SEVCON, INC.
Form 10-Q
August 08, 2013

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 29, 2013

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

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 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 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.

Non-accelerated filer o

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 8, 2013
Common stock, par value $.10	3,474,388

SEVCON, INC.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 29, 2013
INDEX

PART I. FINANCIAL INFORMATION

Item 1 Financial Statements

CONSOLIDATED BALANCE SHEETS
Sevcon, Inc. and Subsidiaries

(in thousands of dollars except per share data)

	June 29, 2013	September 30, 2012
	(unaudited)	(unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$1,338	$2,823
Trade receivables, net of allowances for doubtful accounts of $30 at June 29, 2013 and $32 at September 30, 2012	6,286	5,289
Other receivables	383	569
Inventories	5,820	6,346
Prepaid expenses and other current assets	1,535	1,922
Total current assets	15,362	16,949
Property, plant and equipment, at cost:		
Land and improvements	21	23
Buildings and improvements	698	734
Equipment	10,354	10,576
	11,073	11,333
Less: accumulated depreciation	(9,111)	(9,188)
Net property, plant and equipment	1,962	2,145
Long-term deferred tax assets	3,880	3,002
Goodwill	1,435	1,435
Other-long term assets	32	30
Total assets	$22,671	$23,561
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current liabilities:		
Current portion of long term debt	$1,743	$43
Accounts payable	3,486	3,198
Accrued expenses	1,929	1,803
Accrued and deferred taxes on income	133	-
Total current liabilities	7,291	5,044
Liability for pension benefits	9,496	10,264
Long term debt	38	1,774
Total liabilities	16,825	17,082
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 3,474,388 shares at June 29, 2013 and 3,475,306 at	347	348

September 30, 2012		
Premium paid in on common stock	5,637	5,492
Retained earnings	8,546	9,662
Accumulated other comprehensive loss	(8,684)	(9,023)
Total stockholders' equity	5,846	6,479
Total liabilities and stockholders' equity	$22,671	$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		Nine months ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net sales	$ 8,675	$ 8,878	$ 23,332	$ 27,494
Cost of sales	(5,438)	(5,925)	(14,848)	(17,937)
Gross profit	3,237	2,953	8,484	9,557
Selling, research and administrative expenses	(2,944)	(2,918)	(9,234)	(8,575)
Restructuring charge	-	-	(605)	-
Operating income (loss)	293	35	(1,355)	982
Interest expense	(28)	(32)	(78)	(122)
Interest income	-	-	1	23
Foreign currency (loss) gain	(94)	54	(383)	175
Income (loss) before income tax	171	57	(1,815)	1,058
Income tax benefit (provision)	(47)	99	699	(148)
Net income (loss)	124	$ 156	(1,116)	$ 910
Basic income (loss) per share	$ 0.04	$ 0.05	$ (0.33)	$ 0.27
Fully diluted income (loss) per share	$ 0.04	$ 0.05	$ (0.33)	$ 0.27

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
Sevcon, Inc. and Subsidiaries

	(in thousands of dollars)			
	Three months ended		Nine months ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net income (loss)	124	$ 156	(1,116)	$ 910
Foreign currency translation adjustment	66	(245)	187	(174)
Pension liability adjustment, net of tax	49	65	152	157
Comprehensive income (loss)	$ 239	$ (24)	$ (777)	$ 893

