POWELL INDUSTRIES INC
Form 10-Q
February 05, 2014

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, 2013

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 Road	77075-1180

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. 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 ¨ 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 x No

At January 31, 2014, there were 11,998,693 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)

	December 31, 2013	September 30, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 103,724	$ 107,411
Accounts receivable, less allowance for doubtful accounts of $673 and $572, respectively	100,066	112,074
Costs and estimated earnings in excess of billings on uncompleted contracts	78,106	79,420
Inventories, net	28,557	28,963
Income taxes receivable	2,749	3,022
Deferred income taxes	5,407	4,490
Prepaid expenses and other current assets	5,057	6,551
Current assets held for sale	20,903	15,409
Total Current Assets	344,569	357,340
Property, plant and equipment, net	146,272	144,495
Goodwill	1,003	1,003
Intangible assets, net	2,289	11,612
Deferred income taxes	10,465	9,016
Other assets	14,849	7,293
Long-term assets held for sale	155	144
Total Assets	$ 519,602	$ 530,903
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital lease obligations	$ 400	$ 416
Income taxes payable	10,195	4,647
Accounts payable	50,539	55,528
Accrued salaries, bonuses and commissions	16,451	25,799
Billings in excess of costs and estimated earnings on uncompleted contracts	34,130	48,334
Accrued product warranty	5,010	5,282
Other accrued expenses	8,419	10,209
Deferred credit-short term	2,029	–
Current liabilities held for sale	19,006	17,848
Total Current Liabilities	146,179	168,063
Long-term debt and capital lease obligations, net of current maturities	2,800	3,200

Deferred compensation	4,031	3,480
Postretirement benefit obligation	757	730
Deferred credit-long term	6,088	–
Long-term liabilities held for sale	191	204
Total Liabilities	$ 160,046	$ 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; 11,994,712 and 11,970,967 shares issued and outstanding, respectively	120	119
Additional paid-in capital	43,854	43,193
Retained earnings	319,249	313,987
Accumulated other comprehensive loss	(3,667)	(2,073)
Total Stockholders’ Equity	359,556	355,226
Total Liabilities and Stockholders’ Equity	$ 519,602	$ 530,903

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 December 31, 2013	2012
Revenues	$171,872	$146,858
Cost of goods sold	136,714	114,456
Gross profit	35,158	32,402
Selling, general and administrative expenses	21,632	19,686
Research and development expenses	1,839	1,714
Amortization of intangible assets	416	415
Operating income	11,271	10,587
Interest expense	69	61
Interest income	(3)	(19)
Income before income taxes	11,205	10,545
Income tax provision	3,937	3,425
Income from continuing operations	7,268	7,120
Income from discontinued operations, net of tax of $502 and $144	987	265
Net income	$8,255	$7,385
Earnings per share:		
Continuing operations	$0.61	$0.60
Discontinued operations	0.08	0.02
Basic earnings per share	$0.69	$0.62
Continuing operations	$0.60	$0.60
Discontinued operations	0.08	0.02
Diluted earnings per share	$0.68	$0.62
Weighted average shares:		
Basic	11,994	11,922
Diluted	12,054	12,000

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 Comprehensive Income (Unaudited)

(In thousands)

	Three Months Ended December 31,	
	2013	2012
Net income	$8,255	$7,385
Foreign currency translation adjustment	(1,594)	(296)
Comprehensive income	$6,661	$7,089

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 Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance, September 30, 2013	11,971	$ 119	$ 43,193	$ 313,987	$ (2,073)	$ 355,226
Net income	–	–	–	8,255	–	8,255
Foreign currency translation adjustments	–	–	–	–	(1,594)	(1,594)
Stock-based compensation	24	1	948	–	–	949
Tax related to share-based compensation	–	–	(524)	–	–	(524)
Amortization of restricted stock	–	–	237	–	–	237
Dividends paid - $0.25 per share	–	–	–	(2,993)	–	(2,993)
Balance, December 31, 2013	11,995	$ 120	$ 43,854	$ 319,249	$ (3,667)	$ 359,556

