

POWELL INDUSTRIES INC  
Form 10-Q  
August 05, 2015

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, 2015

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



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,<br>2015 | September<br>30,<br>2014 |
|----------------------------------------------------------------------------------|------------------|--------------------------|
| <b>ASSETS</b>                                                                    |                  |                          |
| Current Assets:                                                                  |                  |                          |
| Cash and cash equivalents                                                        | \$63,359         | \$103,118                |
| Accounts receivable, less allowance for doubtful accounts of \$1,312 and \$1,577 | 110,093          | 107,162                  |
| Costs and estimated earnings in excess of billings on uncompleted contracts      | 97,901           | 95,970                   |
| Inventories                                                                      | 36,352           | 32,815                   |
| Income taxes receivable                                                          | 2,139            | 2,804                    |
| Deferred income taxes                                                            | 5,010            | 5,297                    |
| Prepaid expenses                                                                 | 4,085            | 5,870                    |
| Other current assets                                                             | 4,579            | 4,291                    |
| Total Current Assets                                                             | 323,518          | 357,327                  |
| Property, plant and equipment, net                                               | 162,266          | 156,896                  |
| Goodwill                                                                         | 1,003            | 1,003                    |
| Intangible assets, net                                                           | 1,508            | 1,904                    |
| Deferred income taxes                                                            | 3,035            | 11,422                   |
| Other assets                                                                     | 9,760            | 8,224                    |
| Long-term receivable (Note D)                                                    | 2,333            | 4,667                    |
| Total Assets                                                                     | \$503,423        | \$541,443                |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                      |                  |                          |
| Current Liabilities:                                                             |                  |                          |
| Current maturities of long-term debt and capital lease obligations               | \$400            | \$400                    |
| Income taxes payable                                                             | 1,239            | 705                      |
| Accounts payable                                                                 | 54,253           | 70,209                   |
| Accrued salaries, bonuses and commissions                                        | 18,302           | 25,206                   |
| Billings in excess of costs and estimated earnings on uncompleted contracts      | 57,317           | 48,702                   |
| Accrued product warranty                                                         | 4,723            | 4,557                    |
| Other accrued expenses                                                           | 8,132            | 6,291                    |
| Deferred credit — short term (Note D)                                            | 2,029            | 2,029                    |
| Total Current Liabilities                                                        | 146,395          | 158,099                  |
| Long-term debt and capital lease obligations, net of current maturities          | 2,400            | 2,800                    |
| Deferred compensation                                                            | 5,272            | 4,226                    |
| Other long-term liabilities                                                      | 664              | 655                      |
| Deferred credit — long term (Note D)                                             | 3,044            | 4,566                    |
| Total Liabilities                                                                | \$157,775        | \$170,346                |

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; 11,720,198 and |           |           |
| 12,031,243 shares issued and outstanding, respectively                      | 120       | 120       |
| Additional paid-in capital                                                  | 47,972    | 46,267    |
| Retained earnings                                                           | 325,014   | 331,213   |
| Treasury stock, 362,961 shares at cost                                      | (12,523 ) | —         |
| Accumulated other comprehensive loss                                        | (14,935 ) | (6,503 )  |
| Total Stockholders' Equity                                                  | 345,648   | 371,097   |
| Total Liabilities and Stockholders' Equity                                  | \$503,423 | \$541,443 |

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<br>June 30, |           | Nine months ended<br>June 30, |           |
|----------------------------------------------------------|--------------------------------|-----------|-------------------------------|-----------|
|                                                          | 2015                           | 2014      | 2015                          | 2014      |
| Revenues                                                 | \$176,733                      | \$150,800 | \$499,533                     | \$484,967 |
| Cost of goods sold                                       | 143,789                        | 121,158   | 421,219                       | 385,239   |
| Gross profit                                             | 32,944                         | 29,642    | 78,314                        | 99,728    |
| Selling, general and administrative expenses             | 18,013                         | 23,024    | 58,293                        | 66,750    |
| Research and development expenses                        | 1,642                          | 1,791     | 5,108                         | 5,787     |
| Amortization of intangible assets                        | 114                            | 122       | 345                           | 658       |
| Restructuring and separation expenses                    | 1,406                          | —         | 2,738                         | —         |
| Operating income                                         | 11,769                         | 4,705     | 11,830                        | 26,533    |
| Other income                                             | (507 )                         | (507 )    | (1,893 )                      | (1,014 )  |
| Interest expense                                         | 42                             | 36        | 111                           | 141       |
| Interest income                                          | —                              | (4 )      | (88 )                         | (10 )     |
| Income from continuing operations before income taxes    | 12,234                         | 5,180     | 13,700                        | 27,416    |
| Income tax provision                                     | 5,185                          | 2,233     | 10,573                        | 10,226    |
| Income from continuing operations                        | 7,049                          | 2,947     | 3,127                         | 17,190    |
| Income from discontinued operations, net of tax (Note J) | —                              | —         | —                             | 9,604     |
| Net income                                               | \$7,049                        | \$2,947   | \$3,127                       | \$26,794  |
| Earnings per share:                                      |                                |           |                               |           |
| Continuing operations                                    | \$0.60                         | \$0.25    | \$0.26                        | \$1.43    |
| Discontinued operations                                  | —                              | —         | —                             | 0.80      |
| Basic earnings per share                                 | \$0.60                         | \$0.25    | \$0.26                        | \$2.23    |
| Continuing operations                                    | \$0.60                         | \$0.24    | \$0.26                        | \$1.43    |
| Discontinued operations                                  | —                              | —         | —                             | 0.80      |
| Diluted earnings per share                               | \$0.60                         | \$0.24    | \$0.26                        | \$2.23    |
| Weighted average shares:                                 |                                |           |                               |           |
| Basic                                                    | 11,802                         | 12,015    | 11,953                        | 12,004    |
| Diluted                                                  | 11,845                         | 12,075    | 11,991                        | 12,063    |
| Dividends per share                                      | \$0.26                         | \$0.25    | \$0.78                        | \$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 (Loss) (Unaudited)

(In thousands)

|                                          | Three months<br>ended June 30, |         | Nine months<br>ended June 30, |          |
|------------------------------------------|--------------------------------|---------|-------------------------------|----------|
|                                          | 2015                           | 2014    | 2015                          | 2014     |
| Net income                               | \$7,049                        | \$2,947 | \$3,127                       | \$26,794 |
| Foreign currency translation adjustments | 2,703                          | 2,711   | (8,432)                       | (325 )   |
| Comprehensive income (loss)              | \$9,752                        | \$5,658 | \$(5,305)                     | \$26,469 |

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<br>Shares | Stock<br>Amount | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Income/(Loss) | Total      |
|--------------------------------------------------------|------------------|-----------------|----------------------------------|----------------------|-------------------|--------------------------------------------------------|------------|
| Balance, September 30, 2014                            | 12,031           | \$ 120          | \$ 46,267                        | \$ 331,213           | \$—               | \$ (6,503 )                                            | \$ 371,097 |
| Net income                                             | —                | —               | —                                | 3,127                | —                 | —                                                      | 3,127      |
| Foreign currency translation<br>adjustments            | —                | —               | —                                | —                    | —                 | (8,432 )                                               | (8,432 )   |
| Stock-based compensation                               | 36               | —               | 2,262                            | —                    | —                 | —                                                      | 2,262      |
| Shares withheld in lieu of employee<br>tax withholding | —                | —               | (557 )                           | —                    | —                 | —                                                      | (557 )     |
| Issuance of restricted stock                           | 16               | —               | —                                | —                    | —                 | —                                                      | —          |
| Purchase of treasury shares                            | (363 )           | —               | —                                | —                    | (12,523)          | —                                                      | (12,523 )  |
| Dividends paid                                         | —                | —               | —                                | (9,326 )             | —                 | —                                                      | (9,326 )   |
| Balance, June 30, 2015                                 | 11,720           | \$ 120          | \$ 47,972                        | \$ 325,014           | \$(12,523)        | \$ (14,935 )                                           | \$ 345,648 |

