POWELL INDUSTRIES INC
Form 10-Q
August 08, 2018

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

Form 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
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 | 88-0106100 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 8550 Mosley Road<br>Houston, Texas | 77075-1180 |
| (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. ý 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). ý Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 the Exchange Act.

| | | | | |
|---|---|---|---|---|
| Large accelerated filer ¨ | Accelerated filer x | Non-accelerated filer ¨ | Smaller reporting company ¨ | Emerging growth company ¨ |
| | (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 ý No

At August 3, 2018, there were 11,470,038 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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POWELL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (Unaudited)
(In thousands, except share and per share data)

| | June 30, 2018 | September 30, 2017 |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | $40,075 | $ 68,359 |
| Short-term investments | 15,218 | 26,829 |
| Restricted cash | 19,952 | 15,104 |
| Accounts receivable, less allowance for doubtful accounts of $239 and $179 | 72,682 | 53,852 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 70,939 | 51,554 |
| Inventories | 22,854 | 18,448 |
| Income taxes receivable | 7,471 | 8,222 |
| Deferred income taxes | — | 3,539 |
| Prepaid expenses | 2,978 | 3,701 |
| Other current assets | 253 | 463 |
| Total Current Assets | 252,422 | 250,071 |
| Property, plant and equipment, net | 130,545 | 139,420 |
| Restricted cash | 3,635 | 9,747 |
| Goodwill and intangible assets, net | 1,558 | 1,719 |
| Other assets | 13,882 | 13,800 |
| Deferred income taxes | 6,608 | 229 |
| Total Assets | $408,650 | $ 414,986 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Current maturities of long-term debt | $400 | $ 400 |
| Accounts payable | 33,726 | 33,269 |
| Accrued salaries, bonuses and commissions | 16,268 | 14,984 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 39,437 | 26,166 |
| Accrued product warranty | 2,363 | 3,174 |
| Income taxes payable | 1,418 | 1,219 |
| Other accrued expenses | 5,507 | 5,860 |
| Deferred credit short term | — | 507 |
| Total Current Liabilities | 99,119 | 85,579 |
| Long-term debt, net of current maturities | 1,200 | 1,600 |
| Deferred compensation | 5,652 | 5,314 |
| Other long-term liabilities | 1,232 | 1,197 |
| Total Liabilities | 107,203 | 93,690 |
| Commitments and Contingencies (Note E) | | |
| Stockholders' Equity: | | |
| Preferred stock, par value $.01; 5,000,000 shares authorized; none issued | — | — |
| Common stock, par value $.01; 30,000,000 shares authorized; 12,276,056 and 12,234,656 and shares issued, respectively | 123 | 122 |
| Additional paid-in capital | 56,235 | 54,329 |
| Retained earnings | 292,974 | 310,598 |

| | | |
|---|---|---|
| Treasury stock, 806,018 shares at cost | (24,999 ) | (24,999 ) |
| Accumulated other comprehensive loss | (22,886 ) | (18,754 ) |
| Total Stockholders' Equity | 301,447 | 321,296 |
| Total Liabilities and Stockholders' Equity | $408,650 | $ 414,986 |

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)

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | $122,130 | $85,927 | $313,819 | $300,948 |
| Cost of goods sold | 103,755 | 76,873 | 272,469 | 261,073 |
| Gross profit | 18,375 | 9,054 | 41,350 | 39,875 |
| Selling, general and administrative expenses | 16,174 | 14,761 | 48,462 | 46,453 |
| Research and development expenses | 1,632 | 1,726 | 4,926 | 4,818 |
| Amortization of intangible assets | 44 | 87 | 161 | 263 |
| Restructuring and separation expenses | — | — | — | 840 |
| Operating income (loss) | 525 | (7,520) | (12,199) | (12,499) |
| Other income | — | (507) | (507) | (1,522) |
| Interest expense | 51 | 41 | 153 | 122 |
| Interest income | (215) | (156) | (711) | (287) |
| Income (loss) before income taxes | 689 | (6,898) | (11,134) | (10,812) |
| Income tax provision (benefit) | 388 | (3,683) | (2,443) | (6,469) |
| Net income (loss) | $301 | $(3,215) | $(8,691) | $(4,343) |
| Income (loss) per share: | | | | |
| Basic | $0.03 | $(0.28) | $(0.76) | $(0.38) |
| Diluted | $0.03 | $(0.28) | $(0.76) | (0.38) |
| Weighted average shares: | | | | |
| Basic | 11,514 | 11,463 | 11,503 | 11,449 |
| Diluted | 11,587 | 11,463 | 11,503 | 11,449 |
| Dividends per share | $0.26 | $0.26 | $0.78 | $0.78 |

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Loss (Unaudited)
(In thousands)

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net income (loss) | $301 | $(3,215) | $(8,691) | $(4,343) |
| Foreign currency translation adjustments | (2,543) | 2,849 | (4,132) | 1,124 |
| Comprehensive loss | $(2,242) | $(366) | $(12,823) | $(3,219) |

