

SEVCON, INC.
Form 10-Q
February 12, 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 December 29, 2012

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

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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)

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 February 12, 2013 |
|-------------------------------|----------------------------------|
| Common stock, par value \$.10 | 3,475,306 |

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PART I. FINANCIAL INFORMATION

Item 1 Financial Statements

CONSOLIDATED BALANCE SHEETS

Sevcon, Inc. and Subsidiaries

| | (in thousands of dollars except per share data) | |
|--|---|---|
| | December 29, 2012 | September 30, 2012 |
| | (unaudited) | (derived from audited Statements) |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,289 | \$ 2,823 |
| Trade receivables, net of allowances for doubtful accounts of \$29 at December 29, 2012 and \$32 at September 30, 2012 | 5,070 | 5,289 |
| Other receivables | 306 | 569 |
| Inventories | 6,456 | 6,346 |
| Prepaid expenses and other current assets | 1,981 | 1,922 |
| Total current assets | 15,102 | 16,949 |
| Property, plant and equipment, at cost: | | |
| Land and improvements | 23 | 23 |
| Buildings and improvements | 740 | 734 |
| Equipment | 10,757 | 10,576 |
| | 11,520 | 11,333 |
| Less: accumulated depreciation and amortization | (9,370) | (9,188) |
| Net property, plant and equipment | 2,150 | 2,145 |
| Long-term deferred tax assets | 3,008 | 3,002 |
| Goodwill | 1,435 | 1,435 |
| Other-long term assets | 22 | 30 |
| Total assets | \$ 21,717 | \$ 23,561 |
| LIABILITIES AND STOCKHOLDERS' INVESTMENT | | |
| Current liabilities: | | |
| Current portion of long term debt | \$ 44 | \$ 43 |
| Accounts payable | 2,572 | 3,198 |
| Accrued expenses | 1,624 | 1,803 |
| Accrued and deferred taxes on income | - | - |
| Total current liabilities | 4,240 | 5,044 |
| Liability for pension benefits | 10,312 | 10,264 |
| Long term debt | 1,763 | 1,774 |
| Total liabilities | 16,315 | 17,082 |
| Stockholders' equity: | | |
| Preferred stock, par value \$.10 per share - authorized - 1,000,000 shares; outstanding - none | - | - |

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Common stock, par value \$.10 per share - authorized -
8,000,000 shares;

Outstanding 3,475,306 shares at December 29, 2012

and at

| | | |
|--|-----------|-----------|
| September 30, 2012 | 348 | 348 |
| Premium paid in on common stock | 5,563 | 5,492 |
| Retained earnings | 8,360 | 9,662 |
| Accumulated other comprehensive loss | (8,869) | (9,023) |
| Total stockholders' equity | 5,402 | 6,479 |
| Total liabilities and stockholders' equity | \$ 21,717 | \$ 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 | |
| | December 29, 2012 | December 31, 2011 |
| Net sales | \$ 6,640 | \$ 8,515 |
| Cost of sales | (4,400) | (5,533) |
| Gross profit | 2,240 | 2,982 |
| Selling, research and administrative expenses | (3,425) | (2,730) |
| Operating (loss) income | (1,185) | 252 |
| Interest expense | (24) | (56) |
| Interest income | - | 23 |
| Foreign currency (loss) gain | (201) | 154 |
| (Loss) income before income tax | (1,410) | 373 |
| Income tax benefit (provision) | 108 | (89) |
| Net (loss) income | \$ (1,302) | \$ 284 |
| Basic (loss) income per share | \$ (.39) | \$.09 |
| Fully diluted (loss) income per share | \$ (.39) | \$.08 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

Sevcon, Inc. and Subsidiaries

| | (in thousands of dollars) | |
|--|---------------------------|-------------------------|
| | Three months ended | |
| | December 29, 2012 | December 31, 2011 |
| Net (loss) income | \$(1,302) | \$284 |
| Foreign currency translation adjustment | 101 | (92) |
| Amortization of pension transition items to income | 53 | 46 |
| Comprehensive (loss) income | \$(1,148) | \$238 |