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<br>June 30, |           |
|------------------------------------------------------------------------------------------|-------------------------------|-----------|
|                                                                                          | 2015                          | 2014      |
| Operating Activities:                                                                    |                               |           |
| Net income                                                                               | \$3,127                       | \$26,794  |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                               |           |
| Depreciation                                                                             | 9,894                         | 7,770     |
| Amortization                                                                             | 345                           | 658       |
| Gain on sale of discontinued operations, net of tax                                      | —                             | (8,563 )  |
| Stock-based compensation                                                                 | 2,262                         | 2,865     |
| Bad debt expense                                                                         | 31                            | 616       |
| Deferred income tax expense (benefit)                                                    | 8,652                         | (2,682 )  |
| Gain on amended supply agreement                                                         | (1,522 )                      | (1,014 )  |
| Cash received from amended supply agreement                                              | 2,333                         | 10,000    |
| Changes in operating assets and liabilities:                                             |                               |           |
| Accounts receivable, net                                                                 | (5,837 )                      | (11,598 ) |
| Costs and billings in excess of estimated earnings on uncompleted contracts              | 5,598                         | (16,658 ) |
| Inventories                                                                              | (3,809 )                      | 347       |
| Prepaid expenses and other current assets                                                | 2,075                         | 335       |
| Accounts payable and income taxes payable                                                | 308                           | (16,650 ) |
| Accrued liabilities                                                                      | (4,336 )                      | (8,769 )  |
| Other, net                                                                               | (533 )                        | 1,936     |
| Net cash provided by (used in) operating activities                                      | 18,588                        | (14,613 ) |
| Investing Activities:                                                                    |                               |           |
| Proceeds from sale of property, plant and equipment                                      | 51                            | 118       |
| Proceeds from sale of Transdyn                                                           | —                             | 14,819    |
| Purchases of property, plant and equipment                                               | (34,246 )                     | (11,296 ) |
| Net cash provided by (used in) investing activities                                      | (34,195 )                     | 3,641     |
| Financing Activities:                                                                    |                               |           |
| Payments on industrial development revenue bonds                                         | (400 )                        | (400 )    |
| Cash paid for employee taxes in lieu of shares                                           | (557 )                        | (451 )    |
| Purchase of treasury shares                                                              | (12,523 )                     | —         |
| Dividends paid                                                                           | (9,326 )                      | (8,995 )  |
| Payments on short-term and other financing                                               | —                             | (16 )     |
| Net cash used in financing activities                                                    | (22,806 )                     | (9,862 )  |
| Net decrease in cash and cash equivalents                                                | (38,413 )                     | (20,834 ) |
| Effect of exchange rate changes on cash and cash equivalents                             | (1,346 )                      | 1,186     |
| Cash and cash equivalents, beginning of period                                           | 103,118                       | 107,411   |
| Cash and cash equivalents, end of period                                                 | \$63,359                      | \$87,763  |

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

We develop, design, manufacture and service custom-engineered equipment and systems for the distribution, control and monitoring of electrical energy designed to (1) distribute, monitor and control the flow of electrical energy and (2) provide protection to motors, transformers and other electrically powered equipment. 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.

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, 2014, which was filed with the Securities and Exchange Commission (SEC) on December 3, 2014.

References to Fiscal 2015, Fiscal 2014 and Fiscal 2013 used throughout this report shall mean our fiscal years ended September 30, 2015, 2014 and 2013, respectively.

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. Additionally, the recognition of deferred tax assets requires estimates related to future income and other assumptions regarding timing and future profitability. 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 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 ending 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 has not had 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 changed the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent application related to the 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 in our fiscal year ending September 30, 2016. Early adoption is permitted for disposals that have not been previously reported as discontinued operations. This amendment is not expected to have a material impact on our consolidated financial position or results of 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. The effective date for this standard was deferred in July 2015 and will now be effective for us beginning in fiscal year 2019. 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.

In June 2014, the FASB issued an amendment to the topic regarding share-based payments and instances where terms of an award provide that a performance target can be achieved after the requisite service period. This guidance has been provided to resolve the diversity in practice concerning employee share-based payments that contain performance targets that could be achieved after the requisite service period. The updated guidance requires that a performance target that affects vesting and that can be achieved after the requisite service period be treated as a performance condition. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and is attributable to the periods for which service has been rendered. If the

performance target becomes probable of being achieved before the end of the service period, the remaining unrecognized compensation cost for which requisite service has not yet been rendered is recognized prospectively over the remaining service period. The total amount of compensation cost recognized during and after the service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The updated guidance is effective for annual and interim periods beginning after December 15, 2015, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on our consolidated financial position or results of operations.

#### Discontinued operations

In January 2014, we sold our wholly owned subsidiary Transdyn Inc. (Transdyn). For the nine months ended June 30, 2014, we have presented the results of these operations as income from discontinued operations, net of tax. See Note J.

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

|                                                          | Three months<br>ended June 30, |         | Nine months<br>ended June 30, |          |
|----------------------------------------------------------|--------------------------------|---------|-------------------------------|----------|
|                                                          | 2015                           | 2014    | 2015                          | 2014     |
| <b>Numerator:</b>                                        |                                |         |                               |          |
| Income from continuing operations                        | \$7,049                        | \$2,947 | \$3,127                       | \$17,190 |
| Income from discontinued operations                      | —                              | —       | —                             | 9,604    |
| Net income                                               | \$7,049                        | \$2,947 | \$3,127                       | \$26,794 |
| <b>Denominator:</b>                                      |                                |         |                               |          |
| Weighted average basic shares                            | 11,802                         | 12,015  | 11,953                        | 12,004   |
| Dilutive effect of restricted stock units                | 43                             | 60      | 38                            | 59       |
| Weighted average diluted shares with assumed conversions | 11,845                         | 12,075  | 11,991                        | 12,063   |
| <b>Net earnings per share:</b>                           |                                |         |                               |          |
| Continuing operations                                    | \$0.60                         | \$0.25  | \$0.26                        | \$1.43   |
| Discontinued operations                                  | —                              | —       | —                             | 0.80     |
| Basic earnings per share                                 | \$0.60                         | \$0.25  | \$0.26                        | \$2.23   |
| Continuing operations                                    | \$0.60                         | \$0.24  | \$0.26                        | \$1.43   |
| Discontinued operations                                  | —                              | —       | —                             | 0.80     |
| Diluted earnings per share                               | \$0.60                         | \$0.24  | \$0.26                        | \$2.23   |

## 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<br>ended June 30, |         | Nine months<br>ended June 30, |         |
|-------------------------------------------------------|--------------------------------|---------|-------------------------------|---------|
|                                                       | 2015                           | 2014    | 2015                          | 2014    |
| Balance at beginning of period                        | \$1,881                        | \$501   | \$1,577                       | \$572   |
| Bad debt expense/(recovery)                           | (438 )                         | 676     | 31                            | 616     |
| Uncollectible accounts written off, net of recoveries | (145 )                         | (38 )   | (267 )                        | (46 )   |
| Change in foreign currency translation                | 14                             | 5       | (29 )                         | 2       |
| Balance at end of period                              | \$1,312                        | \$1,144 | \$1,312                       | \$1,144 |