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)

	Three Months Ended December 31,	
	2013	2012
Operating Activities:		
Net income	$8,255	$7,385
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,562	2,657
Amortization	416	415
Stock-based compensation	1,185	942
Bad debt expense (recovery)	15	(293)
Deferred income tax benefit	(2,362)	(180)
Changes in operating assets and liabilities:		
Accounts receivable, net	7,577	7,569
Costs and billings in excess of estimates on uncompleted contracts	(13,399)	24,099
Inventories	405	1,611
Prepaid expenses and other current assets	1,631	798
Accounts payable and income taxes payable	1,053	(11,459)
Accrued liabilities	(12,145)	(12,338)
Other, net	10,156	(2)
Net cash provided by operating activities	5,349	21,204
Investing Activities:		
Proceeds from sale of property, plant and equipment	-	24
Purchases of property, plant and equipment	(5,764)	(13,375)
Net cash used in investing activities	(5,764)	(13,351)
Financing Activities:		
Payments on industrial development revenue bonds	(400)	(400)
Taxes on stock-based compensation	(524)	–
Dividends paid	(2,993)	–
Payments on short-term and other financing	(16)	(275)
Net cash used in financing activities	(3,933)	(675)
Net increase (decrease) in cash and cash equivalents	(4,348)	7,178
Effect of exchange rate changes on cash and cash equivalents	661	149
Cash and cash equivalents, beginning of period	107,411	90,040
Cash and cash equivalents, end of period	$103,724	$97,367

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.; Powell Industries International, B.V.; 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. 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 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. 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.

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 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 August 2012, the Securities and Exchange Commission (SEC) adopted a rule mandated by the Wall Street Reform and Consumer Protection Act to require companies to publicly disclose their use of conflict minerals that originate in the Democratic Republic of the Congo or an adjoining country. The final rule applies to a company that uses minerals including tantalum, tin, gold or tungsten. The final rule requires companies to provide disclosure on a new form filed with the SEC, with the first specialized disclosure report due on May 31, 2014, for the 2013 calendar year, and annually on May 31 each year thereafter. We are implementing the processes and procedures to comply with this rule.

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.

Subsequent events

On January 15, 2014, we sold our wholly-owned subsidiary Transdyn, Inc. (Transdyn) to a global provider of electronic toll collection systems, headquartered in Vienna, Austria. See Note I for additional information about this transaction.

On February 3, 2014, our Board declared a quarterly cash dividend of $0.25 per share payable to shareholders of record on February 19, 2014. This dividend will be approximately $3.0 million and paid on March 19, 2014.

Business Segments

Due to the sale of Transdyn discussed above, we have reclassified the assets and liabilities of Transdyn as held for sale within the accompanying condensed consolidated balance sheets as of December 31, 2013 and September 30, 2013 and presented the results of these operations as income from discontinued operations, net of tax, for each of the accompanying 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 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.

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 restricted stock and 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 December 31,	
	2013	2012
Numerator:		
Net income	$8,255	$7,385
Denominator:		
Weighted average basic shares	11,994	11,922
Dilutive effect of stock options and restricted stock units	60	78
Weighted average diluted shares with assumed conversions	12,054	12,000
Net earnings per share:		
Continuing operations	$0.61	$0.60
Discontinued operations	0.08	0.02
Basic earnings per share	$0.69	$0.62
Continuing operations	$0.60	$0.60
Discontinued operations	0.08	0.02
Diluted earnings per share	$0.68	$0.62

C. DETAIL OF SELECTED BALANCE SHEET ACCOUNTS

Allowance for Doubtful Accounts

Activity in our allowance for doubtful accounts receivable consisted of the following (in thousands):

	Three Months Ended December 31,	
	2013	2012
Balance at beginning of period	$572	$1,297
Increase (decrease) to bad debt expense	15	(293)
Uncollectible accounts written off, net of recoveries	88	(77)
Change in foreign currency translation	(2)	1
Balance at end of period	$673	$928