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) | |
|---|---------------------------|----------------------|
| | Three months ended | |
| | December 29, 2012 | December 31, 2011 |
| Cash flow from operating activities: | | |
| Net (loss) income | \$ (1,302) | \$ 284 |
| Adjustments to reconcile net (loss) income to net cash used by operating activities: | | |
| Depreciation | 146 | 156 |
| Gain on sale of fixed assets | (3) | - |
| Stock-based compensation | 71 | 60 |
| Pension contributions less than pension expense | 42 | 38 |
| Deferred tax provision | (108) | 113 |
| Increase (decrease) in cash resulting from changes in operating assets and liabilities: | | |
| Trade and other receivables | 540 | (907) |
| Inventories | (62) | (336) |
| Prepaid expenses and other current assets | 63 | (8) |
| Accounts payable | (641) | (246) |
| Accrued expenses | (202) | (503) |
| Accrued and deferred taxes on income | (3) | (6) |
| Net cash used by operating activities | (1,459) | (1,355) |
| Cash flow used by investing activities: | | |
| Acquisition of property, plant and equipment | (145) | (104) |
| Proceeds of sale of fixed assets | 4 | - |
| Net cash used by investing activities | (141) | (104) |
| Cash flow used by financing activities: | | |
| Repayments of long term debt | (10) | (10) |
| Net cash used by financing activities | (10) | (10) |
| Effect of exchange rate changes on cash | 76 | (22) |
| Net decrease in cash | (1,534) | (1,491) |
| Beginning balance - cash and cash equivalents | 2,823 | 1,797 |
| Ending balance - cash and cash equivalents | \$ 1,289 | \$ 306 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for income taxes | 3 | 12 |
| Cash paid for interest | \$ 24 | \$ 56 |

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

SEVCON, INC.

Notes to Consolidated Financial Statements – December 29, 2012

(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 condensed consolidated financial statements contain all adjustments (consisting of only normally recurring accruals) necessary to present fairly the financial position of Sevcon, Inc. as of December 29, 2012 and the results of operations and cash flows for the three months ended December 29, 2012. 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 three month period ended December 29, 2012 are not necessarily indicative of the results to be expected for the full year.

(2) Summary of significant accounting policies

There have been no changes since the end of 2012 to the significant accounting policies followed by Sevcon, Inc.

(3) Stock-based compensation plans

Under the Company’s 1996 Equity Incentive Plan (the “Plan”) there were 122,800 shares reserved and available for grant at December 29, 2012. There were 138,000 shares reserved and available for grant at December 31, 2011. There were no options granted or exercised in the quarters ended December 29, 2012 and December 31, 2011.

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 three months ended December 29, 2012 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 December 29, 2012 | 36,000 | \$ 4.51 | 0.4 years | \$ - |
| Exercisable at December 29, 2012 | 33,500 | \$ 4.51 | 0.4 years | \$ - |
| Exercisable and expected to vest at December 29, 2012 | 36,000 | \$ 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 \$3.50 and \$4.75 closing market price of the Company's common stock at December 29, 2012 and September 30, 2012, respectively.

The Company did not grant any shares of restricted stock to employees or non-employee directors in the three month period ended December 29, 2012. In December 2011, the Company granted 110,000 shares of restricted stock to seven employees, 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 \$561,000 based on the fair market value of stock on the date of issue. This unvested compensation is being charged to income on a straight line basis over five years. The charge to income for this employee restricted stock will be approximately \$28,000 on a quarterly basis.

A summary of restricted stock activity for the three months ended December 29, 2012 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 | - | \$- |
| Vested | (33,000) | \$5.20 |
| Forfeited | - | \$- |
| Non-vested balance as of December 29, 2012 | 111,200 | \$5.23 |

Stock-based compensation expense was \$71,000 and \$60,000 for the three month periods ended December 29, 2012 and December 31, 2011, respectively. At December 29, 2012, there was \$473,000 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 3.8 years.

(4) 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.

(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 | |
| | December 29, 2012 | December 31, 2011 |
| Net (loss) income | \$(1,302) | \$284 |
| Weighted average shares outstanding - basic | 3,339 | 3,313 |
| Basic (loss) income per share | \$ (.39) | \$.09 |
| Common stock equivalents | 18 | 49 |
| Weighted average shares outstanding - diluted | 3,357 | 3,362 |
| Diluted (loss) income per share | \$ (.39) | \$.08 |
| No. of options that are anti-dilutive excluded from calculation of common stock equivalents | 36 | - |

(6) 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 December 29, 2012 | | | |
| | Controls | Capacitors | Corporate | Total |
| Sales to external customers | 6,202 | 438 | - | 6,640 |
| Inter-segment revenues | - | 2 | - | 2 |
| Operating income (loss) | (1,143) | (14) | (28) | (1,185) |
| Identifiable assets | 20,027 | 1,283 | 407 | 21,717 |
| | Three months ended December 31, 2011 | | | |
| | Controls | Capacitors | Corporate | Total |
| Sales to external customers | 8,073 | 442 | - | 8,515 |

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| | | | | |
|-------------------------|--------|-------|-------|--------|
| Inter-segment revenues | - | 5 | - | 5 |
| Operating income (loss) | 296 | (28) | (16) | 252 |
| Identifiable assets | 21,118 | 1,147 | 159 | 22,424 |