Inventories:

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

|                                             | June 30,<br>2015 | September<br>30, 2014 |
|---------------------------------------------|------------------|-----------------------|
| Raw materials, parts and subassemblies      | \$40,320         | \$ 35,349             |
| Work-in-progress                            | 1,029            | 2,035                 |
| Provision for excess and obsolete inventory | (4,997 )         | (4,569 )              |
| Total inventories                           | \$36,352         | \$ 32,815             |

## 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):

|                                         | June 30,<br>2015 | September<br>30,<br>2014 |
|-----------------------------------------|------------------|--------------------------|
| Costs incurred on uncompleted contracts | \$613,304        | \$604,939                |
| Estimated earnings                      | 162,292          | 157,562                  |
|                                         | 775,596          | 762,501                  |
| Less: Billings to date                  | (735,012)        | (715,233)                |
| Net underbilled position                | \$40,584         | \$47,268                 |

Included in the accompanying balance sheets under the following captions:

|                                                                                           |           |           |
|-------------------------------------------------------------------------------------------|-----------|-----------|
| Costs and estimated earnings in excess of billings on uncompleted contracts – underbilled | \$97,901  | \$95,970  |
| Billings in excess of costs and estimated earnings on uncompleted contracts – overbilled  | (57,317 ) | (48,702 ) |
| Net underbilled position                                                                  | \$40,584  | \$47,268  |

## Warranty Accrual

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

|                                                          | Three months<br>ended June 30, |         | Nine months<br>ended June 30, |         |
|----------------------------------------------------------|--------------------------------|---------|-------------------------------|---------|
|                                                          | 2015                           | 2014    | 2015                          | 2014    |
| Balance at beginning of period                           | \$4,375                        | \$4,833 | \$4,557                       | \$5,282 |
| Increase to warranty expense                             | 1,033                          | 884     | 2,100                         | 2,390   |
| Deduction for warranty charges                           | (766 )                         | (1,023) | (1,794)                       | (2,949) |
| Increase (decrease) due to foreign currency translations | 81                             | 61      | (140 )                        | 32      |
| Balance at end of period                                 | \$4,723                        | \$4,755 | \$4,723                       | \$4,755 |

## D. INTANGIBLE ASSETS

Intangible assets balances, subject to amortization, at June 30, 2015 and September 30, 2014 consisted of the following (in thousands):

|                      | June 30, 2015              |                             |                          | September 30, 2014         |                             |                          |
|----------------------|----------------------------|-----------------------------|--------------------------|----------------------------|-----------------------------|--------------------------|
|                      | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Net<br>Carrying<br>Value | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Net<br>Carrying<br>Value |
| Purchased technology | \$11,749                   | \$ (10,241 )                | \$ 1,508                 | \$11,749                   | \$ (9,918 )                 | \$ 1,831                 |
| Trade name           | 1,136                      | (1,136 )                    | -                        | 1,136                      | (1,063 )                    | 73                       |
| Total                | \$12,885                   | \$ (11,377 )                | \$ 1,508                 | \$12,885                   | \$ (10,981 )                | \$ 1,904                 |

Amortization of intangible assets recorded for the nine months ended June 30, 2015 and 2014 was \$0.3 million and \$0.7 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 in the first quarter of Fiscal 2014 and agreed to pay an additional \$7 million over three years. The first payment of \$2.3 million was received in March 2015. We wrote off the intangible asset related to the original supply agreement and recorded a deferred credit in the amount of \$8.1 million at December 31, 2013, the amount by which the proceeds from GE exceeded the unamortized balance of our intangible asset. This deferred credit is being amortized over the four year life of the agreement.

## E. LONG-TERM DEBT

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

|                                                    | June<br>30,<br>2015 | September<br>30, 2014 |
|----------------------------------------------------|---------------------|-----------------------|
| Industrial development revenue bonds               | \$2,800             | \$ 3,200              |
| Less current portion                               | (400 )              | (400 )                |
| Total long-term debt and capital lease obligations | \$2,400             | \$ 2,800              |

## U.S. Revolver

In December 2013, we amended and restated our existing credit agreement (the Amended Credit Agreement) with a major domestic bank. In December 2014, we entered into the Second Amendment of the Amended Credit Agreement (the Second Amendment). The Second Amendment provides for the expansion of our Canadian manufacturing facility and allows for the repurchase of our common stock pursuant to a share repurchase program announced in December 2014. The Amended Credit Agreement provides for a \$75.0 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 \$18.1 million for our outstanding letters of credit at June 30, 2015.

There were no borrowings outstanding under the U.S. Revolver as of June 30, 2015. Amounts available under the U.S. Revolver were \$56.9 million at June 30, 2015. 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 65% 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 June 30, 2015, we were in compliance with all of the financial covenants of the Amended Credit Agreement.

## Canadian Revolver

We have an \$8.1 million credit facility 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. There were no outstanding letters of credit under the Canadian Revolver at June 30, 2015.

There were no borrowings outstanding under the Canadian Revolver as of June 30, 2015 and amounts available under the Canadian Revolver were \$8.1 million at June 30, 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 June 30, 2015, 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 June 30, 2015. 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 June 30, 2015, the balance in the restricted sinking fund was approximately \$0.3 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 0.20% as of June 30, 2015.

#### 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 \$18.1 million as of June 30, 2015. We also had performance and maintenance bonds totaling \$303.2 million that were outstanding, with additional bonding capacity of \$446.8 million available, at June 30, 2015.

We have a \$15.7 million facility agreement (Facility Agreement) between Powell (UK) Limited and a large international bank. This Facility Agreement provides Powell (UK) the ability to enter into bank guarantees as well as forward exchange contracts and currency options. At June 30, 2015, we had outstanding guarantees totaling \$6.4 million under this Facility Agreement. Amounts available under this Facility Agreement were \$9.3 million as of June 30, 2015.

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 June 30, 2015, we were in compliance with all of the financial covenants of the Facility Agreement.

##### 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 in which 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.

#### Liquidated Damages

Certain of our customer contracts have schedule and performance obligation clauses that, if we fail to meet them, could subject us to liquidated damages. Each individual contract defines the conditions under which the customer may make a claim against us. We have had potential exposure for liquidated damages in the past, but in most instances they were not asserted by the customer. As of June 30, 2015, our exposure to possible liquidated damages is \$6.7 million, of which approximately \$2.0 million is probable. Based on our actual or projected failure to meet these various contractual commitments, \$0.8 million has been recorded in our financial statements. We believe that we will be successful in obtaining change orders or contract extensions that should resolve the potential for any unaccrued liquidated damages; however, should we fail to achieve relief on some or all of these contractual obligations, we could be subject to additional liquidated damages which could impact our future operating results.

**G. STOCK-BASED COMPENSATION**

Refer to our Annual Report on Form 10-K for the fiscal year ended September 30, 2014 for a full description of our existing stock-based compensation plans.

In February 2014, our stockholders approved our 2014 Equity Incentive Plan (the 2014 Plan). Persons eligible to receive awards under the 2014 Plan include certain officers and employees. This Plan authorizes stock options, stock appreciation rights, restricted stock, restricted stock units and performance-based awards, as well as certain other awards.