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)	
	Nine months ended	
	June 29, 2013	June 30, 2012
Cash flow from operating activities:		
Net (loss) income	$(1,116)	$910
Adjustments to reconcile net (loss) income to net cash (used by) provided by operating activities:		
Depreciation	458	446
Gain on sale of fixed assets	(3)	-
Stock-based compensation	215	184
Pension contributions (greater than) less than pension expense	(44)	116
Deferred tax (benefit) provision	(1,107)	159
Increase (decrease) in cash resulting from changes in operating assets andliabilities:		
Trade and other receivables	(932)	(210)
Inventories	301	678
Prepaid expenses and other current assets	122	16
Accounts payable	446	(1,002)
Accrued expenses	159	(589)
Accrued and deferred taxes on income	408	(266)
Net cash (used by) provided by operating activities	(1,093)	442
Cash flow used by investing activities:		
Acquisition of property, plant and equipment	(383)	(309)
Proceeds of sale of fixed assets	4	-
Net cash used by investing activities	(379)	(309)
Cash flow used by financing activities:		
Repayments of long term debt	(31)	(29)
Purchase and retirement of common stock	(70)	(69)
Net cash used by financing activities	(101)	(98)
Effect of exchange rate changes on cash	88	6
Net (decrease) increase in cash	(1,485)	41
Beginning balance - cash and cash equivalents	2,823	1,797
Ending balance - cash and cash equivalents	$1,338	$1,838
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$22	$244
Cash paid for interest	78	$122

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

SEVCON, INC.

Notes to Consolidated Financial Statements – June 29, 2013

(Unaudited)

(1) Basis of presentation

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

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normally recurring accruals) necessary to present fairly the financial position of Sevcon, Inc. as of June 29, 2013 and the results of operations and cash flows for the nine months ended June 29, 2013. These unaudited interim financial statements should be read in conjunction with the 2012 annual consolidated financial statements and related notes included in the 2012 Sevcon, Inc. Annual Report filed on Form 10-K (the "2012 10-K"). Unless otherwise indicated, each reference to a year means the Company's fiscal year, which ends on September 30.

The results of operations for the nine month period ended June 29, 2013 are not necessarily indicative of the results to be expected for the full year.

(2) Summary of significant accounting policies

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

(3) New accounting pronouncement

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

(4) Stock-based compensation plans

Under the Company's 1996 Equity Incentive Plan (the "Plan") there were 137,000 shares reserved and available for grant at June 29, 2013. There were 122,800 shares reserved and available for grant at June 30, 2012. There were no options granted or exercised in the periods ended June 29, 2013 and June 30, 2012.

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

A summary of option activity for all plans for the nine months ended June 29, 2013 is as follows:

		Shares under Option		Weighted average Exercise Price	Weighted average remaining contractual life (years)		Aggregate Intrinsic Value
Outstanding at September 30, 2012	$	36,000	$	4.51	0.6 years	$	11,800
Granted		-		-	-		-
Exercised	$	-		-	-		-
Cancelled	$	(31,000)		4.37	-		-
Outstanding at June 29, 2013		5,000	$	5.40	0.1 years	$	-
Exercisable at June 29, 2013	$	4,500	$	5.40	0.1 years	$	-
Exercisable and expected to vest at June 29, 2013		4,500	$	5.40	0.1 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 $4.49 and $3.50 closing market price of the Company's common stock at June 29, 2013 and September 30, 2012, respectively.

In January 2013, the Company granted 16,800 shares of restricted stock to eight non-employee directors, which will vest on the day before the 2014 annual meeting providing that the grantee remains a director of the Company, or as otherwise determined by the Compensation Committee. The aggregate fair value of the stock measured on the date of grant was $72,000, based on the closing sale price of the stock on the date of grant. Compensation expense is being charged to income on a straight line basis over the twelve month period during which the forfeiture conditions lapse. The charge to income for these restricted stock grants in the first nine months of fiscal 2013 was $30,000 and the subsequent charge will be approximately $18,000 on a quarterly basis.

A summary of restricted stock activity for the nine months ended June 29, 2013 is as follows:

	Number of shares of Restricted Stock	Weighted Average Grant-Date Fair Value
Non-vested balance as of September 30, 2012	144,200	$5.22
Granted	16,800	$4.26
Vested	(57,200)	$5.24
Non-vested balance as of June 29, 2013	103,800	$5.05

Stock-based compensation expense was $47,000 and $215,000 for the three and nine month periods ended June 29, 2013. In the nine month period ended June 29, 2013, the stock-based compensation expense of $215,000 included $47,000 in respect of the cost of the acceleration of restricted stock awards for one employee who left the Company during the period. The severance cost for that employee, including the $47,000 accelerated stock-based compensation expense, is included in the restructuring charge outlined in Note 15 below. At June 29, 2013, there was $407,000 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 3.1 years.

