 516	$ -	$ 10,015
Inter-segment revenues	-	6	-	6
Operating loss	(242)	(82)	(67)	(391)
Identifiable assets	20,320	824	553	21,697
	Three months ended June 30, 2007			
	Controls	Capacitors	Corporate	Total
Sales to external customers	$ 9,753	$ 588	$ -	$ 10,341
Inter-segment revenues	-	8	-	8
Operating income	963	8	(189)	782
Identifiable assets	21,141	1,109	470	22,720
	Nine months ended June 28, 2008			
	Controls	Capacitors	Corporate	Total

Sales to external customers	$	29,273	$	1,545	$	-	$