**Restricted Stock Units**

We issue restricted stock units (RSUs) to certain officers and key employees of the Company. The RSUs typically 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 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 250% of the target RSUs granted. The remaining forty-percent of the RSUs are time-based and vest over a three-year period. At June 30, 2015, there were 162,837 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) for the quarter is summarized below:

|                                   | Number<br>of<br>Restricted<br>Stock<br>Units | Weighted<br>Average<br>Fair<br>Value<br>Per Share |
|-----------------------------------|----------------------------------------------|---------------------------------------------------|
| Outstanding at September 30, 2014 | 106,845                                      | \$ 51.30                                          |
| Granted                           | 89,500                                       | 41.75                                             |
| Vested                            | (33,508 )                                    | 44.06                                             |
| Forfeited                         | —                                            | —                                                 |
| Outstanding at June 30, 2015      | 162,837                                      | \$ 47.54                                          |

During the nine months ended June 30, 2015 and 2014, we recorded compensation expense of \$1.3 million and \$2.0 million, respectively, related to the RSUs.

**Restricted Stock**

In February 2014, our stockholders also approved the 2014 Non-Employee Director Equity Incentive Plan (the 2014 Director Plan) for the benefit of members of the Board of Directors of the Company who, at the time of their service are not employees of the Company or any of its affiliates. The 2014 Director Plan authorizes stock options, stock appreciation rights, restricted stock, restricted stock units, as well as certain other awards. In February 2015, 16,000 shares of restricted stock were issued to such directors at a price of \$33.37 per share under the 2014 Director Plan. The annual restricted stock grants vest 50% per year over a two-year period on each anniversary of the grant date.

During the nine months ended June 30, 2015 and 2014, we recorded compensation expense of \$1.0 million and \$0.9 million, respectively, related to restricted stock grants.

#### H. SHARE REPURCHASE PROGRAM

On December 17, 2014, our Board of Directors authorized a repurchase program (the Repurchase Program) under which we may repurchase up to \$25 million of our outstanding stock. The purchases may be made from time to time in the open market, through privately negotiated transactions and Rule 10b5-1 trading plans in accordance with applicable laws, rules and regulations. The Repurchase Program is being funded from cash on hand and cash provided by operating activities. The Repurchase Program will expire as of the close of business on December 31, 2015. As of June 30, 2015, we have purchased 362,961 shares at cost of \$12.5 million under this Repurchase Program. The average price per share through June 30, 2015 has been \$34.50.

## I. 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 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.

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

The following table summarizes the fair value of our assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2015 (in thousands):

| Fair Value Measurements at June 30, 2015 |                                                                                           |                                                           |                                                    |                                      |
|------------------------------------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|--------------------------------------|
|                                          | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Fair<br>Value at<br>June 30,<br>2015 |
| <b>Assets:</b>                           |                                                                                           |                                                           |                                                    |                                      |
| Cash equivalents                         | \$ 334                                                                                    | \$ —                                                      | \$ —                                               | \$ 334                               |
| Deferred compensation                    | 1,992                                                                                     | 3,124                                                     | —                                                  | 5,116                                |
| <b>Liabilities:</b>                      |                                                                                           |                                                           |                                                    |                                      |
| Deferred compensation                    | —                                                                                         | 4,791                                                     | —                                                  | 4,791                                |

The following table summarizes the fair value of our assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2014 (in thousands):

| Fair Value Measurements at September 30, 2014 |                                                                                           |                                                           |                                                    |
|-----------------------------------------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                               | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |

|                       | Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Inputs<br>(Level 2) | Inputs<br>(Level 3) | Fair Value<br>at<br>September<br>30,<br>2014 |
|-----------------------|-----------------------------------------------------------------|---------------------|---------------------|----------------------------------------------|
| Assets:               |                                                                 |                     |                     |                                              |
| Cash equivalents      | \$ 10,535                                                       | \$ —                | \$ —                | \$ 10,535                                    |
| Deferred compensation | 724                                                             | 2,802               | —                   | 3,526                                        |
| Liabilities:          |                                                                 |                     |                     |                                              |
| Deferred compensation | —                                                               | 3,688               | —                   | 3,688                                        |

Cash equivalents, primarily funds held in money market savings instruments, are reported at their current carrying value which approximates fair value due to the short-term nature of these instruments and are included in cash and cash equivalents in our Condensed Consolidated Balance Sheets.

#### Fair Value of Other Financial Instruments

Fair value guidance requires certain fair value disclosures be presented in both interim and annual reports. The estimated fair value amounts of financial instruments have been determined using available market information and valuation methodologies described below.

Deferred Compensation – We hold investments in an irrevocable Rabbi Trust for our deferred compensation plan. These assets include various mutual fund investments and company-owned life insurance policies. Under the plan, participants designate investment options to serve as the basis for measurement of the notional value of their accounts. The fair values of the underlying securities of these funds are based on quoted market prices and are categorized as Level I in the fair value measurement hierarchy. The company-owned life insurance policies are valued at cash surrender value and are therefore categorized as Level 2 in the fair value measurement hierarchy.

Industrial Development Revenue Bond – The fair value of our long-term debt depends primarily on the coupon rate of our industrial development revenue bonds. The carrying value of our long-term debt at June 30, 2015, approximates fair value based on the current coupon rate of the bonds, which is reset weekly, and is classified as a Level 2 input in the fair value measurement hierarchy as there is an active market for the trading of these industrial development revenue bonds.

There were no transfers between levels within the fair value measurement hierarchy during the nine months ended June 30, 2015.

## J. DISCONTINUED OPERATIONS

On January 15, 2014, we sold our wholly-owned subsidiary Transdyn to a global provider of electronic toll collection systems, headquartered in Vienna, Austria. The purchase price from the sale of this subsidiary totaled \$16.0 million, subject to working capital adjustments. We received cash of \$14.4 million and the remaining \$1.6 million was placed into an escrow account and was released to us in July 2015.

We have presented the results of these operations as income from discontinued operations, net of tax, in the condensed consolidated statements of operations as of June 30, 2014.

Summary comparative financial results of discontinued operations were as follows (in thousands):

|                                                                | Three<br>months<br>ended<br>June 30,<br>2015 | Three<br>months<br>ended<br>June 30,<br>2014 | Nine<br>months<br>ended June<br>30,<br>2015 | Nine<br>months<br>ended June<br>30,<br>2014 |
|----------------------------------------------------------------|----------------------------------------------|----------------------------------------------|---------------------------------------------|---------------------------------------------|
| Revenues                                                       | \$ —                                         | \$ —                                         | \$ —                                        | \$13,923                                    |
| Income from discontinued operations, net of tax of \$633       | —                                            | —                                            | —                                           | 1,041                                       |
| Gain on sale of discontinued operations, net of tax of \$5,218 | —                                            | —                                            | —                                           | 8,563                                       |
| Net income from discontinued operations, net of tax            | \$ —                                         | \$ —                                         | \$ —                                        | \$9,604                                     |
| <b>Earnings per share information:</b>                         |                                              |                                              |                                             |                                             |
| Basic                                                          | \$ —                                         | \$ —                                         | \$ —                                        | \$0.80                                      |
| Diluted                                                        | \$ —                                         | \$ —                                         | \$ —                                        | \$0.80                                      |

