

Edgar Filing: TECH OPS SEVCON INC - Form 10-Q

TECH OPS SEVCON INC  
Form 10-Q  
May 16, 2005

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 April 2, 2005  
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/ / 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  
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TECH/OPS SEVCON, INC.

-----  
(Exact name of registrant as specified in its charter)

Delaware 04-2985631  
-----  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes 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 May 16, 2005  
-----  
Common stock, par value \$.10 3,172,051

TECH/OPS SEVCON, INC.

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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements.

#### Consolidated Balance Sheets

##### ASSETS

(in thousands)

|  | Apr 2,<br>2005       | Sept 30,<br>2004                                 |
|--|----------------------|--|
|  | -----<br>(unaudited) | -----<br>(derived from<br>audited<br>statements) |
| <b>Current assets:</b>   |                      |  |
| Cash and cash equivalents  | \$ 410               | \$ 905   |
| Accounts receivable, less allowances<br>of \$145 at 4/2/2005<br>and \$192 at 9/30/2004 | 6,456                | 6,109  |
| Inventories  | 4,060                | 4,043  |
| Prepaid expenses and other current<br>assets   | 1,379                | 931  |
| Total current assets   | -----<br>12,305      | -----<br>11,988                                  |
| Property, plant and equipment, at cost   | 9,915                | 9,270  |
| Less: Accumulated depreciation<br>and amortization                                     | 6,665                | 6,085  |
| Net property, plant and equipment  | -----<br>3,250       | -----<br>3,185                                   |
| Goodwill   | 1,435                | 1,435  |
|  | -----<br>\$16,990    | -----<br>\$16,608                                |
|  | =====                | =====  |

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

TECH/OPS SEVCON, INC.

Consolidated Balance Sheets

LIABILITIES AND STOCKHOLDERS' INVESTMENT

(in thousands)

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|   | Apr 2,<br>2005<br>-----<br>(unaudited) | Sept 30,<br>2004<br>-----<br>(derived from<br>audited<br>statements) |
|---|--|--|
| Current liabilities:                            |  |  |
| Accounts payable                                | 2,807                                  | 3,001  |
| Dividend payable                                | 95                                     | 94   |
| Accrued expenses                                | 2,601                                  | 2,541  |
| Accrued taxes on income                         | 606                                    | 447  |
|   | -----                                  | -----  |
| Total current liabilities                       | 6,109                                  | 6,083  |
|   | -----                                  | -----  |
| <br>Deferred taxes on income                    | <br>64                                 | <br>61   |
|   | -----                                  | -----  |
| Stockholders' investment                        |  |  |
| Preferred stock                                 | -                                      | -  |
| Common stock                                    | 317                                    | 313  |
| Premium paid in on common stock                 | 4,310                                  | 4,047  |
| Retained earnings                               | 6,135                                  | 6,133  |
| Unearned compensation on restricted stock       | (241)                                  | -  |
| Cumulative other comprehensive<br>income (loss) | 296                                    | (29)   |
|   | -----                                  | -----  |
| Total stockholders' investment                  | 10,817                                 | 10,464   |
|   | -----                                  | -----  |
|   | \$16,990                               | \$16,608   |
|   | =====                                  | =====  |

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

TECH/OPS SEVCON, INC.  
Consolidated Statements of Income  
(Unaudited)

(in thousands except per share data)

| Three Months Ended |                | Six Months Ended |                |
|--------------------|----------------|------------------|----------------|
| -----              | -----          | -----            | -----          |
| Apr 2,<br>2005     | Apr 3,<br>2004 | Apr 2,<br>2005   | Apr 3,<br>2004 |
| -----              | -----          | -----            | -----          |

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|                                      |          |          |          |          |
|--------------------------------------|----------|----------|----------|----------|
| Net sales                            | \$ 8,094 | \$ 7,273 | \$15,636 | \$13,739 |
| Costs and expenses:                  |          |          |          |          |
| Cost of sales                        | 4,968    | 4,288    | 9,668    | 8,145    |
| Selling, research and administrative | 2,841    | 2,705    | 5,663    | 5,141    |
|                                      | -----    | -----    | -----    | -----    |
|                                      | 7,809    | 6,993    | 15,331   | 13,286   |
|                                      | -----    | -----    | -----    | -----    |
| Operating income                     | 285      | 280      | 305      | 453      |
| Foreign currency gain or (loss)      | -        | (59)     | 16       | (103)    |
| Interest income (expense), net       | (20)     | (1)      | (26)     | (6)      |
|                                      | -----    | -----    | -----    | -----    |
| Income before income taxes           | 265      | 220      | 295      | 344      |
| Income taxes                         | (93)     | (78)     | (103)    | (121)    |
|                                      | -----    | -----    | -----    | -----    |
| Net income                           | \$ 172   | \$ 142   | \$ 192   | \$ 223   |
|                                      | =====    | =====    | =====    | =====    |
| Basic income per share               | \$ .05   | \$ .05   | \$ .06   | \$ .07   |
|                                      | =====    | =====    | =====    | =====    |
| Fully diluted income per share       | \$ .05   | \$ .05   | \$ .06   | \$ .07   |
|                                      | =====    | =====    | =====    | =====    |

Consolidated Statement of Comprehensive Income  
(Unaudited)

(in thousands)

|  | Three Months Ended |                | Six Months Ended |                |
|--|--------------------|----------------|------------------|----------------|
|  | Apr 2,<br>2005     | Apr 3,<br>2004 | Apr 2,<br>2005   | Apr 3,<br>2004 |
|  | -----              | -----          | -----            | -----          |
| Net income                                     | \$ 172             | \$ 142         | \$ 192           | \$ 223         |
| Foreign currency translation adjustment        | (198)              | 92             | 340              | 619            |
| Change in fair market value of cash flow hedge | -                  | 8              | (15)             | (1)            |
|  | -----              | -----          | -----            | -----          |
| Comprehensive income (loss)                    | \$ (26)            | \$ 242         | \$ 517           | \$ 841         |
|  | =====              | =====          | =====            | =====          |

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

TECH/OPS SEVCON, INC.  
Consolidated Statement of Cash Flows  
(Unaudited)  
(in thousands)

|   | Six Months Ended |                |
|---|------------------|----------------|
|   | Apr 2,<br>2005   | Apr 3,<br>2004 |
|   | -----            | -----          |
| Net cash flow from operating activities:                                      |                  |                |
| Net income  | \$ 192           | \$ 223         |
| Adjustments to reconcile net income to net cash used by operating activities: |                  |                |
| Depreciation and amortization   | 337              | 312            |
| Stock-based compensation  | 26               | -              |

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|   |        |         |
|---|--------|---------|
| Deferred tax provision  | 3      | 5       |
| Increase (decrease) in cash resulting from changes in operating assets & liabilities: |        |         |
| Receivables   | (347)  | (1,118) |
| Inventories   | (17)   | (49)    |
| Pre-paid expenses and other current assets  | (433)  | (140)   |
| Accounts payable  | (194)  | 421     |
| Accrued compensation and expenses   | 60     | 153     |
| Accrued taxes on income   | 159    | 83      |
|   | -----  | -----   |
| Net cash used by operating activities   | (214)  | (110)   |
|   | -----  | -----   |
| Cash flow used by investing activities:   |        |         |
| Acquisition of property, plant, and equipment, net                                    | (258)  | (370)   |
|   | -----  | -----   |
| Net cash used by investing activities   | (258)  | (370)   |
|   |        |         |
| Cash flow used by financing activities:   |        |         |
| Dividends paid  | (189)  | (188)   |
|   | -----  | -----   |
| Effect of exchange rate changes on cash   | 166    | 351     |
|   | -----  | -----   |
| Net decrease in cash  | (495)  | (317)   |
| Opening balance - cash and cash equivalents   | 905    | 524     |
|   | -----  | -----   |
| Ending balance - cash and cash equivalents  | \$ 410 | \$ 207  |
|   | =====  | =====   |
| Supplemental disclosure of cash flow information                                      |        |         |
| Cash paid for income taxes  | \$ 314 | \$ 24   |
| Cash paid for interest  | 27     | 6       |
| Supplemental disclosure of non-cash financing activity:                               |        |         |
| Dividend declared   | \$ 95  | \$ 94   |

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

TECH/OPS SEVCON, INC.