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

| | (in thousands of dollars) | |
|--|---------------------------|-------------------------|
| | Three Months ended | |
| | December 29, 2012 | December 31, 2011 |
| Electronic controls for zero emission and hybrid electric vehicles | \$4,085 | \$5,584 |
| Accessory and aftermarket products and services | 2,117 | 2,489 |
| Total electronic controls segment revenues | \$6,202 | \$8,073 |

(7) 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 | |
| | December 29, 2012 | December 31, 2011 |
| Research and development expense | \$1,083 | \$817 |
| Percentage of sales | 16.3 | 9.6 |

(8) 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 month periods ended December 29, 2012 and December 31, 2011, respectively:

| | (in thousands of dollars) | |
|--|---------------------------|----------------------|
| | Three Months ended | |
| | December 29, 2012 | December 31, 2011 |
| Service cost | \$ - | \$ 66 |
| Interest cost | 323 | 312 |
| Expected return on plan assets | (293) | (279) |
| Amortization of net loss | 72 | 67 |
| Amortization of prior service cost | - | (6) |
| Net periodic benefit cost | 102 | 160 |
| Net cost of defined contribution plans | \$ 122 | \$ 39 |

The following table sets forth the movement in the liability for pension benefits in the three month periods ended December 29, 2012 and December 31, 2011:

| | (in thousands of dollars) | |
|---|---------------------------|-------------------------|
| | Three Months ended | |
| | December 29, 2012 | December 31, 2011 |
| Liability for pension benefits at beginning of period | \$10,264 | \$7,634 |
| Net periodic benefit cost | 102 | 160 |
| Plan contributions | (60) | (122) |
| Amortization of net loss | (72) | (67) |
| Amortization of prior service cost | - | 6 |
| Effect of exchange rate changes | 78 | (18) |
| Balance at end of period | \$10,312 | \$7,593 |

Amounts recognized in the balance sheet consist of:

| | (in thousands of dollars) | |
|-------------------------|---------------------------|----------------------|
| | December 29, 2012 | December 31, 2011 |
| Non-current liabilities | \$ 10,312 | \$ 7,593 |

Amounts recognized in accumulated other comprehensive (loss) consist of:

| | (in thousands of dollars) | |
|---|---------------------------|-------------------------|
| | December 29, 2012 | December 31, 2011 |
| Actuarial loss, net of \$19,000 tax benefit (2011: net of \$17,000 tax benefit) | \$53 | \$50 |
| Prior service gain, (2011: net of \$2,000 tax charge) | - | (4) |
| | \$53 | \$46 |

Sevcon, Inc. did not contribute to its U.S. defined benefit plan in the three months ended December 29, 2012; it presently anticipates contributing \$86,000 to fund its U.S. plan in the remainder of fiscal 2013. In addition, employer contributions to the U.K. defined benefit plan were \$60,000 in the first three months and are estimated to total \$426,000 in 2013.

The table below presents information about the Company's pension plan assets measured and recorded at fair value as of December 29, 2012 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 | 6,315 | - | - |
| Standard Life UK Indexed Linked Fund | 1,669 | - | - |
| Standard Life Long Corporate Bond Fund | 1,616 | - | - |
| CF Ruffer Absolute Return Fund | 6,388 | - | - |
| U.S. Equity Funds | 1,928 | - | - |
| U.S. Fixed Income Funds | 183 | - | - |
| Other Types of Investments | | | |
| Cash | 208 | - | - |
| Total | 18,307 | - | - |

*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 |

(9) Inventories

Inventories were comprised of:

| | (in thousands of dollars) | |
|-----------------|---------------------------|--------------------------|
| | December 29, 2012 | September 30, 2012 |
| Raw materials | \$2,524 | \$2,391 |
| Work-in-process | 7 | 76 |

| | | |
|----------------|---------|---------|
| Finished goods | 3,925 | 3,879 |
| | \$6,456 | \$6,346 |

(10) Fair value of financial instruments

The Company's financial instruments consist mainly of cash and cash equivalents, short-term investments, accounts receivable and accounts payable. The carrying amount of these financial instruments as of December 29, 2012 approximates fair value due to the short-term nature of these instruments. The fair value of the Company's long term debt at December 29, 2012 approximated \$1,807,000 (the carrying value on the consolidated balance sheet at December 29, 2012) based on recent financial market pricing. The long term debt represented a level 2 liability in accordance with the fair value hierarchy described in Note 8.

