

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

FORM 10-Q

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

For the quarterly period ended July 1, 2017

**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

(State or other jurisdiction of incorporation or organization)

04-2985631

(I.R.S. Employer Identification No.)

155 Northboro Road, Southborough, Massachusetts 01772

(Address of principal executive offices and zip code)

(508) 281-5510

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>	Emerging growth company <input type="checkbox"/>
		(Do not check if a smaller reporting company)		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

**Class
Common stock, par value \$.10**

**Outstanding at August 11, 2017
5,693,408**

SEVCON, INC.
FORM 10-Q
FOR THE QUARTER ENDED JULY 1, 2017
INDEX

	PAGE
PART I - FINANCIAL INFORMATION	
Item 1 Financial Statements	
Consolidated Balance Sheets	2
Consolidated Statements of Operations	3
Consolidated Statements of Comprehensive Loss	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3 Quantitative and Qualitative Disclosures about Market Risk	33
Item 4 Controls and Procedures	34
PART II - OTHER INFORMATION	
Item 1 Legal Proceedings	34
Item 1A Risk Factors	34
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	40
Item 3 Defaults upon Senior Securities	40
Item 4 Mine Safety Disclosures	40
Item 5 Other Information	40
Item 6 Exhibits	40
SIGNATURES	40
INDEX OF EXHIBITS	41

PART I. FINANCIAL INFORMATION**Item 1 Financial Statements****CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

Sevcon, Inc. and Subsidiaries

(in thousands of dollars except share and per share data)

	July 1, 2017	September 30, 2016
ASSETS		
Cash and cash equivalents	\$ 2,318	\$ 14,127
Trade receivables, net of allowances for doubtful accounts of \$247 at July 1, 2017 and \$243 at September 30, 2016	15,243	11,499
Other receivables	1,213	694
Inventories	17,072	13,666
Prepaid expenses and other current assets	4,723	3,602
Total current assets	40,569	43,588
Property, plant and equipment, net	4,996	3,843
Long-term deferred tax assets	5,716	4,289
Intangible assets, net	8,971	9,185
Goodwill	8,142	7,794
Other long-term assets	392	274
Total assets	\$ 68,786	\$ 68,973
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 15,223	\$ 10,604
Accrued expenses	6,243	4,931
Accrued income taxes	275	66
Dividends payable	-	216
Debt to related parties	-	300
Short-term bank debt	800	-
Total current liabilities	22,541	16,117
Long-term bank debt, net	15,013	15,512
Long-term related party debt	1,626	1,558
Long-term pension benefit liabilities	10,702	11,511
Long-term deferred tax liabilities	1,553	1,517
Other long-term liabilities	1,075	987
Total liabilities	52,510	47,202
Commitments and contingencies (Note 19)		
Stockholders' equity:		
Convertible preferred stock, par value \$.10 per share - 1,000,000 shares authorized; 422,433 and 448,705 shares issued and outstanding at July 1, 2017 and September 30, 2016, respectively	42	45
Common stock, par value \$.10 per share - 20,000,000 shares authorized; 5,689,361 and 5,341,513 shares issued and outstanding at July 1, 2017 and September 30, 2016, respectively	569	534
Common stock warrants	2,085	2,095
Additional paid in capital, common stock	20,716	19,151
Additional paid in capital, preferred stock	8,466	8,990
Retained earnings (accumulated deficit)	(3,366)	4,344
Accumulated other comprehensive loss	(12,121)	(13,420)
Total parent stockholders' equity	16,391	21,739
Non-controlling interest	(115)	32
Total stockholders' equity	16,276	21,771
Total liabilities and stockholders' equity	\$ 68,786	\$ 68,973

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

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

Sevcon, Inc. and Subsidiaries

	(in thousands except per share data)			
	Three Months Ended		Nine Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Net sales	\$ 18,556	\$ 13,913	\$ 46,771	\$ 36,209
Cost of sales	(13,924)	(9,161)	(35,618)	(23,219)
Gross profit	4,632	4,752	11,153	12,990
Selling, general and administrative expenses	(5,455)	(4,463)	(13,448)	(10,568)
Research and development expenses	(2,465)	(1,212)	(5,733)	(3,419)
Acquisition expenses	-	(8)	-	(1,425)
Operating loss	(3,288)	(931)	(8,028)	(2,422)
Interest expense	(216)	(140)	(496)	(271)
Interest and other income	13	4	49	16
Foreign currency gain (loss)	317	(522)	(301)	(487)
Loss before income tax	(3,174)	(1,589)	(8,776)	(3,164)
Income tax benefit	269	60	1,126	139
Net loss	(2,905)	(1,529)	(7,650)	(3,025)
Net loss attributable to non-controlling interests	14	84	147	131
Net loss attributable to Sevcon, Inc. and subsidiaries	(2,891)	(1,445)	(7,503)	(2,894)
Preferred share dividends	(102)	(93)	(299)	(327)
Net loss attributable to common stockholders	\$ (2,993)	\$ (1,538)	\$ (7,802)	\$ (3,221)
Net loss per ordinary share - basic	\$ (0.56)	\$ (0.38)	\$ (1.47)	\$ (0.84)
Net loss per ordinary share - diluted	\$ (0.56)	\$ (0.38)	\$ (1.47)	\$ (0.84)
Weighted average shares used in computation of earnings per share:				
Basic	5,366	4,070	5,291	3,828
Diluted	5,366	4,070	5,291	3,828

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)

Sevcon, Inc. and Subsidiaries

	(in thousands of dollars)			
	Three Months Ended		Nine Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Net loss attributable to Sevcon, Inc. and subsidiaries	\$ (2,891)	\$ (1,445)	\$ (7,503)	\$ (2,894)
Other comprehensive loss:				
Foreign currency translation adjustment	10	(71)	1,095	(160)
Defined benefit pension plans: Actuarial loss net of \$24 and \$68 tax benefit for three and nine months ended, respectively, (2016: Actuarial loss net of \$39 and \$74 tax benefit for three and nine months ended, respectively)	72	89	204	203
Comprehensive loss	\$ (2,809)	\$ (1,427)	\$ (6,204)	\$ (2,851)

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	
	July 1, 2017	July 2, 2016
Cash flow from operating activities:		
Net loss	\$ (7,650)	\$ (3,025)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	1,524	1,546
Stock-based compensation	1,037	527
Pension contributions greater than pension expense	(499)	(114)
Deferred tax benefit	(1,427)	(139)
(Decrease)/Increase in bad debt provision	(1)	55
Changes in operating assets and liabilities:		
Trade receivables	(3,846)	912
Other receivables	(198)	(90)
Inventories	(3,270)	(4,141)
Prepaid expenses and other current assets	(1,353)	(1,930)
Accounts payable	4,341	(424)
Accrued expenses	1,250	(1,744)
Accrued income taxes	659	926
Bank overdraft	-	109
Net cash used by operating activities	(9,433)	(7,532)
Cash flow used by investing activities:		
Acquisition of property, plant and equipment	(1,792)	(1,043)
Acquisition of subsidiary, net of cash acquired	-	(9,255)
Net cash used by investing activities	(1,792)	(10,298)
Cash flow (used by) generated from financing activities:		
Net debt borrowings	(300)	14,716
Dividends paid	(423)	(434)
Purchase and retirement of common stock	-	(222)
Debt issuance costs	(484)	-
Proceeds from issuance of common stock, net	27	-
Net cash (used by) generated from financing activities	(1,180)	14,060
Effect of exchange rate changes on cash	596	(5)
Net decrease in cash	(11,809)	(3,775)
Beginning balance - cash and cash equivalents	14,127	8,048
Ending balance - cash and cash equivalents	\$ 2,318	\$ 4,273
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes, net of refunds	\$ 99	\$ 197
Cash paid for interest	\$ 373	\$ 245
Change in accrual of dividend payable	\$ (216)	\$ -
Conversion of preferred stock to common stock	\$ 527	\$ 62
Cashless stock option exercise	\$ 133	\$ -
Investment in subsidiary, net of cash acquired:		
Cash consideration	\$ -	\$ 10,832
Cash acquired	-	(1,577)
Net cash investment in subsidiary	\$ -	\$ 9,255
Issuance of common stock in acquisition of subsidiary	\$ -	\$ 4,760

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Sevcon, Inc. and Subsidiaries

(1) Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position of Sevcon, Inc. (the "Company") and subsidiaries as of July 1, 2017 and the results of operations and cash flows for the three and nine-month periods ended July 1, 2017. The accompanying unaudited consolidated financial statements should be read in conjunction with the 2016 annual consolidated financial statements and related notes included in the 2016 Sevcon, Inc. Annual Report filed on Form 10-K ("2016 10-K"). The results of operations for the three and nine-month periods ended July 1, 2017 are not necessarily indicative of the results to be expected for the full year.

During the nine-month period ended July 1, 2017 the Company experienced an operating loss of \$8,028,000 and a decrease in cash of \$11,809,000 from \$14,127,000 at September 30, 2016 to \$2,318,000 at July 1, 2017. This negative performance largely reflected difficult conditions in the Company's traditional controls markets and continuing investment in research and development expense associated with the delivery of the engineering phase of the Company's new project pipeline. At July 1, 2017 the Company had net current assets of \$18,028,000 including cash of \$2,318,000. Against this background, management has conducted a review of the Company's cash requirements for the next twelve months taking into account existing cash resources, forecasted cash from future operations and existing borrowing facilities. In addition, the Company has explored its options to secure further financing. Based on this assessment of the Company's cash requirements and the financing it believes is available, management believes that the group has sufficient funds available for the next twelve months for its activities under execution.

Unless otherwise indicated, each reference to a "year" means the Company's fiscal year, which ends on September 30.

Accounting for wholly-owned subsidiaries

The accompanying unaudited consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries; Sevcon USA, Inc., Sevcon Ltd, Industrial Capacitors (Wrexham) Ltd., Sevcon Asia Limited, Sevcon Japan KK, Sevcon Security Corp., Sevcon S.A.S., Sevcon S.r.l., Bassi S.r.l., Sevcon Canada Inc. and Sevcon GmbH in accordance with the provisions required by the Consolidation Topic 810 of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). All material intercompany transactions have been eliminated.

Accounting for joint-venture subsidiary

For the Company's less than wholly-owned subsidiary, Sevcon New Energy Technology (Hubei) Company Limited in China, the Company first analyzes whether this joint venture subsidiary is a variable interest entity (a "VIE") in accordance with ASC 810 and if so, whether the Company is the primary beneficiary requiring consolidation. A VIE is an entity that has (i) insufficient equity to permit it to finance its activities without additional subordinated financial support or (ii) equity holders that lack the characteristics of a controlling financial interest. VIEs are consolidated by the primary beneficiary, which is the entity that has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that potentially could be significant to the entity. Variable interests in a VIE are contractual, ownership, or other financial interests in a VIE that change with changes in the fair value of the VIE's net assets. The Company continuously re-assesses at each level of the joint venture whether the entity is (i) a VIE, and (ii) if the Company is the primary beneficiary of the VIE. If it is determined that the entity in which the Company holds its interest qualifies as a VIE and the Company is the primary beneficiary, it is consolidated.

Based on the Company's analysis of its 50% owned joint venture, the Company has determined that it is a VIE and that the Company is the primary beneficiary. While the Company owns 50% of the equity interest in this subsidiary, the other 50% is owned by a local unrelated third party, and the joint venture agreement with that third party provides the Company with greater voting rights. Accordingly, the Company consolidates its joint venture under the VIE rules and reflects the third party's 50% interest in the consolidated financial statements as a non-controlling interest. The Company records this non-controlling interest at its initial fair value, adjusting the basis prospectively for their share of the respective consolidated investments' net income or loss or equity contributions and distributions. This non-controlling interest is not redeemable by the equity holders and is presented as part of permanent equity. Income and losses are allocated to the non-controlling interest holder based on its economic ownership percentage.

Effective July 13, 2017, the Company acquired the remaining 50% of Sevcon New Energy Technology (Hubei) Company Limited for a purchase price of \$5,000,000. In doing so, the Company agreed to terminate its equity joint venture with Xuchang Fuhua Glass Co. Ltd (“Fuhua Glass”), a Chinese limited liability company. The Company also agreed to reimburse Fuhua Glass for the taxes paid by it in relation to the equity transfer in an amount not to exceed \$1,173,675, as well as certain ancillary fees. Upon the consummation of the acquisition, Sevcon New Energy Technology (Hubei) Company Limited became a “wholly foreign-owned enterprise” under Chinese law. As of July 1, 2017, the closing conditions had not been satisfied and as such Sevcon New Energy Technology (Hubei) Company Limited was accounted for as a joint-venture subsidiary during the period ended July 1, 2017.

(2) Proposed Merger

On July 14, 2017, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with BorgWarner Inc., a Delaware corporation (“BorgWarner”), and BorgWarner’s wholly-owned subsidiary, Slade Merger Sub Inc., a Delaware corporation (“Merger Sub”), providing for the merger of Merger Sub with and into the Company (the “Merger”), with the Company surviving the Merger as a wholly-owned subsidiary of BorgWarner. Pursuant to the Merger Agreement, at the effective time of the Merger, (i) each share of common stock, par value \$0.10 per share of the Company issued and outstanding immediately prior to the effective time of the Merger (each, a “Common Share”) (other than (A) any Common Shares owned by BorgWarner, Merger Sub or the Company, or by any subsidiary of BorgWarner, Merger Sub or the Company, in each case except to the extent held by any such person on behalf of a third party and (B) any shares that are owned by stockholders who have perfected and not withdrawn a demand for appraisal rights pursuant to Delaware law) will be cancelled and converted into the right to receive cash in an amount, without interest, equal to \$22.00, and (ii) if the Charter Amendment (as described below) becomes effective, each share of Series A Convertible Preferred Stock, par value \$0.10 per share of the Company issued and outstanding immediately prior to the effective time of the Merger (each of which is convertible into three Common Shares) (each, a “Preferred Share”) (other than (A) any Preferred Shares owned by BorgWarner, Merger Sub or the Company, or by any subsidiary of BorgWarner, Merger Sub or the Company, in each case except to the extent held by any such person on behalf of a third party and (B) any shares that are owned by stockholders who have perfected and not withdrawn a demand for appraisal rights pursuant to Delaware law), will be cancelled and converted into the right to receive cash in an amount, without interest, equal to \$66.00. Immediately prior to the effective time of the Merger, the board of directors of the Company intends to declare and pay a special dividend on the Preferred Shares representing the amount of the accrued and unpaid dividends on the Preferred Shares.

Consummation of the Merger is subject to the satisfaction or waiver of specified closing conditions, including (i) the approval of the Merger by the holders of a majority of the outstanding Common Shares, (ii) the approval of an amendment to the Company’s amended and restated certificate of incorporation to provide that, at the effective time of the Merger, each holder of Preferred Shares will be entitled to receive the consideration provided for in the Merger Agreement for each Preferred Share owned by such holder (the “Charter Amendment”), by the holders of a majority of the outstanding Common Shares and a majority of the outstanding Preferred Shares, voting as separate classes, (iii) the receipt of the approval of the Austrian Federal Competition Authority, (iv) the receipt from each holder of outstanding warrants to purchase Common Shares of an agreement with the Company in a form attached to the Merger Agreement agreeing to cancel such warrants in exchange for an amount equal to the product of the per Common Share merger consideration (\$22.00) and the number of shares issuable upon exercise of such warrants, less the aggregate exercise price for such warrants, (v) no more than 10% of the Common Shares and Preferred Shares (on an as if converted to common stock basis) having exercised appraisal rights and (vi) other customary closing conditions, including (a) the accuracy of each party’s representations and warranties (subject to customary materiality qualifiers), (b) each party’s compliance with its agreements and covenants contained in the Merger Agreement and (c) the absence of any law, ordinance, rule, regulation, order, judgment or decree being in effect that restrains or enjoins, or otherwise prohibits or makes illegal, the consummation of the Merger or the Charter Amendment.

The Merger Agreement includes customary representations, warranties and covenants of the Company, BorgWarner, and Merger Sub. The Company has agreed to operate its business in all material respects in the ordinary course of business consistent with past practice until the completion of the Merger. The Company has also agreed not to solicit, initiate or knowingly encourage, or knowingly induce or facilitate, proposals regarding alternative transactions and to certain restrictions on its ability to respond to any such proposals. BorgWarner and Merger Sub have agreed to use reasonable best efforts to obtain approval of the proposed transactions under any applicable Antitrust Laws (as defined in the Merger Agreement), as more fully set forth in and subject to the terms and conditions of the Merger Agreement.

[Index](#)

The Company may terminate the Merger Agreement prior to the approval of the Merger by the common stock holders should the Company receive a “Superior Proposal”, being an unsolicited alternative acquisition proposal from a third party that the board of directors of the Company has determined is superior to the Merger. In certain circumstances, the Company has agreed to pay to BorgWarner a termination fee in connection with the termination of the Merger Agreement. The Company must pay BorgWarner the termination fee in the event that the Merger Agreement is terminated by BorgWarner following a change of recommendation by the board of directors of the Company or if the Company terminates the Merger Agreement to enter into a Superior Proposal, in each case, as is described in further detail in the Merger Agreement. Under certain additional circumstances described in the Merger Agreement, the Company must also pay BorgWarner the termination fee if the Merger Agreement is terminated and, within twelve months following such termination, (i) the Company enters into a definitive agreement for, or consummates, a transaction of the type described in the relevant provisions of the Merger Agreement, or (ii) the Company’s board of directors recommends to stockholders an alternative acquisition proposal for a transaction of the type described in the relevant provisions of the Merger Agreement and, subsequent to making such recommendation, consummates the proposal so recommended to Company stockholders. In addition, under certain circumstances described in the Merger Agreement, the Company must also pay BorgWarner the expense reimbursement amount if the Merger Agreement is terminated. The termination fee is \$1,600,000 if it becomes payable in connection with a Superior Proposal on or prior to 11:59 p.m., Chicago Time, on August 31, 2017 (and in certain other limited circumstances described in the Merger Agreement), and, otherwise, the termination fee is \$4,800,000. The expense reimbursement amount is \$2,400,000.

The parties to the Merger Agreement are also entitled to an injunction or injunctions to prevent breaches of the Merger Agreement, and to enforce specifically the terms of the Merger Agreement.

In addition, concurrently with the execution of the Merger Agreement, Company stockholders Meson Capital LP, Meson Constructive Capital LP and Ryan J. Morris (which we refer to collectively as Meson Capital) and Bassi Holding S.r.l. entered into separate voting and support agreements with BorgWarner. Under the voting and support agreements, Meson Capital and Bassi Holding S.r.l. agreed, on the terms and subject to the conditions set forth in the voting and support agreements, to vote all Company shares owned by them in favor of the adoption of the Merger Agreement and the Charter Amendment and the approval of the transactions contemplated by the Merger Agreement, including the Merger, and any other matter to be approved by the stockholders of the Company to facilitate such transactions. In addition, they agreed not to vote in favor of any alternative transactions, and to be subject to the restrictions on the solicitation or initiation of other acquisition proposals and on engaging in discussions regarding such proposals as are applicable to the Company’s representatives pursuant to the Merger Agreement, and certain restrictions on the transfer of shares of our Common Shares or Preferred Shares. Also, each of our directors (other than Ryan J. Morris, who executed a voting and support agreement in his capacity as a principal of Meson Capital) and our director emeritus entered into separate support agreements with BorgWarner, in which they agreed, on the terms and subject to the conditions set forth in the support agreements, to be subject to the restrictions on the solicitation or initiation of other acquisition proposals and on engaging in discussions regarding such proposals as are applicable to the Company’s representatives pursuant to the merger agreement, and certain restrictions on the transfer of our Common Shares or Preferred Shares. Each of the voting and support agreements and the support agreements automatically terminates upon the termination of the Merger Agreement.

The board of directors of the Company unanimously (i) approved and declared advisable the Merger Agreement and the transactions contemplated by the Merger Agreement, including the Merger, upon the terms and subject to the conditions set forth therein, and the Charter Amendment, (ii) determined that the Merger Agreement, the Charter Amendment and the transactions contemplated by the Merger Agreement, including the Merger, are fair to, and in the best interests of, the Company and its stockholders and (iii) adopted a resolution recommending that the Merger Agreement and the Charter Amendment be adopted by the stockholders of the Company in accordance with the provisions of the Delaware General Corporation Law.

(3) Summary of significant accounting policies

There have been no changes since the end of 2016 to the significant accounting policies followed by Sevcon, Inc. and subsidiaries.

(4) Acquisition*Bassi Unipersonale S.r.l ("Bassi")*

On January 26, 2016, the Company acquired Bassi which designs, manufactures and sells battery chargers for electric vehicles, power management and uninterrupted power source systems for industrial, medical and telecom applications, as well as electronic instrumentation for battery laboratories. This acquisition enables the Company to expand its addressable share of the high-growth electrification market and enhance earnings by adding an immediately accretive business. The total consideration for the transaction was approximately \$19,100,000 which consisted of approximately \$10,800,000 cash, \$4,800,000 value of the Company's common stock and \$3,500,000 at fair value of assumed dividends payable to Bassi Holding, the former owner of Bassi. The Company acquired approximately \$10,200,000 of intangible assets, which primarily consisted of customer relationships, \$6,400,000 of goodwill and \$2,500,000 of other assets, net of liabilities. The Company is required to distribute approximately \$3,500,000 of assumed dividends in increments over a three-year period, post-closing.

The Company accounted for this acquisition as a business combination using the acquisition method of accounting. During the three and nine-month periods ended July 1, 2017 the Company recognized no expense for acquisition-related items. During the three and nine-month periods ended July 2, 2016 the Company recognized expense for acquisition-related items, of \$8,000 and \$1,425,000 respectively.

For more information on this acquisition, refer to Note 2 to the consolidated financial statements included in the Company's 2016 10-K.

Pro Forma Summary

The unaudited consolidated pro forma results for the three and nine-month periods ended July 1, 2017 and July 2, 2016 are shown below. The pro forma consolidated results combine the results of operations of the Company and Bassi as though Bassi had been acquired on October 1, 2015 and include amortization charges for the acquired intangibles and interest expense related to the Company's borrowings to finance the acquisition. The unaudited pro forma results for the three and nine-month periods ended July 2, 2016 were adjusted to include \$279,000 and \$814,000 respectively, of intangible assets amortization expense associated with the business combination and \$129,000 and \$382,000, respectively, of interest expense relating to the credit facility entered into in order to partially fund the Bassi acquisition, and to exclude \$8,000 and \$1,425,000, respectively, of acquisition-related expense. The unaudited pro forma results for the three and nine-month periods ended July 1, 2017 were adjusted to exclude \$1,100,000 of transaction costs.

The unaudited pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place on October 1, 2015.

	(in thousands of dollars)			
	Three Months ended		Nine Months ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Revenue	\$ 18,556	\$ 13,913	\$ 46,771	\$ 41,446
Net loss	(1,805)	(1,072)	(6,550)	(1,394)

(5) Stock-based compensation plans

Under the Company's 1996 Equity Incentive Plan (the "Plan") there were 69,641 shares reserved and available for grant at July 1, 2017. There were 12,165 options exercised in 2017.

The Plan, which is shareholder-approved, permits the grant of restricted stock, restricted stock units, stock 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.

Stock options

The Company estimated the fair values of its stock options using the Black-Scholes-Merton option-pricing model, which was developed for use in estimating the fair values of stock options. Option valuation models, including the Black-Scholes-Merton option-pricing model, require the input of assumptions, including stock price volatility. Changes in the input assumptions can materially affect the fair value estimates and ultimately how much the Company recognizes as stock-based compensation expense. The fair values of the Company's stock options were estimated at the grant dates.

The weighted average input assumptions used and resulting fair values of stock options previously issued at July 1, 2017, were as follows:

	July 1, 2017
<i>Performance based stock options:</i>	
Expected life (in years)	4.0
Risk-free interest rate	1.64%
Volatility	62.16%
Dividend yield	0.00%
Weighted-average fair value per share	\$ 8.38

Expected Life

The expected term represents the period of time that options are expected to be outstanding. As the Company does not have sufficient historical evidence for determining the expected term of the stock option awards granted, the expected life assumption has been determined using the simplified method, which is an average of the contractual term of the option and its ordinary vesting period.

Risk-free Interest Rate

The Company bases the risk-free interest rate assumption on zero-coupon U.S. treasury instruments appropriate for the expected term of the stock option grants.

Expected Volatility

The expected stock price volatility for the Company's common stock is estimated based on the historic volatility of the Company's common stock for a period equivalent to the expected term of the stock option grants.

Expected Dividend Yield

The Company bases the expected dividend yield assumption on the fact that there is no present intention to pay cash dividends. Therefore an expected dividend yield of zero has been used.