Notes to Consolidated Financial Statements - April 2, 2005

(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 2, 2005 and the results of operations and cash flows for the three months and six months ended April 2, 2005.

The significant accounting policies followed by Tech/Ops Sevcon are set forth in Note 1 to the financial statements in the 2004 Tech/Ops Sevcon, Inc. Annual Report filed on Form 10-K.

Inventories

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Inventories are valued at the lower of cost or market. Inventory costs include materials, direct labor and manufacturing overhead, and are relieved from inventory on a first-in, first-out basis. The Company's reported financial condition includes a provision for estimated slow-moving and obsolete inventory that is based on a comparison of inventory levels with forecast future demand. Such demand is estimated based on many factors, including management judgments, relating to each customer's business and to economic conditions. The Company reviews in detail all significant inventory items with holdings in excess of estimated normal requirements. It also considers the likely impact of changing technology. It makes an estimate of the provision for slow moving and obsolete stock on an item-by-item basis based on a combination of likely usage based on forecast customer demand, potential sale or scrap value and possible alternative use. This provision represents the difference between original cost and market value at the end of the financial period. In cases where there is no estimated future use for the inventory item and there is no estimated scrap or resale value, a 100% provision is recorded. Where the Company estimates that only part of the total holding of an inventory item will not be used, or there is an estimated scrap, resale or alternate use value, then a proportionate provision is recorded. Once an item has been written down, it is not subsequently revalued upwards. The provision for slow moving and obsolete inventories at April 2, 2005 was \$904,000, or 18% of the original cost of gross inventory. At September 30, 2004 the provision was \$879,000, or 18% of gross inventory. Inventories comprised of:

|                   | (in thousands of dollars) |                  |
|-------------------|---------------------------|------------------|
|                   | Apr 2,<br>2005            | Sept 30,<br>2004 |
|                   | -----                     | -----            |
| Raw materials     | \$ 2,037                  | \$ 2,076         |
| Work-in-process   | 285                       | 177              |
| Finished goods    | 1,738                     | 1,790            |
|                   | -----                     | -----            |
| Total inventories | \$ 4,060                  | \$ 4,043         |
|                   | -----                     | -----            |

The results of operations for the six-month periods ended April 2, 2005 and April 3, 2004 are not necessarily indicative of the results to be expected for the full year.

### (2) New Accounting Pronouncements

In October 2004, the President signed into law the American Jobs Creation Act (the Act). The Act allows for a federal income tax deduction for a percentage of income earned from certain domestic production activities. The Company's domestic, or U.S., production activities may qualify for the deduction. Based on the effective date of the Act, the Company would be eligible for this deduction in the first quarter of fiscal 2006. Additionally, on December 21, 2004, the FASB issued FASB Staff Position 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes (SFAS No. 109), to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004" (FSP 109-1). FSP 109-1, which was effective upon issuance, states the deduction under this provision of the Act should be accounted for as a special deduction in accordance with SFAS 109. The Company has not yet quantified the benefit that may be realized from this provision of the Act.

The Act also allows for an 85% dividends received deduction on the repatriation of certain earnings of foreign subsidiaries. On December 21, 2004, the FASB issued FASB Staff Position 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American

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Jobs Creation Act of 2004" (FSP 109-2). FSP 109-2, which was effective upon issuance, allows companies time beyond the financial reporting period of enactment to evaluate the effect of the Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. Additionally FSP 109-2 provides guidance regarding the required disclosures surrounding a company's reinvestment or repatriation of foreign earnings. The Company continues to evaluate this provision of the Act to determine the amount of foreign earnings to repatriate. Currently the Company does not expect the potential repatriation to have a material impact on its effective tax rate.

In November 2004, the Financial Accounting Standards Board issued SFAS #151, "Inventory Costs - an amendment of ARB No. 43" ("SFAS #151"), which is the result of its efforts to converge U.S. accounting standards for inventories with International Accounting Standards. SFAS #151 requires idle facility expenses, freight, handling costs, and wasted material (spoilage) costs to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS #151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is evaluating the impact of this standard on our consolidated financial statements.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS)#123R, "Share-Based Payment". This Statement replaces SFAS #123 "Accounting for Stock based Compensation" and supersedes APB #25 "Accounting for Stock Issued to Employees". This Statement establishes fair value on the grant date as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans. This Statement is effective for public entities that do not file as small business issuers as of the beginning of the first annual reporting period that begins after June 15, 2005.

In addition, in March 2005, the SEC issued Staff Accounting Bulletin No. 107, "Share-Based Payment" (SAB 107). SAB 107 provides supplemental implementation guidance on Statement 123R, including guidance on valuation methods, classification of compensation expense, inventory capitalization of share-based compensation cost, income tax effects, disclosures in Management's Discussion and Analysis and several other issues.

The Company will adopt the provisions of SFAS #123R effective at the beginning of fiscal 2006. The Company will adopt the modified prospective application transition method. Under this method the Company expects to incur expense relating to previously issued stock options of approximately \$30,000 in fiscal 2006. The accounting for restricted stock issued in fiscal 2005 will be substantially unchanged by the application of SFAS #123R.

### (3) Stock-Based Compensation Plans

SFAS #123 "Accounting for Stock-Based Compensation" as amended by SFAS #148 "Accounting for Stock-Based Compensation - Transition and Disclosure" and to be replaced by SFAS 123R "Share-Based Payment" defines a fair value based method of accounting for employee stock options or similar equity instruments and encourages all entities to adopt that method of accounting. However, it also allows an entity to continue to measure compensation costs using the method of accounting proscribed by APB #25 "Accounting for Stock Issued to Employees". Until SFAS #123R becomes effective in fiscal 2006 the Company continues to account for its stock-based compensation plans under