(11) Accrued expenses

Set out below is an analysis of other accrued expenses at December 29, 2012 and September 30, 2012, which shows separately any items in excess of 5% of total current liabilities:

| | (in thousands of dollars) | |
|--|---------------------------|--------------------------|
| | December 29, 2012 | September 30, 2012 |
| Accrued compensation and related costs | \$1,004 | \$1,021 |
| Other accrued expenses | 620 | 782 |
| | \$1,624 | \$1,803 |

(12) Warranty reserves

The movement in warranty reserves was as follows:

| | (in thousands of dollars) | |
|--|---------------------------|----------------------|
| | Three Months ended | |
| | December 29, 2012 | December 31, 2011 |
| Warranty reserves at beginning of period | \$ 89 | \$ 89 |
| Decrease in beginning balance for warranty obligations settled during the period | (8) | (2) |
| Foreign currency translation adjustment | 3 | (1) |
| Net increase in warranty reserves for products sold during the period | \$ 22 | \$ 1 |
| Warranty reserves at end of period | \$ 106 | \$ 87 |

(13) Debt

At December 29, 2012 the Company had \$107,000 outstanding under a U.K. bank loan entered into in April 2010, with a fixed interest rate of 6.8%. The loan, which was entered into by the U.K. metalized film capacitor subsidiary to purchase an item of capital equipment, is denominated in British Pounds. The loan agreement provides for equal monthly installments comprising interest and principal for a five year period commencing in May 2010. Of the total amount outstanding at December 29, 2012, \$44,000 is shown in the current liabilities section of the accompanying consolidated balance sheet under current debt, representing the principal element of the loan installments ending on December 31, 2013. Included in other long term liabilities at December 29, 2012, is \$63,000 which represents the principal element of the loan installments payable in fiscal years 2014 and 2015. The fair market value of the debt at December 29, 2012 was \$107,000.

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The Company's wholly owned subsidiary, Sevcon USA, Inc., has a \$3,500,000 secured revolving credit facility with RBS Citizens, National Association for working capital and general corporate purposes. The loan and security agreement will expire on June 14, 2014 when all outstanding principal and unpaid interest will be due and payable in full. The facility may be paid before maturity in whole or in part at the option of Sevcon USA, Inc., without penalty or premium. Interest on the loan is payable monthly, and in the first quarter of 2013, was calculated at a margin over LIBOR. Under the facility, Sevcon USA, Inc. must maintain, on a quarterly basis, a debt to tangible net worth ratio of no more than 2.40:1 and a debt service coverage ratio of no less than 1.25:1 for each rolling twelve-month period. At December 29, 2012, the Company was not in compliance with this covenant as the debt service coverage ratio was 1.11:1, but RBS Citizens has provided the Company with a waiver with regard to this non-compliance. Upon entering into the revolving credit facility, Sevcon USA, Inc. drew down \$1,700,000, which was the total amount outstanding at December 29, 2012. This \$1,700,000 is shown in the accompanying consolidated balance sheet under long-term debt. The carrying value of the debt approximated to fair value based on current interest rates.

In July 2012, the Company's U.K. bank renewed the overdraft facilities of the Company's U.K. controls and capacitor subsidiaries. The Company's U.K. controls and capacitor subsidiaries each have multi-currency overdraft facilities which together total \$1,450,000 and which are secured by real estate owned by those companies. In common with bank overdrafts in Europe, the renewal of the facilities is for a twelve month period although in line with normal practice in Europe, they can be withdrawn on demand by the bank. The facilities were unused at December 29, 2012.

Annual principal payments on long term debt at December 29, 2012 are as follows:

| | |
|---|---------|
| Fiscal year (in thousands of dollars) | |
| 2013 | \$33 |
| 2014 | 1,746 |
| 2015 | 28 |
| Total | \$1,807 |

(14) Subsequent events

In preparing these interim consolidated financial statements, the Company has evaluated, for potential recognition or disclosure, events or transactions subsequent to the end of the most recent quarterly period, the issuance date of these financial statements. No material subsequent events were identified that require recognition or disclosure in these financial statements.

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations.

FORWARD LOOKING STATEMENTS

Statements in this discussion and analysis about the Company's anticipated financial results and growth, as well as those about the development of its products and markets, are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those projected. Important factors that could cause these statements not to be realized include the risks discussed under "Risk Factors" below and others discussed in this report.

CRITICAL ACCOUNTING ESTIMATES

As of December 29, 2012, there have been no material changes to the critical accounting estimates described in the Company's 2012 10-K. However, if the continuing worldwide economic troubles continue to have a negative effect on

our business, estimates used in future periods may vary materially from those included in the Company's previous disclosures.

For example:

- (i) if the financial condition of any of the Company's customers deteriorates as a result of further business declines, the Company may be required to increase its estimated allowance for bad debts;
- (ii) if actual future demand is less than previously projected, inventory write-downs may be required; or
- (iii) significant negative industry or economic trends that adversely affect our future revenues and profits, or a reduction of our market capitalization relative to net book value, among other factors, may change the estimated future cash flows or other factors that we use to determine whether or not goodwill has been impaired and lead us to conclude that an impairment charge is required.

All of these factors, and others resulting from the current economic situation, may have a material adverse impact on the Company's results.