Performance-based awards

Stock options:

In December 2015, the Compensation Committee awarded performance-based equity compensation to nine executives and managers, including the principal executive officer and principal financial officer, consisting of 38,460 shares in the form of stock options. The performance options have an exercise price of \$9.94 per share, representing the average of the highest intraday bid and ask quotes for the Company's common stock on the date of grant, December 16, 2015, and the preceding four trading days. The performance options will vest subject to the Company meeting an earnings per share target applicable to fiscal year 2018 set by the Compensation Committee so long as the employee is then employed by the Company. The Company estimated the fair value of its stock options using the Black-Scholes-Merton option-pricing model. The estimated fair value of the stock options on the date of the grant was \$185,000 and is being recognized over the requisite service period of the award. The unrecognized compensation is being expensed over three years. The expense for these employee stock option grants was \$14,844 and \$43,663 for the three and nine-month periods ended July 1, 2017, respectively. The expense for these employee stock option grants was \$13,505 and \$29,766 for the three and nine-month periods ended July 2, 2016, respectively.

[Index](#)

In February 2017, the Compensation Committee awarded performance-based equity compensation to five executives and managers, consisting of 2,800 shares in the form of stock options. The performance options have an exercise price of \$11.86 per share, representing the average of the highest intraday bid and ask quotes for the Company's common stock on the date of grant, February 7, 2017, and the preceding four trading days. The performance options will vest on the later of the third anniversary of the grant date or the date the Compensation Committee determines that the Company has met the earnings per share target for fiscal year 2018. The Company estimated the fair value of its stock options using the Black-Scholes-Merton option-pricing model. The estimated fair value of the stock options on the date of the grant was \$7,000 and is being recognized over the requisite service period of the award. The unrecognized compensation is being expensed over three years. The expense for these employee stock option grants was \$1,762 and \$2,772 for the three and nine-month periods ended July 1, 2017, respectively.

A summary of performance-based option activity under the Plan as of July 1, 2017, and changes during the nine months then ended, is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of September 30, 2016	38,460	\$ 9.94	4.21	\$ -
Granted	2,800	11.86	2.86	-
Exercised	-	-	-	-
Forfeited or Expired	-	-	-	-
Outstanding at July 1, 2017	41,260	\$ 10.07	3.54	\$ -
Exercisable	-	-	-	-
Vested and expected to vest	38,693	\$ 10.07	3.54	\$ -

Restricted stock:

In December 2015, the Company granted 11,540 shares of restricted stock to four employees which will vest subject to the Company achieving the same earnings per share target applicable to fiscal year 2018 as for the stock options disclosed above, so long as the employee is then employed by the Company. The estimated fair value of the stock on the date of the grant was \$116,000 based on the fair market value of stock on the date of issue. The unrecognized compensation is being expensed over three years. Management has assessed the performance criteria relating to these grants and concluded they are likely to be met. Accordingly, the relevant portion of the expense has been recorded through July 1, 2017. The expense for these restricted stock grants was \$9,301 and \$27,358 for the three and nine-month periods ended July 1, 2017, respectively. The expense for these grants was \$8,080 and \$17,877 for the three and nine-month periods ended July 2, 2016, respectively.

In March 2017, the Company granted 80,000 shares of restricted stock to two executives, which will vest subject to the Company achieving one or both financial targets for the 2017, 2018 and 2019 fiscal years. The shares of restricted stock shall be divided into six equal tranches (two per year). The estimated fair value of the stock on the date of the grant was \$1,106,534 based on the fair market value of stock on the date of issue. The unrecognized compensation is being expensed over three years. Management has assessed the performance criteria relating to these grants and concluded they are likely to be met. Accordingly, the relevant portion of the expense has been recorded through July 1, 2017. The expense for these restricted stock grants was \$202,332 and \$259,391 for the three and nine-month periods ended July 1, 2017, respectively.

Time-based awards**Stock options:**

In August 2016, the Board of Directors awarded the Executive Chairman equity compensation consisting of stock options to purchase 56,700 shares. The options were granted in two tranches. The first tranche, consisting of 36,496 options with an exercise price of \$10.93 per share, would vest in twelve substantially equal monthly installments beginning September 2016, and the second tranche, consisting of 20,204 options with an exercise price of \$12.35 per share, would vest in twelve substantially equal monthly installments beginning September 2017, in each case so long as the director is in the position of Executive Chairman. The Company estimated the fair value of its stock options using the Black-Scholes-Merton option-pricing model. The estimated fair value of the stock options on the date of the grant was \$211,000. The Executive Chairman position was terminated on December 6, 2016, as a result of which 12,165 vested options were exercisable for three months, and all un-vested options expired. On February 7, 2017 the director exercised 12,165 options via a cashless exercise in which 8,474 shares were surrendered to pay the exercise price. In the three months ended July 1, 2017 there was a reversal of expense of \$9,694 and in the nine months ended July 1, 2017 there was an expense of \$20,890, in respect of these stock options grants.

A summary of time-based option activity under the Plan as of July 1, 2017, and changes during the nine months then ended, is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at September 30, 2016	12,165	\$ 10.93	4.08	\$ -
Granted	-	-	-	-
Exercised	(12,165)	(10.93)	-	-
Outstanding at July 1, 2017	-	\$ -	-	\$ -
Exercisable	-	-	-	-
Vested	-	\$ -	-	\$ -

Restricted stock:

In February 2016, the Company granted 29,700 shares of restricted stock, representing 3,300 shares to each of the non-employee directors and the then emeritus directors of the Company, 26,400 of which vested on February 6, 2017. The aggregate fair value of the stock measured on the date of the grant was \$292,000 based on the closing sale price of the stock on the date of grant. Compensation expense was recognized on a straight-line basis over the twelve-month period to February 2017. The expense for these restricted stock grants was \$0 and \$108,020 for the three and nine-month periods ended July 1, 2017, respectively. The expense for these restricted stock grants was \$64,812 and \$86,416 for the three and nine-month periods ended July 2, 2016, respectively.

In February 2017, the Company granted 145,000 shares of restricted stock to eleven employees, which will vest one-third each year on the third business day after the announcement of the Company's results for the first quarter of fiscal 2018, 2019 and 2020. The aggregate fair value of the stock measured on the date of the grant was \$2,039,020 based on the closing sale price of the stock on the date of grant. Compensation expense is being recognized on a straight-line basis over the period during which the forfeiture conditions lapse. The expense for these restricted stock grants was \$169,918 and \$226,558 for the three and nine-month periods ended July 1, 2017, respectively.

In February 2017, the Company granted 24,800 shares of restricted stock, representing 3,100 shares to each of the non-employee directors and the emeritus director of the Company, which will vest on the day before the 2018 annual general meeting providing that the grantee remains a director or an emeritus director of the Company, or as otherwise determined by the Compensation Committee. The aggregate fair value of the stock measured on the date of the grant was \$344,244 based on the closing sale price of the stock on the date of grant. Compensation expense is being recognized on a straight-line basis over the twelve-month period during which the forfeiture conditions lapse. The expense for these restricted stock grants was \$86,056 and \$114,741 for the three and nine-month periods ended July 1, 2017, respectively.

[Index](#)

In March 2017, the Company granted 12,800 shares of restricted stock representing 1,600 shares to each of the non-employee directors and the emeritus director of the Company, which will vest on the day before the 2018 annual general meeting providing that the grantee remains a director or an emeritus director of the Company, or as otherwise determined by the Compensation Committee. The aggregate fair value of the stock measured on the date of the grant was \$192,000 based on the closing sale price of the stock on the date of grant. Compensation expense is being recognized on a straight-line basis over the twelve-month period during which the forfeiture conditions lapse. The expense for these restricted stock grants was \$48,000 and \$64,000 for the three and nine-month periods ended July 1, 2017, respectively.

For the purposes of calculating average issued shares for basic earnings per share, these shares are only considered to be outstanding when the forfeiture conditions lapse and the shares vest.

A summary of restricted stock and stock option activity, including both performance-based awards and time-based awards, for the nine-month period ended July 1, 2017, is as follows:

	Number of shares of Restricted Stock	Weighted Average Grant-Date Fair Value
Non-vested balance as of September 30, 2016	138,940	\$ 6.50
Granted	262,600	\$ 15.03
Vested	(86,400)	\$ 7.44
Non-vested balance as of July 1, 2017	315,140	\$ 13.35

	Number of shares subject to Stock Options	Weighted Average Grant-Date Fair Value
Non-vested balance as of September 30, 2016	50,625	\$ 4.67
Granted	2,800	\$ 2.65
Exercised	(12,165)	\$ 4.39
Non-vested balance as of July 1, 2017	41,260	\$ 4.62

Stock-based compensation expense was \$555,000 and \$1,037,000 for the three and nine-month periods ended July 1, 2017, respectively. Stock-based compensation expense was \$169,000 and \$527,000 for the three and nine-month periods ended July 2, 2016, respectively. At July 1, 2017, there was approximately \$3,237,000 of unrecognized compensation expense related to restricted stock granted under the Plan. The Company expects to recognize that cost over a weighted average period of 2 years.

Under the merger agreement with BorgWarner, at the effective time of the merger, each share of restricted stock and each stock option will be cancelled and converted into the right to receive (a) for each share of restricted stock, \$22.00, and (b) for each share subject to an option, an amount equal to the excess of \$22.00 over the applicable per share exercise price of the option, in each case less any applicable withholding taxes. Payment of the foregoing amounts will be made (a) for options and restricted stock that would have vested in accordance with their terms at the effective time of the merger or on or before December 31, 2018 (assuming the holder's continued employment or service and achievement of any applicable performance-based vesting conditions), the payment will be made promptly following the effective time of the merger, and (b) for options and restricted stock that, in accordance with their terms, would not vest at the effective time of the merger and would have vested on or after January 1, 2019 (assuming the holder's continued employment or service through the date on which the options are scheduled to become vested and the achievement of any applicable performance based vesting conditions), the payment will vest and become payable in accordance with the vesting schedule applicable to the original award, except that any performance-based vesting conditions applicable to such award will no longer apply and the award will be treated as subject to service-based vesting only, with vesting occurring at the time the original performance vesting condition could have been satisfied. Accordingly, payment will be made promptly following the effective time of the merger with respect to approximately 71% of the shares subject to outstanding stock options and restricted stock awards, and payment will be deferred consistently with the existing vesting provisions with respect to approximately 29% of the shares subject to outstanding stock options and restricted stock awards. With respect to the options and restricted stock awards for which payment will be deferred, pro rata option payments may be made in connection with certain qualifying terminations of employment.

(6) Common Stock Warrants

Sevcon entered into a Securities Purchase Agreement with certain institutional and accredited investors on July 6, 2016 in which the Company sold and issued 1,124,000 units at \$9.12 per unit. Each unit consists of 1 share of common stock and 0.5 warrant to purchase 1 share of common stock for \$10.00 exercise price per warrant share. The closing date of this transaction was July 8, 2016, which resulted in the Company receiving \$10,250,880 of gross proceeds. The investors received 1,124,000 shares of common stock and warrants to purchase 562,000 shares of common stock.

The Company has analyzed the warrants under FASB Accounting Standards Codification Topic 480, *Distinguishing Liabilities From Equity* and other relevant literature, and determined that the warrants meet the criteria for classification as equity instruments. The Company estimated the fair value of the warrants using the Black-Scholes-Merton option-pricing model and recorded them in stockholders' equity with an offset to additional paid in capital recorded from the sale of the units.

In February 2017, a warrant holder exercised the right to purchase 2,741 shares of common stock of the Company at the exercise price of \$10.00 per share. Accordingly, the Company issued 2,741 shares of common stock for cash proceeds of \$27,410.

(7) Cash dividends

Common stock dividends – The Board of Directors suspended common stock dividends in 2009.

Preferred Stock dividends - At July 1, 2017 there were 422,433 shares of Series A Convertible Preferred Stock issued and outstanding. The preferred stock, which has a stated value of \$24 per share, pays a 4% cumulative annual dividend semi-annually on October 15 and April 15 each year. A semi-annual dividend of \$207,018 was paid on April 17, 2017. The next semi-annual dividend will be paid on October 16, 2017, or immediately before the closing under the Merger Agreement, if earlier.

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

Basic earnings per share is computed by dividing the net income or loss for the period by the weighted average number of shares of common stock outstanding during the period. The computation of diluted earnings per share is similar to the computation of basic earnings per share, except that the denominator is increased for the assumed exercise of dilutive options and other potentially dilutive securities, including convertible preferred stock, using the treasury stock method unless the effect is anti-dilutive.

For the calculation of basic and diluted net loss per common share for the three-month period ended July 1, 2017, approximately 1,267,000 shares of common stock issuable on conversion of our Series A Convertible Preferred Stock, approximately 315,000 shares of un-vested restricted stock and approximately 41,000 outstanding stock options were not included in the computation of diluted earnings per share because that would have been anti-dilutive for the period presented.

For the calculation of basic and diluted net loss per common share for the nine-month period ended July 1, 2017, approximately 1,302,000 shares of common stock issuable on conversion of our Series A Convertible Preferred Stock, approximately 209,000 shares of un-vested restricted stock and approximately 46,000 outstanding stock options were not included in the computation of diluted earnings per share because that would have been anti-dilutive for the period presented.

[Index](#)

Basic and diluted net loss per common share for the three and nine-month periods ended July 1, 2017 and July 2, 2016, is calculated as follows:

	(in thousands of dollars except per share data)			
	Three months ended		Nine months ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Numerator:				
Net loss attributable to common stockholders	\$ (2,993)	\$ (1,538)	\$ (7,802)	\$ (3,221)
Denominator:				
Weighted average shares used in calculating net loss per ordinary share - basic	5,366	4,070	5,291	3,828
Weighted average shares used in calculating net loss per ordinary share - diluted	5,366	4,070	5,291	3,828
Net loss per ordinary share - basic	\$ (0.56)	\$ (0.38)	\$ (1.47)	\$ (0.84)
Net loss per ordinary share - diluted	\$ (0.56)	\$ (0.38)	\$ (1.47)	\$ (0.84)

(9) Segment information

The Company has three reportable segments: controls, capacitors and chargers. The controls segment produces microprocessor based control systems for zero-emission and hybrid electric vehicles. The capacitors segment produces special-metalized film capacitors for sale to electronic equipment manufacturers. The chargers segment designs and manufactures battery chargers for electric vehicles. Each segment has its own management team and sales force and the capacitors and battery chargers segments have their own manufacturing facilities.

The significant accounting policies of the segments are the same as those described in Note 3 and in 2016 10-K Note 1. 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 corporate expense, acquisition expenses, interest expense, foreign currency translation gain/losses, interest income or income taxes to segments.

Information concerning operations of the reportable segments is as follows:

	(in thousands of dollars)				
	Three months ended July 1, 2017				
	Controls	Capacitors	Chargers	Corporate	Total
Sales	9,822	500	8,234	-	18,556
Operating income (loss)	(2,497)	64	520	(1,375)	(3,288)
Identifiable assets, excluding goodwill	34,561	962	23,449	1,672	60,644
Goodwill	1,435	-	6,707	-	8,142

	Three months ended July 2, 2016				
	Controls	Capacitors	Chargers	Corporate	Total
	Sales	8,462	405	5,046	-
Operating income (loss)	(511)	(5)	(257)	(158)	(931)
Identifiable assets, excluding goodwill	38,149	901	8,715	3,853	51,618
Goodwill	1,435	-	7,169	-	8,604

[Index](#)

(in thousands of dollars)					
Nine months ended July 1, 2017					
	Controls	Capacitors	Chargers	Corporate	Total
Sales	25,043	1,193	20,535	-	46,771
Operating income (loss)	(6,641)	86	708	(2,181)	(8,028)
Identifiable assets, excluding goodwill	34,561	962	23,449	1,672	60,644
Goodwill	1,435	-	6,707	-	8,142

Nine months ended July 2, 2016					
	Controls	Capacitors	Chargers	Corporate	Total
Sales	25,968	1,215	9,026	-	36,209
Operating income (loss)	(449)	(61)	9	(1,921)	(2,422)
Identifiable assets, excluding goodwill	38,149	901	8,715	3,853	51,618
Goodwill	1,435	-	7,169	-	8,604

Revenues by region below are based on the location of the business selling the products rather than the destination of the products.

(in thousands of dollars)					
	Three Months ended			Nine Months ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016	
U.S. sales	\$ 5,283	\$ 3,924	\$ 13,481	\$ 11,621	
Foreign sales:					
U.K.	2,342	2,518	6,171	9,225	
Italy	7,975	5,046	20,162	9,026	
France	2,272	2,307	5,672	5,840	
China	684	118	1,285	497	
Total foreign sales	13,273	9,989	33,290	24,588	
Total sales	\$ 18,556	\$ 13,913	\$ 46,771	\$ 36,209	

Long-term assets by region below are as follows:

(in thousands of dollars)			
	July 1, 2017	September 30, 2016	
U.S. long-term assets:	\$ 2,490	\$ 2,224	
Foreign long-term assets:			
U.K.	7,919	5,891	
Italy	16,934	16,580	
France	374	302	
Korea, Japan, China	461	388	
Canada	39	-	
Total foreign long-term assets	25,727	23,161	
Total long-term assets	\$ 28,217	\$ 25,385	

(10) Research and development

The cost of research and development programs is charged against income as incurred and amounted to \$2,465,000 and \$5,733,000 for the three and nine-month periods ended July 1, 2017, respectively, net of U.K. government grants received, “above the line” tax credits arising from U.K. government research and development incentives as well as research and development expense associated with engineering services revenue recorded in cost of sales. The cost of research and development programs amounted to \$1,212,000 and \$3,419,000 for the three and nine-month periods ended July 2, 2016, respectively, net of U.K. government grants received, “above the line” tax credits arising from U.K. government research and development incentives as well as research and development expense associated with engineering services revenue recorded in cost of sales.

In 2015 the Company was awarded a grant of approximately \$625,000 by the U.K. Regional Growth Fund, a U.K. government body. The grant is to develop an innovative range of low voltage motor controls which are designed to serve the emerging needs for on-road, automotive electrification. The grant includes a commitment to create or safeguard a total of twenty jobs at the Company’s U.K. facility over the period of the project. The Company recorded grant income from this project of \$0 and incurred research and development expense on this project of \$0 for the three months ended July 1, 2017. The Company recorded grant income from this project of \$281,000, which was offset against the Company’s research and development expense on this project of \$1,206,000, for the nine months ended July 1, 2017. The Company recorded grant income from this project of \$21,000, which was offset against the Company’s research and development expense on this project of \$90,000, for the three months ended July 2, 2016. The Company recorded grant income from this project of \$115,000, which was offset against the Company’s research and development expense on this project of \$392,000, for the nine months ended July 2, 2016.

During 2015 through 2017, the Company participated in a U.K. government research and development arrangement which allows U.K. companies to receive an additional available tax credit subject to meeting certain qualifying conditions. The credit is a percentage, which currently ranges from 11% to 14.5% depending on circumstances, of qualifying research and development expenditure in the period. The credit discharges income tax the Company would have to pay or allows companies without an income tax liability to receive a refund payment from the U.K. government. For the three and nine months ended July 1, 2017 the Company recorded \$264,000 (three months ended July 2, 2016 - \$0) and \$615,000 (nine months ended July 2, 2016 - \$0), respectively, as a reduction in research and development expense in the unaudited consolidated statements of operations. The Company had an income tax receivable balance of \$1,211,000 at July 1, 2017 from this initiative (September 30, 2016 - \$985,000), which is included within prepaid expenses and other current assets on the unaudited consolidated balance sheets.

(11) Income Taxes

The Company’s effective tax rate of 12.8% is significantly lower than the U.S. statutory rate of 34%, primarily due to the fact that certain current year operating losses in the U.K. have been foregone in exchange for a cash refund, and in addition the local statutory rate in certain countries in which the Company operates, notably the U.K. (19%) and Italy, (24%), is lower than the U.S. statutory rate.

During the nine-month period ended July 1, 2017, the Company’s deferred tax assets increased by \$1,427,000. The Company continues to assess the need for a valuation allowance against these assets. In assessing the continuing need for a valuation allowance the Company has assessed the available means of recovering its deferred tax assets, including the ability to carryback net operating losses, the existence of reversing temporary differences, the availability of tax planning strategies, and available sources of future taxable income, including a revised estimate of future sources of pre-tax income. The Company has historically had profitable operations. The Company’s current projections reflect future profitable operations. Since the majority of the Company’s deferred tax assets relate to operations in countries where net operating losses have unlimited carry forwards, the Company has concluded that no valuation allowance is required on these deferred tax assets.

During the second quarter of 2017, the U.S. Internal Revenue Service initiated an audit of the Company’s U.S. federal income tax return for the period ended September 30, 2015. This audit was completed during the third quarter of 2017, resulting in a small assessment of tax payable by the Company.

(12) 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 capacitors business. The Company has frozen U.K. and U.S. defined benefit plans for which no future benefits are being earned by employees. The Company uses a September 30 measurement date for its defined benefit pension plans.

The Company's French subsidiary, Sevcon S.A.S., has a liability to pay its employees a service and salary-based award when they leave the Company's employment at retirement age. This unfunded liability, recorded in accrued expenses, was \$227,000 and \$198,000 at July 1, 2017 and September 30, 2016, respectively. The obligation to pay this award is a French legal requirement.

The Company's Italian subsidiary, Bassi S.r.l., has a liability to pay its employees a severance indemnity, 'Trattamento di fine Rapporto' ("TFR") when they leave the Company's employment. TFR, which is mandatory for Italian companies, is deferred compensation and is based on the employees' years of service and the compensation earned by the employee during the service period. This unfunded liability, recorded in other long-term liabilities, was \$1,075,000 and \$987,000 at July 1, 2017 and September 30, 2016, respectively.

The following table sets forth the components of the net pension cost for the three and nine-month periods ended July 1, 2017 and July 2, 2016, respectively:

	(in thousands of dollars)			
	Three Months ended		Nine Months ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Interest cost	\$ 201	\$ 304	\$ 621	\$ 885
Service cost	-	49	-	82
Expected return on plan assets	(272)	(281)	(770)	(846)
Amortization of net loss	93	128	271	278
Net periodic benefit cost	22	200	122	399
Cost of defined contribution plans	\$ 122	\$ 105	\$ 360	\$ 388
Net cost of all employee benefit plans	\$ 144	\$ 305	\$ 482	\$ 787

The following table sets forth the movement in the liability for pension benefits, all of which is non-current, in the nine-month period ended July 1, 2017:

	(in thousands of dollars)	
	Nine Months ended	
	July 1, 2017	
Liability for pension benefits at beginning of period	\$	11,511
Interest cost		621
Expected return on plan assets		(770)
Plan contributions		(621)
Effect of exchange rate changes		(39)
Liability for pension benefits at end of period		10,702

Sevcon, Inc. contributed \$150,000 to its frozen U.S. defined benefit plan in the nine months ended July 1, 2017; it presently anticipates contributing an additional \$50,000 to fund its U.S. plan during the remainder of fiscal 2017. In addition, employer contributions to the frozen U.K. defined benefit plan were \$471,000 in the first nine months and are estimated to total \$666,000 in 2017.

The tables below present information about the Company's pension plan assets measured and recorded at fair value as of July 1, 2017 and September 30, 2016, and indicate 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)
July 1, 2017			
Adept Strategy 9 Fund (a sub-fund of Adept Investment Management plc)	\$ -	\$ 12,808	\$ -
Schroder Matching Plus Nominal and Index Linked Liability Driven Investment Swap Funds (funds managed by Schroder Investment Management Limited)	-	4,519	-
U.S. Mutual Funds and Fixed Income Funds	3,077	-	-
U.S. Equity Funds	447	-	-
Other Types of Investments	-	-	-
Cash	214	-	-
Total Pension Plan Assets – Fair Value	\$ 3,738	\$ 17,327	\$ -

(in thousands of dollars)

	Level 1* (Quoted prices in active markets)	Level 2** (Significant observable inputs)	Level 3*** (Unobservable inputs)
September 30, 2016			
Adept Strategy 9 Fund (a sub-fund of Adept Investment Management plc)	\$ -	\$ 13,268	\$ -
Schroder Matching Plus Nominal and Index Linked Liability Driven Investment Swap Funds (funds managed by Schroder Investment Management Limited)	-	5,335	-
U.S. Mutual Funds and Fixed Income Funds	2,837	-	-
U.S. Equity Funds	400	-	-
Other Types of Investments	-	-	-
Cash	439	-	-
Total Pension Plan Assets – Fair Value	\$ 3,676	\$ 18,603	\$ -

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

** Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The Company's pension plan financial assets held in the Adept Strategy 9 Fund and the Schroder investments are Level 2 assets. The Company uses the Net Asset Value to determine the fair value of underlying investments which (a) do not have readily determinable fair value; and (b) prepare their financial statements consistent with the measurement principles of an investment company. The Funds are not exchange traded. The Funds are not subject to any redemption notice periods or restrictions and can be redeemed on a daily basis. No gates or holdbacks or dealing suspensions are being applied to the Funds. The Funds are of perpetual duration.