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APB #25, under which no compensation cost has been recognized. Had compensation cost for these plans been determined consistent with SFAS #123 the Company's net income and earnings per share would have equaled the following pro forma amounts:

| (in thousands of dollars, except for per share amounts)         |                    |                |                  |                |
|---|--------------------|----------------|------------------|----------------|
|   | Three Months Ended |                | Six Months Ended |                |
|   | Apr 2,<br>2005     | Apr 3,<br>2004 | Apr 2,<br>2005   | Apr 3,<br>2004 |
|   | -----              | -----          | -----            | -----          |
| Net income - As reported  | \$ 172             | \$ 142         | \$ 192           | \$ 223         |
| Pro forma effect of expensing stock options (net of income tax) | (14)               | (17)           | (28)             | (34)           |
| Net income - Pro forma  | \$ 158             | \$ 125         | \$ 164           | \$ 189         |
|   | -----              | -----          | -----            | -----          |
| Income per share:   |                    |                |                  |                |
| Basic - As reported   | \$ .05             | \$ .05         | \$ .06           | \$ .07         |
| Basic - Pro forma   | \$ .05             | \$ .04         | \$ .05           | \$ .06         |
| Diluted - As reported   | \$ .05             | \$ .05         | \$ .06           | \$ .07         |
| Diluted - Pro forma   | \$ .05             | \$ .04         | \$ .05           | \$ .06         |
|   | -----              | -----          | -----            | -----          |

The effects of applying SFAS #123 in this pro forma disclosure are not indicative of future amounts. SFAS #123 does not apply to awards prior to fiscal 1996 and additional awards in future years are anticipated.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions.

|                         | 2005  | 2004  | 2003  |
|-------------------------|-------|-------|-------|
|                         | ----- | ----- | ----- |
| Risk-free interest rate | N/A   | N/A   | 3.0%  |
| Expected dividend yield | N/A   | N/A   | 2.7%  |
| Expected life (years)   | N/A   | N/A   | 7     |
| Expected volatility of  | N/A   | N/A   | 47%   |

No options were granted in the first six months of fiscal 2005 or in fiscal 2004.

In November 2004 the Company granted 35,000 shares of restricted stock to five employees which will vest in five equal annual installments providing that the grantee remains an employee of the Company, or as determined by the Compensation Committee. The estimated fair value of the stock on the date of grant was \$182,000 based on the fair market value on the stock on date of issue and estimated forfeitures of 4% per year. The estimated forfeitures are based on the historical rate of turnover of the relevant group of employees. This amount was credited to common stock and paid in surplus and the \$182,000 was recorded as "Unearned compensation on restricted stock", a deduction from stockholders equity. The unearned compensation is being charged to income on a straight line basis over the five year period during which the forfeiture conditions lapse. The charge to income for employee restricted stock grants in the first six months of fiscal 2005 was \$12,000 and the subsequent regular quarterly charge will be approximately \$9,000.

In January 2005 the Company granted 12,000 shares of restricted stock to six non-employee directors which will vest on the day before the 2006



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annual meeting, provided that the grantee remains a director of the Company, or as determined by the Compensation Committee. The estimated fair value of the stock on the date of grant was \$85,000 based on the fair market value on the stock on date of issue. Due to the short-term vesting period no forfeitures have been estimated. This amount was credited to common stock and paid in surplus and the \$85,000 was recorded as "Unearned compensation on restricted stock", a deduction from stockholders equity. The unearned compensation is being charged to income on a straight line basis over the one year period during which the forfeiture conditions lapse. The charge to income for non-employee directors restricted stock grants in the first six months of fiscal 2005 was \$14,000 and the subsequent regular quarterly charge will be approximately \$21,000.

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

The estimated stock-based compensation expense in fiscal 2005 is as follows. No stock-based compensation expense was recorded in fiscal 2004.

|  | (in thousands of dollars) |                   |                  |                   |                |
|--|---------------------------|-------------------|------------------|-------------------|----------------|
|  | First<br>Quarter          | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Fiscal<br>2005 |
|  | -----                     | -----             | -----            | -----             | -----          |
| Stock option expense under SFAS #123R* | \$ -                      | \$ -              | \$ -             | \$ -              | \$ -           |
| Restricted stock grants                |                           |                   |                  |                   |                |
| - Employees                            | 3                         | 9                 | 9                | 9                 | 30             |
| - Non-employee directors               | -                         | 14                | 21               | 21                | 56             |
|  | -----                     | -----             | -----            | -----             | -----          |
| Total                                  | \$ 3                      | \$23              | \$30             | \$30              | \$86           |
|  | -----                     | -----             | -----            | -----             | -----          |

\* Pro forma expense of approximately \$14,000 per quarter is expected to be recorded for stock options accounted for under APB #25 in each quarter of fiscal 2005.

#### (4) Cash Dividends

On March 7, 2005, the Company declared a quarterly dividend of \$.03 per share for the second quarter of fiscal 2005, which was paid on April 7, 2005 to stockholders of record on March 23, 2005. The Company has paid regular quarterly cash dividends since the first quarter of fiscal 1990.

#### (5) Calculation of Earnings Per Share and Weighted Average Shares Outstanding

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

|                            | (in thousands of dollars, except for per share amounts) |               |                  |               |
|----------------------------|---|---------------|------------------|---------------|
|                            | Three Months Ended                                      |               | Six Months Ended |               |
|                            | -----   | -----         | -----            | -----         |
|                            | Apr 2<br>2005   | Apr 3<br>2004 | Apr 2<br>2005    | Apr 3<br>2004 |
|                            | -----   | -----         | -----            | -----         |
| Net income                 | \$ 172  | \$ 142        | \$ 192           | \$ 223        |
| Basic income per share     | \$ .05  | \$ .05        | \$ .06           | \$ .07        |
| Average shares outstanding | 3,125   | 3,125         | 3,125            | 3,125         |

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|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Options outstanding - common<br>stock equivalents          | 34     | 24     | 28     | 21     |
|  | -----  | -----  | -----  | -----  |
| Average common and common<br>equivalent shares outstanding | 3,159  | 3,149  | 3,153  | 3,146  |
|  | -----  | -----  | -----  | -----  |
| Fully diluted income per share                             | \$ .05 | \$ .05 | \$ .06 | \$ .07 |
|  | =====  | =====  | =====  | =====  |

(6) Segment information

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

The significant accounting policies of the segments are the same as those described in note(1) to the 2004 Annual Report filed on Form 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 April 2, 2005 |          |            |           |          |
|                                  | Controls | Capacitors | Corporate | Total    |
|                                  | -----    |            |           |          |
| Sales to external customers      | \$ 7,718 | \$ 376     | -         | \$ 8,094 |
| Inter-segment revenues           | -        | 83         | -         | 83       |
| Operating income (loss)          | 335      | (2)        | ( 48)     | 285      |
| Identifiable assets              | 15,402   | 882        | 706       | 16,990   |
|                                  | -----    |            |           |          |
| Three months ended April 3, 2004 |          |            |           |          |
|                                  | Controls | Capacitors | Corporate | Total    |
|                                  | -----    |            |           |          |
| Sales to external customers      | \$ 6,766 | \$ 507     | -         | \$ 7,273 |
| Inter-segment revenues           | -        | 50         | -         | 50       |
| Operating income (loss)          | 274      | 85         | (79)      | 280      |
| Identifiable assets              | 13,119   | 1,353      | 580       | 15,052   |
|                                  | -----    |            |           |          |
| Six months ended April 2, 2005   |          |            |           |          |
|                                  | Controls | Capacitors | Corporate | Total    |
|                                  | -----    |            |           |          |
| Sales to external customers      | \$14,860 | \$ 776     | -         | \$15,636 |
| Inter-segment revenues           | -        | 149        | -         | 149      |
| Operating income (loss)          | 493      | (20)       | (168)     | 305      |
| Identifiable assets              | 15,402   | 882        | 706       | 16,990   |
|                                  | -----    |            |           |          |
| Six months ended April 3, 2004   |          |            |           |          |
|                                  | -----    |            |           |          |