Inventories:

The components of inventories are summarized below (in thousands):

	December 31, 2013	September 30, 2013
Raw materials, parts and subassemblies	$ 29,327	$ 30,077
Work-in-progress	3,967	3,818
Provision for excess and obsolete inventory	(4,737)	(4,932)
Total inventories	$ 28,557	$ 28,963

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Cost and Estimated Earnings on Uncompleted Contracts

The components of costs and estimated earnings and related amounts billed on uncompleted contracts are summarized below (in thousands):

	December 31, 2013	September 30, 2013
Costs incurred on uncompleted contracts	$654,050	$618,570
Estimated earnings	164,678	159,962
	818,728	778,532
Less: Billings to date	(774,752)	(747,446)
Net underbilled position	$43,976	$31,086
Included in the accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts – underbilled	$78,106	$79,420
Billings in excess of costs and estimated earnings on uncompleted contracts – overbilled	(34,130)	(48,334)
Net underbilled position	$43,976	$31,086

Warranty Accrual

Activity in our product warranty accrual consisted of the following (in thousands):

	Three Months Ended December 31, 2013	2012
Balance at beginning of period	$5,282	$5,548
Increase to warranty expense	464	685
Deduction for warranty charges	(731)	(622)
Decrease due to foreign currency translations	(5)	(1)
Balance at end of period	$5,010	$5,610

D. INTANGIBLE ASSETS

Intangible assets balances, subject to amortization, at December 31, 2013 and September 30, 2013 consisted of the following (in thousands):

	December 31, 2013			September 30, 2013		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Purchased technology	$ 11,749	$ (9,608)	$ 2,141	$ 11,749	$ (9,489)	$ 2,260
Trade name	1,136	(988)	148	1,136	(967)	169

Supply agreement	–	–	–	17,580	(8,397)	9,183
Total	$ 12,885	$ (10,596)	$ 2,289	$ 30,465	$ (18,853)	$ 11,612

Amortization of intangible assets recorded for the three months ended December 31, 2013 and 2012 was $0.4 million and $0.4 million, respectively.

On August 7, 2006, we purchased certain assets related to the manufacturing of ANSI medium-voltage switchgear and circuit breaker business from General Electric Company (GE). In connection with the acquisition, we entered into a 15 year supply agreement with GE pursuant to which GE would purchase from the Company all of its requirements for ANSI medium-voltage switchgear and circuit breakers and other related equipment and components (the Products) In connection with the acquisition, we recorded an intangible asset related to this supply agreement. On December 30, 2013, the Company and GE amended the supply agreement to allow GE to manufacture similar Products for sale immediately and allow GE to begin purchasing Products from other suppliers beginning December 31, 2014. In return, GE paid us $10 million upon execution of the amended supply agreement and agreed to pay an additional $7 million over three years. We have written off the intangible asset related to the original supply agreement and recorded a deferred credit in the amount of $8.1 million, the amount by which the proceeds from GE exceeded the unamortized balance of our intangible asset. We will be amortizing this deferred credit over the four year life of the agreement.

E. LONG-TERM DEBT

Long-term debt consisted of the following (in thousands):

	December 31, 2013	September 30, 2013
Industrial development revenue bonds	$ 3,200	$ 3,600
Capital lease obligations	–	16
Subtotal long-term debt and capital lease obligations	3,200	3,616
Less current portion	(400)	(416)
Total long-term debt and capital lease obligations	$ 2,800	$ 3,200

US Revolver

In December 2013, we amended and restated our existing credit agreement (Amended Credit Agreement) with a major domestic bank. We entered into this Amended Credit Agreement to, among other things, allow for the payment of dividends and to extend the termination date of the facility. The Amended Credit Agreement provides for a $72.0 million revolving credit facility (U.S. Revolver). Obligations are collateralized by the stock of certain of our subsidiaries.

