

POWELL INDUSTRIES INC
Form 10-Q
August 06, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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 001-12488

Powell Industries, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

88-0106100
(I.R.S. Employer
Identification No.)
77075-1180

8550 Mosley Road

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Houston, Texas

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:

(713) 944-6900

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 (§232.405 of this chapter) 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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

At July 31, 2014, there were 12,014,693 outstanding shares of the registrant's common stock, par value \$0.01 per share.

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

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PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

(In thousands, except share and per share data)

	June 30, 2014	September 30, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	\$87,763	\$ 107,411
Accounts receivable, less allowance for doubtful accounts of \$1,144 and \$572, respectively	116,342	112,074
Costs and estimated earnings in excess of billings on uncompleted contracts	83,999	79,420
Inventories	28,709	28,963
Income taxes receivable	2,650	3,022
Deferred income taxes	6,115	4,490
Prepaid expenses	3,838	5,893
Other current assets	4,957	658
Current assets held for sale	—	15,409
Total Current Assets	334,373	357,340
Property, plant and equipment, net	147,824	144,495
Goodwill	1,003	1,003
Intangible assets, net	2,056	11,612
Deferred income taxes	10,320	9,016
Other assets	8,106	7,293
Long-term receivable (Note D)	4,667	—
Long-term assets held for sale	—	144
Total Assets	\$508,349	\$ 530,903
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital lease obligations	\$400	\$ 416
Income taxes payable	3,155	4,647
Accounts payable	47,056	55,528
Accrued salaries, bonuses and commissions	22,388	25,799
Billings in excess of costs and estimated earnings on uncompleted contracts	34,254	48,334
Accrued product warranty	4,755	5,282
Other accrued expenses	6,258	10,209
Deferred credit-short term (Note D)	2,029	—
Current liabilities held for sale	—	17,848
Total Current Liabilities	120,295	168,063

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Long-term debt and capital lease obligations, net of current maturities	2,800	3,200
Deferred compensation	4,282	3,480
Postretirement benefit obligation and other long-term liabilities	784	730
Deferred credit-long term (Note D)	5,073	—
Long-term liabilities held for sale	—	204
Total Liabilities	\$ 133,234	\$ 175,677
Commitments and Contingencies (Note F)		
Stockholders' Equity:		
Preferred stock, par value \$.01; 5,000,000 shares authorized; none issued	—	—
Common stock, par value \$.01; 30,000,000 shares authorized; 12,014,693 and		
11,970,967 shares issued and outstanding, respectively	120	119
Additional paid-in capital	45,607	43,193
Retained earnings	331,786	313,987
Accumulated other comprehensive loss	(2,398)	(2,073)
Total Stockholders' Equity	375,115	355,226
Total Liabilities and Stockholders' Equity	\$ 508,349	\$ 530,903

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Revenues	\$ 150,800	\$ 171,733	\$ 484,967	\$ 464,633
Cost of goods sold	121,158	135,140	385,239	366,094
Gross profit	29,642	36,593	99,728	98,539
Selling, general and administrative expenses	23,024	20,234	66,750	60,477
Research and development expenses	1,791	2,107	5,787	5,671
Amortization of intangible assets	122	415	658	1,243
Restructuring and relocation expenses	—	1,717	—	1,717
Operating income	4,705	12,120	26,533	29,431
Other income	(507)	—	(1,014)	(1,709)
Interest expense	36	47	141	151
Interest income	(4)	(7)	(10)	(28)
Income from continuing operations before income taxes	5,180	12,080	27,416	31,017
Income tax provision	2,233	2,997	10,226	8,211
Income from continuing operations	2,947	9,083	17,190	22,806
Income from discontinued operations, net of tax (Note I)	—	222	9,604	702
Net income	\$ 2,947	\$ 9,305	\$ 26,794	\$ 23,508
Earnings per share:				
Continuing operations	\$ 0.25	\$ 0.76	\$ 1.43	\$ 1.91
Discontinued operations	—	0.02	0.80	0.06
Basic earnings per share	\$ 0.25	\$ 0.78	\$ 2.23	\$ 1.97
Continuing operations	\$ 0.24	\$ 0.76	\$ 1.43	\$ 1.90
Discontinued operations	—	0.02	0.80	0.06
Diluted earnings per share	\$ 0.24	\$ 0.78	\$ 2.23	\$ 1.96

