POWELL INDUSTRIES INC
Form 10-Q
February 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2011

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.)***
8550 Mosley Drive, **Houston, Texas** ***(Address of principal executive offices)***	**77075-1180** ***(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. x 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). x 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 x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x No

At January 31, 2012, there were 11,751,380 outstanding shares of the registrant s common stock, par value $0.01 per share.

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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

(In thousands, except share and per share data)

	December 31, 2011 (Unaudited)	September 30, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 104,270	$ 123,466
Cash held in escrow		1,000
Accounts receivable, less allowance for doubtful accounts of $588 and $391, respectively	130,887	109,317
Costs and estimated earnings in excess of billings on uncompleted contracts	53,138	51,568
Inventories, net	37,735	36,640
Income taxes receivable	2,378	4,071
Deferred income taxes	3,781	3,580
Prepaid expenses and other current assets	4,331	7,040
Total Current Assets	336,520	336,682
Property, plant and equipment, net	66,508	59,637
Goodwill	1,003	1,003
Intangible assets, net	15,156	15,847
Other assets	7,789	8,507
Total Assets	$ 426,976	$ 421,676
LIABILITIES AND EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital lease obligations	$ 1,038	$ 1,140
Income taxes payable	450	881
Accounts payable	51,604	56,893
Accrued salaries, bonuses and commissions	15,388	22,314
Billings in excess of costs and estimated earnings on uncompleted contracts	65,142	44,523
Accrued product warranty	4,396	4,603
Other accrued expenses	7,951	7,370
Total Current Liabilities	145,969	137,724
Long-term debt and capital lease obligations, net of current maturities	3,803	4,301
Deferred compensation	2,670	3,242
Other liabilities	1,069	1,066
Total Liabilities	153,511	146,333
Commitments and Contingencies (Note I)		
Equity		
Stockholders Equity:		
Preferred stock, par value $.01; 5,000,000 shares authorized; none issued		

Common stock, par value $.01; 30,000,000 shares authorized; 11,766,981 and 11,752,393 shares issued and outstanding, respectively	118	117
Additional paid-in capital	34,415	34,343
Retained earnings	240,510	242,254
Accumulated other comprehensive income (loss)	(1,578)	(1,371)
Total Stockholders Equity	273,465	275,343
Total Liabilities and Stockholders Equity	$ 426,976	$ 421,676

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

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)

(In thousands, except per share data)

Condensed Consolidated Statements of Operations

	Three Months Ended	
	December 31, 2011	December 31, 2010
Revenues	$ 157,456	$ 124,674
Cost of goods sold	137,078	98,809
Gross profit	20,378	25,865
Selling, general and administrative expenses	19,763	20,928
Amortization of intangible assets	703	1,167
Operating income (loss)	(88)	3,770
Interest expense	76	114
Interest income	(29)	(45)
Income (loss) before income taxes	(135)	3,701
Income tax provision	1,610	1,269
Net income (loss)	$ (1,745)	$ 2,432
Earnings (loss) per share:		
Basic	$ (0.15)	$ 0.21
Diluted	$ (0.15)	$ 0.21
Weighted average shares:		
Basic	11,764	11,640
Diluted	11,764	11,773

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

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

Condensed Consolidated Statements of Cash Flows

	Three Months Ended	
	December 31, 2011	December 31, 2010
Operating Activities:		
Net income (loss)	$ (1,745)	$ 2,432
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	2,470	2,369
Amortization	706	1,186
Stock-based compensation	73	725
Bad debt expense	185	288
Deferred income taxes	(4)	22
Changes in operating assets and liabilities:		
Accounts receivable, net	(21,580)	(2,126)
Costs and estimated earnings in excess of billings on uncompleted contracts	(1,525)	4,620
Inventories	(1,101)	1,618
Prepaid expenses and other current assets	4,391	2,250
Accounts payable and income taxes payable	(5,740)	(4,988)
Accrued liabilities	(6,526)	(10,393)
Billings in excess of costs and estimated earnings on uncompleted contracts	20,610	9,415
Other	(74)	(618)
Net cash (used in) provided by operating activities	(9,860)	6,800
Investing Activities:		
Proceeds from sale of fixed assets	58	24
Purchases of property, plant and equipment	(9,378)	(763)
Decrease in restricted cash	1,000	
Net cash used in investing activities	(8,320)	(739)
Financing Activities:		
Borrowings on Canadian revolving line of credit	6,174	1,280
Payments on Canadian revolving line of credit	(6,174)	(1,026)
Payments on industrial development revenue bonds	(400)	(400)
Payments on short-term and other financing	(212)	(88)
Net cash used in financing activities	(612)	(234)
Net (decrease) increase in cash and cash equivalents	(18,792)	5,827
Effect of exchange rate changes on cash and cash equivalents	(404)	(262)
Cash and cash equivalents at beginning of period	123,466	115,353
Cash and cash equivalents at end of period	$ 104,270	$ 120,918