(5) Cash dividends

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

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

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

	(in thousands except per share data)			
	Three months ended		Nine months ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net income (loss)	$124	$156	$(1,116)	$910
Weighted average shares outstanding – basic	3,365	3,341	3,356	3,330
Basic income (loss) per share	$0.04	$0.05	$(0.33)	$0.27
Common stock equivalents	6	69	4	51
Weighted average shares outstanding – diluted	3,371	3,410	3,360	3,381
Diluted income (loss) per share	$0.04	$0.05	$(0.33)	$0.27
No. of options that are anti-dilutive excluded from calculation of common stock equivalents	5	36	-	36

(7) Segment information

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

The significant accounting policies of the segments are the same as those described above and in Note 1 to the 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 June 29, 2013			
	Controls	Capacitors	Corporate	Total
Sales to external customers	$8,191	$ 484	$ -	$ 8,675
Inter-segment revenues	-	-	-	-
Operating income	208	29	56	293
Identifiable assets	21,072	1,149	450	22,671

Three months ended June 30, 2012

	Controls	Capacitors	Corporate	Total
Sales to external customers	$ 8,488	$ 390	$ -	$ 8,878
Inter-segment revenues	-	5	-	5
Operating income (loss)	(22)	(63)	120	35
Identifiable assets	20,854	1,121	173	22,148

	(in thousands of dollars)			
	Nine months ended June 29, 2013			
	Controls	Capacitors	Corporate	Total
Sales to external customers	$21,974	$1,358	$-	$23,332
Inter-segment revenues	-	6	-	6
Operating income (loss)	(1,228)	8	(135)	(1,355)
Identifiable assets	21,072	1,149	450	22,671

	Nine months ended June 30, 2012			
	Controls	Capacitors	Corporate	Total
Sales to external customers	$26,263	$1,231	$-	$27,494
Inter-segment revenues	-	19	-	19
Operating income (loss)	1,017	(109)	74	982
Identifiable assets	20,854	1,121	173	22,148

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

			(in thousands of dollars)	
	Three months ended		Nine months ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Electronic controls for zero emission and hybrid electric vehicles	$5,718	$6,683	$14,367	$19,862
Accessory and aftermarket products and services	2,473	1,805	7,607	6,401
Total electronic controls segment revenues	$8,191	$8,488	$21,974	$26,263

(8) Research and development

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

			(in thousands of dollars)	
	Three months ended		Nine months ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Research and development expense, net of grants receivable	$970	$948	$3,057	$2,591
Percentage of sales	11.2 %	10.7 %	13.1 %	9.4 %

In 2011, the Company was awarded a research and development grant by the U.K. Technology Strategy Board to lead a collaborative project with Cummins Generator Technologies and Newcastle University in the U.K. to develop an innovative electric drive system for electric vehicles using advanced switched reluctance motor technology. The Company recorded grant income from this Technology Strategy Board project of $30,000 and $36,000, respectively, for the three and nine month periods ended June 29, 2013 associated with research and development expense of $108,000. The Company also recorded grant income of $12,000 in the three and ninth month periods ended June 30, 2012 associated with research and development expense of $35,000 on this project. The grant income in 2013 and 2012 was recorded as a reduction of research and development expense.

In 2010, the Company was awarded a research and development grant by the U.K. Technology Strategy Board, to participate in a consortium of organizations on a project to research and design ultra-efficient systems for electric and hybrid vehicles. The Company recorded grant income from this U.K. Technology Strategy Board project of $37,000 and $147,000 for the three and nine month periods ended June 30, 2012 respectively, associated with research and development expense of $322,000. The Company did not record any income in respect of this Technology Strategy Board grant in the three and ninth month periods ended June 29, 2013. The grant income in 2012 was recorded as a reduction of research and development expense.