The interest rate for amounts outstanding under the Amended Credit Agreement for the U.S. Revolver is a floating rate based upon the higher of the Federal Funds Rate plus 0.5%, the bank's prime rate, or the Eurocurrency rate plus 1.00%. Once the applicable rate is determined, a margin ranging up to 1.75%, as determined by our consolidated leverage ratio, is added to the applicable rate.

The U.S. Revolver provides for the issuance of letters of credit which reduce the amounts that may be borrowed under this revolver. The amount available under the U.S. Revolver was reduced by $19.1 million for our outstanding letters of credit at December 31, 2013.

There were no borrowings outstanding under the U.S. Revolver as of December 31, 2013. Amounts available under the U.S. Revolver were $52.9 million at December 31, 2013. The U.S. Revolver expires on December 31, 2018.

The Amended Credit Agreement contains certain restrictive and maintenance-type covenants, such as restrictions on the amount of capital expenditures allowed. It also contains financial covenants defining various financial measures and the levels of these measures with which we must comply, as well as a "material adverse change" clause. A "material adverse change" is defined as a material change in our operations, business, properties, liabilities or condition (financial or otherwise) or a material impairment of our ability to perform our obligations under our credit agreements.

The Amended Credit Agreement is collateralized by a pledge of 100% of the voting capital stock of each of our domestic subsidiaries and 66% of the voting capital stock of each non-domestic subsidiary, excluding Powell Canada. The Amended Credit Agreement provides for customary events of default and carries cross-default provisions with other existing debt agreements. If an event of default (as defined in the Amended Credit Agreement) occurs and is continuing, on the terms and subject to the conditions set forth in the Amended Credit Agreement, amounts outstanding under the Amended Credit Agreement may be accelerated and may become immediately due and payable. As of December 31, 2013, we were in compliance with all of the financial covenants of the Amended Credit Agreement.

Canadian Revolver

We have a $9.4 million credit agreement with a major international bank in Canada (the Canadian Revolver) to provide working capital support and letters of credit for our operations in Canada. The Canadian Revolver provides for the issuance of letters of credit which reduce the amounts that may be borrowed under this revolver. The amount available under the Canadian Revolver was reduced by $0.1 million for an outstanding letter of credit at December 31, 2013.

There were no borrowings outstanding under the Canadian Revolver as of December 31, 2013. Amounts available under the Canadian Revolver were $9.3 million at December 31, 2013. The Canadian Revolver expires on February 28, 2015. The interest rate for amounts outstanding under the Canadian Revolver is a floating interest rate based upon either the Canadian Prime Rate, or the lender’s Bankers’ Acceptance Rate. Once the applicable rate is determined, a margin of 0.50% to 1.75%, as determined by our consolidated leverage ratio, is added to the applicable rate.

The principal financial covenants are consistent with those described in our Amended Credit Agreement. The Canadian Revolver contains a “material adverse effect” clause. A “material adverse effect” is defined as a material change in the operations of Powell or Powell Canada in relation to our financial condition, property, business operations, expected net cash flows, liabilities or capitalization.

The Canadian Revolver is secured by the assets of our Canadian operations and provides for customary events of default and carries cross-default provisions with our existing debt agreements. If an event of default (as defined in the Canadian Revolver) occurs and is continuing, per the terms and subject to the conditions set forth in the Canadian Revolver, amounts outstanding under the Canadian Revolver may be accelerated and may become immediately due and payable. As of December 31, 2013, we were in compliance with all of the financial covenants of the Canadian Revolver.