OVERVIEW OF FIRST QUARTER

Results of Operations

Three months ended December 29, 2012

The following table compares the results by segment for the three months ended December 29, 2012 with the same period in the prior year. The table shows the effect of currency and volume changes in percentage terms:

| | Three months ended | | Favorable (unfavorable) % change due to: | | |
|--|-------------------------|-------------------------|--|----------|--------|
| | December 29, 2012 | December 31, 2011 | Total | Currency | Volume |
| Sales: | | | | | |
| Controls - to external customers | \$ 6,202 | \$ 8,073 | (23) | - | (23) |
| Capacitors - to external customers | 438 | 442 | (1) | 2 | (3) |
| Capacitors - inter-segment | 2 | 5 | (60) | - | (60) |
| Capacitors – total | 440 | 447 | (2) | 2 | (4) |
| Total sales to external customers | 6,640 | 8,515 | (22) | - | (22) |
| Gross Profit: | | | | | |
| Controls | 2,105 | 2,836 | (26) | 2 | (28) |
| Capacitors | 135 | 146 | (8) | 2 | (10) |
| Total | 2,240 | 2,982 | (25) | 1 | (26) |
| Selling research and administrative expenses: | | | | | |
| Controls | 3,248 | 2,540 | (28) | (1) | (27) |
| Capacitors | 149 | 174 | 14 | (1) | 15 |
| Unallocated corporate expense | 28 | 16 | (75) | - | (75) |
| Total | 3,425 | 2,730 | (25) | (1) | (24) |
| Operating income (loss): | | | | | |
| Controls | (1,143) | 296 | (486) | 5 | (491) |
| Capacitors | (14) | (28) | 49 | 5 | 44 |
| Unallocated corporate expense | (28) | (16) | (75) | - | (75) |
| Total | (1,185) | 252 | (570) | 6 | (576) |
| Other income and expense | (225) | 121 | (286) | (420) | 134 |
| (Loss) income before income tax | (1,410) | 373 | (478) | (132) | (346) |
| Income tax benefit (provision) | 108 | (89) | 221 | 110 | 111 |
| Net (loss) income | \$ (1,302) | \$ 284 | (558) | (139) | (419) |

Sales in the first quarter of 2013 were \$6,640,000 compared to \$8,515,000 in the same quarter last year. This decrease was mainly in our controls business and reflected lower sales in our traditional off-road markets, as well as lower demand in the on-road sector. Foreign currency exchange rates were similar to last year and had little effect on reported sales.

Across all markets in the first quarter of 2013 the Company experienced slower demand from the middle of October to the beginning of December, after which order intake improved to a more traditional level. The higher level of order flow continued through January although there can be no assurance that this situation will continue. This, coupled with shorter lead times from customers, were the main reasons for the sales shortfall year-on-year.

In the controls business segment, sales were down from the first quarter last year in two of our three main geographic markets. Excluding foreign currency effects, revenues were down 44% from the first quarter last year in Europe, reflecting the ongoing macroeconomic weakness in that region. Sales were down in North America by 18%, but up 17% in the Far East market. The growth in the Far East was principally in Japan where we continue to see recovery after the tsunami in 2011. As in the fourth quarter of 2012, the declines in Europe and North America were centered in our traditional off-road markets for construction, distribution, mining, airport ground support and utility applications. We believe that this is due to the continued effects of a challenging macroeconomic environment, particularly in Europe. Customer demand in our fork lift truck segment was essentially flat on a year-over-year basis, slowing from the fourth quarter of 2012. In the on-road EV market, product sales to customers decreased overall from the first quarter last year. As in fourth quarter of 2012, shipments for four-wheel applications were down on a year-over-year basis, reflecting seasonal effects, technology adoption issues and consequential weak end-market demand.

In the capacitor business, volumes shipped were essentially flat compared to the first quarter last year, with higher demand from railway signaling customers offset by lower customer demand from the industrial sector.

Gross profit of \$2,240,000 was 33.7% of sales in the first quarter, compared to \$2,982,000 or 35.0% of sales in the same quarter last year. The reduction in the gross profit percentage compared to the prior year was largely due to fixed overhead costs being a higher percentage of sales as sales volumes decreased.

Selling, research and administrative expense in the first quarter of 2013 was \$3,425,000, an increase of \$695,000, or 25%, compared to the same period last year. In addition to engineering and sales staff hired in 2012, this increase reflects a final round of consulting and legal expenses related to the replacement of our defined benefit U.K. pension plan with a defined contribution arrangement effective October 1, 2012. Engineering and research and development expense as a percentage of total sales were 16.3% in the first quarter of fiscal 2013, compared with 9.6% in the first quarter of last year. This reflects our strong focus on product development as well as the year-over-year decline in revenue.