(9) Employee benefit plans

Sevcon has defined contribution plans covering the majority of its U.S. and U.K. employees in the controls business. There is also a small defined contribution plan covering senior managers in the capacitor business. The Company has frozen U.K. and U.S. defined benefit plans for which no future benefits are being earned by employees. The following table sets forth the components of the net pension cost for the three and nine month periods ended June 29, 2013 and June 30, 2012, respectively:

	(in thousands of dollars)			
	Three months ended		Nine months ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Service cost	$-	$67	$-	$198
Interest cost	309	308	945	958
Expected return on plan assets	(286)	(288)	(876)	(858)
Amortization of net loss	68	98	208	232
Amortization of prior service cost	-	(6)	-	(18)
Net periodic benefit cost	$91	$179	$277	$512
Net cost of defined contribution plans	$103	$35	$346	$125
Net cost of all employee benefit plans	$194	$214	$623	$637

The following table sets forth the movement in the liability for pension benefits in the nine month period ended June 29, 2013:

	(in thousands of dollars)	
	June 29, 2013	June 30, 2012
Liability for pension benefits at beginning of period	$10,264	$7,634
Net periodic benefit cost	277	512
Plan contributions	(321)	(396)
Amortization of net loss	(208)	(232)
Amortization of prior service costs	-	18
Effect of exchange rate changes	(516)	(13)
Balance at end of period	$9,496	$7,523

Amounts recognized in the balance sheet consist of:

	(in thousands of dollars)	
	June 29, 2013	September 30, 2012
Non-current liabilities	$9,496	$10,264

Amounts recognized in accumulated other comprehensive loss consist of:

	(in thousands of dollars)			
	Three months ended		Nine months ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012

Actuarial loss, net of $19,000 and $56,000 tax benefit for the three and nine month periods, respectively (2012 : net of $63,000 tax benefit)	$ 49	$ 68	$ 152	$ 169
Prior service gain, (2012 : net of $3,000 and $6,000 tax charge for the three and nine month periods, respectively)	-	(3)	-	(12)
	$49	$65	$152	$157

Sevcon, Inc. contributed $29,000 to its frozen U.S. defined benefit plan in the nine months ended June 29, 2013; it presently anticipates contributing a further $57,000 to fund its U.S. plan in the remainder of fiscal 2013. In addition, employer contributions to the U.K. defined benefit plan were $292,000 in the first nine months and are estimated to total $407,000 in 2013.

The table below presents information about the Company's pension plan assets measured and recorded at fair value as of June 29, 2013 and indicates the fair value hierarchy of the inputs utilized by the Company to determine the fair values.

	(in thousands of dollars)		
	Level 1* (Quoted prices in active markets)	Level 2** (Significant observable inputs)	Level 3*** (Unobservable inputs)
Mutual Funds			
Standard Life Pension Global Absolute Returns StrategiesFund	6,107	-	-
Standard Life U.K. Indexed Linked Fund	1,580	-	-
Standard Life Long Corporate Bond Fund	1,475	-	-
CF Ruffer Absolute Return Fund	6,473	-	-
U.S. Equity Funds and Mutual Funds	1,388	-	-
U.S. Fixed Income Funds	809	-	-
Other Types of Investments			
Cash	356	-	-
Total	18,188	-	-

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

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

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

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

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

(10) Inventories

Inventories were comprised of:

	(in thousands of dollars)	
	June 29, 2013	September 30, 2012
Raw materials	$2,170	$2,391
Work-in-process	7	76
Finished goods	3,643	3,879
	$5,820	$6,346

(11) 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 June 29, 2013 approximates fair value due to the short-term nature of these instruments. The fair value of the Company’s long term debt at June 29, 2013 approximated $1,781,000 (the carrying value on the consolidated balance sheet at June 29, 2013) based on recent financial market pricing. The long term debt represents a level 2 liability in accordance with the fair value hierarchy since it is based on significant observable inputs.