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|                             | Controls | Capacitors | Corporate | Total    |
|-----------------------------|----------|------------|-----------|----------|
| Sales to external customers | \$12,801 | \$ 938     | \$ -      | \$13,739 |
| Inter-segment revenues      | -        | 75         | -         | 75       |
| Operating income (loss)     | 503      | 94         | (144)     | 453      |
| Identifiable assets         | 13,119   | 1,353      | 580       | 15,052   |

In the controls business segment the revenues were derived from the following products and services.

|  | (in thousands of dollars) |                 |                  |                 |
|--|---------------------------|-----------------|------------------|-----------------|
|  | Three Months Ended        |                 | Six Months Ended |                 |
|  | Apr 2<br>2005             | Apr 3<br>2004   | Apr 2<br>2005    | Apr 3<br>2004   |
| Electronic controllers for battery driven vehicles | \$ 5,632                  | \$ 4,908        | \$10,558         | \$ 9,270        |
| Accessory and aftermarket products and services    | 2,086                     | 1,858           | 4,302            | 3,531           |
| <b>Total controls segment revenues</b>             | <b>\$ 7,718</b>           | <b>\$ 6,766</b> | <b>\$14,860</b>  | <b>\$12,801</b> |

### (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        |               | Six Months Ended |               |
|                                  | Apr 2<br>2005             | Apr 3<br>2004 | Apr 2<br>2005    | Apr 3<br>2004 |
| Research and Development expense | \$ 946                    | \$1,066       | \$1,780          | \$1,994       |
| Percentage of sales              | 11.7%                     | 14.7%         | 11.4%            | 14.5%         |

Research and development expense decreased by \$120,000, or 3.0% of sales, compared to the second quarter of last fiscal year. The decrease was principally due to lower engineering consultancy costs on advanced new product development, which was partially offset by the cost of increased internal engineering resources and foreign currency fluctuations.

### (8) Employee Benefit Plans

Tech/Ops Sevcon has defined benefit plans covering the majority of its US and UK employees. There is also a small defined contribution plan. The following table sets forth the components of the net pension cost as defined by SFAS #132R.

|  | (in thousands of dollars) |               |                  |               |
|--|---------------------------|---------------|------------------|---------------|
|  | Three Months Ended        |               | Six Months Ended |               |
|  | Apr 2<br>2005             | Apr 3<br>2004 | Apr 2<br>2005    | Apr 3<br>2004 |
| Components of net periodic benefit cost: |                           |               |                  |               |
| Service cost                             | \$ 111                    | \$ 119        | \$ 221           | \$ 233        |
| Interest cost                            | \$ 231                    | 218           | \$ 460           | 425           |
| Expected return on plan assets           | \$ (216)                  | (221)         | \$ (431)         | (431)         |

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|                                       |        |        |        |        |
|---------------------------------------|--------|--------|--------|--------|
| Amortization of transition obligation | \$ -   | -      | \$ -   | -      |
| Amortization of prior service cost    | \$ 13  | 13     | \$ 26  | 25     |
| Recognized net actuarial gain (loss)  | \$ -   | -      | \$ -   | -      |
|                                       | -----  |        | -----  |        |
| Net periodic benefit cost             | \$ 139 | \$ 129 | \$ 277 | \$ 252 |
|                                       | -----  |        | -----  |        |
| Net cost of defined contribution plan | \$ 7   | \$ 8   | \$ 14  | \$ 15  |
|                                       | -----  |        | -----  | -----  |

Tech/Ops Sevcon contributed \$216,000 to its pension plans in the six months ended April 2, 2005 and presently anticipates contributing a further \$304,000 to fund its plans in the remainder of fiscal 2005, for a total contribution of \$520,000. In addition employee contributions to the UK plan were \$126,000 in the first six months and are estimated to total \$253,000 in fiscal 2005.

### (9) Accrued expenses

Set out below is an analysis of other accrued expenses at April 2, 2005 and September 30, 2004 which shows separately any items in excess of 5% of total current liabilities.

(In thousands of dollars)

|  | Apr 2,<br>2005  | Sept 30,<br>2004 |
|--|-----------------|------------------|
| Accrued compensation and related costs | \$ 1,092        | \$ 979           |
| Warranty reserves                      | 404             | 386              |
| Accrued director's pension             | 198             | 201              |
| Other accrued expenses                 | 907             | 975              |
| <b>Total</b>                           | <b>\$ 2,601</b> | <b>\$ 2,541</b>  |

### (10) Warranty reserves

The movement in warranty reserves was as follows:

|  | (in thousands of dollars) |               |                  |               |
|--|---------------------------|---------------|------------------|---------------|
|  | Three Months Ended        |               | Six Months Ended |               |
|  | Apr 2<br>2005             | Apr 3<br>2004 | Apr 2<br>2005    | Apr 3<br>2004 |
| Balance at beginning of period   | \$ 429                    | \$ 374        | \$ 386           | \$ 404        |
| Decrease in opening balance for warranty obligations settled during the period | (109)                     | (151)         | (226)            | (234)         |
| Other changes to pre-existing warranties                                       | (5)                       | 2             | 12               | 4             |
| Net increase in warranty reserves for products sold during the period          | 89                        | 161           | 232              | 212           |
| <b>Balance at end of period</b>  | <b>\$ 404</b>             | <b>\$ 386</b> | <b>\$ 404</b>    | <b>\$ 386</b> |

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

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that involve risks and uncertainties that could cause actual results to differ materially from those projected. These include the risks discussed under 'Risk Factors' below and throughout this Item 2.

### NEW ACCOUNTING PRONOUNCEMENTS

The Company will adopt the following new accounting pronouncements in fiscal 2005. See Note 2 to Consolidated Financial Statements for a more detailed description of these new accounting pronouncements.

FASB Staff Position 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes (SFAS No. 109), to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004" - The Company has not yet quantified the benefit that may be realized from this provision of the Act.

FASB Staff Position 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" - Currently the Company does not expect the potential repatriation to have a material impact on its effective tax rate.

SFAS #151, "Inventory Costs - an amendment of ARB No. 43" - The Company is evaluating the impact of this standard on its consolidated financial statements.

SFAS#123R, "Share-Based Payment" - Adoption was planned for the fourth quarter of fiscal 2005 but, following a change announced by the SEC on April 15, 2005, adoption has been deferred to the start of fiscal 2006.

### CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are summarized in Note 1 of its Consolidated Financial Statements in this Quarterly Report on Form 10-Q. While all these significant accounting policies impact its financial condition and results of operations, certain of these policies require management to use a significant degree of judgement and/or make estimates, consistent with generally accepted accounting principles, that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses during the reporting periods. Since these are judgements and estimates, they are sensitive to changes in business and economic realities, and events may cause actual operating results to differ materially from the amounts derived from management's estimates and judgements.

The Company believes the following represent the most critical accounting judgments and estimates affecting its reported financial condition and results of operations:

#### Bad Debts

The Company estimates an allowance for doubtful accounts based on known factors related to the credit risk of each customer and management's judgment about the customer's business. Ten customers account for approximately 57% of the Company's sales in the current fiscal year to date. At April 2, 2005 the allowance for bad debts amounted to \$145,000, which represented 2% of receivables.