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

[Index](#)

The estimated benefit payments, which reflect future service, as appropriate, for the years ended September 30 are as follows:

	(in thousands of dollars)
2017	\$ 470
2018	488
2019	494
2020	502
2021	499
2022 – 2026	\$ 2,722

(13) Inventories

Inventory, net of reserve, is comprised of:

	(in thousands of dollars)	
	July 1, 2017	September 30, 2016
Raw materials	\$ 7,361	\$ 6,532
Work-in-process	327	266
Finished goods	9,384	6,868
Total inventory, net of reserve	\$ 17,072	\$ 13,666

(14) Property, Plant and Equipment, net

Property, plant and equipment, net of accumulated depreciation, is comprised of:

	(in thousands of dollars)	
	July 1, 2017	September 30, 2016
Property, plant and equipment, gross:		
Land and improvements	\$ 18	\$ 18
Buildings and improvements	1,440	1,069
Equipment	13,645	12,166
Total property, plant and equipment, gross	15,103	13,253
Less: accumulated depreciation	(10,107)	(9,410)
Net property, plant and equipment	\$ 4,996	\$ 3,843

(15) Fair value of financial instruments

The Company's financial instruments consist mainly of cash and cash equivalents, short-term investments, trade receivables, accounts payable and debt. The carrying amount of these financial instruments, other than the debt, approximates their fair value as of July 1, 2017 due to their short-term nature. The fair value of the Company's long-term bank debt at July 1, 2017 approximated \$15,994,000 (the gross carrying value as of July 1, 2017 before the offset of debt issuance costs) based on recent financial market pricing. The bank debt represents a Level 2 liability in accordance with the fair value hierarchy described in Note 12.

(16) Accrued expenses

Accrued expenses, in excess of 5% of total current liabilities, are as follows:

	(in thousands of dollars)	
	July 1, 2017	September 30, 2016
Accrued compensation and related costs	\$ 2,267	\$ 1,945
Deferred revenue	1,230	548
Other accrued expenses	2,746	2,438
Total accrued expenses	\$ 6,243	\$ 4,931

(17) Warranty reserves

The following table summarizes the warranty reserve activity:

	(in thousands of dollars)			
	Three Months ended		Nine Months ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Warranty reserves at beginning of period	\$ 360	\$ 249	\$ 332	\$ 278
Warranty expense	34	-	135	5
Acquisition assumed liability	-	-	-	34
Warranty usage	(17)	(6)	(81)	(72)
Currency translation	12	-	3	(2)
Warranty reserves at end of period	\$ 389	\$ 243	\$ 389	\$ 243

(18) Debt

The Company's U.K. controls and capacitors subsidiaries each have multi-currency overdraft facilities which together total \$1,100,000 and are secured by real estate owned by those companies. In July 2017, the Company's U.K. bank renewed these facilities for a twelve-month period, although they can be withdrawn on demand by the bank. The facilities were unused at July 1, 2017 and at September 30, 2016.

The Company entered into a €14,000,000 (\$15,994,000 at July 1, 2017) credit facility with Banca Monte dei Paschi di Siena S.p.A. ("MPS Bank") on January 27, 2016. The loan and security agreement will expire on January 27, 2021 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 the Company, on or after the nine-month anniversary of the funding date, without penalty or premium. A change of control (including the closing under the BorgWarner Merger Agreement) would constitute an event of default, triggering acceleration of the repayment obligation. Interest on the loan is payable quarterly at a margin of 3% over EuroLIBOR, with a minimum EuroLIBOR rate of 0.0%. The loan interest rate at July 1, 2017 was 3%. Under the facility, the Company must maintain, on an annual basis, a net debt to EBITDA ratio defined as the ratio of consolidation indebtedness of the Company and its subsidiaries, minus cash and marketable securities, to EBITDA of the Company and its subsidiaries, measured on a fiscal year basis, plus (under a December 2016 amendment) the net cash proceeds received by the Company from the issuance and sale of equity securities during such twelve-month period, of no more than 3.5:1 for fiscal years 2016 and 2017 and a net debt to EBITDA ratio of no more than 3.0:1 thereafter. Upon entering into the credit facility, the Company drew down €14,000,000 (\$15,994,000), which was the total amount outstanding at July 1, 2017. This amount is shown in the accompanying consolidated balance sheets under long-term debt.

[Index](#)

Annual principal payments on bank debt, net of debt issuance costs, and converted to U.S. dollars at the July 1, 2017 exchange rate of \$1.1424 Euros per U.S. dollar, are as follows (in thousands of dollars):

2018 – short-term	\$	800
2018 – long-term		400
2019		1,599
2020		1,599
2021		11,596
		<u>15,994</u>
Less: debt issuance costs		(181)
Total	\$	<u>15,813</u>

On May 22, 2017, the Company entered into a loan agreement with FrontFour Capital Group, LLC (“FrontFour”), pursuant to which FrontFour made a commitment to the Company to provide an unsecured term loan in the principal amount of \$10,000,000 (the “Term Loan”). The period of FrontFour’s commitment under the loan agreement began on the date the Company entered into the loan agreement, and terminates on (i) August 22, 2017, or (ii) if the Company chooses to request an extension, November 22, 2017. The Company paid a commitment fee to FrontFour of \$450,000. The commitment fee plus \$34,000 of associated legal fees have been accounted for as deferred financing costs and are being amortized over the life of the loan agreement. If the Company elects to extend the commitment period, it will be required to pay FrontFour an additional \$150,000 extension fee. The interest rate on amounts borrowed under the loan agreement is 10% per annum.

Subsequent to the end of the period, on July 3, 2017, the Company drew down \$7,500,000 under the FrontFour loan agreement. The Term Loan, which is pari-passu with the Company’s existing senior credit facility with MPS Bank, will mature and be repayable in full on July 3, 2018; provided that maturity would accelerate upon an event of default, a change of control (including the closing under the BorgWarner Merger Agreement), or the Company’s repayment of all amounts due under the MPS Bank credit facility. The loan agreement provides for mandatory prepayment in the event that the Company receives net cash proceeds from an equity issuance, in an amount equal to such net cash proceeds. The loan agreement also provides for voluntary prepayment at any time without penalty.

The loan agreement imposes customary limitations on the Company’s ability to, among other things, dispose of certain assets other than the sale of inventory in the ordinary course, incur liens, incur additional indebtedness, and engage in transactions with affiliates. The loan agreement also provides for events of default customary for credit facilities of this type, including, but not limited to, bankruptcy, non-payment, breach of covenants, and insolvency. Upon an event of default, the interest rate would be increased and FrontFour may elect a number of remedies including, but not limited to declaring all obligations (including principal, interest and expenses) immediately due and payable.

(19) Commitments and Contingencies

Sevcon, Inc. and subsidiaries are involved in various legal proceedings in the ordinary course of business but the Company believes that it is remote that the outcome will be material to operations.

The Company maintains a directors' retirement plan which provides for certain retirement benefits to non-employee directors. Effective January 1997 the plan was frozen and no further benefits are being accrued. While the cost of the plan has been expensed, the plan is not separately funded. The estimated liability which has been recorded based on the cost of buying deferred annuities at July 1, 2017 and September 30, 2016 was \$136,000 and \$144,000, respectively.

On March 24, 2017 the company entered into a 15-year operating lease for land and buildings at a total commitment of £4,185,000 (approximately \$5,435,000). The company is entitled to a rent-free period of 6 months and a further 24 months at half-rent.

Minimum rental commitments under all non-cancelable leases for the years ended September 30 are as follows: 2017 - \$271,000; 2018 - \$1,041,000; 2019 - \$998,000; 2020 - \$896,000; 2021 - \$865,000 and \$6,002,000 thereafter.

The U.K. subsidiaries of the Company have given to RBS NatWest Bank a security interest in certain leasehold and freehold property assets as security for overdraft facilities of \$1,100,000 as mentioned in Note 18.

(20) Changes in Other Comprehensive Loss

The following table illustrates changes in the balances of each component of accumulated other comprehensive loss in fiscal 2017 and 2016:

	(in thousands of dollars)		
	Foreign Currency Items	Defined Benefit Pension Plans	Accumulated Other Comprehensive Loss
Balance September 30, 2015	(1,274)	(9,730)	(11,004)
Other comprehensive loss	(996)	(1,420)	(2,416)
Balance September 30, 2016	(2,270)	(11,150)	(13,420)
Other comprehensive loss	1,095	204	1,299
Balance July 1, 2017	(1,175)	(10,946)	(12,121)

(21) Related Parties

Bassi Holding (see Note 4) is considered a related party as a stockholder of the Company.

As of July 1, 2017 and September 30, 2016 there was a net payable balance of \$1,626,000 and \$1,858,000, respectively, due to Bassi Holding. This debt mainly relates to the dividends payable to Bassi Holding as a result of the acquisition on January 29, 2016 and it excludes rent payable, which is shown below.

During the three and nine months ended July 1, 2017 the Company paid rent to Bassi Holding in the amount of \$81,000 and \$262,000 respectively. During the three and nine months ended July 2, 2016 the Company paid rent to Bassi Holding in the amount of \$83,000 and \$138,000 respectively. As of July 1, 2017 and September 30, 2016 the Company owed \$56,000 and \$84,000, respectively, to Bassi Holding for rent.

During the quarter ended April 1, 2017, the Company's U.K. subsidiary made short-term loans in amounts ranging from £2,820 to £39,274 to nine employees of that subsidiary to cover the employees' income tax withholding obligations arising from the vesting of restricted stock. The amounts due to the Company are included in prepaid expenses and other current assets at July 1, 2017. The loans were not approved by the Company's Board of Directors. They included loans of £39,274 and £28,829 (\$49,632 and \$36,019 at the contemporary exchange rate), respectively, to the chief executive officer and chief financial officer. The loans to the chief executive officer and chief financial officer were repaid in full, with interest at the Inland Revenue-prescribed market rate of 3% per annum, promptly after they were disclosed to the Board of Directors in connection with the preparation of the Company's consolidated financial statements for the quarter ended April 1, 2017.

(22) 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.

As outlined in Note 1 above, effective July 13, 2017, the Company acquired Fuhua Glass's entire 50% equity interest in Sevcon New Energy Technology (Hubei) Co., Ltd and terminated its equity joint venture with Fuhua Glass

As outlined in Note 2 above, on July 14, 2017, the Company entered into a Definitive Agreement with BorgWarner Inc. and its wholly-owned subsidiary, Slade Merger Sub Inc., providing for the merger of Slade Merger Sub Inc. with and into the Company with the Company surviving the merger as a wholly-owned subsidiary of Borg Warner Inc. Consummation of the Merger is subject to the satisfaction or waiver of specified closing conditions, including the approval of the Merger by the holders of a majority of the outstanding Common Shares.

No other material subsequent events were identified that require recognition or disclosure in these financial statements.

(23) Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09: “Revenue from Contracts with Customers (Topic 606)”, comprehensive new revenue recognition guidance which will supersede almost all existing revenue recognition guidance. It affects any entity that enters into contracts with customers for the transfer of goods or services. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, in August 2015, the FASB issued ASU No. 2015-14: “Revenue from Contracts with Customers (Topic 606)”. This update was issued to defer the effective date of ASU No. 2014-09 by one year. Therefore, the effective date of ASU No. 2014-09 for public business entities is the annual reporting period beginning after December 15, 2017 including interim reporting periods within that reporting period. The Company is evaluating the impact of the adoption of this standard on our consolidated financial statements. This guidance will be effective for the Company in fiscal year 2019.

In August 2014, the FASB issued ASU No. 2014-15, *Preparation of Financial Statements – Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern* which states that under U.S. GAAP, continuation of a reporting entity as a going concern is presumed as the basis for preparing financial statements unless and until the entity’s liquidation becomes imminent. If and when an entity’s liquidation becomes imminent, financial statements should be prepared under the liquidation basis of accounting. Even when an entity’s liquidation is not imminent, there may be conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern. In those situations, financial statements should continue to be prepared under the going concern basis of accounting, but the amendments in this ASU should be followed to determine whether to disclose information about the relevant conditions and events. The new guidance is effective for the Company’s annual reporting for fiscal 2017, and for annual periods and interim periods thereafter. Early adoption is permitted. The Company is assessing the impact of this ASU on its consolidated financial statements and plans to adopt it in the fourth quarter of fiscal year 2017.

In July 2015, the FASB issued ASU No. 2015-11: “Inventory (Topic 330): Simplifying the Measurement of Inventory” which requires inventory within the scope of this standard to be measured at the lower of cost and net realizable value. For public business entities, the guidance is effective for annual periods beginning after December 15, 2016. The Company is evaluating the impact of the adoption of this standard on our consolidated financial statements. This guidance will be effective for the Company in fiscal year 2018.

In September 2015, the FASB issued ASU No. 2015-16: “Business Combinations (Topic 805)” which amends existing guidance related to measurement period adjustments associated with a business combination. The new standard requires the Company to recognize measurement period adjustments in the reporting period in which the adjustments are determined. The amendment removes the requirement to adjust prior period financial statements for these measurement period adjustments. The guidance is effective for annual periods beginning after December 15, 2015. The Company adopted the provisions of ASU, 2015-16 in fiscal year 2017, the implementation of which did not have any impact on our consolidated financial statements.

In February 2016, the FASB issued FASB ASU No. 2016-02: “Leases (Topic 842)” in which the core principle is that a lessee should recognize the assets and liabilities that arise from leases. For operating leases, a lessee is required to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the balance sheet. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The accounting applied by a lessor is largely unchanged from that applied under current U.S. GAAP. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. The Company is evaluating the impact of the adoption of this standard on our consolidated financial statements. This guidance will be effective for the Company in fiscal year 2020.

In March 2016, the FASB issued ASU No. 2016-09: “Compensation - Stock Compensation (Topic 718)” simplifies several aspects of the accounting for employee share-based payment award transactions. The guidance is effective for fiscal years beginning after December 15, 2016 including interim periods within those fiscal years. The Company is evaluating the impact of the adoption of this standard on our consolidated financial statements. This guidance will be effective for the Company in fiscal year 2018.

[Index](#)

In August 2016, the FASB issued ASU 2016-15: “Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments” which addresses eight specific statement of cash flow issues with the objective of reducing diversity in practice. The guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company is evaluating the impact of the adoption of this standard on our consolidated financial statements. This guidance will be effective for the Company in fiscal year 2019.

In October 2016, the FASB issued ASU 2016-16: “Income Taxes (Topic 740) Intra-Entity Transfers of Assets Other Than Inventory” which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset (excluding inventory) when the transfer occurs instead of when the asset is sold to an outside party. The guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company is evaluating the impact of the adoption of this standard on our consolidated financial statements. This guidance will be effective for the Company in fiscal year 2019.

In January 2017, the FASB issued ASU 2017-04: “Intangibles – Goodwill and Other (Topic 740)” which simplifies the test for goodwill impairment. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within that reporting period. The Company is evaluating the impact of the adoption of this standard on our consolidated financial statements. This guidance will be effective for the Company in fiscal year 2021.

In May 2017, the FASB issued ASU No. 2017-09, Compensation-Stock Compensation (Topic 718), which provides additional guidance on which changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting. This ASU is effective for reporting periods beginning after December 15, 2017. The Company is evaluating the potential impact the adoption of this standard on our consolidated financial statements. This guidance will be effective for the Company in fiscal year 2019.

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, including without limitation statements about the benefits that may be obtained from certain customer contracts, are forward-looking statements that are based on management's present expectations and 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 are set forth in the following discussion and also include the risks discussed under "Risk Factors" below and elsewhere in this report.

CRITICAL ACCOUNTING ESTIMATES

As of July 1, 2017, there have been no material changes to the critical accounting estimates described in the Company's 2016 10-K. However, if the business and economic realities vary from those assumed in these judgments and estimates, actual operating results may differ materially from the amounts derived from these judgments and estimates. In addition, 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.
- (iv) if the allocation of the total consideration for Bassi, to the fair values of the tangible and intangible assets acquired, differs from the management estimates and judgments, the Company may be required to write-down the values of certain tangible or intangible assets or 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.

Material Development

On July 14, 2017, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with BorgWarner Inc. ("BorgWarner") pursuant to which BorgWarner has agreed to acquire Sevcon for \$22.00 per share in an all-cash transaction expected to have an enterprise value at closing of approximately \$200 million. The transaction is expected to close in the fourth quarter of calendar 2017, subject to certain conditions, including regulatory, shareholder and other related approvals. Further details are provided in Note 2 to the financial statements included with this Quarterly Report on Form 10-Q, as well as in our filings with the Securities and Exchange Commission. We may incur transaction-related costs of approximately \$6,500,000 during 2017 as a result of the Merger Agreement.

OVERVIEW OF THIRD QUARTER**Results of Operations****Three months ended July 1, 2017 and July 2, 2016**

The following table compares the results by segment for the three months ended July 1, 2017 with the same period in the prior year.

	(in thousands of dollars)		
	Three months ended		
	July 1, 2017	July 2, 2016	Favorable (unfavorable) Change
Sales:			
Controls	\$ 9,822	\$ 8,462	\$ 1,360
Capacitors	500	405	95
Chargers	8,234	5,046	3,188
Total Sales	18,556	13,913	4,643
Gross Profit:			
Controls	3,145	3,204	(59)
Capacitors	221	172	49
Chargers	1,266	1,376	(110)
Total Gross Profit	4,632	4,752	(120)
Operating, Research & Development (R&D) and acquisition expenses:			
Controls	(5,642)	(3,715)	(1,927)
Capacitors	(157)	(177)	20
Chargers	(746)	(1,633)	887
Unallocated corporate expense and acquisition expenses	(1,375)	(158)	(1,217)
Total operating, R&D and acquisition expenses	(7,920)	(5,683)	(2,237)
Operating loss:			
Controls	(2,497)	(511)	(1,986)
Capacitors	64	(5)	69
Chargers	520	(257)	777
Unallocated corporate expense and acquisition expenses	(1,375)	(158)	(1,217)
Total operating loss	(3,288)	(931)	(2,357)
Interest expense	(216)	(140)	(76)
Interest and other income	13	4	9
Foreign currency gain (loss)	317	(522)	839
Loss before income tax	(3,174)	(1,589)	(1,585)
Income tax benefit	269	60	209
Net loss	(2,905)	(1,529)	(1,376)
Net loss attributable to non-controlling interests	14	84	(70)
Net loss attributable to Sevcon, Inc. and subsidiaries	(2,891)	(1,445)	(1,446)
Preferred share dividends	(102)	(93)	(9)
Net loss attributable to common stockholders	\$ (2,993)	\$ (1,538)	\$ (1,455)

[Index](#)

Reported revenues in the third quarter of 2017 were \$18,556,000 compared to \$13,913,000 in the same quarter last year, a 33.4% increase year-on-year. Revenue from the chargers business was \$8,234,000 for the third quarter of 2017 compared to \$5,046,000 in the same fiscal quarter last year, an increase of 63.2% in the segment revenues year-on-year. Revenues in the controls and capacitors businesses combined were \$10,322,000 compared to \$8,867,000 in the same fiscal quarter last year, an increase of 16.4%.

In the controls segment, our industrial off-road markets revenue grew 3% compared with the third quarter of 2016, driven largely by a 15% increase in sales to manufacturers of what we term “other electric vehicles”, which includes a wide range of applications. This growth was partly offset by lower sales to the traditional industrial sectors of fork lift truck, aerial work platforms and airport ground support equipment which collectively reduced by 5% from the same period last year. In the on-road controls segment, sales in the third quarter of 2017 were up 60% in the two-wheel and four-wheel sectors combined, compared to the same period last year, due mainly to improved product shipments in North America and Asia. In Asia, and in our former joint-venture in China in particular, we are starting to see significant growth in sales to manufacturers of on-road electric and hybrid passenger vehicles as OEM’s we have been developing products with in recent years move to volume manufacture. We expect this business to continue to fluctuate from quarter to quarter due to the timing of orders as manufacturers ramp up production.

Our capacitors business saw double digit revenue improvement in the third quarter of 2017 compared with the same period in the prior year, driven largely by improved customer demand from railway signaling customers.

Our Bassi acquisition continues to perform above our expectations with 63.2% revenue growth in the third quarter compared to the same fiscal quarter in the prior year, driven mainly by sales in North America and we anticipate that success to continue into the fourth quarter of 2017.

In terms of geography, revenues were 30% higher in Asia, due mainly to the startup of automotive production in China offset by slower industrial sales in the Far East. In North America, sales were 45% higher than in the same period in 2016, of which increase approximately one third came from the controls segment and two thirds from increased sales to North American chargers customers. Sales in Europe were 15% higher in the third quarter of 2017 compared to the same period last year, reflecting growing sales in the chargers segment partially offset by a single digit decline in sales to industrial customers in the controls segment.

Engineering services continues to be an increasingly important element of our revenue in our controls segment. Many new customers, mainly on-road vehicle manufacturers, require a bespoke product to meet their specific needs. They pay us to engineer existing Sevcon products to provide them with a reliable solution. This process results in a shorter time to market and lower development costs for our customer. We believe that our experience allows us to complete projects faster than the competition, and with known system performance. We generally account for engineering services under the “percentage of completion” accounting method. As a result, our revenue for engineering services is a function of the number of hours worked by individuals on a project at specified rates as a proportion of an agreed program of work. Our cost to deliver the project is a function of labor cost and overhead recovery. Reported progress on projects is the achievement of project milestones. The number and timing of milestones differs from project to project, in general, however, achievement of a milestone brings the prospect of production ever nearer.

We are currently conducting engineering services work on several projects, all of which are expected to go into production in 2017-2018, and beyond. A multi-year project is generally very intense in terms of hours worked for the first twelve months as we develop the product and software. Subsequent time is spent on the refinement of the initial development, product testing, the validation of the product to safety standards and product certification. The customer is not obligated to purchase the product that is developed, but we believe our progress in milestones on an engineering services contract is a good way to assess the likelihood that a production program will commence at some point in the future. In the quarter we added two other contracts to the pipeline of product development and started shipments to one customer of a new Gen5 controller.

Gross profit of \$4,632,000 was 25% of sales in the third quarter, compared to \$4,752,000 or 34.2% of sales in the same quarter last year. The reduction in the gross profit percentage reflects a higher proportion of sales attributable to the lower margin chargers business in 2017 and also an increasing proportion of engineering services revenue, which is generally at a lower gross profit percentage than product sales. Gross profit in the chargers business was \$1,266,000 (15.4% of sales) for the third quarter of 2017, compared to \$1,376,000 (27.3% of sales) in the same fiscal quarter last year. Gross profit for the controls and capacitors segments combined, was \$3,366,000 (32.6% of sales) in the third quarter, compared to \$3,376,000 (38.1% of sales) in the same quarter last year.

[Index](#)

Operating, research and development and acquisition expenses were \$7,920,000, compared to \$5,683,000 in the same quarter last year. Included in the chargers segment operating expense was \$279,000 of non-cash expense from the amortization of intangible assets and fair value adjustments arising from the business combination with Bassi, compared with \$687,000 of such cost in the same period last year. Operating expenses in the controls and capacitors businesses combined, excluding unallocated corporate expense, were \$5,799,000, compared to \$3,892,000 in the prior year period. The increase of \$1,907,000 largely reflects the increased investment in engineering and research and development expense, including new hires, associated with the delivery of the engineering phase of the Company's new project pipeline. Unallocated corporate expense in the quarter of \$1,375,000 included approximately \$1,100,000 relating to professional fees and other associated costs connected with the potential merger with BorgWarner Inc. outlined in Note 2 to the financial statements included with this Form 10-Q.

There was an operating loss for the third quarter of \$3,288,000 compared with an operating loss of \$931,000 in the same period last year.

Included in other income and expense for the quarter was a foreign currency gain of \$317,000, compared with a foreign currency loss of \$522,000 in the third quarter of last year. The gain in the quarter largely reflects the impact of the strengthening of the British pound and the Euro against the U.S. Dollar compared to the prior period. During the third quarter, we recorded a charge of \$216,000 for interest which was largely interest payable on the MPS Bank credit facility partly used to finance the Bassi acquisition in January last year.

The Company recorded a loss before income taxes of \$3,174,000 in the third quarter of 2017, compared to a loss before income taxes of \$1,589,000 in the same period last year. There was an income tax benefit of \$269,000 in the period compared with a benefit of \$60,000 in the same period last year. The income tax benefit of 8.5% in the third quarter of 2017 was lower than the statutory Federal income tax rate of 34% for several reasons. The main items which reduced the effective tax rate were foreign tax rate differentials and the surrender of U.K. trading losses for cash research incentives.

After adjusting for a \$14,000 net loss relating to the Company's non-controlling interest in the Chinese joint venture and recording a preferred share dividend of \$102,000, there was a net loss attributable to the stockholders of \$2,993,000 or (\$0.56) per diluted share, compared to a net loss of \$1,538,000 or (\$0.38) per diluted share in the same quarter last year after recording a preferred share dividend of \$93,000.

Nine months ended July 1, 2017 and July 2, 2016

The following table compares the results by segment for the nine months ended July 1, 2017 with the same period in the prior year.

