

TECH OPS SEVCON INC
Form 10-Q
May 12, 2006

**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 April 1, 2006

**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 No

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

Large accelerated filer Accelerated Filer Non accelerated filer

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 11, 2006 |
|--------------------------------------|------------------------------------|
| Common stock, par value \$.10 | 3,209,051 |

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Index**ITEM 1. FINANCIAL STATEMENTS****CONSOLIDATED BALANCE SHEETS**

Tech/Ops Sevcon, Inc. and Subsidiaries

(in thousands of dollars except per share data)

April 1,
2006 September 30,
2005**(unaudited)** (derived from
audited statements)**ASSETS****Current assets:**

| | | |
|--|---------------|---------------|
| Cash and cash equivalents | \$ 1,027 | \$ 1,130 |
| Receivables, net of allowances for doubtful accounts of \$155 at April 1, 2006 and \$144 at September 30, 2005 | 6,122 | 6,193 |
| Inventories | 4,925 | 3,737 |
| Prepaid expenses and other current assets | 1,206 | 915 |
| Total current assets | 13,280 | 11,975 |

Property, plant and equipment:

| | | |
|---|------------------|------------------|
| At cost | 9,698 | 9,593 |
| Less: accumulated depreciation and amortization | 6,733 | 6,557 |
| Net property, plant and equipment | 2,965 | 3,036 |
| Goodwill | 1,435 | 1,435 |
| Total assets | \$ 17,680 | \$ 16,446 |

LIABILITIES AND STOCKHOLDERS'**INVESTMENT****Current liabilities:**

| | | |
|--------------------------------------|--------------|--------------|
| Accounts payable | \$ 3,885 | \$ 2,599 |
| Dividend payable | 96 | 95 |
| Accrued expenses | 2,545 | 2,685 |
| Accrued and deferred taxes on income | 257 | 445 |
| Total current liabilities | 6,783 | 5,824 |
| Deferred taxes on income | 33 | 33 |

Commitments and contingencies

Stockholders' investment

| | | |
|---|-------|-------|
| 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 3,209,051 shares at April 1, 2006 and 3,172,051 shares at September 30, 2005 | 321 | 317 |
| Premium paid in on common stock | 4,216 | 4,310 |
| Retained earnings | 6,703 | 6,394 |
| Unearned compensation on restricted stock | - | (180) |
| Cumulative other comprehensive loss | (376) | (252) |

| | | | | |
|---|----|---------------|----|--------|
| Total stockholders' investment | | 10,864 | | 10,589 |
| Total liabilities and stockholders' investment | \$ | 17,680 | \$ | 16,446 |

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

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Index**CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

Tech/Ops Sevcon, Inc. and Subsidiaries

(in thousands except per share data)

| | Three months ended | | Six months ended | |
|--------------------------------------|--------------------|------------------|------------------|------------------|
| | April 1, 2006 | April 2, 2005 | April 1, 2006 | April 2, 2005 |
| Net sales | \$ 8,562 | \$ 8,094 | \$ 16,383 | \$ 15,636 |
| Costs and expenses: | | | | |
| Cost of sales | 5,245 | 4,968 | 10,019 | 9,668 |
| Selling, research and administrative | 2,755 | 2,841 | 5,558 | 5,663 |
| | 8,000 | 7,809 | 15,577 | 15,331 |
| Operating income | 562 | 285 | 806 | 305 |
| Interest expense | (14) | (21) | (35) | (27) |
| Interest income | 1 | 1 | 2 | 1 |
| Foreign currency gain or (loss) | (24) | - | (2) | 16 |
| Income before income taxes | 525 | 265 | 771 | 295 |
| Income taxes | (183) | (93) | (269) | (103) |
| Net income | \$ 342 | \$ 172 | \$ 502 | \$ 192 |
| Basic income per share | \$.11 | \$.05 | \$.16 | \$.06 |
| Fully diluted income per share | \$.11 | \$.05 | \$.16 | \$.06 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

Tech/Ops Sevcon, Inc. and Subsidiaries

(in thousands of dollars)

| | Three months ended | | Six months ended | |
|--|--------------------|------------------|------------------|------------------|
| | April 1, 2006 | April 2, 2005 | April 1, 2006 | April 2, 2005 |
| Net income | \$ 342 | \$ 172 | \$ 502 | \$ 192 |
| Foreign currency translation adjustment | 71 | (198) | (111) | 340 |
| Changes in fair market value of cash flow hedges | (12) | - | (13) | (15) |
| Comprehensive income (loss) | \$ 401 | \$ (26) | \$ 378 | \$ 517 |

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

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Index**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

Tech/Ops Sevcon, Inc. and Subsidiaries

| | (in thousands of dollars) | |
|---|---------------------------|------------------|
| | Six months ended | |
| | April 1, 2006 | April 2, 2005 |
| Cash flow from operating activities: | | |
| Net income | \$ 502 | \$ 192 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation and amortization | 304 | 337 |
| Stock-based compensation | 90 | 26 |
| Deferred tax benefit | - | 3 |
| Increase (decrease) in cash resulting from changes in operating assets and liabilities: | | |
| Receivables | 71 | (347) |
| Inventories | (1,188) | (17) |
| Prepaid expenses and other current assets | (278) | (433) |
| Accounts payable | 1,286 | (194) |
| Accrued expenses | (140) | 60 |
| Accrued and deferred taxes on income | (188) | 159 |
| Net cash generated from (used by) operating activities | 459 | (214) |
| Cash flow used by investing activities: | | |
| Acquisition of property, plant and equipment | (238) | (258) |
| Net cash used by investing activities | (238) | (258) |
| Cash flow used by financing activities: | | |
| Dividends paid | (191) | (189) |
| Net cash used by financing activities | (191) | (189) |
| Effect of exchange rate changes on cash | (133) | 166 |
| Net (decrease) in cash | (103) | (495) |
| Beginning balance - cash and cash equivalents | 1,130 | 905 |
| Ending balance - cash and cash equivalents | \$ 1,027 | \$ 410 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for income taxes | \$ 592 | \$ 314 |
| Cash paid for interest | \$ 35 | \$ 27 |
| Supplemental disclosure of non-cash financing activity: | | |
| Dividend declared | \$ 96 | \$ 95 |

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 - April 1, 2006

(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 as of April 1, 2006 and the results of operations and cash flows for the three months and six months ended April 1, 2006.

The significant accounting policies followed by Tech/Ops Sevcon are set forth in Note 1 to the financial statements in the 2005 Tech/Ops Sevcon, Inc. Annual Report filed on Form 10-K. Other than as set forth below, there have been no changes since the end of fiscal 2005 to the significant accounting policies followed by Tech/Ops Sevcon.

The results of operations for the six month periods ended April 1, 2006 and April 2, 2005 are not necessarily indicative of the results to be expected for the full year.

(2) New Accounting Pronouncements

The Company adopted the provisions of SFAS #123R "Share-Based Payment" effective at the beginning of fiscal 2006 using the modified prospective application transition method. Under this method the Company incurred expense relating to previously issued stock options of approximately \$23,000 in the first six months of fiscal 2006. There was no similar expense recorded in the first half of 2005 as, during that period, the Company accounted for options under APB #25. The accounting for restricted stock issued in fiscal 2005 will be substantially unchanged by the application of SFAS #123R.

(3) Stock-Based Compensation Plans