## K. INCOME TAXES

The calculation of the effective tax rate is as follows (in thousands):

|                                                       | Three months<br>ended June 30, |         | Nine months ended<br>June 30, |          |
|-------------------------------------------------------|--------------------------------|---------|-------------------------------|----------|
|                                                       | 2015                           | 2014    | 2015                          | 2014     |
| Income from continuing operations before income taxes | \$12,234                       | \$5,180 | \$13,700                      | \$27,416 |
| Income tax provision                                  | 5,185                          | 2,233   | 10,573                        | 10,226   |
| Income from continuing operations                     | \$7,049                        | \$2,947 | \$3,127                       | \$17,190 |
| Effective tax rate                                    | 42                             | % 43    | % 77                          | % 37     |

A reconciliation of the significant differences between the statutory U. S. income tax rate and the effective income tax rate, as computed on earnings (loss) before income tax provision for the nine months ended June 30, 2015 and 2014, is as follows:

|                                          | Nine months ended June 30, |      |
|------------------------------------------|----------------------------|------|
|                                          | 2015                       | 2014 |
| Statutory rate                           | 35 %                       | 35 % |
| Canadian valuation allowance             | 76                         | —    |
| Research and Development Credit          | (34)                       | —    |
| State rate                               | 2                          | 2    |
| Domestic production activities deduction | (2 )                       | (1 ) |
| Other                                    | —                          | 1    |
| Effective rate                           | 77 %                       | 37 % |

We recorded a provision for income taxes from continuing operations of \$5.2 million in the third quarter of Fiscal 2015, compared to the provision of \$2.2 million recorded in the third quarter of Fiscal 2014. The effective tax rate for the third quarter of Fiscal 2015 was 42.4% compared to an effective tax rate of 43.1% for the third quarter of Fiscal 2014. The effective tax rate for the third quarter of Fiscal 2015 is above the combined U.S. federal and state statutory rate as no tax benefit is recorded against Canadian pre-tax losses due to the valuation allowance recorded in the second quarter of Fiscal 2015. The effective tax rate for both the third quarter of Fiscal 2015 and 2014 were also above the combined U.S. federal and state statutory rate due to discrete tax items recognized during the quarters as well as the nondeductibility of certain executive compensation costs.

We recorded a provision for income taxes from continuing operations of \$10.6 million for the nine months ended June 30, 2015, compared to the provision of \$10.2 million recorded for the nine months ended June 30, 2014. The effective tax rate for the nine months ended June 30, 2015 was 77.2% compared to an effective tax rate of 37.3% for the nine months ended June 30, 2014. The higher rate for the nine months ended June 30, 2015 was primarily due to a valuation allowance against our Canadian deferred tax assets and the resulting inability to record a tax benefit against the year-to-date Canadian losses. This was partially offset by the release of a FIN 48 reserve related to the R&D Credit upon closing an IRS audit as well as the December 19, 2014 retroactive reinstatement of the R&D Credit from January 1, 2014 through December 31, 2014. The effective tax rate for the nine months ended June 30, 2014 approximated the combined U.S. federal and state statutory rate as the majority of our income was attributable to the U.S.

At June 30, 2015, we had \$34 million of gross foreign net operating loss carryforwards, the benefits of which are recorded as deferred tax assets and are subject to a 20-year carryforward period, the first of which will expire in 2031. During our quarterly assessment of deferred taxes, in the second quarter of Fiscal 2015, we established a valuation allowance in the amount of \$9.0 million against Canadian net deferred tax assets. In assessing the realizability of net deferred tax assets, we consider whether it is more-likely-than-not that some portion or all of the net deferred tax assets may not be realized. The ultimate realization of net deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. In light of the historical

Canadian losses, and recent changes in projected losses in the near term, we are required under the more-likely-than-not accounting standard to record a valuation allowance against the Canadian net deferred assets because we may not be able to realize the benefits of the net operating loss carryforwards and other deductible differences.

We believe that our deferred tax assets in other tax jurisdictions, with the exception of those related to certain foreign withholding taxes and the net operating losses of our Dutch entities, are more-likely-than-not realizable through future reversals of existing taxable temporary differences and our estimate of future taxable income. Estimates may change as new events occur, estimates of future taxable income during the carryforward period are reduced or increased, additional information becomes available or operating environments change, which may result in a full or partial reversal of the valuation allowance.

#### L. RESTRUCTURING AND SEPARATION COSTS

In the third quarter of Fiscal 2015, we incurred \$1.4 million of restructuring and separation costs. Of this, \$0.8 million was the termination of a Canadian facility lease and the write-off of associated leasehold improvements. The remaining \$0.6 million were severance costs due to additional headcount reductions in Canada and certain U.S. operations as we continue to respond to current market conditions.

For the nine months ended June 30, 2015, we incurred \$2.7 million in restructuring and separation costs. Of this, \$1.9 million was from separation and severance costs and the remaining \$0.8 million resulted from the termination of a Canadian facility lease and the write-off of associated leasehold improvements. During the nine months ended June 30, 2015, we have paid out \$1.4 million in severance and separation costs.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

We are including the following discussion to inform our existing and potential shareholders generally of some of the risks and uncertainties that can affect our Company and to take advantage of the “safe harbor” protection for forward-looking statements that applicable federal securities law affords.

From time to time, our management or persons acting on our behalf make forward-looking statements to inform existing and potential shareholders about our Company. These statements may include projections and estimates concerning the timing and success of specific projects and our future backlog, revenues, income, acquisitions and capital spending. Forward-looking statements include information concerning future results of operations and financial condition. Statements that contain words such as “believes,” “expects,” “anticipates,” “intends,” “estimates,” “continues,” “should,” “could,” “may,” “plan,” “project,” “predict,” “will” or similar expressions may be forward-looking statements. In addition, sometimes we will specifically describe a statement as being a forward-looking statement and refer to this cautionary statement.

In addition, various statements in this Quarterly Report on Form 10-Q, including those that express a belief, expectation or intention, as well as those that are not statements of historical fact, are forward-looking statements. These forward-looking statements speak only as of the date of this report; we disclaim any obligation to update these statements unless required by securities law, and we caution you not to rely on them unduly. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These risks, contingencies and uncertainties relate to, among other matters, the following:

- Economic uncertainty and financial market conditions may impact our customer base, suppliers and backlog.
- Our backlog is subject to unexpected adjustments and cancellations and, therefore, may not be a reliable indicator of our future earnings.
- The use of percentage-of-completion accounting on our fixed-price contracts could result in volatility in our results of operations.
- A portion of our contracts contain terms with penalty provisions.
- Fluctuations in the price and supply of raw materials used to manufacture our products may reduce our profits and could materially impact our ability to meet commitments to our customers.
- Our industry is highly competitive.
- Our operations could be adversely impacted by the effects of government regulations.
- Changes in tax laws and regulations may change our effective tax rate and could have a material effect on our financial results.
- Our international operations expose us to risks that are different from, or possibly greater than, the risks we are exposed to domestically and may adversely affect our operations.
- Acquisitions involve a number of risks.
- Our operating results may vary significantly from quarter to quarter.
- The departure of key personnel could disrupt our business.
- Our business requires skilled labor, and we may be unable to attract and retain qualified employees.
- Actual and potential claims, lawsuits and proceedings could ultimately reduce our profitability and liquidity and weaken our financial condition.
- Unforeseen difficulties with our enterprise resource planning, engineering and manufacturing process systems (Business Systems) could adversely affect our internal controls and our business.
- We carry insurance against many potential liabilities, but our management of risk may leave us exposed to unidentified or unanticipated risks.
- Technological innovations by competitors may make existing products and production methods obsolete.
- Catastrophic events could disrupt our business.