There was an operating loss for the first quarter of 2013 of \$1,185,000; this compares with operating income of \$252,000 in the same period last year. This is our first quarterly operating loss since the onset of the recession in the second quarter of 2009.

In the first quarter of 2013, interest expense was \$24,000, a decrease of \$32,000 compared to the prior year due to the Company's U.K. bank overdraft facility not being used during the first quarter of 2013. There was a foreign currency loss of \$201,000 in the first quarter of 2013 compared to a gain of \$154,000 in the same period last year.

The Company recorded a loss before income taxes of \$1,302,000 in the first quarter of 2013 compared to income before income taxes of \$284,000 in the same period last year, and the Company recorded an income tax benefit of \$108,000 compared with an income tax provision of \$89,000 in the same period last year. The low tax rate in the first quarter of 2013 largely reflects the impact of the continued reduction in the corporate income tax rate in the U.K. and also the availability in the U.K. of favorable research and development tax credits which further reduces our effective U.K. income tax rate. There was a net loss after income tax benefit for the quarter of \$1,302,000 or a loss of \$.39 per diluted share, compared to net income after tax of \$284,000, or income per diluted share of \$.08, in the same quarter last year.

As discussed in Part II, Item 1A, "Risk Factors," the continuing debt crisis in certain European countries poses significant potential risks to the Company's business, financial position and results of operations.

Financial Condition

Cash balances at the end of the first quarter of 2013 were \$1,289,000, compared to \$2,823,000 on September 30, 2012, a decrease in cash of \$1,534,000 in the first three months of 2013.

In the first three months of 2013, operating activities used \$1,459,000 of cash. Excluding the impact of currency fluctuations, receivables decreased by \$540,000, payables decreased by \$641,000, and inventories increased by \$62,000 in the quarter. The number of days sales in receivables decreased by one day from 64 day's sales at September 30, 2012 to 63 days sales at December 29, 2012. Capital expenditures in the first three months were \$145,000. Exchange rate changes increased reported cash by \$76,000 in the first three months of 2013.

The Company had a U.K. bank loan of \$107,000, of which \$44,000 was short-term and \$63,000 long-term debt at December 29, 2012. It has overdraft facilities in the United Kingdom amounting to \$1,450,000 which were unused as of December 29, 2012 and September 30, 2012. The overdraft facility of the U.K. capacitor subsidiary is secured by a legal charge over the facility owned and occupied by that company. The overdraft facility of the U.K. controls subsidiary is secured by a legal charge over a facility owned by that company. Both facilities were renewed in the third quarter of 2012 for a further period of twelve months but, in line with normal practice in Europe, can be withdrawn on demand by the bank. Management believes that, if these facilities were withdrawn, adequate alternative credit resources would be available. However, this would depend on the Company's situation and the economic environment at the time. Accordingly, management does not rely on their availability in projecting the adequacy of the Company's capital resources.

The Company's wholly owned subsidiary, Sevcon USA, Inc., has a \$3,500,000 secured revolving credit facility with RBS Citizens, National Association for working capital and general corporate purposes. The obligations under the revolving credit facility are guaranteed by the Company and are secured by all of the assets of Sevcon USA, Inc. and a pledge of all of the capital stock of Sevcon USA, Inc. The facility imposes customary limitations on Sevcon USA, Inc.'s ability to, among other things, pay dividends, make distributions, and incur additional indebtedness. Under the facility, Sevcon USA, Inc. must maintain, on a quarterly basis, a debt to tangible net worth ratio of no more than 2.40:1 and a debt service coverage ratio of no less than 1.25:1 for each rolling twelve-month period. At December 29, 2012, the Company was not in compliance with this covenant as the debt service coverage ratio was 1.11:1, but RBS Citizens has provided the Company with a waiver with regard to this non-compliance. Upon entering into the revolving credit facility, Sevcon USA, Inc. drew down \$1,700,000, which was the total amount outstanding at December 29, 2012. The revolving credit facility will expire on June 14, 2014 when all outstanding principal and unpaid interest will be due and payable in full.

There were no significant capital expenditure commitments at December 29, 2012. It is estimated that the Company will make contributions to its U.K. and U.S. defined benefit pension plans of approximately \$512,000 in fiscal 2013; should the Company suffer a material reduction in revenues in 2013 this commitment could adversely impact the Company's financial position. In the opinion of management, the Company's requirements for working capital to meet projected operational and capital spending in both the short and long term can be met by a combination of existing cash resources, future earnings and existing borrowing facilities in Europe. However, the outlook continues to remain uncertain, given the continuing worldwide economic situation and in particular the low economic growth in Europe and North America and the continuing debt crisis in Europe. Any material reduction in revenues will have a materially adverse impact on the Company's financial position, which would be exacerbated if any of the Company's lenders withdraws or reduces available credit. If the Company is unable to generate sufficient cash from operations and if the bank overdraft facilities are withdrawn, the Company would need to raise additional debt or equity capital from other sources to avoid significantly curtailing its business and materially adversely affecting its results.