Weighted average shares:

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Basic	12,015	11,941	12,004	11,932
Diluted	12,075	12,016	12,063	12,007
Dividends per share	\$0.25	\$—	\$0.75	\$—

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Net income	\$2,947	\$9,305	\$26,794	\$23,508
Foreign currency translation adjustment	2,711	(1,801)	(325)	(3,672)
Comprehensive income	\$5,658	\$7,504	\$26,469	\$19,836

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity (Unaudited)

(In thousands)

	Common Stock		Additional	Retained	Accumulated	
	Shares	Amount	Paid-in	Earnings	Other	Total
			Capital		Income/(Loss)	
Balance, September 30, 2013	11,971	\$ 119	\$ 43,193	\$ 313,987	\$ (2,073)	\$ 355,226
Net income	—	—	—	26,794	—	26,794
Foreign currency translation adjustments	—	—	—	—	(325)	(325)
Stock-based compensation, net of tax of \$451	28	—	2,414	—	—	2,414
Issuance of restricted stock	16	1	—	—	—	1
Dividends paid	—	—	—	(8,995)	—	(8,995)
Balance, June 30, 2014	12,015	\$ 120	\$ 45,607	\$ 331,786	\$ (2,398)	\$ 375,115

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Nine Months Ended	
	June 30,	2013
	2014	
Operating Activities:		
Net income	\$ 26,794	\$ 23,508
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,770	6,523
Amortization	658	1,252
Gain on sale of discontinued operations, net of tax	(8,563)	—
Stock-based compensation	2,865	3,247
Bad debt expense/(recovery)	616	(310)
Deferred income tax benefit	(2,682)	(287)
Gain on amended supply agreement	(1,014)	—
Cash received from amended supply agreement	10,000	—
Changes in operating assets and liabilities:		
Accounts receivable, net	(11,598)	12,777
Costs and billings in excess of estimates on uncompleted contracts	(16,658)	42,692
Inventories	347	1,976
Prepaid expenses and other current assets	335	(2,216)
Accounts payable and income taxes payable	(16,650)	6,763
Accrued liabilities	(8,769)	(6,035)
Other, net	1,936	(1,224)
Net cash provided by (used in) operating activities	(14,613)	88,666
Investing Activities:		
	118	711

Proceeds from sale of property, plant and equipment		
Proceeds from sale of Transdyn	14,819	—
Purchases of property, plant and equipment	(11,296)	(53,728)
Net cash provided by (used in) investing activities	3,641	(53,017)
Financing Activities:		
Payments on industrial development revenue bonds	(400)	(400)
Taxes on stock-based compensation	(451)	—
Dividends paid	(8,995)	—
Payments on short-term and other financing	(16)	(316)
Net cash used in financing activities	(9,862)	(716)
Net increase (decrease) in cash and cash equivalents	(20,834)	34,933
Effect of exchange rate changes on cash and cash equivalents	1,186	(108)
Cash and cash equivalents, beginning of period	107,411	90,040
Cash and cash equivalents, end of period	\$ 87,763	\$ 124,865

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

A. OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

Powell Industries, Inc. (we, us, our, Powell or the Company) was incorporated in the state of Delaware in 2004 as a successor to a Nevada company incorporated in 1968. The Nevada corporation was the successor to a company founded by William E. Powell in 1947, which merged into the Company in 1977. Our major subsidiaries, all of which are wholly-owned, include: Powell Electrical Systems, Inc.; Powell Industries International, B.V.; Powell (UK) Limited (formerly Switchgear & Instrumentation Limited) and Powell Canada Inc.

We develop, design, manufacture and service custom engineered-to-order equipment and systems for the management and control of electrical energy. Headquartered in Houston, Texas, we serve the transportation, energy, industrial and utility industries.