·Unforeseen difficulties with expansions or relocation of our existing facilities could adversely affect our operations.  
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·Due to the cyclical nature of the oil and gas industry, our business may be adversely impacted by extended periods of low oil or natural gas prices or unsuccessful exploration efforts which may decrease our customers' spending and therefore our results in the future.

We believe the items we have outlined above are important factors that could cause estimates included in our financial statements to differ materially from actual results and those expressed in a forward-looking statement made in this report or elsewhere by us or on our behalf. We have discussed many of these factors in more detail in our Annual Report on Form 10-K for the year ended September 30, 2014. These factors are not necessarily all of the factors that could affect us. Unpredictable or unanticipated factors we have not discussed in this report could also have material adverse effects on actual results. We do not intend to update our description of important factors each time a potential important factor arises, except as required by applicable securities laws and regulations. We advise our shareholders that they should (1) be aware that factors not referred to above could affect the accuracy of our forward-looking statements and (2) use caution when considering our forward-looking statements.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended September 30, 2014 which was filed with the Securities and Exchange Commission (SEC) on December 3, 2014 and is available on the SEC's website at [www.sec.gov](http://www.sec.gov).

### Overview

We develop, design, manufacture and service custom-engineered equipment and systems for the management and control of electrical energy and other critical processes. Headquartered in Houston, Texas, we serve the oil and gas refining, offshore oil and gas production, petrochemical, pipeline, terminal, pulp and paper, mining and metals, light rail traction power, and electric utility markets. Revenues and costs are primarily related to custom engineered-to-order equipment and systems and accounted for under percentage of completion accounting which precludes us from providing detailed price and volume information. Our backlog includes various projects, some of which are petrochemical, oil and gas construction and transportation infrastructure projects which take a number of months to produce.

The markets in which we participate are capital intensive and cyclical in nature. Cyclicity is predominantly driven by customer demand, global economic conditions and anticipated environmental or regulatory changes which affect the manner in which our customers proceed with capital investments. Our customers analyze various factors including the demand and price for oil, gas and electrical energy, the overall financial environment, governmental budgets, regulatory actions and environmental concerns. These factors influence the release of new capital projects by our customers, which are traditionally awarded in competitive bid situations. Scheduling is matched to the customer requirements and projects may take a number of months to produce; schedules also may change during the course of any particular project. Our operating results can be impacted by factors outside of our control. For example, many of our projects have contracting arrangements where the customer's approval of engineering and design specifications may affect the timing of the project execution thus impacting the recognition of revenue and costs.

Our operating results have been negatively impacted by factors such as our operational inefficiencies, our contractual commitments on existing projects, customer approval of final engineering and design specifications and delays in customer construction schedules, all of which have negatively impacted the timing of our project execution. These factors resulted in an imbalance of our factory resources with our customer commitments, resulting in higher production costs due to inefficiencies. Our operating results are also impacted by the timing and resolution of change orders, project close-out and resolution of potential liquidated damage claims, all of which could improve or deteriorate gross margins during the period in which these items are resolved with our customers.

We anticipate that demand for our solutions in the western Canadian oil and gas markets will continue to be a contributor to our strategic position in the Canadian market place. We completed the construction of our new Canadian facility and relocated operations in the fall of 2013 and completed a \$26 million expansion of this manufacturing facility in the third quarter of Fiscal 2015. The stabilization of our Canadian operations has presented challenges resulting in inefficiencies that led to extended project delivery times, delayed project revenues, higher operating costs, gross margin deterioration and operating losses. We have taken actions to mitigate the risks associated with replicating our U.S. project-based integration model which allows for the design, fabrication, integration and testing of our products at a single location. Prior to the construction of our new Canadian facility, we performed only final assembly operations in Canada.

On January 15, 2014, we sold our wholly-owned subsidiary Transdyn to a global provider of electronic toll collection systems, headquartered in Vienna, Austria. The purchase price from the sale of this subsidiary totaled \$16.0 million, subject to working capital adjustments. We received cash of \$14.4 million and the remaining \$1.6 million was placed into an escrow account and released to us in July 2015. We have presented the results of these operations as income from discontinued operations, net of tax, in the condensed consolidated statements of operations for the nine months ended June 30, 2014. Accordingly, we have removed Transdyn from the Results of Operations discussions below.

## Results of Operations

### Quarter Ended June 30, 2015 Compared to the Quarter Ended June 30, 2014 (Unaudited)

#### Revenue and Gross Profit

Revenues increased 17.2%, or \$25.9 million, to \$176.7 million in the third quarter of Fiscal 2015, compared to the third quarter of Fiscal 2014, primarily due to our increased production efforts resulting from the customer scheduling of projects during this quarter from our backlog. Domestic revenues increased by 57.2%, or \$48.7 million, to \$134.0 million in the third quarter of Fiscal 2015, compared to the third quarter of Fiscal 2014, primarily due to our production efforts on various large petrochemical projects awarded

in 2014. International revenues decreased by 34.8%, or \$22.8 million, to \$42.7 million in the third quarter of Fiscal 2015, compared to the third quarter of Fiscal 2014, primarily due to the substantial completion of several large projects for both the Canadian market and our U.S. export projects. Revenues from commercial and industrial customers increased \$34.0 million to \$146.7 million in the third quarter of Fiscal 2015, compared to the third quarter of Fiscal 2014. Revenues from public and private utilities decreased \$11.8 million to \$16.4 million in the third quarter of Fiscal 2015, compared to the third quarter of Fiscal 2014. Revenues from municipal and transit projects increased \$3.7 million to \$13.6 million in the third quarter of Fiscal 2015, compared to the third quarter of Fiscal 2014.

Gross profit for the third quarter of Fiscal 2015 increased 11.1%, or \$3.3 million, to \$32.9 million, compared to the third quarter of Fiscal 2014, primarily due to the increase in production efforts on projects as noted above. Gross profit as a percentage of revenues decreased to 18.6% in the third quarter of Fiscal 2015, compared to 19.7% in the third quarter of Fiscal 2014, primarily driven by inefficiencies resulting from our production efforts and incremental costs required to maintain our customer's schedules, as well as the overall mix of project types.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased \$5.0 million to \$18.0 million during the third quarter of Fiscal 2015 compared to the third quarter of Fiscal 2014 primarily due to a decrease in performance-based compensation, sales commissions, personnel and administrative costs, reduced bad debt expense and overall cost reduction efforts. Selling, general and administrative expenses, as a percentage of revenues, decreased to 10.2% during the third quarter of Fiscal 2015, compared to 15.3% during the third quarter of Fiscal 2014, due to the lower expenses and increased revenues discussed above.

#### Restructuring and separation costs

In the third quarter of Fiscal 2015, we incurred approximately \$1.4 million in restructuring and separation costs. Of this, \$0.8 million was the termination of a Canadian facility lease and the write-off of associated leasehold improvements and the remaining \$0.6 million were severance costs due to additional headcount reductions in Canada and certain U.S. operations as we continue to respond to current market conditions. There were no restructuring costs in the third quarter of Fiscal 2014.

#### Other Income

We recorded other income of \$0.5 million in both the third quarter of Fiscal 2015 and the third quarter of Fiscal 2014. This was the amortization of the deferred gain from the amended supply agreement, discussed in Note D of the Notes to Condensed Consolidated Financial Statements.