Because of the Company's long term relationships with the majority of its customers, in most cases, the principal bad debt risk to the Company arises from the insolvency of a customer rather than its unwillingness to pay. In addition, in certain cases the Company maintains credit

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insurance covering up to 90% of the amount outstanding from specific customers. The Company also carries out some of its foreign trade, particularly in the Far East, using letters of credit.

The Company reviews all accounts receivable balances on a regular basis, concentrating on any balances that are more than 30 days overdue, or where there is an identified credit risk with a specific customer. A decision is taken on a customer-by-customer basis as to whether a bad debt reserve is considered necessary based on the specific facts and circumstances of each account. In general, the Company would reserve 100% of the receivable, net of any recoverable value added taxes or insurance coverages, for a customer that becomes insolvent or files for bankruptcy, and lesser amounts for less imminent defaults. To a lesser degree, the Company maintains a small bad debt reserve to cover the remaining balances based on historical default percentages.

If the financial condition of any of the Company's customers is worse than estimated or were to deteriorate, resulting in an impairment of its ability to make payments, the Company's results may be adversely affected and additional allowances may be required. With the exception of a significant loss of \$562,000 in fiscal 2001 relating to one US customer, credit losses have not been significant in the past ten years.

### Inventories

Inventories are valued at the lower of cost or market. Inventory costs include materials, direct labor and manufacturing overhead, and are relieved from inventory on a first-in, first-out basis. The Company carries out a significant amount of customization of standard products and also designs and manufactures special products to meet the unique requirements of its customers. This results in a significant proportion of the Company's inventory being customer specific. The Company's reported financial condition includes a provision for estimated slow-moving and obsolete inventory that is based on a comparison of inventory levels with forecast future demand. Such demand is estimated based on many factors, including management judgments, relating to each customer's business and to economic conditions. The Company reviews in detail all significant inventory items with holdings in excess of estimated normal requirements. It also considers the likely impact of changing technology. It makes an estimate of the provision for slow moving and obsolete stock on an item-by-item basis based on a combination of likely usage based on forecast customer demand, potential sale or scrap value and possible alternative use. This provision represents the difference between original cost and market value at the end of the financial period. In cases where there is no estimated future use for the inventory item and there is no estimated scrap or resale value, a 100% provision is recorded. Where the Company estimates that only part of the total holding of an inventory item will not be used, or there is an estimated scrap, resale or alternate use value, then a proportionate provision is recorded. Once an item has been written down, it is not subsequently revalued upwards. The provision for slow moving and obsolete inventories at April 2, 2005 was \$904,000, or 18% of the original cost of gross inventory. At September 30, 2004 the provision was \$879,000, or 18% of gross inventory. If actual future demand or market conditions are less favorable than those projected by management, or if product designs change more quickly than forecast, additional inventory write-downs may be required, which may have a material adverse impact on reported results.

### Warranty Costs

The Company provides for the estimated cost of product warranties

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at the time revenue is recognized. While the Company engages in product quality programs and processes, the Company's warranty obligation is affected by product failure rates and repair or replacement costs incurred in correcting a product failure. Accordingly, the provision for warranty costs is based upon anticipated in-warranty failure rates and estimated costs of repair or replacement. Anticipating product failure rates involves making difficult judgments about the likelihood of defects in materials, design and manufacturing errors, and other factors that are based in part on historical failure rates and trends, but also on management's expertise in engineering and manufacturing. Estimated repair and replacement costs are affected by varying component and labor costs. Should actual product failure rates and repair or replacement costs differ from estimates, revisions to the estimated warranty liability may be required and the Company's results may be materially adversely affected. In the event that the Company discovers a product defect that impacts the safety of its products, then a product recall may be necessary, which could involve the Company in substantial unanticipated expense significantly in excess of the reserve. There were no significant safety related product recalls during the past three fiscal years.

### Goodwill Impairment

The Company carries out an annual assessment to determine if the goodwill relating to the controls business amounting to \$1,435,000 has been impaired, in accordance with the requirements of SFAS #142 "Goodwill and Other Intangible Assets". In fiscal 2004 the Company retained an investment banking firm specializing in valuations to assist the Company in performing this impairment assessment. The assessment was based on three separate methods of valuing the controls business based on expected free cash flows, the market price of the Company's stock and an analysis of precedent transactions. These methods require estimates of future revenues, profits, capital expenditures and working capital requirements which are based on evaluation of historical trends, current budgets, operating plans and industry data. Based on all of these valuation methods the conclusion was that the goodwill had not been impaired. If, in future periods, the Company's results of operations, cash flows or the market price of the Company's stock were to decrease significantly then it may be necessary to record an impairment charge relating to goodwill of up to \$1,435,000.

### Pension Plan Assumptions

The Company makes a number of assumptions relating to its pension plans in order to measure the financial position of the plans and the net periodic benefit cost. The most significant assumptions relate to the discount rate, the expected long term return on plan assets and the rate of future compensation increase. If these assumptions prove to be incorrect then the Company may need to record additional expense relating to the pension plans which could have a material effect on the Company's results of operations. The Company's pension plans are significant relative to the size of the Company. Pension plan assets were \$12,899,000 at September 30, 2004 and the total assets of the Company were \$16,608,000. Although the plan assets are not included in the assets of the Company they are 78% of size of the Company's total assets. If, as a result of changes in assumptions, the accumulated benefit obligation of either of the plans were to exceed the fair value of assets of that plan, then an adjustment to record this additional liability and corresponding decrease stockholders equity would be necessary, which could have a material effect on the Company's financial position.

### RISK FACTORS

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In addition to the market risk factors relating to foreign currency and interest rate risk set out below, the Company believes that the following represent the most significant risk factors for the Company:

Capital goods markets are cyclical

The Company's customers are mainly manufacturers of capital goods such as fork lift trucks, aerial lifts and railway signaling equipment. These markets are cyclical and are currently showing modest growth, but demand in these markets could decrease or customers could decide to purchase alternative products. In this event the Company's sales could decrease below its current break even point and there is no certainty that the Company would be able to decrease overhead expenses to enable it to operate profitably.

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

The Company relies on certain suppliers and sub-contractors for all of its requirements for certain 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-contractor's buildings would hurt results.

In the controller business the majority of product is produced in a single plant in England and uses sub-assemblies sourced from a sub-contractor with single plant in Poland. 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.

The Company risks adverse litigation impact

In fiscal 2002 the Company received a demand for repayment of an alleged preference payment of \$180,000 received from a customer in the 90 days prior to their filing for protection under Chapter 11 during fiscal 2000. At the time this customer filed for Chapter 11 protection it owed the Company \$50,000 and this amount was fully reserved in the fiscal 2000 financial statements. The Company is vigorously contesting this demand and believes that it has a good defense against a portion of this claim and that its accruals for customer payments are adequate to cover its estimated exposure to this customer.

### OVERVIEW OF SECOND QUARTER AND FIRST SIX MONTHS

The Company reported net income of \$172,000, or \$.05 per share, for the second fiscal quarter ended April 2, 2005. Net income increased by \$30,000, from \$142,000 in the comparable period last year. Basic and fully diluted net income was \$.05 per share, unchanged compared with the second quarter of last year. Sales in the second quarter were \$8,094,000 compared to \$7,273,000 for the second quarter of last year. Foreign currency fluctuations caused an increase in reported revenues of \$240,000, or 3%, and volumes shipped were 8% ahead of the prior year period.