Item 3 Quantitative and Qualitative Disclosures about Market Risk.

Foreign currency risk

The Company sells to customers throughout the industrialized world. The majority of the Company's products are manufactured in, or sourced from, the United Kingdom. In the first three months of 2013, approximately 53% of the Company's sales were made in U.S. Dollars, 25% were made in British Pounds and 22% were made in Euros. Approximately 80% of the Company's cost of sales was incurred in British Pounds and Euros. This resulted in the Company's sales and margins being exposed to fluctuations due to the change in the exchange rates of the U.S. Dollar, the British Pound and the Euro. The Company has trade accounts receivable and accounts payable denominated in both British Pounds and Euros that are exposed to exchange fluctuations.

In addition, the translation of the sales and income of foreign subsidiaries into U.S. Dollars is also subject to fluctuations in foreign currency exchange rates.

The following table provides information about the Company's foreign currency accounts receivable, accounts payable and firmly committed sales contracts outstanding as of December 29, 2012. The information is provided in U.S. Dollar amounts, as presented in the Company's consolidated financial statements. The table presents the amounts at which the Company's foreign currency accounts receivable, accounts payable and firmly committed sales contracts as of December 29, 2012 are expected to mature based on the exchange rate of the relevant foreign currency to U.S. Dollars at December 29, 2012:

| | (in thousands of dollars) | |
|--|--|------------|
| | Expected maturity or transaction date | |
| | Fiscal 2013 | Fair Value |
| On balance sheet financial instruments: | | |
| In \$ U.S. Functional Currency | | |
| Accounts receivable in British Pounds | 555 | 555 |
| Accounts receivable in Euros | 2,002 | 2,002 |
| Accounts payable in British Pounds | 556 | 556 |
| Accounts payable in Euros | 1,324 | 1,324 |
| Anticipated Transactions | | |
| In \$ U.S. Functional Currency | | |
| Firmly committed sales contracts | | |
| In British Pounds | 636 | 636 |
| In Euros | 1,943 | 1,943 |

Interest Rate Risk

The Company's policy is to invest surplus funds in instruments with maturities of less than 12 months at both fixed and floating interest rates. This investment portfolio is generally subject to general credit, liquidity, counterparty, market and interest rate risks that may be exacerbated by the current global financial crisis. If the banking system or the fixed income or credit markets continue to deteriorate or remain volatile, the values and liquidity of these investments could be adversely affected. The Company did not have any surplus funds invested as of December 29, 2012.

At December 29, 2012, the Company had \$107,000 of interest bearing debt related to a bank loan for the purchase of capital equipment by the Company's U.K. metalized film capacitor business. The Company also had, at December 29 2012, a \$3,500,000 secured revolving credit facility with RBS Citizens, National Association of which \$1,700,000 had been drawn down by the Company's U.S. controller business, Sevcon USA, Inc., and which was the total amount outstanding at that date. The Company incurs short-term borrowings from time-to-time on its overdraft facilities in Europe at variable interest rates.

Item 4 Controls and Procedures.

(a) Evaluation of disclosure controls and procedures. The Company's principal executive officer and principal financial officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rule 13a-15(e)), have concluded that, as of December 29, 2012, these disclosure controls and procedures were effective.

(b) Changes in internal control over financial reporting. Our principal executive officer and principal financial officer have identified no change in the Company's "internal control over financial reporting" (as defined in Securities Exchange Act of 1934 Rule 13a-15(f)) that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1 Legal Proceedings

None.

Item 1A Risk Factors

In addition to the market risk factors set forth in Part I, Item 1A of our 2012 10-K and the considerations set out in Part I, Items 2 and 3 above, the Company believes that the following represent the most significant risk factors for the Company:

Capital markets are cyclical and weakness in the United States and international economies may harm our business.

The Company's traditional customers are mainly manufacturers of capital goods such as fork lift trucks, aerial lifts and railway signaling equipment. These markets are cyclical and depend heavily on worldwide transportation, shipping and other economic activity. They experienced a significant decline in demand during the recent global recession. Further, as our business has expanded globally, we have become increasingly subject to the risks arising from adverse changes in global economic conditions. While market conditions have appeared to improve since 2010, economic instability remains, particularly in the Eurozone. As a result, current or potential customers may be unable to fund purchases or manufacturing of products, which could cause them to delay, decrease or cancel purchases of our products or not to pay the Company or to delay paying for previously purchased products. In addition, the effect of the crisis on the Company's banks and other banks may cause the Company to lose its current overdraft facilities and be unable otherwise to obtain financing for operations as needed.

Demand for on-road electric vehicles incorporating our products may not materialize.