Basis of Presentation

These unaudited condensed consolidated financial statements include the accounts of Powell and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

These unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X for interim financial information. Certain information and footnote disclosures, normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP), have been condensed or omitted pursuant to those rules and regulations. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly state the financial position, results of operations and cash flows with respect to the interim consolidated financial statements have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year. We believe that these financial statements contain all adjustments necessary so that they are not misleading. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

As discussed in Note I, on January 15, 2014, we sold our wholly-owned subsidiary Transdyn Inc. (Transdyn). We reclassified the assets and liabilities of Transdyn as held for sale within the accompanying condensed consolidated balance sheet as of September 30, 2013 and presented the results of these operations as income from discontinued operations, net of tax, for each of the accompanying condensed consolidated statements of operations. While this sale did not result in a material disposition of assets or material reduction to income before income taxes relative to Powell's consolidated financial statements, the revenues, gross profit, income before income taxes and assets of Transdyn comprised a significant majority of those respective amounts previously reported in our Process Control Systems business segment. As we previously only reported two business segments, Electrical Power Products and Process Control Systems, we have removed the presentation of segments in our Notes to Condensed Consolidated

Financial Statements.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of Powell and its subsidiaries included in Powell's Annual Report on Form 10-K for the year ended September 30, 2013, which was filed with the Securities and Exchange Commission (SEC) on December 4, 2013.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying footnotes. The most significant estimates used in our financial statements affect revenue and cost recognition for construction contracts, the allowance for doubtful accounts, provision for excess and obsolete inventory, goodwill and other intangible assets, self-insurance, warranty accruals and income taxes. The amounts recorded for insurance claims, warranties, legal, income taxes and other contingent liabilities require judgments regarding the amount of expenses that will ultimately be incurred. We base our estimates on historical experience and on various other assumptions, as well as the specific circumstances surrounding these contingent liabilities, in evaluating the amount of liability that should be recorded. Estimates may change as new events occur, additional information becomes available or operating environments change. Actual results may differ from our estimates.

New Accounting Standards

In March 2013, the FASB issued accounting guidance to resolve the diversity in practice for accounting for the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of real estate or conveyance of oil and gas mineral rights) within a foreign entity. This guidance is effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013, which would be our fiscal year ending September 30, 2015. We do not expect this guidance to have a material impact on our consolidated financial position or results of operations.

In July 2013, the FASB issued accounting guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, which would be our fiscal year ended September 30, 2015. This guidance should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this guidance is not expected to have a significant impact on our consolidated financial position or results of operations.

In April 2014, the FASB issued an amendment to the financial reporting of discontinued operations. The amendments in this update change the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance in U.S. GAAP. Under the new guidance, only disposals representing a strategic shift in operations that have a major effect on the organization's operations and financial results should be presented as discontinued operations. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. This disclosure will provide users with information about the ongoing trends in a reporting organization's results from continuing operations. The amendments in this update are effective in the first quarter of 2015, which would be our fiscal year end September 30, 2016. Early adoption is permitted for disposals that have not been previously reported as discontinued operations.

In May 2014, the FASB issued a new standard on revenue recognition that supersedes previously issued revenue recognition guidance. This standard provides a five-step approach to be applied to all contracts with customers and requires expanded disclosures about the nature, amount, timing and uncertainty of revenue (and the related cash flows) arising from customer contracts, significant judgments and changes in judgments used in applying the revenue model and the assets recognized from costs incurred to obtain or fulfill a contract. This new standard is effective for us beginning in fiscal year 2018. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method therefore we are evaluating the effect that this new guidance will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

B. EARNINGS PER SHARE

We compute basic earnings per share by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common and potential common share includes the weighted average of additional shares associated with the incremental effect of dilutive restrictive stock units, as prescribed by the FASB guidance on earnings per share.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Numerator:				
Income from continuing operations	2,947	9,083	17,190	22,806
Income from discontinued operations	-	222	9,604	702
Net income	\$2,947	\$9,305	\$26,794	\$23,508
Denominator:				
Weighted average basic shares	12,015	11,941	12,004	11,932
Dilutive effect of restricted stock units	60	75	59	75
Weighted average diluted shares with assumed conversions	12,075	12,016	12,063	12,007
Net earnings per share:				
Continuing operations	\$0.25	\$0.76	\$1.43	\$1.91
Discontinued operations	—	0.02	0.80	0.06
Basic earnings per share	\$0.25	\$0.78	\$2.23	\$1.97
Continuing operations	\$0.24	\$0.76	\$1.43	\$1.90