	(in thousands of dollars)		
	Nine months ended		
	July 1, 2017	July 2, 2016	Favorable (unfavorable) Change
Sales:			
Controls	\$ 25,043	\$ 25,968	\$ (925)
Capacitors	1,193	1,215	(22)
Chargers	20,535	9,026	11,509
Total Sales	46,771	36,209	10,562
Gross Profit:			
Controls	7,734	10,242	(2,508)
Capacitors	537	482	55
Chargers	2,882	2,266	616
Total Gross Profit	11,153	12,990	(1,837)
Operating, Research & Development (R&D) and acquisition expenses:			
Controls	(14,375)	(10,691)	(3,684)
Capacitors	(451)	(543)	92
Chargers	(2,174)	(2,257)	83
Unallocated corporate expense and acquisition expenses	(2,181)	(1,921)	(260)
Total operating, R&D and acquisition expenses	(19,181)	(15,412)	(3,769)
Operating income (loss):			
Controls	(6,641)	(449)	(6,192)
Capacitors	86	(61)	147
Chargers	708	9	699
Unallocated corporate expense and acquisition expenses	(2,181)	(1,921)	(260)
Total operating loss	(8,028)	(2,422)	(5,606)
Interest expense	(496)	(271)	(225)
Interest and other income	49	16	33
Foreign currency gain (loss)	(301)	(487)	186
Loss before income tax	(8,776)	(3,164)	(5,612)
Income tax benefit	1,126	139	987
Net loss	(7,650)	(3,025)	(4,625)
Net loss attributable to non-controlling interests	147	131	16
Net loss attributable to Sevcon, Inc. and subsidiaries	(7,503)	(2,894)	(4,609)
Preferred share dividends	(299)	(327)	28
Net loss attributable to common stockholders	\$ (7,802)	\$ (3,221)	\$ (4,581)

[Index](#)

Reported revenues in the nine months ended July 1, 2017 were \$46,771,000, an increase of \$10,562,000 or 29.2%, compared to the same period last year, which reflected the acquisition of Bassi in January 2016. Revenue in the chargers business for the nine months ended July 1, 2017 were \$20,535,000 compared to \$9,026,000 in the five month period post-acquisition last year, an increase of \$11,509,000. Revenues in the controls and capacitors businesses combined for the nine months ended July 1, 2017 were \$26,326,000 compared to \$27,183,000 in the same period last year, a decrease of 3.4%. Foreign currency fluctuations decreased reported revenues in the first nine months of the year by \$1,570,000 or 4.3%, mainly due to a stronger U.S. Dollar compared to both the British pound and the euro, than in the prior year period.

In the controls segment, sales in the nine month period to July 1, 2017 were 53% higher in North America and 20% higher in Europe but 33% lower in Asia compared to the same period last year. The reduction in Asia year-on-year is largely due to lower demand from the Company's traditional industrial markets, principally aerial work platform, airport ground support, fork lift truck, aftermarket and mining applications. This reduction in reported sales in the Company's traditional markets was largely driven by global macro-economic factors. Revenues in the on-road sector were 26% higher in the first nine months of 2017 compared to the same period last year. This increase largely reflected increased sales to electric and hybrid vehicle manufacturers in North America and the startup of volume manufacture and shipments to four-wheel customers in Asia as well as revenues from engineering services associated with electrification projects. Sales to customers in the two and four-wheel sector were 34% and 22% higher in the nine month period to July 1, 2017, compared to the same period in 2016, respectively.

Volumes shipped in the capacitors business were largely flat compared to the same period last year which reflected general macro-economic factors reducing sales to industrial customers offset by increased orders from railway signaling customers. In the chargers segment, the growth in revenues year-on-year is largely due to a significant increase in shipments to a North American battery manufacturer.

Gross profit of \$11,153,000 was 23.8% of sales in the nine month period ended July 1, 2017 compared to \$12,990,000, or 35.9%, of sales, in the comparable period in 2016. The reduction in the gross profit percentage reflects the inclusion of the lower margin chargers business in 2017 and also an increasing proportion of engineering services revenue, which is generally at a lower gross profit percentage than product sales. Gross profit in the chargers business in the nine month period ended July 1, 2017 was \$2,882,000 or 14% of sales compared to \$2,266,000 or 25.1% of sales in the same period last year, reflecting adverse customer mix. Gross profit in the controls and capacitors businesses combined in the nine month period ended July 1, 2017, was \$8,271,000 (31.5% of sales) compared to \$10,724,000 (39.5% of sales) in the same period last year, reflecting the higher proportion of lower margin engineering services revenue and also adverse customer mix.

Operating, research and development and acquisition expenses were \$19,181,000 in the first nine months of the year, an increase of \$3,765,000 compared with the same period last year, which included expenses of \$1,425,000 associated with the acquisition of the Bassi chargers business. Operating expense in the chargers business was \$2,174,000 during the period compared to \$2,257,000 in the prior period which also included the acquisition expenses of \$1,425,000. The increase in the charger segment operating expense year-on-year reflects increased investment in engineering resource in 2017 and also that 2016 represented only five months of expenses post-acquisition.

Operating expense in the controls and capacitors businesses combined, excluding unallocated corporate expense, was \$14,826,000 compared to \$11,234,000 in the same period last year, reflecting the continuing investment in engineering and research and development expense, including new hires, associated with the delivery of the engineering phase of the Company's new project pipeline. The increase in expense of \$3,592,000 includes approximately \$1,100,000 of professional fees and other costs associated with the proposed merger with BorgWarner Inc and also \$230,000 in relation to a contested director election which occurred in the second quarter of 2017.

Research and development expense increased by \$2,314,000 compared to the first nine months of last year. This increase year-on-year reflects our ongoing commitment to product development and improvement and the additional resources invested in converting our pipeline of opportunities into projects.

The Company recorded an operating loss for the first nine months of 2017 of \$8,028,000 compared with a loss of \$2,422,000 in the same period last year. The operating income for the chargers business for the nine-month period was \$708,000 after recording a non-cash expense of \$759,000 from the amortization of intangible assets and fair value adjustments arising from the business combination. There was an operating loss in the controls business of \$6,641,000 while the capacitors business recorded operating income of \$86,000.

[Index](#)

Included in other income and expense for first half year was a foreign currency loss of \$301,000 compared with a loss of \$487,000 for the same period last year. There was a net interest expense of \$447,000, compared with a net interest expense of \$255,000 for the same period last year, which mainly related to the credit facility partly used to finance the Bassi acquisition in January last year.

In the first nine months of 2017 the Company recorded an income tax benefit of \$1,126,000, or 12.8% of the loss before income tax, compared to an income tax benefit of \$139,000, or 4.6 % of income before income tax in the same period in 2016. The income tax benefit recorded of 12.8% in 2017 and 4.6% in 2016 are lower than the statutory Federal income tax rate of 34% for several reasons; the main items being foreign tax rate differentials and the surrender of U.K. trading losses for cash research incentives. In addition, in the prior period, there were acquisition expenses of \$1,417,000 which are not a deductible expense for income tax purposes, and, in the current period, approximately \$1,100,000 of costs to date associated with the proposed merger with Borg Warner Inc., which have also been treated as non-deductible for income tax purposes.

After adjusting for a \$147,000 net loss relating to the Company's non-controlling interest in the Chinese joint venture, there was a net loss attributable to the stockholders of \$7,802,000 or a loss of (\$1.47) per diluted share, compared to a net loss of \$3,221,000, or (\$0.84) per diluted share, in the same period last year. The Company recorded a preferred share dividend of \$299,000 for the first nine months of 2017 compared with \$327,000 for the same period last year.

As discussed in Note 23 to the financial statements included with this Quarterly Report on Form 10-Q, we are evaluating a number of recent accounting pronouncements, any of which could have a material impact on our results of operations.

Financial Condition

During the nine-month period ended July 1, 2017 the Company experienced an operating loss of \$8,028,000 and a decrease in cash of \$11,809,000 from \$14,127,000 at September 30, 2016 to \$2,318,000 at July 1, 2017. This negative performance largely reflected difficult conditions in the Company's traditional controls markets and continuing investment in research and development expense associated with the delivery of the engineering phase of the Company's new project pipeline, as well as professional fees and other costs associated with the proposed merger of the Company with Borg Warner Inc and a contested director election which occurred in the second quarter. At July 1, 2017 the Company had net current assets of \$18,028,000 including cash of \$2,318,000.

Excluding the impact of currency fluctuations, trade and other receivables increased by \$4,044,000 in the period, which decreased cash, and inventories and prepaid expenses and other current assets increased by a combined \$4,623,000, which also reduced cash during the period. Accounts payable, accrued expenses and accrued taxes increased by a combined \$6,250,000, which increased cash during the period. The number of days sales in receivables decreased by one day from 72 days sales at September 30, 2016 to 71 days sales at July 1, 2017, reflecting the lower proportion of receivables in the U.K., which generally has longer receivables days than in the rest of Europe and North America. Capital expenditures in the first nine months were \$1,792,000, including leasehold improvement expenditure on a new U.K. research and development and office facility. Exchange rate changes increased reported cash by \$596,000 in the first nine months of 2017.

The Company's U.K. controls and capacitors subsidiaries each have multi-currency overdraft facilities, which together total \$1,100,000 and which are secured by real estate owned by those companies. In July 2017, the Company's U.K. Bank renewed these facilities for a twelve-month period although, in line with normal practice in Europe, they can be withdrawn on demand by the bank. The facilities were unused at July 1, 2017 and at September 30, 2016. Management believes that, if these facilities were withdrawn, adequate alternative credit resources would be available. However, this would depend on the Company's situation and the economic environment at the time. Accordingly, management does not rely on their availability in projecting the adequacy of the Company's capital resources.

[Index](#)

The Company entered into a €14,000,000 (approximately \$15,994,000 at July 1, 2017) credit facility with MPS Bank on January 27, 2016. The loan and security agreement will expire on January 27, 2021 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 the Company, on or after the nine-month anniversary of the funding date, without penalty or premium. Interest on the loan is payable quarterly at a margin of 3% over EuroLIBOR, with a minimum EuroLIBOR rate of 0.0%. Under the facility, the Company must maintain, on an annual basis, a net debt to EBITDA ratio defined as the ratio of consolidation indebtedness of the Company and its subsidiaries, minus cash and marketable securities, to EBITDA of the Company and its subsidiaries, measured on a fiscal year basis, plus (under a December 2016 amendment) the net cash proceeds received by the Company from the issuance and sale of equity securities during such twelve-month period, of no more than 3.5:1 for fiscal years 2016 and 2017 and a net debt to EBITDA ratio of no more than 3.0:1 thereafter. The Company would consider raising additional equity capital if necessary to ensure compliance with this covenant at year-end. Upon entering into the credit facility, the Company drew down €14,000,000 (approximately \$15,994,000), which was the total amount outstanding at July 1, 2017. This amount is shown in the accompanying consolidated balance sheet under long-term debt. The carrying value of the debt approximated to fair value based on current interest rates.

On May 22, 2017, the Company entered into a loan agreement with FrontFour Capital Group, LLC (“FrontFour”), pursuant to which FrontFour made a commitment to the Company to provide an unsecured term loan in the principal amount of \$10,000,000 (the “Term Loan”). The period of FrontFour’s commitment under the loan agreement began on the date the Company entered into the loan agreement, and terminates on (i) August 22, 2017, or (ii) if the Company chooses to request an extension, November 22, 2017. The Company paid a commitment fee to FrontFour of \$450,000. The commitment fee plus \$34,000 of associated legal fees have been accounted for as deferred financing costs and are being amortized over the life of the loan agreement. If the Company elects to extend the commitment period, it will be required to pay FrontFour an additional \$150,000 extension fee. The interest rate on amounts borrowed under the loan agreement is 10% per annum. Subsequent to the end of the period, on July 3, 2017, the Company drew down \$7,500,000 under the FrontFour loan agreement and it is anticipated that the Company will draw down the remaining \$2,500,000 under the facility in the fourth quarter of 2017.

The Company entered into a fifteen year lease for a U.K. facility in the second quarter of 2017 and is in the process of relocating staff to that refurbished leasehold facility. The facility will be the Company’s principal U.K. location for research and development activity and support services. The refurbishment and fit-out expense for that facility, both incurred to and including the third quarter of 2017, and committed to, amounts to approximately \$1,500,000. Other than this U.K. facility cost, there were no significant capital expenditure commitments at July 1, 2017.

It is estimated that the Company will make contributions to its U.K. and U.S. defined benefit pension plans of approximately \$866,000 in fiscal 2017; should the Company suffer a material reduction in revenues in 2017 this commitment could adversely impact the Company’s financial position.

The Merger Agreement with BorgWarner includes customary covenants requiring us to operate our business in all material respects in the ordinary course of business consistent with past practice until the completion of the merger. In addition, without BorgWarner’s prior approval, we may not take, authorize, agree or commit to do certain actions outside of the ordinary course of business, including incurring capital expenditures above a specified threshold, incurring additional debt and issuing additional equity. We do not believe these restrictions will prevent us from meeting our ongoing costs of operations, working capital needs, or capital expenditure requirements before the completion of the merger.

The outlook continues to remain uncertain given the continuing worldwide economic situation and in particular the low economic growth environment in Europe and North America, the turmoil caused by the U.K.’s Brexit referendum, and the continuing austerity measures in certain parts of Europe. Against this background, management has conducted a review of the Company’s cash requirements for the next twelve months taking into account existing cash resources, forecasted cash from future operations and existing borrowing facilities. In addition, the Company has explored its options to secure further financing. Based on this assessment of the Company’s cash requirements and the financing it believes is available, in the opinion of management, the Company’s requirements for working capital to meet projected operational and capital spending at forecast levels in both the short and long-term can be met by a combination of existing cash resources, cash from operations, existing borrowing facilities in Europe and the availability of further financing. Any material reduction in revenues will have a materially adverse impact on the Company’s financial position, which would be exacerbated if any of the Company’s lenders withdraws or reduces available credit. If the Company is unable to generate sufficient cash from operations and if the bank overdraft facilities are withdrawn, the Company would need to raise additional debt or equity capital from other sources to avoid significantly curtailing its business and materially adversely affecting its results.

[Index](#)

However, management has said that in order to further increase the rate of growth and improve shareholder value we would need to continue to increase our investment in engineering and other technical resources. We may do this organically, through the acquisition of other businesses, or both. In either case, we may need to raise additional debt or equity capital. Such capital may not be available to us at a reasonable cost, or at all.

Item 3 Quantitative and Qualitative Disclosures about Market Risk

As a smaller reporting company, the Company is not required to respond to this item however we are providing the following information about our foreign currency and interest rate risks to supplement the disclosure in Item 2.

Foreign currency risk

The Company sells to customers throughout the industrialized world. The majority of the Company's products are manufactured in, or sourced from, the U.K. In the first nine months of 2017, approximately 60% of the Company's sales were made in Euros, 33% in U.S. Dollars and 7% in British Pounds. Approximately 87% of the Company's cost of sales was incurred in British Pounds and Euros. This resulted in the Company's sales and margins being exposed to fluctuations due to the change in the exchange rates of the U.S. Dollar, the British Pound and the Euro. The Company has trade accounts receivable and accounts payable denominated in both British Pounds and Euros that are exposed to exchange fluctuations.

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

The following table provides information about the Company's foreign currency accounts receivable, accounts payable and firmly committed sales contracts outstanding as of July 1, 2017. The information is provided in U.S. Dollar amounts, as presented in the Company's consolidated financial statements. The table presents the amounts at which the Company's foreign currency accounts receivable, accounts payable and firmly committed sales contracts as of July 1, 2017 are expected to mature based on the exchange rate of the relevant foreign currency to U.S. Dollars at July 1, 2017:

	(in thousands of dollars)	
	Expected maturity or transaction date	
	Fiscal 2017	Fair Value
On balance sheet financial instruments:		
In \$ U.S. Functional Currency		
Accounts receivable in British Pounds	1,214	1,214
Accounts receivable in Euros	9,131	9,131
Accounts payable in British Pounds	872	872
Accounts payable in Euros	9,331	9,331
Anticipated Transactions		
In \$ U.S. Functional Currency		
Firmly committed sales contracts		
In British Pounds	696	696
In Euros	6,511	6,511

Interest Rate Risk

Under the Company's credit facility with MPS Bank interest is payable quarterly at a margin of 3% over EuroLIBOR, with a minimum EuroLIBOR rate of 0.0%. The interest rate as of July 1, 2017 was 3.0%. The Company's credit facility with FrontFour bears interest at a fixed rate of 10.0% per annum and interest is payable monthly in arrears.

The Company invests 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 July 1, 2017 the risk arising from changes in interest rates was not material.

Item 4 Controls and Procedures.

Evaluation of disclosure controls and procedures

Our principal executive officer and principal financial officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rule 13a-15(e)), have concluded that, as of July 1, 2017, these disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

During the period covered by this Quarterly Report on Form 10-Q, we provided the employee training to complete the remediation of the material weakness in the Company's "internal control over financial reporting" (as defined in Securities Exchange Act of 1934 Rule 13a-15(f)) that we disclosed in our Form 10-Q for the second quarter of 2017. Our principal executive officer and principal financial officer have identified no other change in internal control over financial reporting that occurred during that period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1 Legal Proceedings

None.

ITEM 1A RISK FACTORS

CERTAIN RISKS RELATED TO OUR BUSINESS

The Company believes that the following represent the most significant risk factors related to its business, the occurrence of any of which could have a material adverse effect on our financial condition, results of operations and share price:

While the Merger is pending, we are subject to business uncertainties and contractual restrictions that could disrupt our business.

Whether or not the Merger is completed, the fact that it is pending may disrupt the current plans and operations of the Company, which could have an adverse effect on our business and financial results. The pendency of the Merger may also divert management's attention and our resources from ongoing business and operations and our employees and other key personnel may have uncertainties about the effect of the pending Merger and those uncertainties may impact our ability to retain, recruit and hire key personnel while the Merger is pending or if it fails to close. We may incur significant costs, charges or expenses relating to the Merger, regardless of whether or not it is completed.

Furthermore, we cannot predict how our suppliers, customers and others with whom we do business will view or react to the pending Merger in the future. If we are unable to maintain our normal relationships as a result of the pending Merger, our financial results may be adversely affected.

While the Merger Agreement is in effect, we are subject to restrictions on our business activities and must generally operate our business in the ordinary course (subject to certain exceptions). These restrictions could prevent us from pursuing attractive business opportunities that arise prior to the completion of the Merger, could result in our inability to respond effectively to competitive pressures and industry developments and may otherwise have a material adverse effect on our future results of operations or financial condition.

It is also possible that one or more lawsuits could be brought challenging the Merger. If dismissals are not obtained or settlements are not reached, such lawsuits could prevent or delay completion of the Merger and/or result in substantial costs to us.

Failure to complete the Merger could adversely affect our business and the market price of our common stock.

There is no assurance that the closing of the Merger will occur. Consummation of the Merger is subject to various conditions, including, among other things, the approval of the Merger Agreement by the holders of our outstanding shares of common stock, and certain other customary conditions. We cannot predict with certainty whether and when any of these conditions will be satisfied. If the Merger is not consummated, our stock price will likely decline as our stock has recently traded based on the proposed per share price for the Merger. We will have incurred significant costs, including, among other things, the diversion of management resources, for which we will have received little or no benefit if the closing of the Merger does not occur. A failed transaction may result in negative publicity and a negative impression of us in the investment community. The occurrence of any of these events individually or in combination could have a material adverse effect on our results of operations and the market price of our common stock.

We have incurred operating losses and reduced cash flow, and we anticipate that we will need to raise additional funds to finance operations.

We have experienced operating losses during the last two fiscal quarters as well as our last fiscal year, as well as declines in cash flows from operating activities. This negative performance was largely due to difficult conditions in our traditional controls markets and continuing investment in research and development expense associated with the delivery of the engineering phase of our project pipeline, both of which conditions are expected to continue. We anticipate that we may need to raise additional capital to fund our operations, including to support our existing and anticipated new research and development activities. The level of our cash needs will depend on numerous factors, principally our ability to grow revenues. If additional funds were raised through the issuance of equity securities or convertible debt securities, it would be dilutive to our stockholders and could result in a decrease in our stock price. If we are unable to secure such additional financing, it will have a material adverse effect on our business and we may have to limit operations.

The Bassi business we acquired may not generate the revenue and earnings we anticipate and may otherwise adversely affect our business.

Our acquisition of Bassi S.r.l. was a significant transaction for us. If we fail to successfully integrate and manage its business, or if the acquisition does not further our business strategy as we expect, our operating results will be adversely affected. Among the risks are the following:

- the number of customers for Bassi products may not grow as predicted and demand for chargers may fall short of forecasts;
- there may be unanticipated difficulties in operating the acquired business, whether due to technological issues, the potential incompatibility of business cultures, or otherwise;
- we may have difficulty entering new markets where we have limited or no prior experience or where competitors may have stronger market positions;
- we may not be able to combine the two companies' product lines as effectively as we anticipate, and the market for the combined products may not be as great as we believe;
- there are risks inherent in Bassi's sole source manufacturing that may hinder us from producing as much Bassi product as we anticipate;
- our management resources may be inadequate, or there may be other barriers, to successfully integrate the two companies' operations and establish suitable financial controls;
- We may incur unanticipated legal or financial disabilities in the acquired business

Capital markets are cyclical and weakness in the U.S. and international economies may harm our business.

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

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

The Company is increasingly involved in developing products for the on-road electric vehicle market. We have relationships with customers that incorporate or plan to incorporate our products into their electric vehicle (“EV”) products. Our competitors and others are also developing products for other entrants in the EV market, with similar and competing technologies. If our development projects do not convert to product sales, our customers’ products or technology are not successful commercially, or worldwide demand for EVs fails to grow as much as we hope, we may not realize the anticipated demand for our products in the EV market, which may have a material adverse effect on our results of operations.

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

Ten customers accounted for 49% of the Company’s revenues for the nine months ended July 1, 2017 and the largest customer accounted for 18% of revenues. Although we have had business relationships with some of these customers for many years, our relationships with on-road EV customers are newer and, in any event, there are no long-term contractual supply agreements in place with any customer. Accordingly our performance could be adversely affected by the loss of one or more of these key customers.

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

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

The loss of government support may adversely affect the Company’s Chinese Operations

The Chinese market is volatile and is susceptible to additional volatility based on the promotion or absence of government support. Should the Chinese government change its support for environmental improvement, it may adversely affect the sales of hybrid and pure electric vehicles and our ability to grow as quickly as the Company envisages.

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

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

Program development timescales are long and can be cancelled, depriving us of product sales

In certain markets in which the Company operates, and in particular in the Company’s new market sectors, non-recurring engineering development programs may take several years to complete, and programs can be cancelled by the customer at short notice. Cancellation of an engineering development program would potentially result in the Company not being able to sell the expected products.

We may not be able to increase our product development capacity enough to capture the market share we expect.

The worldwide supply of sophisticated hardware engineering resources is limited. If we cannot hire sufficient personnel with the necessary skills to perform the development work that our customers need, we may be unable to capture the product sales and market share we expect.

Production readiness is outside our control

In some new markets the Company's customer is responsible for ensuring that all of the components of their vehicle, working in unison, comply with local governmental regulations in order to achieve the necessary certification to proceed to volume production. Even though the Company's product performs to specification in all respects, the customer's vehicle may fail to satisfy overall the local governmental regulations due to the failure of one or more components supplied by other suppliers resulting in a project not proceeding to volume production.

The Company's commitment to make defined benefit pension contributions could adversely impact its financial position.

It is estimated that the Company will make contributions to its frozen U.K. and U.S. defined benefit pension plans of approximately \$866,000 in 2017 and at a similar level in subsequent years. Should the Company suffer a material reduction in revenues this commitment could adversely impact the Company's financial position.

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

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

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

In the controls segment, the majority of the Company's finished product is produced in two separate plants in Poland and Malaysia; these plants are owned by sub-contractors. The capacitors business is located in a single plant in Wales and the chargers business is located in a single plant in Italy. 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.

Management estimates of inventory and warranty reserves may be less than required

Management uses its judgment and market information to assess levels of reserve required in certain areas including inventory and warranty. 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 reserves may be required. If actual product failure rates and repair or replacement costs differ from management estimates, revisions to the estimated warranty reserve may be required and the Company's results may be materially adversely affected.

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

The Company has a five year credit facility with MPS Bank under which it has drawn €14,000,000 (\$15,994,000 as of July 1, 2017). While the credit facility is outstanding, the Company together with its subsidiaries must maintain a leverage ratio, defined as the ratio of consolidated indebtedness of the Company and its subsidiaries, minus cash and marketable securities, to EBITDA of the Company and its subsidiaries, measured on a fiscal year-end basis, plus (under a December 2016 amendment) the net cash proceeds received by the Company from the issuance and sale of equity securities during such twelve-month period, of not greater than 3.5:1 through September 30, 2017, and thereafter not greater than 3.0:1. Breach of this covenant would constitute an event of default, after which the interest rate would be increased and the Bank could elect a number of remedies including, but not limited to declaring all obligations (including principal, interest and expenses) immediately due and payable, that would have a material adverse impact on the Company's ability to continue operations.

We may have inadvertently violated Section 13(k) of the Exchange Act and may be subject to sanctions as a result.