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Operating income for the second quarter was \$285,000, an increase of \$5,000 compared to the second quarter of last year. Gross profit increased by \$141,000 compared to last year. The benefit of higher sales volumes was offset by lower margins on new products in the aerial lift market and by adverse foreign currency fluctuations. Operating expense for the second quarter was \$136,000 higher than the same period last year. This was mainly due to higher selling expense as the Company continues the launch of its espAC range of advanced new electric vehicle controls and adverse foreign currency fluctuations, partially offset by decreased engineering consulting expense.

For the six month period, net income was \$192,000, or \$.06 per diluted share, compared to \$223,000, or \$.07 per diluted share last year. Revenues in the first six months of fiscal 2005 were \$15,636,000, an increase of \$1,897,000, or 14%, compared to last year. Foreign currency fluctuations resulted in a \$605,000 increase in reported sales. Volumes were 9% ahead of the prior year. Gross profit increased by \$374,000 due to increased volumes, less the adverse impact of foreign currency fluctuations. Higher spending on sales and marketing for new products was partially offset by reduced engineering expense, resulting in a net increase in operating expenses of \$522,000. Operating income for the six-month period was \$305,000, compared to \$453,000, in the first half of the prior year. Foreign currency fluctuations decreased year-to-date reported operating income by \$185,000 compared to the same period last year.

Cash balances decreased by \$495,000 in the first six months of fiscal 2005 to \$410,000. Operating activities used cash of \$214,000, principally due to lower payables and increased receivables and prepaid expenses. Capital expenditure used cash of \$258,000 and dividend payments amounted to \$189,000. Exchange rate changes increased cash by \$166,000.

### Results of Operations

Three months ended April 2, 2005

The following table compares second quarter results by segment for the second quarter of fiscal 2005 with the prior year period, and shows the percentage changes in total and split between the currency impact and volume / other changes.

|                                   |         | (in thousands of dollars) |       |          |                  |
|-----------------------------------|---------|---------------------------|-------|----------|------------------|
|                                   |         | % change due to:          |       |          |                  |
|                                   |         | -----                     |       |          |                  |
|                                   | 2005    | 2004                      | Total | Currency | Volume/<br>other |
|                                   | -----   | -----                     | ----- | -----    | -----            |
| <b>Sales:</b>                     |         |                           |       |          |                  |
| Controls - to external customers  | \$7,718 | \$6,766                   | 14%   | 3%       | 11%              |
| -----                             |         |                           |       |          |                  |
| Capacitors- to external customers | 376     | 507                       | (26%) | 2%       | (28%)            |
| Capacitors - inter-segment        | 83      | 50                        | 66%   | 4%       | 62%              |
| -----                             |         |                           |       |          |                  |
| Capacitors - total                | 459     | 557                       | (18%) | 3%       | (21%)            |
| -----                             |         |                           |       |          |                  |
| Total sales to external customers | 8,094   | 7,273                     | 11%   | 3%       | 8%               |
| -----                             |         |                           |       |          |                  |
| <b>Gross Profit:</b>              |         |                           |       |          |                  |
| Controls                          | 2,959   | 2,720                     | 9%    | 2%       | 7%               |

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|  |       |       |        |       |        |
|--|-------|-------|--------|-------|--------|
| Capacitors                                     | 167   | 266   | (37%)  | 4%    | (41%)  |
| -----  |       |       |        |       |        |
| Total  | 3,126 | 2,986 | 5%     | 3%    | 2%     |
| -----  |       |       |        |       |        |
| Selling general and<br>administrative expense: |       |       |        |       |        |
| Controls                                       | 2,624 | 2,446 | 7%     | 2%    | 5%     |
| Capacitors                                     | 169   | 181   | (7%)   | 4%    | (11%)  |
| Unallocated corporate<br>expense               | 48    | 79    | (40%)  | 0%    | (40%)  |
| -----  |       |       |        |       |        |
| Total  | 2,841 | 2,706 | 5%     | 2%    | 3%     |
| -----  |       |       |        |       |        |
| Operating income:                              |       |       |        |       |        |
| Controls                                       | 335   | 274   | 22%    | 4%    | 18%    |
| Capacitors                                     | (2)   | 85    | (102%) | 5%    | (107%) |
| Unallocated corporate expense                  | (48)  | (79)  | (40%)  | 0%    | (40%)  |
| -----  |       |       |        |       |        |
| Total  | 285   | 280   | 2%     | 5%    | -3%    |
| -----  |       |       |        |       |        |
| Other income and expense                       | (20)  | (60)  | (67%)  | (90%) | 23%    |
| -----  |       |       |        |       |        |
| Income before income taxes                     | 265   | 220   | 20%    | 31%   | (11%)  |
| Income taxes                                   | (93)  | (78)  | 19%    | 30%   | (11%)  |
| -----  |       |       |        |       |        |
| Net Income                                     | \$172 | \$142 | 21%    | 32%   | (11%)  |
| -----  |       |       |        |       |        |

Sales in the second fiscal quarter ended April 2, 2005 were \$8,094,000 compared to \$7,273,000 in the second quarter of last year, an increase of \$821,000, or 11%. Foreign currency fluctuations, principally the weakness of the US dollar compared to the Euro and the British pound, accounted for an increase of \$235,000, or 3%, in revenues. Shipment volumes were 11% ahead of the second quarter of last year. Volumes in the U.S. Controller business increased by 30% with gains in shipments to the aerial lift, mining and other electric vehicle markets partially offset by lower demand in the US fork lift truck market. Volumes in the foreign controller markets decreased by 9% compared to the second quarter of fiscal 2004, with a temporary slow down in shipments to the Far East. Capacitor sales were 26% lower than last year at \$376,000, compared to \$507,000 in the second quarter of fiscal 2004. There was a 28% decrease in capacitor volumes, mainly due to lower demand in the audio capacitor and railway signaling markets. This volume decrease was partially offset by the impact of foreign currency fluctuations which resulted in a 2% increase in reported sales of the capacitor segment when measured in US dollars.

Gross profit of \$3,126,000 was \$141,000 higher than last year. The increase in gross profit was mainly due to higher volumes and by foreign currency fluctuations which increased gross profit by \$75,000 in the second quarter. Sales mix adversely impacted gross profit with the increase in sales concentrated in low margin products, particularly in the United States where costs have been adversely impacted by the weakness of the US dollar. Second quarter gross profit was 38.6% of sales, a decrease of 2.5% from 41.1% of sales in the same quarter of fiscal 2004.

Selling, research and administrative expenses were \$2,841,000, an increase of \$135,000, or 5%, compared to last year's second quarter. Foreign currency fluctuations increased these expenses by \$60,000, or 2%.

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In the second quarter of fiscal 2005, engineering and R&D expense was lower by \$120,000 compared to the same period last year. This was mainly due to lower engineering consulting expense, partly offset by additional internal engineering resources, as the development of new high quality products is completed and these products move into the testing and customer prototyping phases. Foreign currency fluctuations increased the reported engineering and R&D expense by \$21,000. In addition sales and marketing expense increased by \$206,000 compared to the same quarter last year, due to foreign currency fluctuations of \$21,000 and an increase in number of sales employees and additional marketing expense related to the introduction of advanced new products.