(12) Accrued expenses

Set out below is an analysis of other accrued expenses at June 29, 2013 and September 30, 2012, which shows separately any items in excess of 5% of total current liabilities:

	(in thousands of dollars)	
	June 29, 2013	September 30, 2012
Accrued compensation and related costs	$1,074	$1,021
Other accrued expenses	855	782
	$1,929	$1,803

(13) Warranty reserves

The movement in warranty reserves was as follows:

	(in thousands of dollars)			
	Three months ended		Nine months ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Warranty reserves at beginning of period	$90	$88	$89	$89
Pre-existing warranty obligations	(5)	(8)	(20)	(16)
Other changes to pre-existing warranties	-	-		(8)
Foreign currency translation adjustment	-	(1)	(1)	(1)

Net (decrease) increase in warranty reserves for products sold during the period	40	-	57	15
Warranty reserves at end of period	$125	$79	$125	$79

(14) Debt

At June 29, 2013 the Company had $81,000 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 of $4,000 comprising interest and principal for a five year period commencing in May 2010. Of the total amount outstanding at June 29, 2013, $43,000 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 June 30, 2014. Included in other long term liabilities at June 29, 2013, is $38,000 which represents the principal element of the loan installments payable in fiscal years 2014 and 2015. The fair market value of the debt at June 29, 2013 was $81,000.

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 third 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. Upon entering into the revolving credit facility, Sevcon USA, Inc. drew down $1,700,000, which was the total amount outstanding at June 29, 2013. This $1,700,000 is shown in the accompanying consolidated balance sheet under current portion of long term debt. The carrying value of the debt approximated to fair value based on current published interest rates.

In July 2013, the Company's U.K. bank renewed the multi-currency overdraft facilities of the Company's U.K. controls and capacitor subsidiaries. The facilities total $1,400,000 and 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. Of the $1,400,000 facilities, $342,000 was drawn down at June 29, 2013. At June 29, 2013, the Company had a positive bank balance of $657,000 with its main bankers, The Royal Bank of Scotland Group, including the $342,000 overdraft facility drawn down in the Company's U.K. subsidiary.

Annual principal payments on long term debt at June 29, 2013 are as follows:

Fiscal year (in thousands of dollars)	
2013	$10
2014	1,743
2015	28
Total	$1,781

(15) Restructuring charge

In February 2013, the Company announced a limited restructuring program in the controls business segment to reduce operating expense in response to the uncertain economic environment and the resultant lower demand for the Company's products experienced in the first quarter of 2013. The program, which was completed in March 2013, resulted in the termination of 8 employees across the Company's operations in the U.S. and the U.K. There was a restructuring charge in the second quarter of fiscal 2013 of $605,000 before taxes, which comprised one-time employee severance costs, associated professional fees, consultant costs and other costs relating to this program.

The following table summarizes the components of the restructuring charge for the period ended June 29, 2013:

	(in thousands of dollars)
Severance and other related costs	$343
Consultant costs, professional fees and other costs	262
Total restructuring charge	$605

The following table summarizes the liabilities related to the 2013 restructuring program:

	(in thousands of dollars)			
	Balance at October 1, 2012	Charges	Payments	Balance at June 29, 2013
Severance and other related costs	-	343	(343)	-
Consultant costs, professional fees and other costs	-	262	(216)	46
Total	-	605	(559)	46

(16) 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 June 29, 2013, 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 THIRD QUARTER AND FIRST NINE MONTHS

Results of Operations

Three months ended June 29, 2013 and June 30, 2012

The following table compares the results by segment for the three months ended June 29, 2013 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:		
	June 29, 2013	June 30, 2012	Total	Currency	Volume
Sales:					
Controls - to external customers	$8,191	$8,488	(4)	(1)	(3)
Capacitors - to external customers	484	390	24	(4)	28
Capacitors - inter-segment	-	5	(100)	-	(100)
Capacitors – total	484	395	23	(4)	27
Total sales to external customers	8,675	8,878	(2)	(1)	(1)
Gross Profit:					