#### Income Tax Provision

We recorded a provision for income taxes from continuing operations of \$5.2 million in the third quarter of Fiscal 2015, compared to the provision of \$2.2 million recorded in the third quarter of Fiscal 2014. The effective tax rate for

the third quarter of Fiscal 2015 was 42.4% compared to an effective tax rate of 43.1% for the third quarter of Fiscal 2014. The effective tax rate for the third quarter of Fiscal 2015 is above the combined U.S. federal and state statutory rate as no tax benefit is recorded against Canadian pre-tax losses due to the valuation allowance recorded in the second quarter of Fiscal 2015 discussed in Note K of the Notes to Condensed Consolidated Financial Statements. The effective tax rates for both the third quarter of Fiscal 2015 and 2014 were also above the combined U.S. federal and state statutory rate due to discrete tax items recognized during the quarter as well as the nondeductibility of certain executive compensation costs.

#### Net income

In the third quarter of Fiscal 2015, we recorded income of \$7.0 million, or earnings per diluted share of \$0.60, compared to income of \$2.9 million, or \$0.24 per diluted share, in the third quarter of Fiscal 2014. This increase was primarily due to higher revenues and lower selling, general and administrative expenses which were partially offset by higher production costs due to inefficiencies.

#### Backlog

Our backlog includes various projects, some of which are petrochemical, oil and gas construction and transportation infrastructure projects which take a number of months to produce. The order backlog at June 30, 2015 increased to \$518.0 million, compared to \$507.1 million at September 30, 2014. New orders placed during the third quarter of Fiscal 2015 increased to \$193.2 million compared to \$171.7 million in the third quarter of Fiscal 2014.

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Nine Months Ended June 30, 2015 Compared to the Nine Months Ended June 30, 2014 (Unaudited)

### Revenue and Gross Profit

Revenues increased 3.0%, or \$14.6 million, to \$499.5 million for the nine months ended June 30, 2015, compared to the nine months ended June 30, 2014 primarily due to the increase in domestic revenues. Domestic revenues increased by 32.0%, or \$85.2 million, to \$351.4 million for the nine months ended June 30, 2015, compared to the nine months ended June 30, 2014, due to our production efforts on various large petrochemical projects awarded in 2014. International revenues decreased by 32.3%, or \$70.6 million, to \$148.2 million for the nine months ended June 30, 2015, compared to the nine months ended June 30, 2014, primarily due the substantial completion of several large projects for the both Canadian market as well U.S. export projects. Revenues from commercial and industrial customers increased \$46.2 million to \$398.0 million for the nine months ended June 30, 2015, compared to the nine months ended June 30, 2014. Revenues from public and private utilities decreased \$34.1 million to \$64.1 million for the nine months ended June 30, 2015, compared to the nine months ended June 30, 2014. Revenues from municipal and transit projects increased \$2.5 million to \$37.4 million for the nine months ended June 30, 2015, compared to the nine months ended June 30, 2014.

Gross profit for the nine months ended June 30, 2015 decreased 21.5%, or \$21.4 million, to \$78.3 million, compared to the nine months ended June 30, 2014. Gross profit as a percentage of revenues decreased to 15.7% for the nine months ended June 30, 2015, compared to 20.6% for the nine months ended June 30, 2014. Our gross profit and gross profit as a percentage of revenues decreased in the nine months ended June 30, 2015, compared to the nine months ended June 30, 2014, primarily driven by inefficiencies resulting from our production efforts and incremental costs required to maintain our customer's schedules, as well as the overall mix of project types.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by \$8.5 million to \$58.3 million during nine months ended June 30, 2015, compared to the nine months ended June 30, 2014, primarily due to a decrease in performance-based compensation, sales commissions, personnel and administrative costs, reduced bad debt expense and overall cost reduction efforts. Selling, general and administrative expenses, as a percentage of revenues, decreased to 11.7% during the nine months ended June 30, 2015, compared to 13.8% during the nine months ended June 30, 2014.

### Restructuring and separation costs

For the nine months ended June 30, 2015, we incurred \$2.7 million in restructuring and separation costs. Of this, \$1.9 million was from separation and severance costs and the remaining \$0.8 million resulted from the termination of a Canadian facility lease and the write-off of associated leasehold improvements.

### Other Income

We recorded other income of \$1.9 million in the nine months ended June 30, 2015, of which \$1.5 million was from the amortization of the deferred gain from the amended supply agreement, discussed in Note D of the Notes to Condensed Consolidated Financial Statements, and \$0.4 million was from a death benefit received from our

company-owned life insurance policy. We recorded other income of \$1.0 million in the same period in Fiscal 2014 which was solely from the amortization of the deferred gain.

#### Income Tax Provision

We recorded a provision for income taxes from continuing operations of \$10.6 million for the nine months ended June 30, 2015, compared to the provision of \$10.2 million for the nine months ended June 30, 2014. The effective tax rate for the nine months ended June 30, 2015 was 77.2%, compared to an effective tax rate of 37.3% for the nine months ended June 30, 2014, primarily due to a valuation allowance against our Canadian deferred tax assets recorded in the second quarter of Fiscal 2015 and the resulting inability to record a tax benefit against the year-to-date Canadian losses (see Note K of the Notes to Condensed Consolidated Financial Statements), partially offset by the release of a FIN 48 reserve related to the R&D Credit upon closing an IRS audit as well as the December 19, 2014 retroactive reinstatement of the R&D Credit from January 1, 2014 through December 31, 2014. The effective tax rate for the nine months ended June 30, 2014 approximated the combined U.S. federal and state statutory rate as the majority of our income was attributable to the U.S.

### Income from Continuing Operations

For the nine months ended June 30, 2015, we recorded income from continuing operations of \$3.1 million, or \$0.26 per diluted share, compared to income from continuing operations of \$17.2 million, or \$1.43 per diluted share, for the nine months ended June 30, 2014. This reduction to net income was primarily due to a valuation allowance recorded against our Canadian deferred tax assets (as discussed above) and higher domestic productions costs caused by inefficiencies resulting from our production efforts to maintain our customer's scheduling requirements related to our increased volume. These reductions to net income were partially offset by lower selling, general and administrative costs.

### Income from Discontinued Operations

For the nine months ended June 30, 2014, we recorded \$9.6 million, or \$0.80 per diluted share, of income from discontinued operations which included the gain on the sale. For additional information about this disposition, see Note I of the Notes to Condensed Consolidated Financial Statements.

### Backlog

Our backlog includes various projects, some of which are petrochemical, oil and gas construction and transportation infrastructure projects which take a number of months to produce. The order backlog at June 30, 2015 was \$518.0 million, compared to \$507.1 million at September 30, 2014. New orders placed during the nine months ended June 30, 2015 decreased to \$514.7 million from \$526.5 million for the nine months ended June 30, 2014. This decrease in orders was due to reduced investments by our customers primarily in oil and gas and petrochemical infrastructure.

### Liquidity and Capital Resources

Cash and cash equivalents decreased to \$63.4 million at June 30, 2015, compared to \$103.1 million at September 30, 2014. As of June 30, 2015, current assets exceeded current liabilities by 2.2 times and our debt to total capitalization was 0.80%.