Section 13(k) of the Securities Exchange Act of 1934 (Section 402 of the Sarbanes-Oxley Act) provides that it is unlawful for a company that has a class of securities registered under Section 12 of the Exchange Act to, directly or indirectly, including through any subsidiary, extend or maintain credit in the form of a personal loan to or for any director or executive officer of the company. We overlooked this prohibition and inadvertently made loans to our chief executive and chief financial officers in February 2017 that may have violated Section 13(k). The loans were repaid in April 2017 as soon as they came to the attention of our Board of Directors. Issuers who are found to have violated Section 13(k) may be subject to civil sanctions, including injunctive remedies and monetary penalties, as well as criminal sanctions. The imposition of any of such sanctions on the Company could have a material adverse effect on our business, financial position, results of operations or cash flows.

Product defect may result in product recall

In the event that the Company discovers a product defect that impacts the safety or operation of its products, then a product recall may be necessary which could involve the Company in a substantial unanticipated expense significantly in excess of any reserve that had been made.

Product liability claims may have a material adverse effect.

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

Businesses we acquire may not generate the revenue and earnings we anticipate and may otherwise adversely affect our operations and financial condition.

We recently made a significant acquisition of a new business, and we regularly consider supplementing our growth by acquiring new businesses. If we do that, but we fail to successfully integrate and manage the businesses we acquire, or if an acquisition does not further our business strategy as we expected, our operating results and financial condition may be materially adversely affected. Business combinations also involve a number of risks and uncertainties that can have an adverse impact, including that:

- the costs of acquiring and integrating another business may be materially greater than we anticipate;
- managing an acquired company's technologies or lines of business or entering new markets where we have limited or no prior experience or where competitors may have stronger market positions may be more difficult than we anticipate;
- we may fail to achieve the expected return on our investments, which could adversely affect our business or operating results and potentially cause impairment to assets that we recorded as a part of an acquisition, including intangible assets and goodwill;
- the attention of our management and employees may be diverted;
- we may not be able to retain key personnel of an acquired business;
- we may assume unanticipated legal or financial liabilities;
- we may suffer significant increases in our interest expense, leverage and debt service requirements if we incur additional debt to pay for an acquisition; and
- our existing stockholders may be diluted and earnings per share may decrease if we were to issue a significant amount of equity securities in connection with an acquisition.

Risk relating to the U.K.'s decision to withdraw from membership in the European Union

The result of the referendum on the U.K.'s membership in the European Union (E.U.) (referred to as Brexit), voting in favor of the exit of the U.K. from the European Union, has caused and could continue to cause disruptions to and have an adverse effect on our business, financial results and operations. Any agreements the U.K. makes to retain access to E.U. markets could potentially disrupt the markets we serve and the tax jurisdictions in which we operate and adversely change tax benefits or liabilities in these or other jurisdictions, and may cause us to lose customers, suppliers, and employees. In addition, the referendum result could lead to legal uncertainty and potentially divergent national laws and regulations that could, at a minimum, increase our costs.

The announcement of Brexit caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the strengthening of the U.S. dollar against foreign currencies in which we conduct business. The strengthening of the U.S. dollar relative to other currencies has and may continue to adversely affect our results of operations, in a number of ways, including:

- Our international sales are denominated in both the U.S. dollar and currencies other than U.S. dollars. Fluctuations of currency exchange rates may expose us to gains and losses on non U.S. currency transactions and a potential devaluation of the local currencies of our customers relative to the U.S. dollar may impair the purchasing power of our customers and could cause customers to decrease or cancel orders or default on payment; and
- We translate sales and other results denominated in foreign currency into U.S. dollars for our financial statements. During periods of a strengthening dollar, our reported international sales and earnings could be reduced because foreign currencies may translate into fewer U.S. dollars.

The announcement of Brexit has also and may continue to create global economic uncertainty, which may cause our customers to closely monitor their costs and reduce their spending budget on our products and services.

Any of these effects of Brexit, among others, could materially adversely affect our business, business opportunities, results of operations, financial condition and cash flows.

Certain risks related to the ownership of our common Stock and trading

The following are certain important additional risks related to an investment in our securities:

If we fail to maintain proper and effective internal controls and procedures, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, our ability to operate our business, and investors' views of us.

We are required to establish and maintain adequate internal control over financial reporting, which are processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. We are also required to comply with Section 404 of the Sarbanes-Oxley Act of 2002, which requires public companies to conduct an annual review and evaluation of their internal control over financial reporting. If we cannot favorably assess the effectiveness of our internal control over financial reporting in the future, our stock price could be materially adversely affected.

Insiders and principal stockholders have substantial control over the Company, which could limit the ability of other stockholders to influence the outcome of key transactions, including a change of control.

Our directors, executive officers and our stockholders who each own greater than 5% of our outstanding common stock and their affiliates, in the aggregate, beneficially own a majority of the outstanding shares of our common stock. As a result, these stockholders may be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from those of other stockholders and may vote in a way which may be adverse to the interests of other stockholders. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately adversely affect the market price of our common stock.

[Index](#)

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3 Defaults upon Senior Securities

None.

Item 4 Mine Safety Disclosures

Not Applicable.

Item 5 Other Information

None.

Item 6 Exhibits

See Exhibit Index immediately preceding the exhibits.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SEVCON, INC.

Date: August 14, 2017

By: /s/ Paul N. Farquhar
Paul N. Farquhar
Chief Financial Officer (Principal Financial Officer)

INDEX OF EXHIBITS

<u>Exhibit</u>	<u>Description</u>
* (2.1)	Agreement and Plan of Merger by and among the registrant, BorgWarner Inc., and Slade Merger Sub Inc. dated as of July 14, 2017 (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed on July 17, 2017).§
(2.2)	Equity Transfer Agreement dated June 3, 2017, between the registrant and Xuchang Fuhua Glass Co. Ltd. (filed herewith). §
* (3)(a)	Restated Certificate of Incorporation of the registrant (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on February 3, 2015).
* (3)(b)	Amended and Restated By-laws of the registrant (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed on February 3, 2015).
* (4)	Forms of warrant to purchase common stock issued July 8, 2016 (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on July 11, 2016).
(10.1)	Loan Agreement dated May 22, 2017, between the registrant and FrontFour Capital Group, LLC. (filed herewith).
(31.1)	Certification of Principal Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
(31.2)	Certification of Principal Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
(32.1)	Certification of Principal Executive Officer and Principal Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
(101)	The following materials formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations (ii) Consolidated Statements of Comprehensive Income (Loss) (iii) Consolidated Balance Sheets (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements. These materials are furnished and not “filed” herewith.

*Indicates exhibit previously filed and incorporated by reference. Exhibits filed with periodic reports were filed under File No. 1-9789.

§Schedules to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The registrant hereby agrees to furnish supplementally a copy of any omitted schedule to the SEC.

Equity Transfer Agreement

by and between

Sevcon, Inc.

and

Xuchang Fuhua Glass Co., Ltd.

_____, 2017

TABLE OF CONTENTS

	Page	
CHAPTER 1	DEFINITIONS AND INTERPRETATIONS	2
CHAPTER 2	EQUITY TRANSFER	5
CHAPTER 3	PRE-CLOSING ACTIONS	5
CHAPTER 4	REPRESENTATIONS AND WARRANTIES	6
CHAPTER 5	COVENANTS	8
CHAPTER 6	CONDITIONS PRECEDENT	9
CHAPTER 7	EFFECTIVE DATE AND TERMINATION	10
CHAPTER 8	CLOSING	11
CHAPTER 9	MISCELLANEOUS	12
APPENDIX A	TERMINATION AGREEMENT	18
APPENDIX B	RESTATED AoA	19

THIS EQUITY TRANSFER AGREEMENT (this “**Agreement**”) is entered on this day of _____, 2017 in _____, the People’s Republic of China (PRC).

by and between

(1) **Sevcon, Inc.** (“**Sevcon**”), a corporation organized and existing under the Laws of the State of Delaware, the United States of America; **Sevcon, Inc.** (“**Sevcon**”),

And

(2) **Xuchang Fuhua Glass Co., Ltd.**, (“**Fuhua Glass**”), a limited liability company duly incorporated and validly existing under PRC Law (as defined below).

(individually a **Party** and collectively the **Parties**).

WHEREAS:

- A. Sevcon New Energy Technology (Hubei) Co., Ltd., (“**Company**”) is a Sino-foreign equity joint venture enterprise incorporated under PRC Law with the registered capital of USD 2,000,000, which has been paid USD 645,300 by Parties, among which, Sevcon has paid USD 320,000, and Fuhua Glass has paid USD 325,300.
- B. Fuhua Glass is a shareholder of the Company and wishes to sell its entire USD 1,000,000 equity interest in the registered capital of the Company, representing 50% equity interest in the Company (“**Fuhua Equity Interest**”).
- C. Sevcon is the other shareholder of the Company and is willing to purchase the Fuhua Equity Interest according to the terms and conditions set forth herein.

NOW THEREFORE, the Parties agree as follows:

Chapter 1 Definitions and Interpretations

1.1 Definitions

Unless otherwise indicated, the following terms in this Agreement shall have the meanings set forth below:

Affiliate	of a Person means any Person directly or indirectly controlling, controlled by or under common control with that Person, where “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting equity, by contract or otherwise, and includes (a) ownership directly or indirectly of 50% or more of the issued share or other equity interests of such Person, (b) possession directly or indirectly of 50% or more of the voting power of such Person or (c) the power to directly or indirectly appoint a majority of the members of the board of directors or similar governing body of such Person, and the terms “ controlling ” and “ controlled ” have meanings correlative to the foregoing;
Agreement	has the meaning specified in the Preamble;
AOA	means the articles of association of the Company (as amended and restated from time to time) that are in effect as of the date of this Agreement, including all amendments and appendices;
Arbitration Center	means the Hong Kong International Arbitration Centre;
Board	the Company’s board of directors;
Company	has the meaning specified in the Recital;
Closing	has the meaning specified in Section 2.1;
Closing Date	has the meaning specified in Section 2.1;
Confidential Information	means (a) any information of a confidential nature, whether tangible or intangible, concerning the organization, business, technology, finance, transactions, affairs, released or unreleased products, marketing or promotion of any products or business policies or practices of the Company or any Party (whether conveyed in written, oral or any other form) (b) any information as to the existence or terms of this Agreement and (c) any information or materials of a confidential nature prepared by a Party, its Recipients or the Company that contains or otherwise reflects, or is derived from information that is qualified as Confidential Information as described in item (a) or (b) above.
Dispute	means any dispute, controversy or claim arising out of, or relating to, this Agreement, or the performance, interpretation, breach, termination or validity hereof;
Equity Transfer	has the meaning specified in Section 2.1;
Encumbrance	means (a) any mortgage, charge (whether fixed or floating), pledge, lien, hypothecation, assignment, deed of trust, title retention, security interest or other encumbrance of any kind securing, or conferring any priority of payment in respect of, any obligation of any Person, including any right granted by a transaction that, in legal terms, is not the granting of security but that has an economic or financial effect similar to creation of a security that is legally enforceable under applicable Law, any proxy, power of attorney, voting trust agreement, interest, option, right of first offer, negotiation or refusal or transfer restriction in favor of any Person and (b) any adverse claim as to title, possession or use.

Fuhua Equity Interest	has the meaning specified in the Recital;
Fuhua Glass	has the meaning specified in the Preamble;
Foreign Exchange Bank	has the meaning specified in Section 3.2;
Governmental Authorities	means any government, state or political subdivision thereof, national or supranational body, court, tribunal or any person or body exercising executive, legislative, judicial, regulatory or administrative functions on behalf of any of them and includes all relevant securities commissions, stock exchange authorities, foreign exchange authorities, foreign investment authorities and similar entities or authorities of an applicable jurisdiction, including the MOFCOM and Xiangyang AIC (each as defined below);
HKIAC Rules HKIAC	means the HKIAC Administered Arbitration Rules in force when the notice of arbitration is submitted;
JV Contract	means the joint venture contract of the Company (as amended and restated from time to time) that is in effect as of the date of this Agreement, including all amendments and appendices;
Law	means all applicable laws, regulations, rules and orders of any Governmental Authority, securities exchange or other self-regulatory body, including any ordinance, statute or other legislative measures and any regulation, rule, treaty, order, decree or judgment;
Long Stop Date	has the meaning specified in Section 7.2.3;
MOFCOM	means the Ministry of Commerce of the PRC and its competent local counterpart;
Person	means an individual, corporation, joint venture, enterprise, partnership, trust, unincorporated association, limited liability company, government or any department or agency thereof, or any other entity;
PRC Law	all laws and legislation of the People’s Republic of China (“ PRC ”) that are in effect, including laws, regulations, resolutions, decisions, decrees and orders of government agencies and other documents of a legislative, administrative or judicial nature;

Purchase Price	has the meaning specified in Section 2.2.1;
Related Documents	means the Termination Agreement of the JV Contract attached hereto at Appendix A, the Restated AoA attached hereto at Appendix B, and any other document that is contemplated under this Agreement;
Restated AoA	means the Amended and Restated Articles of Association of the Company in form and substance to the satisfaction of Sevcon, attached hereto as Appendix B;
RMB	Renminbi, the lawful currency of the PRC;
Sevcon	has the meaning specified in the Permeable;
Shareholders	means any and all of those Persons holding equity interest in the Company at the relevant time;
Tax	all forms of taxation, including, without limitation, enterprise income tax, business tax, value-added tax, stamp duty levied by the PRC tax authorities pursuant to PRC Law, as well as any penalty, surcharge or fine in connection therewith;
“USD”	means United States dollars, the lawful currency of the United State of America;
WFOE	has the meaning specified at Section 3.1;
Xiangyang AIC	means the Xiangyang Administration for Industry and Commerce and its competent local counterparts;

1.2 Interpretations

All headings used herein are for reference purposes only and do not affect the meaning or interpretation of any provision hereof. Any reference herein to a Section or Appendix is to a section or appendix of this Agreement. The use of the plural shall include the use of the singular, and vice versa. All uses of the word “including” shall be deemed to mean “including, without limitation.” Unless otherwise indicated, a reference herein to a day, month or year is to a calendar day, month or year. A reference to a business day is to a day on which commercial banks are open for business in the PRC. The use of the masculine shall include the use of the feminine, and vice versa.

Chapter 2 **Equity Transfer**

2.1 Equity Transfer

- 2.1.1 Upon the terms and subject to the conditions of this Agreement, Fuhua Glass agrees to transfer the Fuhua Equity Interest to Sevcon, and Sevcon agrees to purchase the Fuhua Equity Interest from Fuhua Glass, in each case, free and clear of all Encumbrances (“**Equity Transfer**”).
- 2.1.2 The completion of the Equity Transfer shall be referred to as the “**Closing**”. The date of Closing is the “**Closing Date**”. Upon Closing, Sevcon shall own 100% of the registered capital of the Company.

2.2 Purchase Price

- 2.2.1 The Parties agree that the total purchase price payable by Sevcon to Fuhua Glass for the Fuhua Equity Interest is USD 5,000,000 (“**Purchase Price**”), which shall be paid by Sevcon to Fuhua Glass in accordance with Section 8.2 below. Sevcon agrees to be responsible for the taxes actually paid by Fuhua Glass that arise under PRC Law in relation to the Equity Transfer up to and not to exceed \$1,173,675, provided that Fuhua Glass shall provide formal written receipts approved by Governmental Authorities of such tax payments.
- 2.2.2 Except as otherwise stipulated hereunder, each of the Parties shall be solely responsible for any bank charges, Tax and other fees and penalties relating to, the Equity Transfer and/or the payment of the Purchase Price. Sevcon shall reimburse to Fuhua Glass all of Fuhua Glass’s reasonable bank fees, and other expenses (excluding any advisory fees) relating to the Equity Transfer and / or the payment of the Purchase Price, provided that Fuhua Glass shall provide valid and effective written receipts of the fees and charges paid in.

Chapter 3 **Pre-Closing Actions**

3.1 Board and Shareholders Resolutions

Promptly after the date hereof, each Party shall and shall cause the directors appointed by it to the Board to adopt the relevant resolutions approving each of the following:

1. The Parties agree to release each other from the obligation to pay for the unpaid portion of registered capital that each party has not yet paid in accordance with the Investment Contract. Accordingly, following the execution of this Agreement, Fuhua Glass shall be not obliged to pay \$674,700 in unpaid registered capital.
 - (1) the execution of this Agreement;
 - (2) the Equity Transfer;

- (3) the termination of the JV Contract according to the terms of the Termination Agreement attached hereto as Appendix A;
- (4) the adoption of the Restated AoA attached hereto as Appendix B;
- (5) the conversion of the Company into a wholly foreign-owned enterprise (“WFOE”);
- (6) the dismissal of the existing Board of Directors, and the establishment of new Board of Directors with three (3) members all appointed by Sevcon;
- (7) the replacement of the general manager of the Company.

3.2 Filing and Registration with Governmental Authorities

The Parties shall use their commercially reasonable efforts to, and procure the Company to, obtain all consents, approvals, authorizations, and/or other action from, and make all registrations, and/or filing with or notifications to, all relevant Governmental Authorities, and third parties required to consummate the Equity Transfer and all other transactions contemplated under this Agreement, including:

- (1) Recordal with the MOFCOM. To fill in and submit online the Declaration Form for the Registration of the Modification of the Foreign-invested Enterprise and relevant documents to conduct the recordal of the Equity Transfer and the change of directors, general manager and ultimate controller of the Company via MOFCOM’s Foreign Investment Integrated Administration System.
- (2) Registration with the Xiangyang AIC and Other Registrations. The Parties shall, and shall cause the Company to, promptly apply to (i) the Xiangyang AIC for the registration of the Equity Transfer and the change of directors [and general manager] of the Company and issuance of a new business license of the Company reflecting that the Company is a WFOE of Sevcon, and (ii) the commercial bank (“**Foreign Exchange Bank**”) authorized by the State Administration of Foreign Exchange to update the foreign exchange registration of the Company.

Chapter 4 **Representations and Warranties**

4.1 Joint Representations and Warranties

Each Party represents and warrants to the other Party that, on the date hereof and the Closing Date:

- 4.1.1 it has all necessary power and authority to execute, deliver and perform this Agreement and all Related Documents to which it is or will be a party or to which it is or will be bound;

- 4.1.2 the execution and performance of this Agreement and any Related Document to which it is or will be a party or to which it is or will be bound have been duly and validly authorized by all necessary corporate actions;
- 4.1.3 upon the signing of this Agreement or each Related Document to which it is or will be a party or to which it is or will be bound, this Agreement or each Related Document to which it is or will be a party or to which it is or will be bound will be the valid and binding obligation of such Party, enforceable against such Party in accordance with its respective terms;
- 4.1.4 the execution, delivery and performance of this Agreement or any Related Document to which it is or will be a party or to which it is or will be bound will not contravene, conflict with, or result in a violation of any provision of its organizational documents or any contract, agreement, understanding, other legal arrangement, law or order to which it is subject;
- 4.1.5 except for the approvals, registrations and filings referred to in Sections 3.1 and 3.2 herein, no consent, approval or authorization of, or declaration, filing or registration with, any Governmental Authority or any other Person is required to be made or obtained by it in connection with the execution, delivery and performance of this Agreement and any Related Document to which it is a party or to which it is bound; and
- 4.1.6 it has not violated any provisions under PRC Law or any other applicable Law with respect to the Equity Transfer.

4.2 Representations and Warranties of Fuhua Glass

Fuhua Glass further represents and warrants to Sevcon that on the date hereof and on the Closing Date:

- 4.2.1 Fuhua Glass is the legal and beneficial owner of the Fuhua Equity Interest, and the Fuhua Equity Interest is free from any Encumbrances;
- 4.2.2 Fuhua Glass has not received an investment certificate issued by the Company to Fuhua Glass evidencing the Fuhua Equity Interest;
- 4.2.3 There is no lawsuit, arbitration or criminal process, third party claim, order or investigation pending against Fuhua Glass relating to the Fuhua Equity Interest; and
- 4.2.4 Fuhua Glass has complied with, and is in compliance with, all of its respective duties and obligations under the AOA and the JV Contract of the Company in all material respects, and is not in material breach of or default under any of the provisions thereof.

4.3 Liabilities for Breach of this Agreement

A Party shall be in breach of this Agreement if it fails to perform fully, or suspends its performance of, this Agreement. If any non-breaching Party suffers any loss as a result of a breach of this Agreement by the breaching Party, the breaching Party shall be liable to compensate any non-breaching Party in respect of any losses, damages, liabilities, claims, proceedings, costs and expenses (including fees and other charges of legal counsel) incurred by such non-breaching Party as a result of such breach.

4.4 Notification

Each Party shall forthwith notify the other Party upon becoming aware of any event, condition, or circumstance occurring from the date hereof through the Closing Date that would show, reveal, cause or constitute a material breach of any of the representations, warranties, covenants or other agreement of such Party under this Agreement or any Related Document or that may have any material adverse effect on the assets or liabilities of the Company or that may show, reveal or cause such Party to be in breach of any of their undertakings hereunder or under any Related Document.

Chapter 5 Covenants

5.1 Obtaining the Required Approvals

Between the date of this Agreement and the Closing Date, each of the Parties shall use their commercially reasonable efforts to prepare and execute the Related Documents, and to obtain the approvals and complete the registrations and filings referred to in Sections 3.1 and 3.2 herein, and any authorization, consent, approval or waiver of their respective corporate authority and decision-making organization and any other Person whose authorization, consent, approval or waiver shall be required for the consummation of the Equity Transfer and all other transactions contemplated by this Agreement and the Related Documents under PRC Law, the JV Contract or the AOA.

5.2 Mutual Cooperation

5.2.1 Each Party agrees to cooperate with the other Party and the Company in connection with the foregoing and as otherwise required by this Agreement, to the extent reasonably requested by such other Party or the Company. Each of the Parties shall use its commercially reasonable efforts to comply with any requirements, restrictions or prohibitions imposed by any Governmental Authority.

5.2.2 The Parties shall promptly notify each other of the receipt of any communications from the Governmental Authorities regarding the registration and filing of the Equity Transfer and all other transactions contemplated by this Agreement. The Parties shall cooperate with one other in relation of any action, proceeding or inquiry related to the Company or its business prior to the Closing, including by using reasonable efforts to make available to one another information or personnel in connection with such matters. Following the Closing, Fuhua Glass shall provide Sevcon and the Company with access to any books, records or information of the Company that is in the possession of Fuhua Glass and not in the possession of the Company (if any).

5.3 Satisfaction of Conditions Precedent

Between the execution date of this Agreement and the Closing Date, the Parties shall use their commercially reasonable efforts to cause the conditions precedent stipulated in Section 6.1 to be satisfied. In this regard, Fuhua Glass shall and shall cause the Company, as promptly as practicable, submit or cause to be submitted to the Governmental Authorities all required documents necessary to complete the registrations and filings referred to in Section 3.2 herein.

5.4 Other Covenants

5.4.1 Fuhua Glass shall provide to Sevcon a complete set of all previously filed documents and correspondence with the Governmental Authorities in relation to the Company, including the AoA, the JV Contract, and other AIC filing records.

Upon Closing, Fuhua Glass, on its own behalf and on behalf of its Affiliates, and the respective directors, officers, managers, members, employees, agents, attorneys and advisors thereof, successors, assigns, heirs, estates, executors and administrators (collectively, the “**Fuhua Glass Related Parties**”), hereby confirm, acknowledge and agree that as between Fuhua Glass and the Fuhua Glass Related Parties, on the one hand, and Sevcon and its Affiliates (including the Company), and the respective directors, officers, managers, members, employees, agents, attorneys and advisors thereof, successors, assigns, heirs, estates, executors and administrators (collectively, the “**Sevcon Related Parties**”), on the other hand, that the Fuhua Glass Related Parties hereby forever, unconditionally and irrevocably release, absolve, acquit, and fully discharge Sevcon and the Sevcon Related Parties, from any and all claims, complaints, petitions, allegations, suits, causes of action, actions, disputes, damages, losses, liabilities, expenses, fees, costs, and demands of any kind whatsoever in law, equity, or otherwise, of any Fuhua Glass Related Party relating to the ownership of or to any other right or interest in or relating to, the equity interest of the Company, the JV Contract, the Company or any property, assets or rights owned or used by the Company, in each case, whether known or unknown, absolute or contingent, matured or unmatured, or arising prior to, on, or after the Closing.

Chapter 6 **Conditions Precedent**

6.1 Conditions Precedent to Complete the Equity Transfer

The obligations for either Party to complete the Equity Transfer are subject to the satisfaction of all of the following conditions precedent, unless waived by the other Party in case of Section 6.1.3 and Section 6.1.4:

- 6.1.1 the passing of the resolution and obtaining of the consents set forth in Section 3.1 hereof and their continuing validity on the date of the Closing;
- 6.1.2 All material consents, approvals, authorizations or other action by, and any material filings with or notifications to, any Governmental Authority required to be obtained or made in order to consummate the Equity Transfer and any other transactions contemplated hereby shall have been obtained (without any material amendment thereto) or made, including the registrations and filings referred to in Sections 3.2 herein.
- 6.1.3 the representations and warranties of the other Party remaining true and accurate and being fully adhered to in all material respects at the time of the Closing;
- 6.1.4 The other Party shall performed and complied in all material respects with its covenants, obligations, conditions, and agreements contained in this Agreement that are required to be performed and complied with by it on or before Closing; and
- 6.1.5 There shall be in effect no Law prohibiting the consummation Equity Transfer contemplated hereby, and there shall not be any proceedings pending by any Governmental Authorities seeking such prohibition.