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

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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.; Transdyn, Inc.; Powell Industries International, Inc.; Switchgear & Instrumentation Limited (S&I) 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 and other critical processes. Headquartered in Houston, Texas, we serve the transportation, environmental, 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 pursuant to the rules of the Securities and Exchange Commission (SEC). 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. We believe that the disclosures made are adequate to make the information presented not misleading. 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. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

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, 2011, which was filed with the SEC on December 12, 2011.

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 condensed 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, income taxes and estimates related to acquisition valuations. 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 January 2010, the Financial Accounting Standards Board (the FASB) issued updated guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. This update requires new disclosures about significant transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy (including the reasons for these transfers) and the reasons for any transfers in or out of Level 3. This update also requires a reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, this update clarifies certain existing disclosure requirements. For example, this update clarifies that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities, rather than each major category of assets or liabilities. This update also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating

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Level 2 and Level 3 fair value measurements. This update became effective for us with the interim and annual reporting period beginning after December 15, 2009, our fiscal year 2011, except for the requirement to provide the Level 3 activity of purchases, sales, issuances and settlements on a gross basis, which became effective for us with the interim and annual reporting period beginning after December 15, 2010, our fiscal year 2012. We are not required to provide the amended disclosures for any previous periods presented for comparative purposes. Other than requiring additional disclosures, adoption of this update did not have a material impact on our consolidated financial statements.

In May 2011, the FASB issued accounting guidance related to fair value measurement, which amends current guidance to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards. This guidance generally represents clarification of fair value measurement standards, but also includes instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We will adopt this guidance for our fiscal year beginning October 1, 2012. We do not expect this pronouncement to have a material effect on our consolidated financial statements.

In June 2011, the FASB issued new accounting guidance on the presentation of comprehensive income in financial statements. Entities are required to present total comprehensive income either in a single, continuous statement of comprehensive income or in two separate, but consecutive, statements. Under the single-statement approach, entities must include the components of net income, a total for net income, the components of other comprehensive income and a total for comprehensive income. Under the two-statement approach, entities must report an income statement and, immediately following, a statement of other comprehensive income. Under either method, entities must display adjustments for items reclassified from other comprehensive income to net income in both net income and other comprehensive income. In December 2011, the FASB issued guidance which indefinitely defers the guidance related to the presentation of reclassification adjustments. This new guidance will be effective for us beginning October 1, 2012, and will have financial presentation changes only.

In September 2011, the FASB issued new accounting guidance which simplifies how an entity is required to test goodwill for impairment. Under this guidance, an entity would be allowed to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amounts. This new guidance includes a number of factors to consider in conducting the qualitative assessment. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, our Fiscal 2013. Early adoption is permitted; however, we will not adopt this guidance until October 1, 2012. This guidance is not expected to have a material impact on our reported results of operations or financial position.

Subsequent Events

We evaluated subsequent events through the time of filing this Quarterly Report on Form 10-Q. No significant events occurred subsequent to the balance sheet or prior to the filing of this report that would have a material impact on our consolidated financial statements or results of operations.

B. FAIR VALUE MEASUREMENTS

We measure certain financial assets and liabilities at fair value. Fair value is defined as an exit price which represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in valuing an asset or liability. The accounting guidance also requires the use of valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. As a basis for considering such assumptions and inputs, a fair value hierarchy has been established which identifies and prioritizes three levels of inputs to be used in measuring fair value.

The three levels of the fair value hierarchy are as follows:

Level 1 Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs other than the quoted prices in active markets that are observable either directly or indirectly, including: quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data.

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Level 3 Unobservable inputs that are supported by little or no market data and require the reporting entity to develop its own assumptions.