The Company has become increasingly involved in developing products for the on-road electric vehicle market. We have relationships with several customers that incorporate our products into their EV products. Our competitors and others are also developing products for other entrants in the EV market, with similar and competing technologies. If our customers' products or technology are not successful commercially, or if worldwide demand for EVs fails to grow as much as we hope, we may not realize the anticipated demand for our products in the EV market, which may have a material adverse effect on our results of operations.

The Company relies on a small number of key customers for a substantial portion of its revenues.

Ten customers accounted for 47% of the Company's revenues in the first three months of 2013 and the largest customer accounted for 10% of revenues. Although we have had business relationships with some of these customers for many years, our relationships with on-road EV customers are newer and, in any event, there are no long-term contractual supply agreements in place with any customer. Accordingly our performance could be adversely affected by the loss of one or more of these key customers.

The Company has substantial sales and operations outside the United States that could be adversely affected by changes in international markets.

A significant portion of our operations is located, and a significant portion of our business comes from, outside the United States. Accordingly, our performance could be adversely affected by economic downturns in Europe or the Far East as well as in the United States. A consequence of significant international business is that a large percentage of our revenues and expenses are denominated in foreign currencies that fluctuate in value versus the U.S. Dollar. Significant fluctuations in foreign exchange rates can and do have a material impact on our financial results, which are reported in U.S. Dollars. Other risks associated with international business include: changing regulatory practices and tariffs; staffing and managing international operations, including complying with local employment laws; longer collection cycles in certain areas; and changes in tax and other laws.

The continuing debt crisis in the Eurozone may have a material adverse effect on our business and operating results, which could adversely affect our stock price.

There continues to be significant uncertainty about the stability of global credit and financial markets in light of the continuing debt crisis in certain European countries. A default or a withdrawal from the Eurozone by any of the countries involved, or the uncertainty alone, could cause the value of the Euro to deteriorate. This, or a change to a local currency, would reduce the purchasing power of affected European customers. We are unable to predict the likelihood of any of these events but, if any occurs, our business, financial position and results of operations could be materially and adversely affected.

Single source materials and sub-contractors may not meet the Company's needs.

The Company relies on single, or a small number of, suppliers and sub-contractors for its requirements for most components, sub-assemblies and finished products. In the event that such suppliers and sub-contractors are unable or unwilling to continue supplying the Company, or to meet the Company's cost and quality targets or needs for timely delivery, there is no certainty that the Company would be able to establish alternative sources of supply in time to meet customer demand.

Damage to the Company's or sub-contractors' buildings would hurt results.

In the electronic controls segment, the majority of the Company's finished product is produced in three separate plants in Poland, Mexico and China; these plants are owned by sub-contractors. The capacitor business is located in a single plant in Wales. In the event that any of these plants was to be damaged or destroyed, there is no certainty that the Company would be able to establish alternative facilities in time to meet customer demand. The Company does carry property damage and business interruption insurance but this may not cover certain lost business due to the long-term nature of the relationships with many customers.

Failure to comply with financial covenants in our loan agreement could adversely affect us.

As of December 29, 2012, the Company's subsidiary in the United States, Sevcon USA, Inc. had approximately \$1,700,000 of outstanding indebtedness under a revolving credit facility with RBS Citizens, National Association. This indebtedness is secured by all of Sevcon USA, Inc.'s assets and a pledge of all the capital stock of Sevcon USA, Inc. The loan agreement includes financial covenants which require us to maintain compliance with certain financial ratios during the term of the agreement. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition". Failure to comply with the financial covenants would be an event of default under the loan agreement that would give the lender the right to cease making additional advances, accelerate repayment of all sums due and take action to collect the monies owed to it, including foreclosing on its security interest, which would have a material adverse effect on the Company's financial condition.

Product liability claims may have a material adverse effect.

The Company's products are technically complex and are installed and used by third parties. Defects in their design, installation, use or manufacturing may result in product liability claims against the Company. Such claims may result in significant damage awards, and the cost of any such litigation could be material.

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

See Exhibit Index immediately preceding the exhibits.

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.

SEVCON, INC.

Date: February 12, 2013 By: /s/ Paul N. Farquhar
Paul N. Farquhar
Chief Financial Officer
(Principal Financial Officer)

INDEX OF EXHIBITS

Exhibit Description

- 3.1 Restated Certificate of Incorporation of the registrant (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed on June 7, 2011).
- 3.2 Amended and Restated By-laws of the registrant (incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K filed on June 7, 2011).
- 31.1 Certification of Principal Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification of Principal Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1 Certification of Principal Executive Officer and Principal Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 101 The following materials formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations (ii) Consolidated Statements of Comprehensive Income (Loss) (iii) Consolidated Balance Sheets (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements. These materials are furnished and not “filed” herewith.