6.2 Satisfaction of Conditions Precedent

Within three (3) Business Days after the satisfaction of all the conditions precedent described in Sections 6.1 above, each Party shall confirm the same in writing to the other Party.

Chapter 7 **Effective Date and Termination**

7.1 Effective Date

This Agreement shall be binding upon the Parties upon its execution by the Parties.

7.2 Termination

This Agreement may be terminated prior to the Closing as follows:

- 7.2.1 by mutual written agreement of the Parties;
- 7.2.2 by either Party, if any permanent injunction or other order of a Governmental Authority preventing the consummation of the transactions contemplated herein has become final and non-appealable, provided that such injunction or other order did not result from the fault of the terminating Party;
- 7.2.3 by either Party, if the Closing Date has not occurred prior to or on the Long Stop Date, provided that the failure of the Closing did not result from the breach of the terminating Party. For the purpose of this Section 7.2.3, the “**Long Stop Date**” means the date falling on [120] days after the date of this Agreement, as may be extended for a longer period as mutually agreed by the Parties in writing, provided that the delay in the occurrence of the Closing Date is not due to the fault of either Party.

7.2.4 by either Party, if the other Party has breached, in any material respect, any of its representations, warranties, covenants or other obligations under this Agreement and such breach shall be incapable of cure or has not been cured within ten (10) Business Days following the giving of written notice of such breach by the non-breaching Party to the breaching Party.

7.3 Consequence of Termination

Upon termination hereof, this Agreement (except Sections 1, 2.2.2, 4.3, 7.3, 9.2, 9.3, 9.4, 9.11 and 9.12) shall be of no further effect, no Party shall have any right against the other Party in connection with this Agreement, and all the obligations and liabilities of the Parties hereunder shall cease and terminate (save for any antecedent breaches of this Agreement); provided, however, that nothing herein shall relieve any Party of any liability accrued before the termination of this Agreement.

Chapter 8 Closing

8.1 Closing Date

The Parties agree that the Closing shall occur on the date that is fourteen (14) Business Days after each Party receives from the other Party the notice on the satisfaction or waiver of all the conditions precedent described in Section 6.1 or such other later date as the Parties may consent to by writing.

8.2 Payment at Closing

The payment of the Purchase Price as stipulated in Section 2.2 shall be paid by Sevcon to Fuhua Glass on the Closing Date. In the event of a delay in the payment of the Purchase Price, for each day the payment of the Purchase Price is delayed, default interest of 0.005% shall accrue.

8.3 Closing Deliverables by Fuhua Glass

At Closing, Fuhua Glass shall deliver to Sevcon:

- (1) one original copy of the Termination Agreement to the JV Contract in form and substance substantially similar to Appendix A, duly signed by Fuhua Glass;
- (2) a copy of the written resignation letters of the three (3) directors appointed by Fuhua Glass to the Board and in form and substance reasonably satisfactory to Sevcon; and

- (3) a copy of the action of the board of directors of Fuhua Glass authorizing the execution of this Agreement and completion of the transactions contemplated herein.

Chapter 9 Miscellaneous

9.1 Copies

This Agreement shall be executed in seven (7) counterparts. Each Party shall keep one (1) counterpart. The Company shall retain one (1) counterpart for its record. The other four (4) counterparts may be submitted to the relevant Governmental Authorities for filing and registration. The Chinese and English language of this Agreement shall have the same legal effect and validity.

9.2 Notice

All notices and communications between the Parties shall be made in writing and in the English language, by, delivery in person (including courier service), registered airmail letter or email to the appropriate correspondence addresses set forth below:

If to Fuhua Glass:

Address: Xuchang Fuhua Glass Co. Ltd.
Kouzhuang Industrial Zone
Jiangliji Town
Xuchang City
Henan Province
People's Republic of China
Telephone: 008613603741950
E-mail address: kouhonglong@hotmail.com
Attention: Hong Long Kou, Director

If to Sevcon:

Address: Sevcon, Inc.
155 Northboro Road
Southborough, MA 01772
United States of America
Telephone: (508) 281-5548
E-mail address: matt.boyle@sevcon.com
Attention: Matthew Boyle, Chief Executive Officer

The time of receipt of the notice or communication shall be deemed to be:

- 9.2.1 if by facsimile transmission, at the time displayed in the corresponding transmission record, unless such facsimile is sent after 5:00 p.m. or on a non-business day in the place where it is received, in which case the date of receipt shall be deemed to be the following Business Day;

9.2.2 if in person (including courier service), on the date that the receiving Party signs for the document; or

9.2.3 if by registered mail (including express mail), 7 days after the issuance of a receipt by the post office.

9.3 Governing Law

The formation of this Agreement, its validity, interpretation, execution and settlement of disputes hereunder will be governed by PRC Law.

9.4 Dispute Resolution

9.4.1 Any Dispute shall be resolved through friendly consultation. Such consultation shall begin immediately after one Party has delivered to the other Party a written request for such consultation stating specifically the nature of the Dispute. If within 30 days following the date on which such notice is delivered the Dispute cannot be resolved, the Dispute shall be referred to, and finally resolved by, arbitration upon the request of any Party with notice to the other Party.

9.4.2 The arbitration shall be conducted in Hong Kong under the auspices of the Arbitration Center and in accordance with the then effective HKIAC Rules save as modified in this Agreement. There shall be three arbitrators. Fuhua Glass shall select one arbitrator, with Sevcon to select one arbitrator. The Secretary General of the Arbitration Center (as defined in the HKIAC Rules) shall select the third arbitrator, in no case shall the third arbitrator be of the same nationality as any Party. If any arbitrator to be appointed by a Party has not been appointed and consented to participate within 30 days after the selection of the first arbitrator, the relevant appointment shall be made by the Secretary General of the Arbitration Center.

9.4.3 The arbitration proceedings shall be conducted in English. The arbitration tribunal shall apply the HKIAC Rules as are in force at time of the arbitration. However, if such rules are in conflict with the provisions of this Section 9, the provisions of this Section 9 shall prevail. Judgment upon any arbitral award rendered hereunder may be entered in any court having jurisdiction, or application may be made to such court for a judicial acceptance of the award and an order of enforcement, as the case may be.

9.4.4 In order to preserve its rights and remedies, any Party shall be entitled to seek preservation of property in accordance with Law from any court of competent jurisdiction or from the arbitration tribunal pending the final decision or award of the arbitration tribunal. During the period when the Dispute is being resolved, except for the matters being disputed, the Parties shall in all other respects continue their implementation of this Agreement.

9.4.5 Each Party irrevocably consents to the service of process, notices or other papers in connection with or in any way arising from the arbitration or the enforcement of any arbitral award, by use of any of the methods and to the addresses set forth for the giving of notices in Section 9.2. Nothing contained herein shall affect the right of any Party to serve such processes, notices or other papers in any other manner permitted by applicable Law.

9.5 Specific Performance

The Parties acknowledge that damages may not be an adequate remedy for losses incurred by reason of a material breach of this Agreement. Each Party shall have the right to an injunction enjoining any material breach of this Agreement and enforcing specifically the terms and provisions hereof, and each Party hereby waives any and all defenses it may have on the ground of lack of jurisdiction or competence of the court to grant such an injunction. The existence of this right will not preclude a Party from pursuing any other rights or remedies that it may have at law. The rights of each Party under this Agreement are cumulative and in addition to all other rights and remedies that such Party may otherwise have at law.

9.6 Waiver

No failure or delay on the part of any Party hereto in the exercise of any right hereunder shall impair such right or be construed to be a waiver of such right or acquiescence in any breach of any representation, warranty, covenant or agreement herein, nor shall any single or partial exercise or waiver of any such right preclude other or further exercise thereof or of any other right.

9.7 Prior Agreement

This Agreement supersedes all prior agreements, whether written or oral, between or among the Parties with respect to its subject matter and constitutes the entire agreement between the Parties with respect to its subject matter.

9.8 Amendment

No amendment or other modification of this Agreement shall in any event be effective unless the same shall be in writing and signed by an authorized representative of each Party hereto, and then such amendment or other modification shall be an integral part of, and have the same effectiveness as, this Agreement.

9.9 Assignment

No Party may assign any of its rights and/or obligations under this Agreement without the prior written consent of the other Party. Subject to the preceding sentence, this Agreement will apply to, be binding in all respects upon, and inure to the benefit of, the successors, heirs, personal representatives, executors and permitted assigns of the Parties.

9.10 Severability

Where any provision of this Agreement is subject to dispute or is determined by a competent court, arbitral body or government organization to be invalid or unenforceable, the remainder of this Agreement shall continue in full force and effect.

9.11 Cost and Expense

Except as otherwise expressly set forth herein or in any Related Document, all fees, costs and expenses incurred in connection with the negotiation, execution, delivery and performance of this Agreement and the Related Documents shall be paid by each Party respectively incurring such fees, costs or expenses. However, Sevcon will reimburse Fuhua Glass's reasonable expenses (excluding any advisory fees) for the completion of the Xiangyang AIC registration and MOFCOM filing in connection thereto, provided that Fuhua Glass shall provide valid and effective the written receipts of the expenses paid in the form acceptable to Sevcon.

9.12 Confidentiality

9.12.1 "**Confidential Information**" means (i) this Agreement and **all** information related to the negotiation of this Agreement and (ii) **all** information regarding the Company that is confidential or non-public information, including regarding its assets, liabilities, properties, book and records, designs, schematics, manufacturing processes or intellectual property whether obtained prior to or in connection with the transactions contemplated by this Agreement.

9.12.2 Fuhua Glass and Sevcon shall:

- (a) keep the Confidential Information confidential;
- (b) not disclose the Confidential Information to any Person other than with the prior written consent of the Company or Sevcon, as the case may be, or in accordance with Sections 9.12.2 and 9.12.3; and
- (c) not use the Confidential Information for any purpose other than the performance of its obligations under this Agreement or in accordance with Section 9.12.4.

9.12.3 Fuhua Glass and Sevcon may disclose the Confidential Information to its directors, officers, employees, agents, consultants, advisors, auditors, attorneys, contractual counterparties, licensees, contractors, Subsidiaries, Affiliates (collectively, the "**Recipients**") to the extent that it is necessary for the purposes of this Agreement.

9.12.4 Fuhua Glass and Sevcon shall use its best efforts to ensure that each Recipient is made aware of, and complies with, all of the Receiving Party's confidentiality obligation herein as if such Recipient were a party to this Agreement. Fuhua Glass shall use its best efforts to ensure that the Company shall comply with all of the Receiving Party's confidentiality obligation herein as if the Company were a party to this Agreement.

9.12.5 The provisions of this Section 9 shall not apply to:

- (a) Confidential Information that is or becomes generally available to the public other than as a result of disclosure by, or at the direction of, a Party, any of its Recipients or the Company in violation of this Agreement;
- (b) disclosure to the extent required under applicable Law or the rules of any stock exchange; provided that such disclosure shall be limited merely to the extent required by applicable Law or the rules of any stock exchange, and, to the extent practicable, Sevcon shall be given an opportunity to review and comment on the contents of the disclosure before it is made; and
- (c) disclosure to the extent required by applicable Law or judicial or regulatory process or in connection with judicial or arbitration process regarding any legal action, suit or proceeding arising out of, or relating to, this Agreement; provided that such disclosure shall be limited merely to the extent required by applicable Law or judicial or regulatory process.

9.12.6 Fuhua Glass shall not make any announcement about the Company, this Agreement or the other Party in relation to the Company, this cooperation or the business of the Company without the prior written consent of Sevcon; provided that Fuhua Glass may at any time make announcements that are required by applicable Law, regulatory bodies or stock exchange or stock association rules, so long as, promptly upon learning of such requirement, it notifies in writing Sevcon of such requirement and discusses with Sevcon in good faith of any such announcement and takes precautionary measures to prevent disclosure of Confidential Information to the maximum extent permitted.

9.12.7 Notwithstanding the foregoing, from and after the Closing, the provisions of Section 9.12 hereof shall not apply to Sevcon with respect to information described in clause (ii) of the definition of “Confidential Information” under Section 9.12.1.

[The space below is intentionally left blank.]

IN WITNESS WHEREOF, the Parties hereto have duly executed this Agreement on the date first above written.

Xuchang Fuhua Glass Co., Ltd.

By: /s/ Hong Long Kou
Name: Hong Long Kou
Position: Director

Sevcon, Inc.

By: /s/ Matthew Boyle
Name: Matthew Boyle
Position: Chairman and CEO

Appendix A — Termination Agreement

**Agreement on Termination of the Contract of Joint Venture
and of the Articles of Association of**

Sevcon New Energy Technology (Hubei) Co., Ltd.

This Agreement is made and shall become effective as of _____, 2017, by and between Xuchang Fuhua Glass Co. Ltd. (“**Party A**”) and Sevcon, Inc. (“**Party B**”), both are the shareholders of Sevcon New Energy Technology (Hubei) Co., Ltd. (the “**Joint Venture**”).

Party A and Party B have agreed through negotiation with each other regarding the transfer of Party A's respective 50% of equity interest in the Joint Venture to Party B. Party A and Party B wish to enter into an Equity Transfer Agreement on the same date hereof and terminate any and all joint venture contract of the Joint Venture (the “**Contract of Joint Venture**”), as amended from time to time, and the Articles of Association of the Joint Venture (the “**Articles of Association**”).

NOW THEREFORE, the Parties agree as follows:

1. According to the Contract of Joint Venture and the Articles of Association entered into by and between Party A and Party B, the Joint Venture is a Sino-foreign equity joint venture between the said Parties with the registered capital of USD 2,000,000. Each of Party A and Party B owns 50% equity interest in the Joint Venture.
2. According to the Equity Transfer Agreement entered into by and between Party A and Party B on the date hereof, Party A agrees to sell and transfer its 50% equity interest in the Joint Venture to Party B, and Party B agrees to purchase and accept the transfer of the aforesaid equity interest. Party A, and Party B hereby agree that the Joint Venture shall become a wholly foreign-owned enterprise (“**WFOE**”) with its 100% equity interest owned by Party B upon the completion of the aforesaid equity interest transfer to Party B.
3. According to the Equity Transfer Agreement, Party A, and Party B agree to terminate the Contract of Joint Venture and the Articles of Association. Following the termination of the Contract of Joint Venture and the Articles of Association, the Parties agree that each Party shall be released from all of its obligations under the Contract of Joint Venture and Articles of Association. The Articles of Association of the WFOE shall be drafted by Party B.
4. Party A shall remove Kou Mengchao, Kou Wenchao and Kou Honglong as the Directors in the Joint Venture. All Directors and the management of the WFOE shall be determined and appointed by Party B.
5. Party A and Party B confirm and warrant that they will cause the directors appointed by them to the Joint Venture (“**Directors**”) to adopt the resolutions related to all the matters mentioned herein in the board meeting of the Joint Venture.

6. This Agreement shall take effect on the date hereof after being signed by the authorized representatives of Party A and Party B and upon the sign of the Equity Transfer Agreement.
7. The execution, validity and performance and resolution of disputes under this Agreement shall be governed by the officially published and publicly available laws of the People's Republic of China.
8. The provisions of Clause 9.4 (Dispute Resolution) of the Equity Transfer Agreement is hereby incorporated by reference herein, *mutatis mutandis*.
9. This Agreement is executed in six counterparts in English and Chinese. Both language texts shall have equal validity and legal effect. Party A and Party B shall each have one copy, the remaining copies shall be kept by the Joint Venture.

This Agreement is executed by the Parties on the date first written above.

Party A: Xuchang Fuhua Glass Co. Ltd.

Legal Representative:

/s/ Hong Long Kou

Hong Long Kou, Director
Xuchang Fuhua Glass Co. Ltd.
Kouzhuang Industrial Zone
Jiangliji Town
Xuchang City
Henan Province
People's Republic of China
Tel: 008613603741950
Email: kouhonglong@hotmail.com

Party B: Sevcon, Inc.

Authorized Representative:

/s/ Matthew Boyle

Matthew Boyle, Chief Executive Officer
Sevcon, Inc.
155 Northboro Road
Southborough, MA 01772
United States of America
Tel: (508) 281-5548
Email: matt.boyle@sevcon.com

LOAN AGREEMENT

between

SEVCON, INC.
as the Borrower

and

FrontFour Capital Group, LLC
as the Lender

May 22, 2017

LOAN AGREEMENT

This **LOAN AGREEMENT**, dated as of May 22, 2017, between SEVCON, INC., a Delaware corporation (the “**Borrower**”) and FrontFour Capital Group, LLC (the “**Lender**”).

WITNESSETH:

WHEREAS, the Borrower has requested that the Lender make a term loan to the Borrower in the principal amount of Ten Million and 00/100 Dollars (\$10,000,000.00), which amount the Lender is willing to make available to the Borrower subject to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and to induce the Lender to extend credit to the Borrower and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower and the Lender agree as follows:

ARTICLE I. DEFINITIONS

As used herein, the following capitalized terms shall have the meaning set forth below:

“**Affiliate**” shall mean, as applied to any Person, any other Person who, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. For purposes of this definition, “control” shall mean the possession, directly or indirectly through one or more intermediaries, of the power to direct the management and policies of a Person, whether through the ownership of Stock, by contract, or otherwise.

“**Agreement**” shall mean this Loan Agreement, as the same may be amended or modified from time to time.

“**Benefit Plan**” shall mean a “defined benefit plan” (as defined in Section 3(35) of ERISA) for which the Borrower or any Subsidiary or ERISA Affiliate of the Borrower has been an “employer” (as defined in Section 3(5) of ERISA) within the past six years.

“**BMPS Term Loan Facility**” means the term loan facility in favor of the Borrower as described by that certain Term Loan Agreement dated as of January 27, 2016, as amended, by and between the Borrower and Banca Del Monte Dei Paschi Di Siena S.p.A., acting through its New York branch, as the lender, and all other agreements and documents described thereunder.

“**Borrower**” has the meaning set forth in the preamble to this Agreement.

“**Business Day**” shall mean a day other than a Saturday, Sunday or other day on which banking institutions are authorized or obligated to close under the laws of the United States of America or the State of New York.

“**Change of Control**” shall mean (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the Securities and Exchange Commission thereunder as in effect on the date hereof) other than the Permitted Investor, of Stock representing more than 40% of the aggregate ordinary voting power represented by the issued and outstanding Stock of the Borrower; (b) occupation of a majority of the seats (other than vacant seats) on the board of directors of the Borrower by Persons who were neither (i) nominated or approved by the board of directors of the Borrower nor (ii) appointed by directors so nominated or approved; or (c) the Borrower shall cease to own, directly or indirectly, free and clear of all Liens or other encumbrances, at least 100% of the outstanding Stock of any Subsidiary except as may result from any merger, consolidation or other reorganization permitted under this Agreement.

“**Code**” shall mean the United States Internal Revenue Code of 1986, as revised from time to time.

“**Commitment Period**” shall mean the period of time beginning on the Execution Date and ending 5:00 pm (eastern time) on the Commitment Termination Date.

“**Commitment Termination Date**” shall mean August 22, 2017; provided, however, if prior to 5:00 p.m. (eastern time) on August 21, 2017, the Borrower has (x) delivered to the Lender a Notice of Commitment Period Extension and (y) paid to the Lender in immediately available funds an extension fee in the amount of \$150,000, the “**Commitment Termination Date**” shall mean November 22, 2017.

“**Default Rate**” shall mean a per annum rate of interest equal to the rate of interest applicable to an Obligation determined pursuant to Section 4.1, plus two percent (2.0%).

“**Dollar**” and “**\$**” shall mean dollars in lawful currency of the United States of America.

“**Environmental Law**” shall mean any applicable federal, state, provincial, foreign or local statute, law, rule, regulation, ordinance, code, binding and enforceable guideline, binding and enforceable written policy, or rule of common law now or hereafter in effect and in each case as amended, or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, in each case, to the extent binding on the Borrower or its Subsidiaries, relating to the environment, the effect of the environment on employee health, or Hazardous Materials, including the Comprehensive Environmental Response Compensation and Liability Act, 42 USC § 9601 et seq.; the Resource Conservation and Recovery Act, 42 USC § 6901 et seq.; the Federal Water Pollution Control Act, 33 USC § 1251 et seq.; the Toxic Substances Control Act, 15 USC § 2601 et seq.; the Clean Air Act, 42 USC § 7401 et seq.; the Safe Drinking Water Act, 42 USC § 3803 et seq.; the Oil Pollution Act of 1990, 33 USC § 2701 et seq.; the Emergency Planning and the Community Right-to-Know Act of 1986, 42 USC § 11001 et seq.; the Hazardous Material Transportation Act, 49 USC § 1801 et seq.; and the Occupational Safety and Health Act, 29 USC § 651 et seq. (to the extent it regulates occupational exposure to Hazardous Materials); any state and local or foreign counterparts or equivalents, in each case as amended from time to time.

“**Equity Issuance**” shall mean any issuance by the Borrower to any Person of its equity interests, other than (a) any issuance of its equity interests pursuant to the exercise of options or warrants, (b) any issuance of options or warrants relating to its equity interests in the ordinary course of business in accordance with customary practices of the Borrower, and (c) any issuance by the Borrower of its equity interests as consideration for an acquisition.

“**ERISA**” shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time. Section references to ERISA are to ERISA as in effect at the date of this Agreement and any subsequent provisions of ERISA, amendatory thereof, supplemental thereto or substituted therefor.

“**ERISA Affiliate**” shall mean (a) any Person subject to ERISA whose employees are treated as employed by the same employer as the employees of the Borrower or its Subsidiaries under Code Section 414(b), (b) any trade or business subject to ERISA whose employees are treated as employed by the same employer as the employees of the Borrower or its Subsidiaries under Code Section 414(c), (c) solely for purposes of Section 302 of ERISA and Section 412 of the Code, any organization subject to ERISA that is a member of an affiliated service group of which the Borrower or any of its Subsidiaries is a member under Code Section 414(m), or (d) solely for purposes of Section 302 of ERISA and Section 412 of the Code, any Person subject to ERISA that is a party to an arrangement with the Borrower or any of its Subsidiaries and whose employees are aggregated with the employees of the Borrower or its Subsidiaries under Code Section 414(o).

“**Event of Default**” has the meaning set forth in ARTICLE VIII hereof.

“**Execution Date**” shall mean the date first set forth above in this Agreement.

“**Funding Date**” shall mean each date on which the Lender has advanced all or any portion of the Term Loan to the Borrower.

“**GAAP**” for any Person, shall mean generally accepted accounting principles in the United States of America as in effect from time to time, applied by the Borrower on a basis consistent with the Borrower’s most recent financial statements furnished to the Lender pursuant to the provisions of this Agreement. All accounting terms used in this Agreement, unless otherwise defined, shall have the meanings ascribed to them under GAAP. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Borrower or the Lender shall so request, the Lender and the Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP; provided that, until so amended, such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein.

“**Governmental Authority**” shall mean any domestic or foreign, federal, state, local, or other governmental or administrative body, instrumentality, board, department, or agency or any court, tribunal, administrative hearing body, arbitration panel, commission, or other similar dispute-resolving panel or body.

“Hazardous Materials” shall mean (a) substances that are defined or listed in, or otherwise classified pursuant to, any applicable laws or regulations as “hazardous substances,” “hazardous materials,” “hazardous wastes,” “toxic substances,” or any other formulation intended to define, list, or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, reproductive toxicity, or “EP toxicity”, (b) oil, petroleum, or petroleum derived substances, natural gas, natural gas liquids, synthetic gas, drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil, natural gas, or geothermal resources, (c) any flammable substances or explosives or any radioactive materials, and (d) asbestos in any form or electrical equipment that contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of 50 parts per million.

“Indebtedness” shall mean any obligation of a Person for the payment of money to any other Person, including without limitation (i) indebtedness for money borrowed, (ii) purchase money obligations, (iii) leases evidencing the acquisition of capital assets, (iv) reimbursement obligations; provided, however, that reimbursement obligations supporting credit or liquidity facilities shall not constitute Indebtedness until such time as a reimbursement payment becomes due and payable under the agreement entered into in connection with such reimbursement obligations, and (v) guaranteed indebtedness, but excluding (a) obligations for supplies, services and pensions allocable to current operating expenses during the current or future fiscal years in which the supplies are to be delivered, the services rendered, or the pensions paid and (b) rentals payable in the current or future fiscal years under leases that are not capital leases and not required to be included as indebtedness under GAAP.

“Initial Funding Date” shall mean the first date on which the Lender advances any portion of the Term Loan to the Borrower

“Lender” has the meaning set forth in the preamble to this Agreement.