In the second quarter there was operating income of \$285,000 compared to \$280,000 in the second quarter last year, an increase in operating income of \$5,000. Foreign currency fluctuations increased reported operating income by \$15,000. Operating income in the controller business of \$335,000 was \$61,000 higher than in the second quarter of last year. The increase in controller business operating income was mainly due to higher volumes and lower engineering expense partially offset by additional spending on sales and marketing of new products. There was an operating loss in the capacitor business segment of \$2,000 compared to operating income of \$85,000 in the prior year second quarter, mainly due to lower volumes. Unallocated corporate expenses were \$48,000 in the current year compared to \$79,000 in the second quarter of last year.

Other expense in the second quarter of this year was \$20,000 compared to \$60,000 in the same quarter last year, a difference of \$40,000. This was mainly due to foreign currency gains in the second quarter of fiscal 2005 compared to losses last year.

Income before income taxes of \$265,000 increased by \$45,000 compared to last year when pre-tax income was \$220,000. Income taxes were 35% of pre-tax income in both years. Net income was \$172,000 compared to \$142,000 in the same quarter last year, an increase of \$30,000. Basic and fully diluted income per share was \$.05 per share in both the current and prior fiscal years.

Six months ended April 2, 2005

The following table compares second quarter results by segment for the first six months of fiscal 2005 with the prior year period, and shows the percentage changes in total and split between the currency impact and volume / other changes.

|                                   |          | (in thousands of dollars) |       | % change due to: |                  |  |
|-----------------------------------|----------|---------------------------|-------|------------------|------------------|--|
|                                   | 2005     | 2004                      | Total | Currency         | Volume/<br>other |  |
|                                   | -----    | -----                     | ----- | -----            | -----            |  |
| Sales:                            |          |                           |       |                  |                  |  |
| Controls - to external customers  | \$14,860 | \$12,801                  | 16%   | 4%               | 12%              |  |
| -----                             |          |                           |       |                  |                  |  |
| Capacitors- to external customers | 776      | 938                       | (17%) | 4%               | (21%)            |  |
| Capacitors - inter-segment        | 149      | 75                        | 99%   | 5%               | 94%              |  |
| -----                             |          |                           |       |                  |                  |  |
| Capacitors - total                | 925      | 1013                      | (9%)  | 5%               | (14%)            |  |
| -----                             |          |                           |       |                  |                  |  |
| Total sales to external customers | 15,636   | 13,739                    | 14%   | 4%               | 10%              |  |

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|   |       |       |        |        |        |
|---|-------|-------|--------|--------|--------|
| Gross Profit:                               |       |       |        |        |        |
| Controls                                    | 5,617 | 5,163 | 9%     | -%     | 9%     |
| Capacitors                                  | 351   | 431   | (19%)  | 6%     | (25%)  |
| Total                                       | 5,968 | 5,594 | 7%     | -%     | 7%     |
| Selling general and administrative expense: |       |       |        |        |        |
| Controls                                    | 5,124 | 4,660 | 10%    | 4%     | 6%     |
| Capacitors                                  | 371   | 337   | 10%    | 6%     | 4%     |
| Unallocated corporate expense               | 168   | 144   | 17%    | 0%     | 17%    |
| Total                                       | 5,663 | 5,141 | 10%    | 4%     | 6%     |
| Operating income:                           |       |       |        |        |        |
| Controls                                    | 493   | 503   | (2%)   | (38%)  | 36%    |
| Capacitors                                  | (20)  | 94    | (121%) | 5%     | (126%) |
| Unallocated corporate expense               | (168) | (144) | 17%    | 0%     | 17%    |
| Total                                       | 305   | 453   | (33%)  | (41%)  | 8%     |
| Other income and expense                    | (10)  | (109) | (91%)  | (105%) | 14%    |
| Income before income taxes                  | 295   | 344   | (14%)  | (21%)  | 7%     |
| Income taxes                                | (103) | (121) | (15%)  | (22%)  | 7%     |
| Net Income                                  | \$192 | \$223 | (14%)  | (20%)  | 6%     |

Sales in the first six months of fiscal 2005 were \$15,636,000, compared to \$13,739,000 in the same period last year, an increase of \$1,897,000, or 14%. Foreign currency fluctuations accounted for an increase in reported sales of \$605,000, or 4%. Volumes were 9% ahead last year. Volumes in the controller business were 12% better than last year, mainly due to strong performance in the USA. In the capacitor business sales to external customers decreased by \$162,000 compared to the same period last year. Capacitor volumes caused a decrease of \$204,000, or 22%, compared to the first six months of last year. Foreign currency fluctuations accounted for a \$42,000 increase in reported sales of capacitors.

Revenues in the US controller business increased by 26%. This was mainly due to increased demand in the aerial lift, other electric vehicle, and mining markets, partially offset by decreased sales into the fork lift truck market. Controller volumes in foreign markets grew by 3%, mainly due to increased demand in the European aerial lift market partially offset by lower demand in the Far East.

Gross profit was 38.2% of sales in the first half of fiscal 2005 compared to 40.7% in 2004. Gross profit increased by \$374,000 compared to the first six months of last year. The positive impact of higher volumes was partially offset by lower average margins in the US aerial lift market. Foreign currency fluctuations increased reported gross profit by \$15,000. In the controller business gross profit increased by \$454,000. This was partially offset by a decrease in capacitor business gross profit of \$80,000, mainly due to lower volumes.

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Selling, research and administrative expenses were \$5,663,000, an increase of \$522,000, or 10%, compared to the same period last year. In the first six months of the current year engineering and R&D expense decreased by \$214,000 mainly due to lower engineering consulting expense partially offset by additional internal resources as the new product range moves from the development to customer prototype phase. Sales and marketing expenses were \$501,000 ahead of last year, mainly due to additional resource relating to new products. Foreign currency fluctuations increased reported operating expenses by \$200,000, or 4%.

Operating income for the first half year was \$305,000, a decrease of \$148,000 compared to the first six months of last year. Foreign currency fluctuations resulted in an \$185,000 decrease in reported operating income. Excluding the currency impact, operating income for the controller business increased by \$180,000, or 36%. The main causes of this increase in operating income were higher volumes partially offset by increased selling general and administrative expenses. In the capacitor business segment operating income decreased by \$114,000 to an operating loss of \$20,000, mainly due to lower volumes.

Other expense was \$10,000 compared to \$109,000 in the first half of last year, an improvement of \$99,000. This was mainly due to foreign currency gains in the current year compared to losses last year.

Income before income taxes was \$295,000 compared to \$344,000 last year, a decrease of \$49,000. Income taxes were 35% of pre-tax income, in line with the first half of last year. Net income was for the first half of fiscal 2005 was \$192,000, a decrease of \$31,000 compared to the same period last year. Basic and fully diluted income per share was \$.06 per share compared to \$.07 per share in the first half of fiscal 2004.

### Financial Condition

The Company has, since January 1990, maintained a program of regular cash dividends. The dividend for the second quarter of fiscal 2005 was paid on April 7, 2005, and amounted to \$95,000. Cash balances at the end of the second quarter of 2005 were \$410,000 compared to \$905,000 in September 2004, a decrease in cash of \$495,000.