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, | |
|---|---|---|
| | 2018 | 2017 |
| Operating Activities: | | |
| Net loss | $(8,691) | $(4,343) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation | 9,494 | 9,218 |
| Amortization | 161 | 263 |
| Stock-based compensation | 2,485 | 2,304 |
| Bad debt expense (recovery) | 110 | (226) |
| Deferred income tax benefit | (2,840) | (915) |
| Gain on amended supply agreement | (507) | (1,522) |
| Cash received from amended supply agreement | — | 2,333 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (19,252) | 23,847 |
| Costs and billings in excess of estimated earnings on uncompleted contracts | (6,211) | 17,861 |
| Inventories | (4,542) | 7,519 |
| Income taxes | 945 | (6,206) |
| Prepaid expenses and other current assets | 924 | 2,022 |
| Accounts payable | 1,288 | (9,627) |
| Accrued liabilities | 355 | (14,017) |
| Other, net | 224 | (1,387) |
| Net cash provided by (used in) operating activities | (26,057) | 27,124 |
| Investing Activities: | | |
| Purchases of short-term investments | (20,712) | (60,018) |
| Maturities of short-term investments | 31,444 | 4,654 |
| Changes in restricted cash | 1,264 | (25,301) |
| Purchases of property, plant and equipment | (3,978) | (2,520) |
| Proceeds from sale of property, plant and equipment | 56 | 11 |
| Net cash provided by (used in) investing activities | 8,074 | (83,174) |
| Financing Activities: | | |
| Payments on industrial development revenue bonds | (400) | (400) |
| Shares withheld in lieu of employee tax withholding | (578) | (398) |
| Dividends paid | (8,934) | (8,904) |
| Net cash used in financing activities | (9,912) | (9,702) |
| Net decrease in cash and cash equivalents | (27,895) | (65,752) |
| Effect of exchange rate changes on cash and cash equivalents | (389) | 516 |
| Cash and cash equivalents, beginning of period | 68,359 | 97,720 |
| Cash and cash equivalents, end of period | $40,075 | $32,484 |

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 company 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 (UK) Limited; Powell Canada Inc. and Powell Industries International, B.V.

We develop, design, manufacture and service custom-engineered products and systems for the distribution, control and monitoring of electrical energy. Headquartered in Houston, Texas, we serve the oil and gas refining, onshore and offshore oil and gas production, petrochemical, pipeline, terminal, mining and metals, light rail traction power, electric utility, pulp and paper and other heavy industrial markets.

### 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 condensed 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.

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, 2017, which was filed with the Securities and Exchange Commission (SEC) on December 6, 2017.

References to Fiscal 2018 and Fiscal 2017 used throughout this report shall mean our fiscal years ended September 30, 2018 and 2017, respectively.

### Use of Estimates

The preparation of condensed consolidated 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 condensed consolidated financial statements affect revenue and cost recognition for construction contracts, the allowance for doubtful accounts, provision for excess and obsolete inventory, warranty accruals and income taxes. The amounts recorded for warranties, legal, income taxes, impairment of long-lived assets (when applicable) 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. Additionally, the recognition of deferred tax assets requires estimates related to future income and other assumptions regarding timing and future profitability. Estimates routinely change as new events occur, additional information becomes available or operating environments change. Actual results may differ from our prior estimates.

### New Accounting Standards

In May 2014, the Financial Accounting Standards Board (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 standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, which would be our fiscal year ending September 30, 2019. We plan to use the modified retrospective basis upon adoption which could result in a cumulative effect adjustment as of October 1, 2018, if material. We continue to hold regular meetings with our implementation team which includes training and evaluating contracts to identity potential impacts of the standard on our current accounting policies and disclosures. We will update our accounting policies and procedures and determine the impact from this new standard on our contracts outstanding as of October 1, 2018. While we are still evaluating the potential impact of this standard on our financial statements, we believe accounting for variable consideration, cancellations for convenience clauses and the number of performance obligations contained in each contract could have the greatest significance. We have not yet been able to estimate the impact the new revenue recognition criteria will have on our consolidated financial statements and related disclosures, but the impact on our financial statements from this guidance will be determined in large part by the contracts that are in progress as of the adoption date.

In November 2015, the FASB issued an amendment to the topic regarding income taxes which requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in the statement of financial position. Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting. Deferred tax liabilities and assets that are not related to an asset or liability for financial reporting are classified according to the expected reversal date of the temporary difference. To simplify the presentation of deferred income taxes, the amendments require that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. We have adopted this topic prospectively in Fiscal 2018 and our statement of financial position reflects this reclassification. We have not retrospectively adjusted prior periods.

In February 2016, the FASB issued a new topic on leases which requires lessees to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The new topic is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. This would be our fiscal year ending September 30, 2020. We are still evaluating the potential impact of this topic on our financial statements.

In November 2016, the FASB issued a new topic on the statement of cash flows that changes the presentation of restricted cash and cash equivalents on the statement of cash flows. Restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This topic is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, which would be our fiscal year ending September 30, 2019. We are still evaluating this new topic, but do not expect it to have a material impact on our statement of cash flows.

In May 2017, the FASB issued a new topic on modification accounting with regards to stock based compensation. This new topic clarifies when a change to the terms or conditions of a share-based payment award should be accounted for as a modification. An entity should account for the effects of a modification unless the fair value, vesting conditions and classification, as an equity instrument or a liability instrument, of the modified award are the same before and after a change to the terms or conditions of the share-based payment award. This topic is effective for annual reporting periods beginning after December 15, 2017, which is our fiscal year ending September 30, 2019. We are still evaluating this new topic, but do not expect it to have a material impact on our consolidated financial position or results of operations.

B. EARNINGS PER SHARE

We compute basic earnings per share by dividing net income (loss) 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 restricted stock and restricted stock units, as prescribed by the FASB guidance on earnings per share.

The following table reconciles basic and diluted weighted average shares used in the computation of earnings per share (in thousands, except per share data):

| Three months ended June 30, 2018 | Nine months ended June 30, |
| --- | --- |