“Lien” shall mean any interest in an asset securing an obligation owed to, or a claim by, any Person other than the owner of the asset, irrespective of whether (a) such interest is based on the common law, statute, or contract, (b) such interest is recorded or perfected, and (c) such interest is contingent upon the occurrence of some future event or events or the existence of some future circumstance or circumstances. Without limiting the generality of the foregoing, the term “Lien” includes the lien or security interest arising from a mortgage, deed of trust, encumbrance, pledge, option, hypothecation, assignment, deposit arrangement, security agreement, conditional sale or trust receipt, or from a lease, consignment, or bailment for security purposes and also includes reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions, leases, and other title exceptions and encumbrances affecting real property.

“Loan Documents” shall mean this Agreement, the Note, and all documents, instruments and agreements relating to the foregoing, and any amendment, modification or supplement, from time to time, to any of the foregoing.

“**Margin Stock**” has the meaning set forth in Regulation U of the Board of Governors as in effect from time to time.

“**Material Adverse Change**” shall mean a material adverse change with respect to (a) the business, operations, property, or financial condition of the Borrower or (b) the ability of the Borrower to perform its obligations under the Loan Documents.

“**Maturity Date**” shall mean the earliest to occur of (a) the date that is one (1) calendar year after the Initial Funding Date, or, if such day is not a Business Day, the next succeeding Business Day, (ii) the date (if any), that the Lender declares an Event of Default pursuant to ARTICLE VIII of this Agreement, (iii) the date the loans under the BMPS Term Loan Facility are repaid in full or (iv) the date (if any) a Change of Control shall occur.

“**Multemployer Plan**” shall mean a multiemployer plan as defined in Section 4001(a)(3) of ERISA to which the Borrower or any ERISA Affiliate (other than one considered an ERISA Affiliate only pursuant to subsection (m) or (o) of Code Section 414) is making or accruing an obligation to make contributions or has within any of the preceding five plan years made or accrued an obligation to make contributions.

“**Note**” shall mean the Promissory Note dated the Execution Date made by the Borrower to the Lender pursuant to this Agreement, substantially in the form attached as Exhibit A to this Agreement.

“**Notice of Borrowing**” shall mean a notice, substantially in the form of Exhibit B hereto, delivered by the Borrower to the Lender pursuant to Section 2.2 of this Agreement.

“**Notice of Commitment Period Extension**” shall mean the notice, substantially in the form of Exhibit C hereto.

“**OFAC**” shall mean The Office of Foreign Assets Control of the U.S. Department of the Treasury.

“**Obligations**” shall mean all of the Borrower’s liabilities, obligations and indebtedness to the Lender of any and every kind and nature arising under this Agreement.

“**Organizational Documents**” shall mean the certificate of incorporation and by-laws of the Borrower, together with any and all other consents or resolutions and such other agreements related to the corporate governance of the Borrower; in each case including any and all modifications thereof as of the date of the document referring to such Organizational Document and any and all future modifications thereof.

“**Patriot Act**” has the meaning set forth in Section 6.15.

“**PBGC**” shall mean the Pension Benefit Guaranty Corporation referred to and defined in ERISA.

“**Permitted Investor**” shall mean, collectively, Mario J. Gabelli, GGCP, Inc. and GAMCO Investors, Inc. and related entities reporting ownership of Sevcon, Inc. securities collectively on SEC Schedule 13D.

“**Person**” shall mean any natural person, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

“**Plan**” shall mean any employee pension benefit plan, as defined in Section 3(2) of ERISA (other than a Multiemployer Plan), subject to the provisions of Title IV of ERISA or Section 412 of the Code sponsored, maintained or contributed to by the Borrower or any ERISA Affiliate.

“**Property**” shall mean any interest in any kind of property or asset, whether real, personal or mixed, and whether tangible or intangible.

“**Reportable Event**” shall mean any reportable event as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than a Plan maintained by an ERISA Affiliate that is considered an ERISA Affiliate only pursuant to subsection (m) or (o) of Code Section 414).

“**Requirement of Law**” shall mean, as to any Person, any law, rule, treaty, regulation or determination of any Governmental Authority, in each case applicable to or binding upon such Person or any of its Property or assets or to which any such Person or any of its Property or assets may be bound or affected.

“**Sanctioned Entity**” shall mean (a) a country or a government of a country, (b) an agency of the government of a country, (c) an organization directly or indirectly controlled by a country or its government, (d) a Person resident in or determined to be resident in a country, in each case, that is subject to a country sanctions program administered and enforced by OFAC.

“**Sanctioned Person**” shall mean a person named on the list of Specially Designated Nationals maintained by OFAC.

“**Solvent**” shall mean, with respect to any Person as of any date of determination, that (a) valued on a going concern basis, the sum of such Person’s debts (including contingent liabilities) is less than all of such Person’s assets, (b) such Person is not engaged or about to engage in a business or transaction for which the remaining assets of such Person are unreasonably small in relation to the business or transaction or for which the property remaining with such Person is an unreasonably small capital, and (c) such Person has not incurred and does not intend to incur, or reasonably believe that it will incur, debts beyond its ability to pay such debts as they become due (whether at maturity or otherwise), and (d) such Person is “solvent” or not “insolvent,” as applicable within the meaning given those terms and similar terms under applicable laws relating to fraudulent transfers and conveyances. For purposes of this definition, the amount of any contingent liability at any time shall be computed as the amount that, in light of all of the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability (irrespective of whether such contingent liabilities meet the criteria for accrual under Statement of Financial Accounting Standard No. 5).

“**Stock**” shall mean all shares, options, warrants, interests, participations, or other equivalents (regardless of how designated) of or in a Person, whether voting or nonvoting, including common stock, preferred stock, limited liability company interests or any other equity security.

“**Subsidiary**” of a Person shall mean a corporation, partnership, limited liability company, or other entity in which that Person directly or indirectly owns or controls the shares of Stock having ordinary voting power to elect a majority of the board of directors (or appoint other comparable managers) of such corporation, partnership, limited liability company, or other entity.

“**Term Loan**” has the meaning set forth in Section 2.1 hereof.

“**Term Loan Commitment**” has the meaning set forth in Section 2.1 hereof.

“**Termination Date**” shall be the earlier of (a) the Maturity Date, (b) the Commitment Termination Date and (c) the date on which this Agreement is terminated pursuant to the terms hereof.

“**Withdrawal Liability**” shall mean liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

ARTICLE II. TERM LOAN

2.1 Term Loan. The Lender agrees to advance, on the date or dates determined in accordance with Section 2.2, a term loan (the “**Term Loan**”) to the Borrower in the aggregate amount of Ten Million Dollars (\$10,000,000.00) (the “**Term Loan Commitment**”). The Term Loan Commitment shall expire and be of no further force and effect at 5:00 p.m. (Eastern Time) on the last day of the Commitment Period.

2.2 Availability; Notice. Subject to the terms and conditions of this Agreement, the Term Loan is available in up to three disbursements from the Lender between the date of this Agreement and 5:00 p.m. (Eastern Time) on the Commitment Termination Date. The borrowing of the Term Loan shall be made upon the Borrower’s irrevocable notice to the Lender, given by delivery of the Notice of Borrowing to the Lender. The Notice of Borrowing must be received by the Lender not later than 2:00 p.m. (Eastern Time) one (1) Business Day prior to the requested date of such borrowing. Following receipt of the Notice of Borrowing, subject to the terms and conditions of this Agreement, the Lender shall make the requested funds available to the Borrower not later than 2:00 p.m. (Eastern Time) by wire transfer of such funds, in accordance with instructions provided to the Lender by the Borrower in the Notice of Borrowing. The initial advance of the Term Loan on the Initial Advance Date shall be in a minimum amount of Five Million Dollars (\$5,000,000.00) and each subsequent advance of the Term Loan shall be in the minimum amount of Two and One-Half Million Dollars (\$2,500,000.00) or, if less, the remaining undrawn amount of the Term Loan Commitment.

2.3 Use of Proceeds. The proceeds of the Term Loan may be used for general corporate purposes of the Borrower.

**ARTICLE III.
THE NOTE**

3.1 Note. The Term Loan shall be evidenced by a Note, substantially in the form of Exhibit A attached hereto, which shall be payable to the order of the Lender and shall bear interest as provided in Article IV.

**ARTICLE IV.
INTEREST RATES AND FEES**

4.1 Interest Rate. Outstanding amounts under the Note shall bear interest at a rate of ten percent (10%) per annum.

4.2 Term Loan Commitment Fees. On or prior to the Execution Date, in consideration for the Term Loan Commitment, the Borrower shall pay to the Lender a commitment fee of Four Hundred and Fifty Thousand and 00/100 Dollars (\$450,000.00).

4.3 Other Fees and Expenses. The Borrower shall pay all of the Lender's reasonable and documented out-of-pocket costs and expenses, including reasonable attorney's fees, incurred with respect to with the negotiation, execution and delivery of this Agreement.

4.4 Prepayment. The Borrower may prepay all or any portion of the principal outstanding under the Note, at any time, in minimum amounts of Five Hundred Dollars (\$500,000.00) or, if less, the remaining balance of the Term Loan. No amount that is prepaid may be reborrowed. There shall be no fee associated with any such prepayment.

4.5 Late Charges and Default Interest. In the event that any payment of principal or interest due hereunder is not received by the Lender within fifteen (15) days following the date such payment is due, the Lender may assess the Borrower a late charge equal to four percent (4%) of the amount of the payment then due and owing. Notwithstanding anything herein to the contrary, upon the occurrence and continuation of an Event of Default, the Borrower shall pay interest at a rate equal to the Default Rate.

**ARTICLE V.
PAYMENTS AND PRINCIPAL**

5.1 Type and Manner of Payment.

(a) The Borrower shall make each payment of principal and interest and any other amounts payable hereunder, not later than 12:00 noon (New York City time) on the date when due, as provided in section (b) below. All payments received by the Lender after 12:00 noon shall be deemed received on the next succeeding Business Day and any applicable interest or fees shall continue to accrue. Whenever any payment of principal or interest shall be due on a day which is not a Business Day, the date for such payment shall be extended to the next succeeding Business Day and interest shall accrue for such period. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall accrue for such extended time.

(b) Each payment, repayment or prepayment, as applicable, of principal and interest, and each payment on account of any other fees, charges or other amounts payable under this Agreement or the Note shall be paid by the Borrower, without set-off or counterclaim to the Lender, by mail at its office located at 35 Mason Street, 4th Floor, Greenwich, CT 06830 for receipt on the day such payment is due, or by wire transfer to the Lender, in accordance with the instructions delivered by the Lender to the Borrower, or to such other location or accounts as the Lender may specify in writing to the Borrower from time to time, in immediately available funds.

5.2 Payments of Principal and Interest.

(a) The Borrower will pay interest on the Term Loan in arrears (i) on the last day of each month (commencing on first such day to occur after the Initial Funding Date), and then on the last day of each month thereafter until the Term Loan has been paid in full and (ii) concurrently with any prepayment of that Loan, whether voluntary or mandatory, to the extent accrued on the amount being prepaid. All outstanding principal and accrued and unpaid interest on the Term Loan shall be due and payable in full to the Lender on the Maturity Date.

(b) Immediately upon the receipt by the Borrower of the net cash proceeds of any Equity Issuance, the Borrower shall prepay the Term Loan in an aggregate amount equal to such Net Cash Proceeds.

5.3 Indemnity. The Borrower agrees to defend, protect, indemnify and hold harmless the Lender and each of its affiliates, officers, directors, employees, and agents (the "Indemnitee") from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses and disbursements of any kind or nature whatsoever (including, without limitation, the reasonable fees and disbursements of counsel for such Indemnitee incurred in connection with any action or proceeding between the Borrower and any Indemnitee or between any Indemnitee and any third party or otherwise, whether or not relating to any investigative, administrative or judicial proceeding and whether or not such Indemnitee shall be designated a party thereto), imposed on, incurred by, or asserted against such Indemnitee (whether direct, indirect, special, consequential, punitive or treble and whether based on any federal, state or local, or foreign, laws or other statutory regulations, including, without limitation, environmental laws, securities and commercial laws and regulations, under common law or at equitable cause, or in contract or otherwise) in any manner relating to or arising out of the Loan Documents, or any act, event or transaction related or attendant thereto or contemplated thereby, or any action or inaction by an Indemnitee under or in connection therewith, any commitments of the Lender hereunder, or the making of the Term Loan, or the management of such Term Loan, or the use or intended use of the proceeds of any Term Loan, advance or other financial accommodation provided hereunder including, in each such case, any allegation of any such matters, whether meritorious or not (collectively, the "Indemnified Matters"); provided, however, that the Borrower shall not have any obligation to any Indemnitee hereunder with respect to Indemnified Matters to the extent caused by or resulting from (i) the willful misconduct or gross negligence of an Indemnitee or (ii) a material breach by such Indemnitee of its obligations under any Loan Document. The covenants of the Borrower contained in this Section 5.3 shall survive the payment in full of all amounts due and payable under the Loan Documents and the full satisfaction of all other obligations of the Borrower.

**ARTICLE VI.
REPRESENTATIONS AND WARRANTIES**

To induce the Lender to enter into this Agreement and to make the Term Loan to the Borrower, the Borrower makes the following representations and warranties.

6.1 Corporate Matters.

(a) The Borrower (i) is a duly organized, validly existing corporation under the laws of its jurisdiction of formation, (ii) has the power to carry on business as such business is now being conducted and proposed to be conducted, and (iii) has the power to execute, deliver and perform its obligations under the Loan Documents.

(b) The execution, delivery and performance of the Loan Documents by the Borrower has been duly authorized by all necessary corporate action and the Loan Documents are duly executed and validly delivered by the Borrower.

(c) The execution, delivery and performance of the Loan Documents by the Borrower, and consummation by the Borrower of the transactions herein and therein contemplated, and compliance by the Borrower with the terms, conditions and provisions of the Loan Documents will not conflict with or result in a breach of any of the terms, conditions or provisions of (i) the Organizational Documents of the Borrower, (ii) any agreement or instrument to which the Borrower is now a party or by which its Property are bound, or result thereunder in the creation or imposition of any Lien of any nature whatsoever upon any of the properties or assets of the Borrower, (iii) any judgment or order, writ, injunction, decree or demand of any Governmental Authority, or (iv) any applicable Requirement of Law.

(d) No material authorization, consent, approval or action of, or filing with or notice to, any Governmental Authority or any other Person, which has not been obtained, is required to authorize, or is otherwise required in connection with, the execution, delivery and performance of the Loan Documents and the performance of the Borrower's obligations thereunder. All material permits, licenses, authorizations, consents and approvals of all Governmental Authorities necessary for the Borrower to conduct its businesses have been obtained and are in full force and effect and the Borrower has obtained any and all consents from any Person required to effect the terms and conditions of Loan Documents.

(e) All financial statements of the Borrower delivered to the Lender have been prepared in accordance with GAAP, are true and correct in all material respects and fairly present the financial condition of the Borrower as of the respective dates thereof and results of operations for the period then ended, and no Material Adverse Change has occurred in the financial condition reflected therein since the respective dates thereof.

(f) The Loan Documents to which the Borrower is a party are the legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms, subject to limitations imposed by general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity) and the effect of applicable bankruptcy, reorganization, insolvency, moratorium and similar laws of general application relating to or affecting creditors' rights.

6.2 Subsidiaries. Schedule 6.2 sets forth the name and jurisdiction of incorporation of each Subsidiary of the Borrower or its Subsidiaries and, as to each such Subsidiary, the percentage of each class of Stock owned by the Borrower or by any Borrower's Subsidiary. There are no outstanding subscriptions, options, warrants, calls, rights or other agreements or commitments (other than those granted to employees, consultants or directors and directors' qualifying shares) of any nature relating to any Stock of any of the Borrower's Subsidiaries, except under the Loan Documents.

6.3 Litigation. There are no actions, suits or proceedings pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any material Property of any of the Borrower, at law or in equity or before or by any Governmental Authority, which involve any of the transactions contemplated herein or which, if adversely determined against the applicable Person, could reasonably be expected to result in a Material Adverse Change. The Borrower is not in default with respect to any judgment, order, writ, injunction, decree, rule or regulation of any Governmental Authority or any agreement with any Person, which involves a reasonable possibility of any Material Adverse Change.

6.4 No Default. There is no default on the part of the Borrower under the Loan Documents and no event has occurred and is continuing which with notice or the passage of time or both would constitute a default or an Event of Default.

6.5 Solvency. The Borrower is Solvent. No transfer of Property is being made by the Borrower and no obligation is being incurred by the Borrower in connection with the transactions contemplated by this Agreement or the other Loan Documents with the intent to hinder, delay, or defraud either present or future creditors of the Borrower.

6.6 Employee Benefit Plans. Each of the Borrower and the ERISA Affiliates is in compliance with the applicable provisions of ERISA and the provisions of the Code relating to ERISA and the regulations and published interpretations thereunder and any similar applicable non-U.S. law, except for such noncompliance which could not reasonably be expected to result in a Material Adverse Change. No Reportable Event has occurred as to which the Borrower or any ERISA Affiliate was required to file a report with the PBGC, other than reports for which the 30 day notice requirement is waived, reports that have been filed and reports the failure of which to file could not reasonably be expected to result in a Material Adverse Change. There has been no failure by any Plan to meet the minimum funding standards (as defined in Section 412 of the Code or Section 302 of ERISA) applicable to such Plan, in each instance, whether or not waived, nor has there been a filing pursuant to Sections 412 and 430 of the Code or Section 302(c) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan where such events could reasonably be expected to result in a Material Adverse Change. None of the Borrower and the ERISA Affiliates has incurred or could reasonably be expected to incur any Withdrawal Liability that could reasonably be expected to result in a Material Adverse Change. None of the Borrower and the ERISA Affiliates has received any written notification that any Multiemployer Plan is in reorganization or has been terminated within the meaning of Title IV of ERISA, and no Multiemployer Plan is reasonably expected to be in reorganization or to be terminated, where such reorganization or termination has resulted or could reasonably be expected to result, through increases in the contributions required to be made to such Plan or otherwise, in a Material Adverse Change.

6.7 Environmental. (a) None of the Borrower's properties or assets has ever been used by the Borrower, or to the knowledge of Borrower, by previous owners or operators in the disposal of, or to produce, store, handle, treat, release, or transport, any Hazardous Materials, where such use, production, storage, handling, treatment, release or transport was in violation, in any material respect, of any applicable Environmental Law, (b) none of the Borrower's properties or assets has ever been designated or identified in any manner pursuant to any environmental protection statute as a Hazardous Materials disposal site, (c) the Borrower has not received notice that a Lien arising under any Environmental Law has attached to any revenues or to any real property owned or operated by the Borrower, and (d) the Borrower has not received a summons, citation, notice, or directive from the United States Environmental Protection Agency or any other federal or state governmental agency concerning any action or omission by the Borrower resulting in the releasing or disposing of Hazardous Materials into the environment that individually or in the aggregate could reasonably be expected to result in a Material Adverse Change.

6.8 Brokerage Fees. The Borrower has not utilized the services of any broker or finder in connection with the Borrower's obtaining financing from the Lender under this Agreement and no brokerage commission or finder's fee is payable by the Borrower in connection herewith.

6.9 Intellectual Property. The Borrower owns, or holds licenses in, or otherwise has the right to use all trademarks, trade names, copyrights, patents, patent rights, and licenses that are necessary to the conduct of its business as currently conducted.

6.10 Title to Properties; Liens. The Borrower has (i) valid leasehold interests in (in the case of material leasehold interests in real or personal property), or (ii) good title to (in the case of all other personal property), all of its material properties and assets reflected in the financial statements referred to in Section 6.1(e), except for assets disposed of since the date of such financial statements.

6.11 Leases. The Borrower and each of its Subsidiaries enjoys peaceful and undisturbed possession under all leases material to its business and to which it is a party or under which it is operating, and all of such leases are valid and subsisting and no material default by the Borrower exists under any of them.

6.12 Transactions with Affiliates. The Borrower has not, directly or indirectly, entered into or permitted to exist any transaction (including the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate on terms that are less favorable to the Borrower than those that might be obtained at the time from Persons who are not such an Affiliate.

6.13 Complete Disclosure. All factual information furnished by or on behalf of the Borrower in writing to the Lender or in the other Loan Documents for purposes of or in connection with this Agreement, the other Loan Documents, or any transaction contemplated herein or therein is, and all other such factual information hereafter furnished by or on behalf of the Borrower in writing to the Lender will be, true and accurate, in all material respects, on the date as of which such information is dated or certified and not incomplete by omitting to state any fact necessary to make such information not misleading in any material respect at such time in light of the circumstances under which such information was provided.

6.14 Compliance with Laws. The Borrower is not (a) in violation of any applicable Requirements of Law (including Environmental Laws) that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Change, or (b) subject to or in default with respect to any final judgments, writs, injunctions, decrees, rules or regulations of any Governmental Authority, domestic or foreign, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Change.

6.15 Patriot Act. To the extent applicable, the Borrower is in compliance, in all material respects, with the (a) Trading with the Enemy Act, as amended, and each of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) and any other enabling legislation or executive order relating thereto, and (b) Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT Act of 2001) (the "Patriot Act"). No part of the proceeds of the loans made hereunder will be used by the Borrower, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

6.16 Margin Stock. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any Margin Stock. No part of the proceeds of the Term Loan will be used to purchase or carry any Margin Stock or to extend credit to others for the purpose of purchasing or carrying any Margin Stock or for any purpose that violates the provisions of Regulation T, U or X of the Board of Governors.

6.17 Governmental Regulation. The Borrower is not subject to regulation under the Federal Power Act or the Investment Company Act of 1940 or under any other federal or state statute or regulation which may limit its ability to incur Indebtedness or which may otherwise render all or any portion of the Obligations unenforceable. The Borrower is not a “registered investment company” or a company “controlled” by a “registered investment company” or a “principal underwriter” of a “registered investment company” as such terms are defined in the Investment Company Act of 1940.

6.18 OFAC. The Borrower is not in violation of any of the country- or list-based economic and trade sanctions administered and enforced by OFAC. The Borrower (a) is not a Sanctioned Person or a Sanctioned Entity, (b) does not have its assets located in Sanctioned Entities, and (c) does not derive revenues from investments in, or transactions with Sanctioned Persons or Sanctioned Entities. No proceeds of any Term Loan made hereunder will be used to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Entity.

6.19 Indebtedness. The Borrower has no Indebtedness that is senior to the Indebtedness evidenced by the Note and this Agreement.

**ARTICLE VII.
COVENANTS OF BORROWER**

From the date of this Agreement and thereafter until the later of (x) the Term Loan (including interest due thereon) and all fees to be paid by the Borrower to the Lender hereunder or under any of the Loan Documents are paid in full or (y) the Termination Date:

7.1 Corporate Status, Financial Information and Obligations.

The Borrower shall:

(a) at all times preserve and keep in full force and effect the Borrower’s and its Subsidiaries’ valid existence and good standing and any rights and franchises material to its businesses;

(b) furnish to the Lender (i) within ninety (90) days following the end of each respective fiscal year, copies of the audited consolidated financial statements of the Borrower and its Subsidiaries together with copies of management letters, prepared by independent certified public accountants selected by the Borrower and reasonably satisfactory to the Lender, all such financial statements to be prepared in accordance with GAAP; and (ii) as soon as available and in any event within sixty (60) days after the close of each quarter, a copy of the unaudited consolidated financial statements of the Borrower as of the end of such quarter and the related statements of income, balance sheets, revenue and expense statements, cash flow statements, balances, earnings, retained earnings and changes in financial position for such period, prepared in accordance with GAAP, certified by the chief financial or accounting officer of the Borrower, together with quarterly variance reports;

(c) provide the Lender with copies of any audit reports or other material regulatory communications received from any Governmental Authority which could reasonably be expected to have a material impact on the Borrower's ability to perform its obligations under the Loan Documents, and, from time to time, provide such other information regarding the operations, business affairs and financial condition of the Borrower as the Lender may reasonably request;

(d) promptly, but in any event within 5 days after a senior officer of the Borrower has knowledge of any event or condition that constitutes a default or an Event of Default, notice thereof and a statement of the curative action that the Borrower proposes to take with respect thereto (if any);

(e) promptly after the commencement thereof, but in any event within five (5) days after the service of process with respect thereto on the Borrower, notice of all actions, suits, or proceedings brought by or against the Borrower before any Governmental Authority which reasonably could be expected to result in a Material Adverse Change; and

(f) upon the request of the Lender, any other information reasonably requested relating to the financial condition of the Borrower.

7.2 Environmental.

The Borrower shall:

(a) comply, in all material respects, with Environmental Laws and provide to the Lender documentation of such compliance which the Lender reasonably requests,

(b) promptly notify the Lender of any release of a Hazardous Material in any reportable quantity from or onto property owned or operated by the Borrower or any of its Subsidiaries and take any remedial actions required by Environmental Law to abate said release or otherwise to come into compliance with applicable Environmental Law, and

(c) promptly, but in any event within 5 days of its receipt thereof, provide the Lender with written notice of any of the following: (i) notice that any Lien with respect to violation of Environmental Laws has been filed against any of the real or personal property of the Borrower, (ii) commencement of any action or notice that an action will be filed against the Borrower regarding violation of Environmental Laws, and (iii) notice of a violation, citation, or other administrative order which reasonably could be expected to result in a Material Adverse Change.