In the first six months of fiscal 2005 net income was \$192,000, and operating activities used \$214,000 of cash. There was an increase of \$347,000 in receivables due to higher volumes and foreign currency fluctuations, partially offset by faster collections. The number of days sales in receivables decreased in the first six months of fiscal 2005 from 70 days to 68 days.

Inventories increased by \$17,000 and prepaid expense and other current assets increased by \$433,000. Accounts payable decreased by \$194,000. Dividends paid in the first half of fiscal 2005 amounted to \$189,000. Capital expenditures were \$258,000 offset by depreciation of \$337,000.

The Company has no long-term debt and has overdraft facilities in the UK of approximately \$2,079,000 and of \$425,000 in France. The UK overdraft facilities are secured by all of the Company's assets in the UK and the French overdraft facilities are unsecured.

Tech/Ops Sevcon's capital resources, in the opinion of management, are adequate for projected operations and capital spending programs. Capital spending programs are not expected to be significantly higher than depreciation over the next two years and projected volume growth is not expected to require significant additional cash resources.

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### Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company's operations are sensitive to a number of market factors any one of which could materially adversely affect its results of operations in any given year. Other risks dealing with contingencies are described in Note 5 to the Company's Consolidated Financial Statements included under Item 8 of the Company's Form 10-K for the year ended September 30, 2004 and other risks are described under the caption Risk Factors in Management's discussion and analysis of financial condition and results of operations above.

#### Foreign currency risk

The Company sells to customers throughout the industrialized world. The majority of the Company's products are manufactured in the United Kingdom. In the first quarter of fiscal 2005 approximately 39% of the Company's sales were made in US Dollars, 23% were made in British Pounds and 38% were made in Euros. Over 90% of the Company's cost of sales was incurred in British Pounds. This resulted in the Company's sales and margins being exposed to fluctuations due to the change in the exchange rates of the US Dollar, the British Pound and the Euro. The Company has trade accounts receivable and accounts payable denominated in both British pounds and Euros which are exposed to exchange fluctuations.

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

The Company undertakes hedging activities to manage the foreign exchange exposures related to forecasted purchases and sales in foreign currency and the associated foreign currency denominated receivables and payables. The Company does not engage in speculative foreign exchange transactions. Details of this hedging activity and the underlying exposures are set out below.

The following table provides information about the Company's foreign currency accounts receivable, accounts payable, firmly committed sales contracts and derivative financial instruments outstanding as of April 2, 2005. The information is provided in US Dollar amounts, as presented in the Company's consolidated financial statements. The table presents the notional amount (at contract exchange rates) and the weighted average contractual foreign currency exchange rates. All contracts mature in fiscal 2005.

| -----<br>(in thousands, except average contract rates)<br>----- |                                       |        |       |            |
|---|---------------------------------------|--------|-------|------------|
|   | Expected maturity or transaction date |        |       | Fair Value |
|   | FY2005                                | FY2006 | Total |            |
| -----   |                                       |        |       |            |
| On balance sheet financial instruments:                         |                                       |        |       |            |
| In \$US Functional Currency                                     |                                       |        |       |            |
| Accounts receivable in pounds                                   | 1,191                                 | -      | 1,191 | 1,191      |
| Accounts receivable in euros                                    | 2,636                                 | -      | 2,636 | 2,636      |
|   |                                       |        |       |            |
| Accounts payable in pounds                                      | 2,467                                 | -      | 2,467 | 2,467      |
| Accounts payable in euros                                       | 168                                   | -      | 168   | 168        |
| Anticipated Transactions and related derivatives                |                                       |        |       |            |

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In \$US Functional Currency

Firmly committed sales contracts

|           |       |   |       |   |
|-----------|-------|---|-------|---|
| In pounds | 1,217 | - | 1,217 | - |
| In Euros  | 781   | - | 781   | - |

Forward exchange agreements

Sell Euros for British

|        |     |   |     |     |
|--------|-----|---|-----|-----|
| Pounds | 584 | - | 584 | 17* |
|--------|-----|---|-----|-----|

Average contractual exchange rate EUR1.41-GBP1

Sell US Dollars for British

|        |       |   |       |     |
|--------|-------|---|-------|-----|
| Pounds | 1,700 | - | 1,700 | 53* |
|--------|-------|---|-------|-----|

Average contractual exchange rate USD1.83-GBP1

-----  
Amount recorded as other  
comprehensive income

|      |      |      |      |
|------|------|------|------|
| \$ - | \$ - | \$ - | \$ - |
|------|------|------|------|

-----

\*The estimated fair value is based on the estimated amount at which the contracts could be settled based on forward exchange rates.

Because the difference between the spot and hedged foreign exchange rates at April 2, 2005 was approximately 3%, and amounted to \$70,000, the risk of default by counterparties is not material to the Company.

### Interest Rate Risk

The Company does not currently have any interest bearing debt. The Company does invest surplus funds in instruments with maturities of less than 12 months at both fixed and floating interest rates. The Company incurs short-term borrowings from time-to-time on its overdraft facilities in Europe at variable interest rates. Due to the short-term nature of the Company's investments at April 2, 2005 the risk arising from changes in interest rates was not material.

### Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures. Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rule 13a-15(e)) as of April 2, 2005. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of April 2, 2005, these disclosure controls and procedures were effective and designed to ensure that the information required to be disclosed in the reports filed or submitted by the Company under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the requisite time periods.

(b) Changes in internal control over financial reporting. Our principal executive officer and principal financial officer have identified no change in our "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, our internal control over financial reporting.

## PART II. OTHER INFORMATION

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### Item 4. Submission of Matters to a Vote of Security Holders

At the Company's Annual Meeting held on January 24, 2005, the shareholders approved the election of directors as follows:

A) To elect as directors for three year terms the following persons: Matthew Boyle and Paul O. Stump. Mr. Boyle received 2,724,531 votes for and 128,036 withheld, Mr. Stump received 2,811,606 votes for and 40,961 withheld. There were no abstentions or broker non-votes.

### 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.

TECH/OPS SEVCON, INC.

Date: May 16, 2005

By: /s/ Paul A. McPartlin

-----  
Paul A. McPartlin  
Chief Financial Officer (Principal  
financial and chief accounting officer)

### Exhibit Index

| Exhibit<br>----- | Description<br>-----  |
|------------------|---|
| 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. Furnished herewith. |

EXHIBIT 31.1

### CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Matthew Boyle, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tech/Ops Sevcon, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary



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to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2005

/s/ Matthew Boyle

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Matthew Boyle  
President and  
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Paul A. McPartlin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tech/Ops Sevcon, Inc.;

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2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2005

/s/ Paul A. McPartlin

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Paul A. McPartlin  
Chief Financial and  
Accounting Officer

EXHIBIT 32.1

Certification of Periodic Financial Report  
Pursuant to 18 U.S.C. Section 1350

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Each of the undersigned officers of Tech/Ops Sevcon, Inc. (the "Company") certifies, under the standards set forth in and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of the Company for the quarter ended April 2, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 16, 2005

/s/ Matthew Boyle

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Matthew Boyle  
Chief Executive Officer

Dated: May 16, 2005

/s/ Paul A. McPartlin

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Paul A. McPartlin  
Chief Financial Officer