Industrial Development Revenue Bonds

We borrowed $8.0 million in October 2001 through a loan agreement funded with proceeds from tax-exempt industrial development revenue bonds (Bonds). These Bonds were issued by the Illinois Development Finance Authority and were used for the completion of our Northlake, Illinois facility. Pursuant to the Bond issuance, a reimbursement agreement between us and a major domestic bank required an issuance by the bank of an irrevocable direct-pay letter of credit (Bond LC), as collateral, to the Bonds' trustee to guarantee payment of the Bonds' principal and interest when due. The Bond LC is subject to both early termination and extension provisions customary to such agreements, as well as various covenants, for which we were in compliance at December 31, 2013. While the Bonds mature in 2021, the reimbursement agreement requires annual redemptions of $0.4 million that commenced on October 25, 2002. A sinking fund is used for the redemption of the Bonds. At December 31, 2013, the balance in the restricted sinking fund was approximately $0.1 million and was recorded in cash and cash equivalents. The Bonds bear interest at a floating rate determined weekly by the Bonds' remarketing agent, which was the underwriter for the Bonds and is an affiliate of the bank. This interest rate was 0.18% per year on December 31, 2013.

F. COMMITMENTS AND CONTINGENCIES

Long-Term Debt

See Note E herein for discussion of our long-term debt.

Letters of Credit and Bonds

Certain customers require us to post bank letter of credit guarantees or performance bonds issued by a surety. These guarantees and performance bonds assure that we will perform under the terms of our contract. In the event of default, the counterparty may demand payment from the bank under a letter of credit or performance by the surety under a performance bond. To date, there have been no significant expenses related to either letters of credit or performance bonds for the periods reported. We were contingently liable for secured and unsecured letters of credit of $19.2 million as of December 31, 2013. We also had performance and maintenance bonds totaling $333.3 million that were outstanding, with additional bonding capacity of $66.7 million available, at December 31, 2013.

We have an $8.2 million facility agreement (Facility Agreement) between S&I and a large international bank. This Facility Agreement provides S&I the ability to enter into various guarantees, such as forward exchange contracts, currency options and performance bonds. At December 31, 2013, we had outstanding guarantees totaling $4.6 million under this Facility Agreement.

The Facility Agreement provides for financial covenants and customary events of default, and carries cross-default provisions with our Amended Credit Facility. If an event of default (as defined in the Facility Agreement) occurs and is continuing, per the terms and subject to the conditions set forth in the Facility Agreement, obligations outstanding under the Facility Agreement may be accelerated and may become or be declared immediately due and payable. As of December 31, 2013, we were in compliance with all of the financial covenants of the Facility Agreement. The Facility Agreement expires in July 2014.

Litigation

We are involved in various legal proceedings, claims and other disputes arising in the ordinary course of business which, in general, are subject to uncertainties and the outcomes are not predictable. Although we can give no assurance about the outcome of pending or threatened litigation and the effect such outcomes may have on us, management believes that any ultimate liability resulting from the outcome of such proceedings, to the extent not otherwise provided or covered by insurance, will not have a material adverse effect on our consolidated financial position or results of operations or liquidity.

G. STOCK-BASED COMPENSATION

Refer to our Annual Report on Form 10-K for the fiscal year ended September 30, 2013 for a full description of our existing stock-based compensation plans.

Restricted Stock Units

We issue restricted stock units (RSUs) to certain officers and key employees of the Company. The RSUs vest over a three-year period from their date of issuance. The fair value of the RSUs is based on the closing price of our common stock as reported on the NASDAQ Global Market (NASDAQ) on the grant dates. Sixty-percent of the actual amount of the RSUs earned will be based on the cumulative earnings as reported relative to the three-year performance cycle which begins October 1 of the year granted, and ranges from 0% to 150% of the target RSUs granted. The remaining forty-percent of the RSUs are time-based and vest over a three-year period. At December 31, 2013, there were 137,255 RSUs outstanding. The RSUs do not have voting rights and do not receive dividends on common stock. Additionally, the shares of common stock underlying the RSUs are not considered issued and outstanding until actually issued.

RSU activity (number of shares) is summarized below:

	Number of Restricted Stock Units	Weighted Average Fair Value Per Share
Outstanding at September 30, 2013	81,555	$ 38.66
Granted	55,700	60.32
Vested	–	–
Forfeited	–	