7.3 Taxes. The Borrower shall cause all assessments and taxes, whether real, personal, or otherwise, due or payable by, or imposed, levied, or assessed against the Borrower, or any of their respective assets to be paid in full, before delinquency or before the expiration of any extension period or timely request such extension. The Borrower will and will cause its Subsidiaries to make timely payment or deposit of all tax payments and withholding taxes required of it and them by applicable laws, including those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, federal and foreign income taxes.

7.4 Insurance. The Borrower shall maintain insurance respecting each of the Borrower's assets wherever located, covering loss or damage by fire, theft, explosion, and all other hazards and risks as ordinarily are insured against by other Persons engaged in the same or similar businesses. Each policy of insurance shall name the Lender as an additional insured thereunder as its interests may appear, and (if obtainable by the Borrower using commercially reasonable efforts) provides for at least 30 days prior written notice to the Lender of any modification or cancellation of such policy.

7.5 Employee Benefits. The Borrower shall comply in all material respects with the applicable provisions of ERISA and the provisions of the Code relating to ERISA and any applicable similar non-U.S. law and (b) furnish to the Lender (i) as soon as possible after, and in any event within 30 days after any executive officer of the Borrower or any ERISA Affiliate knows or has reason to know that, any Reportable Event has occurred, a statement of the Borrower signed by its chief financial officer or treasurer setting forth details as to such Reportable Event and the action proposed to be taken with respect thereto, together with a copy of the notice, if any, of such Reportable Event given to the PBGC, (ii) promptly after any such executive officer learns of receipt thereof, a copy of any notice that the Borrower or any ERISA Affiliate may receive from the PBGC relating to the intention of the PBGC to terminate any Plan or Plans (other than a Plan maintained by an ERISA Affiliate that is considered an ERISA Affiliate only pursuant to subsection (m) or (o) of Code Section 414) or to appoint a trustee to administer any such Plan, (iii) within 30 days after the due date for filing with the PBGC pursuant to Section 412(n) of the Code a notice of failure to make a required installment or other payment with respect to a Plan, a statement of the Borrower signed by its chief financial officer or treasurer setting forth details as to such failure and the action proposed to be taken with respect thereto, together with a copy of any such notice given to the PBGC and (iv) promptly after any such executive officer learns thereof and in any event within 30 days after receipt thereof by the Borrower or any ERISA Affiliate from the sponsor of a Multiemployer Plan, a copy of each notice received by the Borrower or any ERISA Affiliate concerning (A) the imposition of Withdrawal Liability or (B) a determination that a Multiemployer Plan is, or is expected to be, terminated or in reorganization, in each case within the meaning of Title IV of ERISA.

7.6 Other Agreements. The Borrower will not enter into any agreement containing any provision which would be violated or breached by the performance of the Borrower's obligations under the Loan Documents.

7.7 Use of Proceeds. The proceeds of any Term Loan made under this Agreement will be used by the Borrower for general corporate purposes. None of such proceeds will be used, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any Margin Stock. The Borrower shall use the proceeds of any Term Loan issued hereunder in compliance with all applicable legal and regulatory requirements of any Governmental Authority (including, without limitation, Regulations U and X of the Board of Governors of the Federal Reserve System, the Securities Exchange Act of 1934 and the Securities Act of 1933, and any regulations thereunder).

7.8 Corporate Organization. The Borrower shall maintain its corporate existence. Without the prior written consent of the Lender, the Borrower shall not materially change or amend its Organizational Documents.

7.9 Continuation of Business. The Borrower shall (a) maintain and preserve all of its properties which are material to the proper conduct of its business in good working order and condition, ordinary wear and tear excepted, (b) maintain all material licenses, certifications and permits of all Governmental Authorities necessary to continue its operations and (c) comply with all of its material agreements and contracts.

7.10 Additional Indebtedness and Activities. The Borrower shall not (a) without prior written consent to the Lender, incur any Indebtedness (including any additional Indebtedness under the BMPS Term Loan Facility) that is pari passu or senior to the Borrower's obligations hereunder or (b) without the prior written consent of the Lender, create or suffer to exist any Lien on its assets, other than Liens created to secure the obligations of the Borrower and its Subsidiaries under the BMPS Term Loan Facility.

7.11 Disposal of Assets. The Borrower shall not convey, sell, lease, license, assign, transfer, or otherwise dispose of (or enter into an agreement to convey, sell, license, assign, transfer or otherwise dispose of) any material portion of its assets, without the prior written consent of the Lender, other than sale of inventory in the ordinary course.

7.12 Access to Books and Records. The Borrower will properly maintain its books and records and permit the Lender, by its officers and representatives, to have reasonable access to the officers of the Borrower and examine, at all reasonable times and upon reasonable prior written notice to the Borrower, the Borrower's properties, minute books and other corporate records and books of account and financial records.

ARTICLE VIII. EVENTS OF DEFAULT

8.1 Events of Default.

(a) The occurrence of any one or more of the following events and the continuation thereof beyond the applicable grace period herein provided, if any, shall constitute an "Event of Default" under this Agreement:

- (1) the Borrower fails to pay all or any portion of principal due under the Note on the date due;

(2) the Borrower fails to pay all or any portion of interest due under the Note or any fees or other amounts due under this Agreement for a period of five (5) Business Days after the date due;

(3) the Borrower fails to comply with any of the other terms, conditions, or covenants in the Loan Documents and such default shall continue for thirty (30) days following written notice, delivered to the Borrower by the Lender, specifying such default and requiring the same to be remedied;

(4) the Borrower fails to pay when due, beyond any applicable grace or cure period, any indebtedness in excess of Six Hundred Thousand and 00/100 Dollars (\$600,000) under any other loan agreement, credit facility or guaranty;

(5) any representation or warranty made by the Borrower herein or in any other Loan Document shall, at the time made, be false or misleading in any material respect;

(6) the Borrower shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its Property, or shall consent to any such relief or to the appointment of or taking possession by any such official in the involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors;

(7) any involuntary case or other proceeding shall be commenced against the Borrower seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its Property and such case or proceeding is not dismissed within sixty (60) days;

(8) a judgment in excess of One Hundred and Twenty Thousand Five and 00/100 Dollars (\$125,000) over the amount of insurance coverage therefor (where the underwriter has agreed in writing to pay such judgment) shall be rendered against any the Borrower and shall remain undischarged, undismissed and unstayed for more than ten (10) days;

(9) any judicial decision, legislative or regulatory change or any change in the Borrower's right to conduct business materially and adversely affects the present business, financial condition or operation of the Borrower or its properties and assets in such a manner that with the passage of time the Borrower could not comply with the terms, conditions and covenants in this Agreement; or

(10) a Reportable Event or Reportable Events, or a failure to make a required installment or other payment (within the meaning of Section 412(n)(1) of the Code), shall have occurred with respect to any Plan, (ii) a trustee shall be appointed by a United States district court to administer any Plan, (iii) the PBGC shall institute proceedings (including giving notice of intent thereof) to terminate any Plan, (iv) the Borrower or any ERISA Affiliate shall have been notified by the sponsor of a Multiemployer Plan that it has incurred Withdrawal Liability to such Multiemployer Plan and the Borrower or such ERISA Affiliate does not have reasonable grounds for contesting such Withdrawal Liability or is not contesting such Withdrawal Liability in a timely and appropriate manner, (v) the Borrower or any ERISA Affiliate shall have been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of ERISA, (vi) the Borrower or any ERISA Affiliate shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (vii) a failure by any Plan to meet the minimum funding standards (as defined in Section 412 of the Code or Section 302 of ERISA) applicable to such Plan, in each instance, whether or not waived, (viii) a filing pursuant to Section 412(d) of the Code or Section 302(c) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan or (ix) any other similar event or condition shall occur or exist with respect to a Plan; and in each case in clauses (i) through (ix) above, such event or condition, together with all other such events or conditions, if any, could reasonably be expected to have a Material Adverse Change; or

(11) An Event of Default under and as defined in the BMPS Term Loan Facility has occurred and is continuing and all obligations of the Borrower thereunder shall have been accelerated and become immediately due and payable.

(b) If any Event of Default shall occur, the Lender may (i) terminate all or any portion of the Term Loan Commitment and/or (ii) declare the entire outstanding principal amount of the Term Loan or any portion thereof together with interest thereon and any other fees, costs and charges then payable under the Loan Documents, immediately due and payable, whereupon the same shall become immediately due and payable, without presentment, protest or further demand or notice of any kind, all of which are hereby expressly waived by the Borrower; and in addition to the foregoing, the Lender may immediately exercise any and all other rights, remedies, and recourse available to it at law or in equity or under the Loan Documents. If an Event of Default specified in subsections 6 or 7 of this Section occurs, all amounts payable under the Loan Documents by the Borrower that would otherwise be due after the date of such Event of Default shall become immediately due and payable without any declaration or other act on the part of the Lender.

**ARTICLE IX.
CONDITIONS PRECEDENT**

The obligation of the Lender to make the Term Loan is subject to the satisfaction of the following conditions:

9.1 Execution Date Conditions Precedent. The Lender shall receive on or before the Execution Date: _____

(a) this Agreement, the Note and each other Loan Document executed by the Borrower;

- (b) a certificate of good standing for the Borrower issued by the Secretary of State of the corporation's state of incorporation;
- (c) resolutions of the Borrower authorizing the borrowing and the execution and delivery of the Loan Documents, and appointing an authorized individual of the Borrower to execute and deliver the Loan Documents;
- (d) certified copies of the Borrower's Organizational Documents;
- (e) such documents as shall be requested by the Lender in connection with its Know Your Customer and Anti-Money Laundering Requirements; and
- (f) a customary opinion of counsel to the Borrower.

9.2 Conditions Precedent to Each Funding on each Funding Date.

- (a) The Lender shall receive a Notice of Borrowing at least three (3) Business Days before the Funding Date.
- (b) The representations and warranties of the Borrower set forth in this Agreement and the other Loan Documents shall be true and correct in all material respects (except for those representations and warranties that are qualified by materiality, which shall be true and correct in all respects) on and as of the Funding Date with the same effect as though such representations and warranties had been made on and as of such date; provided that to the extent that any representation and warranty specifically refers to a given date or period, it shall be true and correct in all material respects as of such date or for such period.
- (c) At the time of and immediately after giving effect to the advance of the Term Loan on such Funding, no Event of Default, and no Event of Default under and as defined in the BMPS Term Loan Facility, has occurred and is continuing.

**ARTICLE X.
MISCELLANEOUS PROVISIONS**

10.1 Waiver. No delay on the part of the Lender in the exercise of any right, power or remedy shall operate as a waiver thereof, nor shall any single or partial exercise by the Lender of any right, power or remedy preclude the further exercise thereof, or the exercise of any other right, power or remedy.

10.2 Consent to Jurisdiction; Service of Process and Waiver of Jury Trial. THE BORROWER HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN NEW YORK, NEW YORK, WAIVES ANY OBJECTION WHICH THE BORROWER MAY HAVE BASED ON IMPROPER VENUE OR FORUM NON CONVENIENS TO THE CONDUCT OF ANY PROCEEDING IN ANY SUCH COURT AND HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH FEDERAL OR STATE COURT IN NEW YORK TO THE EXTENT PERMITTED BY LAW. THE LENDER AND THE BORROWER WAIVE TRIAL BY JURY. THE BORROWER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES THEREOF IN ACCORDANCE WITH SECTION 10.2 OF THIS AGREEMENT, SUCH SERVICE TO BECOME EFFECTIVE FIVE (5) DAYS AFTER SUCH MAILING. NOTHING HEREIN SHALL AFFECT THE RIGHT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

10.3 Notices. Except as otherwise expressly provided herein, all notices hereunder shall be in writing. Notices given by mail shall be deemed to have been given five (5) days after the date sent if sent by registered or certified mail, postage prepaid, the day after the date sent if sent by overnight mail by means of a reputable overnight delivery service and the date of delivery if sent by hand delivery. Notice shall be given to the following addressees:

If to the Borrower, to:

Sevcon, Inc.
155 Northboro Road
Southborough, Massachusetts 01772

And with a copy to:

Locke Lord LLP
111 Huntington Avenue
Boston, Massachusetts 02199

Attention: Matthew Dallett, Esq.

If to the Lender, to:

FrontFour Capital Group LLC
35 Mason Street, 4th Floor
Greenwich, CT 06830

Attention: Stephen E. Loukas

or in the case of either party, such other address as such party may have designated, by written notice given in accordance with this Agreement and received by the other party to this Agreement, as its address for notices.

10.4 Costs, Expenses and Taxes. The Borrower agrees to pay the reasonable fees of the Lender's counsel arising in connection with the preparation of the Loan Documents, and the enforcement of the Lender's rights hereunder, plus any reasonable out-of-pocket expenses incurred by the Lender's counsel. In addition, the Borrower agrees to pay, and to save the Lender harmless from any liability for, any stamp or other taxes which may be payable in connection with the execution or delivery of this Agreement, the borrowings hereunder, or the execution and delivery of the Note. All obligations provided for in this Section 10.4 shall survive any termination of this Agreement.

10.5 Captions. Section captions used in this Agreement are for convenience only and shall not be deemed to be a part of this Agreement.

10.6 Governing Law. The Loan Documents have been negotiated and delivered in the State of New York, shall be deemed to have been made in the State of New York and shall be governed by the laws of the State of New York without regard to its choice of law provisions. All obligations of the Borrower and rights of the Lender expressed herein, and in the Note shall be in addition to and not in limitation of those provided by applicable law.

10.7 Successors and Assigns. This Agreement shall become effective when it shall have been executed by the Borrower and the Lender, and thereafter shall be binding upon the Borrower, its successors and assigns, and upon the Lender, its successors and assigns, and shall inure to the benefit of the Borrower, the Lender and their respective successors and assigns. However, the Borrower may not assign its rights or obligations under the Loan Documents without the prior written consent of the Lender and the Lender may assign its rights in accordance with Section 10.12.

10.8 Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument and all of which shall constitute a single agreement. Delivery of an executed counterpart of this Agreement by telefacsimile, pdf file or other electronic method of transmission shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by telefacsimile, pdf file or other electronic method of transmission also shall deliver an original executed counterpart of this Agreement but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Agreement. The foregoing shall apply to each other Loan Document mutatis mutandis.

10.9 Revival and Reinstatement of Obligations. If the incurrence or payment of the Obligations by the Borrower or the transfer to the Lender of any Property should for any reason subsequently be declared to be void or voidable under any state or federal law relating to creditors' rights, including provisions of the United States Bankruptcy Code relating to fraudulent conveyances, preferences, or other voidable or recoverable payments of money or transfers of property (collectively, a "Voidable Transfer"), and if the Lender is required to repay or restore, in whole or in part, any such Voidable Transfer, or elects to do so upon the reasonable advice of its counsel, then, as to any such Voidable Transfer, or the amount thereof that the Lender is required or elects to repay or restore, and as to all reasonable costs, expenses, and attorneys fees of the Lender related thereto, the liability of the Borrower automatically shall be revived, reinstated, and restored and shall exist as though such Voidable Transfer had never been made.

10.10 Amendments. No amendment, modification or waiver of, or consent with respect to, any provision of the Loan Documents shall in any event be effective unless the same shall be in writing and signed and delivered by the Lender and the Borrower, as applicable, and then any such amendment, modification, waiver or consent shall be effective only in the specific instance and for the specific purpose for which it was given.

10.11 Inconsistencies. The Loan Documents shall be construed to the extent reasonable to be consistent, one with the other, but to the extent that the terms and conditions of this Agreement are actually inconsistent with the terms and conditions of any Loan Document, the terms and conditions of this Agreement shall govern.

10.12 Assignments and Participations.

(a) Subject to the prior written consent of the Borrower (which consent shall not be unreasonably withheld or delayed), the Lender shall have the right at any time and from time to time, to assign its Term Loan Commitment and rights hereunder to one or more commercial banks, insurance companies, finance companies, financial institutions, funds that invests in loans or Affiliates of the Lender (other than a competitor of the Borrower) (each an "Assignee"); provided, that no consent of the Borrower shall be required for any assignment to any Affiliate of the Lender that is a fund which is engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its activities and is administered, advised or managed by (x) the Lender or (y) an entity which administers, advises or manages the Lender. The Lender may furnish any information concerning the Borrower in its possession from time to time to such prospective Assignees.

(b) The Lender shall have the unrestricted right at any time and from time to time, to assign the Term Loan or any portion thereof and rights hereunder to one or more Assignees. The Lender may furnish any information concerning the Borrower in its possession from time to time to such prospective Assignees.

(c) The Lender shall have the unrestricted right at any time and from time to time, to grant to one or more commercial banks, insurance companies, finance companies, financial institutions, funds that invests in loans or Affiliates of the Lender (other than a competitor of the Borrower) (each, a "Participant") participating interests in the Lender's Term Loan Commitment and/or Term Loan and rights hereunder; provided that (i) the Lender's obligations under this Agreement shall remain unchanged, (ii) the Lender shall remain solely responsible to the Borrower for the performance of the Term Loan Commitment and other obligations under this Agreement and (iii) the Borrower shall continue to deal solely and directly with the Lender in connection with the Lender's rights and obligations under this Agreement. The Lender may furnish any information concerning the Borrower in its possession from time to time to prospective Participants.

10.13 Reserved.

10.14 Severability. Any provision of this Agreement which is prohibited, unenforceable or not authorized in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition, unenforceability or non-authorization without invalidating the remaining provisions hereof or affecting the validity, enforceability or legality of such provision in any other jurisdiction.

10.15 Limitation of Liability. The Borrower agrees that no claim may be made by the Borrower or any other person against the Lender or its affiliates, directors, officers, employees, or agents for any special, indirect, consequential, punitive or treble damages in respect of any claim for breach of contract or any other theory of liability arising out of or related to the transactions contemplated by the Loan Documents, or any act, omission or event occurring in connection herewith or therewith; and the Borrower hereby waives, releases and agrees not to sue upon any claim for any and all special, indirect, consequential, punitive or treble damages, whether or not accrued and whether or not known or suspected to exist in its favor. Nothing in this Section 10.15 shall limit the liability of the Lender, its affiliates, directors, officers, employees, or agents for their gross negligence or willful misconduct.

10.16 Entire Agreement. This Agreement and the other Loan Documents constitute the entire agreement between the Lender and the Borrower with respect to the Loan and the written and executed form of this Agreement and the Loan Documents expressly supersede any previous writings or oral agreements between the Lender and the Borrower and their Affiliates, agents and employees.

10.17 Patriot Act. The Lender hereby notifies the Borrower that pursuant to the requirements of the Patriot Act, it is required to obtain, verify and record information that identifies the credit parties, which information includes the names and addresses of the Borrower and other information that will allow the Lender to identify the Borrower in accordance with the Patriot Act and as specifically requested in writing by the Lender. In addition, if the Lender is required by law or regulation or internal policies to do so, it shall have the right to periodically conduct (a) Patriot Act searches, OFAC/PEP searches, and customary individual background checks for the Borrower and (b) OFAC/PEP searches and customary individual background checks for the Borrower's senior management and key principals, and the Borrower agrees to cooperate in respect of the conduct of such searches and further agrees that the reasonable costs and charges for such searches shall constitute expenses hereunder and be for the account of the Borrower.

[Signature pages follow]

IN WITNESS WHEREOF, the parties have caused this Agreement to be delivered as of the day and year first written above.

SEVCON, INC.

By: /s/ Matthew Boyle

Name: Matthew Boyle

Title: Chief Executive Officer & President

FRONTFOUR CAPITAL GROUP LLC

By: /s/ Steven Loukas

Name: Steven Loukas

Title: Managing Member

EXHIBIT A

PROMISSORY NOTE

\$10,000,000.00

New York, New York
May [], 2017

Unless otherwise expressly provided herein, all capitalized terms in this Promissory Note (the "Note") shall have the meanings given to them in the Loan Agreement dated as of the date hereof, between the undersigned (the "Borrower") and FrontFour Capital group, LLC (the "Lender"), as the same may be amended, extended, replaced, or modified from time to time (the "Loan Agreement").

FOR VALUE RECEIVED, the Borrower promises to pay to the order of the Bank, when due as provided herein, at the office of the Lender located at 35 Mason Street, 4th Floor, Greenwich, CT 06830, the aggregate principal amount of TEN MILLION and 00/100 DOLLARS (\$10,000,000.00) or such portion thereof as may be advanced by the Lender pursuant to Section 2.2 of the Loan Agreement, together with interest as provided in the Loan Agreement.

The Borrower is obligated to pay the unpaid principal balance of this Note to the Lender, as provided in Section 5.2 of the Loan Agreement. Accrued interest shall be payable in the amounts and on the dates provided in the Loan Agreement. All outstanding principal and accrued unpaid interest, costs and fees shall become due on the Maturity Date (whether by acceleration or otherwise).

The Borrower may prepay all or any part of the principal outstanding under the Note at any time, without premium or penalty.

Any holder of this Note may declare all indebtedness evidenced by this Note to be immediately due and payable whenever such holder has the right to do so under the Loan Agreement.

This Note shall be governed by the laws of the State of New York. The Borrower agrees to pay all costs and expenses incurred by the holder hereof in enforcing this Note, including, without limitation, reasonable attorney's fees and legal expenses.

THE BORROWER HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING IN ANY WAY ARISING OUT OF OR RELATED TO THIS NOTE.

[Signature page follows]

IN WITNESS WHEREOF, the Borrower has executed this Note as of the day and year first above written.

BORROWER:

SEVCON, INC.

By:

Name:

Title:

Signature Page to Sevcon, Inc. Promissory Note

EXHIBIT B
NOTICE OF BORROWING

TO: FrontFour Capital Group, LLC

RE: Loan Agreement, dated as of May 22, 2017, between Sevcon, Inc. (the "Borrower") and FrontFour Capital Group, LLC (the "Lender") (as amended, modified, extended, restated, replaced, or supplemented from time to time, the "Loan Agreement"; capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Loan Agreement)

DATE: **[Date]**

The undersigned hereby requests a borrowing of the Term Loan.

1. On _____ (the "Funding Date").
2. In the amount of \$
3. Disbursed in accordance with the following instructions:

The Borrower hereby represents and warrants that (a) the representations and warranties of the Borrower set forth in the Loan Agreement are true and correct in all material respects (except for those representations and warranties that are qualified by materiality, which are true and correct in all respects) on and as of the Funding Date with the same effect as though such representations and warranties had been made on and as of such date; provided that to the extent that any representation and warranty specifically refers to a given date or period, it shall be true and correct in all material respects as of such date or for such period and (b) at the time of and immediately after giving effect to the advance of the Term Loan on such Funding date, no Event of Default, and no Event of Default under and as defined in the BMPS Term Loan Facility, has occurred and is continuing.

Delivery of an executed counterpart of a signature page of this notice by fax transmission or other electronic mail transmission (e.g. "pdf" or "tif") shall be effective as delivery of a manually executed counterpart of this notice.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

SEVCON, INC.

By: _____
Name: _____
Title: _____



EXHIBIT C
NOTICE OF COMMITMENT PERIOD EXTENSION

TO: FrontFour Capital Group, LLC

RE: Loan Agreement, dated as of May 22, 2017, between Sevcon, Inc. (the "Borrower") and FrontFour Capital Group, LLC (the "Lender") (as amended, modified, extended, restated, replaced, or supplemented from time to time, the "Loan Agreement"; capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Loan Agreement)

DATE: **[Date]**

The undersigned hereby extends the Commitment Period to [], 2017 and simultaneously herewith has sent \$150,000 to you in accordance with the provisions of Section 5.1(b) of the Loan Agreement.

Delivery of an executed counterpart of a signature page of this notice by fax transmission or other electronic mail transmission (e.g. "pdf" or "tif") shall be effective as delivery of a manually executed counterpart of this notice.

SEVCON, INC.

By: _____
Name: _____
Title: _____

Schedule 6.2

Subsidiary	Jurisdiction of Incorporation
Sevcon USA, Inc.	Delaware, USA
Sevcon Security Corp.	Massachusetts, USA
Sevcon Limited	United Kingdom
Industrial Capacitors (Wrexham) Limited	United Kingdom
Sevcon SAS	France
Sevcon S.r.l.	Italy
Bassi S.r.l.	Italy
Sevcon Asia Limited	South Korea
Sevcon Japan KK	Japan
Sevcon Canada Inc.	Ontario, Canada
Sevcon GmbH	Germany

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 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 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(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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(s) 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: August 14, 2017

/s/ Matthew Boyle

Matthew Boyle

President and Chief Executive Officer

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

I, Paul N. Farquhar, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of 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 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(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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(s) 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: August 14, 2017
/s/ Paul N. Farquhar
Paul N. Farquhar
Chief Financial Officer

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

Each of the undersigned officers of 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 July 1, 2017 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: August 14, 2017

/s/ Matthew Boyle

Matthew Boyle
President and Chief Executive Officer

Dated: August 14, 2017

/s/ Paul N. Farquhar

Paul N. Farquhar
Chief Financial Officer