We have a \$75.0 million revolving credit facility in the U.S., which expires in December 2016. As of June 30, 2015, there were no amounts borrowed under this line of credit. We also have an \$8.1 million revolving credit facility in Canada. At June 30, 2015, there was no balance outstanding under the Canadian revolving credit facility. Total long-term debt and capital lease obligations, including current maturities, totaled \$2.8 million at June 30, 2015, compared to \$3.2 million at September 30, 2014. Total letters of credit outstanding were \$18.1 million and \$21.5 million at June 30, 2015 and September 30, 2014, respectively, which reduce our availability under our U.S. credit facility. Amounts available at June 30, 2015 under the U.S. and Canadian revolving credit facilities were \$56.9 million and \$8.1 million, respectively. For further information regarding our debt, see Notes E and F of the Notes to Condensed Consolidated Financial Statements.

Approximately \$6.7 million of our cash at June 30, 2015, was held outside of the United States for international operations. It is our intention to indefinitely reinvest all current and future foreign earnings internationally in order to ensure sufficient working capital and support and expand these international operations. In the event that we elect to repatriate some or all of the foreign earnings that were previously deemed to be indefinitely reinvested outside the U.S., under current tax laws we would incur additional tax expense upon such repatriation.

We believe that cash available and borrowing capacity under our existing credit facilities should be sufficient to finance anticipated operating activities, capital improvements and expansions, debt repayments and share repurchases, for the foreseeable future. We continue to monitor the factors that drive our markets and strive to maintain our leadership and competitive advantage in the markets we serve while aligning our cost structures with market conditions.

### Operating Activities

Cash provided by operating activities was \$18.6 million during the first nine months of Fiscal 2015, compared to cash used in operating activities of \$14.6 million during the first nine months of Fiscal 2014. This increase was primarily due to a shift in our net underbilled position and an increase in accounts payable. Cash flow from operations is primarily influenced by demand for our products and services and is impacted as our progress payment terms with our customers are matched with the payment terms with our suppliers.

### Investing Activities

Purchases of property, plant and equipment during the first nine months of Fiscal 2015 totaled \$34.2 million compared to \$11.3 million during the first nine months of Fiscal 2014. This increase resulted primarily from the expansion of our Canadian facility in Fiscal 2015.

## Financing Activities

Net cash used in financing activities was \$22.8 million during the first nine months of Fiscal 2015 and \$9.9 million during the first nine months of Fiscal 2014. This increase in the use of cash in the same period in Fiscal 2015 was primarily driven by our share repurchase program discussed below. During the first nine months of Fiscal 2015, we have spent \$12.5 million to repurchase shares of our common stock.

## Share Repurchase Program

On December 17, 2014, our Board of Directors authorized a share repurchase program under which we may repurchase up to \$25 million of our outstanding stock. The purchases may be made from time to time in the open market, through privately negotiated transactions and Rule 10b5-1 trading plans in accordance with applicable laws, rules and regulations. The Repurchase Program is being funded from cash on hand and cash provided by operating activities. The Repurchase Program will expire as of the close of business on December 31, 2015. As of June 30, 2015, a total of \$12.5 million of our stock (362,961 shares) has been purchased under the Repurchase Program.

## New Accounting Standards

See Note A to our condensed consolidated financial statements included in this report for information on new accounting standards.

## Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based on our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities known to exist at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates on an ongoing basis, based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. There can be no assurance that actual results will not differ from those estimates.

There have been no material changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the year ended September 30, 2014.

## Outlook

The markets in which we participate are capital-intensive and cyclical in nature. Cyclicity is predominantly driven by customer demand, global economic conditions and anticipated environmental or regulatory changes which affect the manner in which our customers proceed with capital investments. Our customers analyze various factors including the demand and price for oil, gas and electrical energy, the overall financial environment, governmental budgets, regulatory actions and environmental concerns. These factors influence the release of new capital projects by our customers, which are traditionally awarded in competitive bid situations. Scheduling of projects is matched to the customer requirements and projects may take a number of months to produce, but schedules may change during the course of any particular project.

A significant portion of our revenues are derived from the oil and gas and petrochemical market sectors. Due to the decline in oil prices, many of our customers have reduced their capital budgets and cut costs, and in certain instances have deferred or cancelled projects that we were pursuing. We believe that sustained lower oil prices will negatively impact future orders due to reduced capital spending and project deferrals by our customers resulting in market price pressures. This reduction in new business opportunities and market price pressures will ultimately negatively impact

our revenues, operating results and cash flows from operations. Accordingly, we will continue to review our cost structure and take actions to align our operating cost structure with expected revenues.

Our operating results have been and may continue to be negatively impacted by factors such as the timing of new order awards, customer approval of final engineering and design specifications and delays in customer construction schedules, all of which have and may continue to negatively impact the timing of project execution. These factors have resulted and may continue to result in periods when our factory resources are not in balance with our customer's scheduling requirements, resulting in higher production costs due to inefficiencies. Our operating results are also impacted by the timing and resolution of change orders, project close-out and resolution of potential liquidated damage claims, all of which could improve or deteriorate gross margins during the period in which these items are resolved with our customers.

We completed the construction of our new Acheson, Alberta facility and relocated operations in the fall of 2013 and completed a \$26 million expansion of this facility in the third quarter of Fiscal 2015. The production ramp and stabilization of our Canadian operations has presented and may continue to present challenges resulting in inefficiencies and extended project delivery times. These challenges

resulted in delayed project revenues, incremental costs to hold customers' schedules, gross margin deterioration and operating losses. We have taken actions to stabilize our Canadian operations and mitigate the risks associated with replicating our U.S. project-based integration model which allows for the design, fabrication, integration and testing of our products at a single location. However, we may continue to incur operating losses in Canada as we continue to enhance our engineering and project management competencies and improve our overall project execution. Prior to the construction of our new Canadian facility, we only performed final assembly operations in Canada.

We believe that cash available and borrowing capacity under our existing credit facilities should be sufficient to finance anticipated operating activities, capital improvements, debt repayments and share repurchases for the foreseeable future. We continue to monitor our markets and will strive to maintain our leadership and competitive advantage in the markets we serve.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks arising from transactions we have entered into in the normal course of business. These risks primarily relate to fluctuations in market conditions, commodity prices, foreign exchange rates and interest rates.

#### Market Risk

We are exposed to general market risk and its potential impact on accounts receivable or costs and estimated earnings in excess of billings on uncompleted contracts. The amounts recorded may be at risk if our customers' ability to pay these obligations is negatively impacted by economic conditions. Our customers and their industries are typically EPC firms, oil and gas refining, offshore oil and gas production, petrochemical, pipeline, terminal, pulp and paper, mining and metals, light rail traction power, electric utility and other large industrial customers. We maintain ongoing discussions with customers regarding contract status with respect to payment status, change orders and billing terms in an effort to monitor collections of amounts billed

#### Commodity Price Risk

We are subject to market risk from fluctuating market prices of certain raw materials and components. While such materials and components are typically available from numerous suppliers, commodity raw materials and components are subject to price fluctuations. We attempt to pass along such commodity price increases to our customers on a contract-by-contract basis to avoid a negative effect on profit margin. While we may do so in the future, we have not currently entered into any derivative contracts to hedge our exposure to commodity risk. Fixed-price contracts may limit our ability to pass cost increases to our customers, thus negatively impacting our earnings. Fluctuations in commodity prices may have a material impact on our future earnings and cash flows.

#### Foreign Currency Transaction Risk

We have operations that expose us to currency risk in the British Pound Sterling, the Canadian Dollar and to a lesser extent the Euro. Amounts invested in our foreign operations are translated into U.S. Dollars at the exchange rates in effect at the balance sheet date. The resulting translation adjustments are recorded as accumulated other comprehensive income (loss), a component of stockholders' equity in our consolidated balance sheets. We believe the exposure to the effects that fluctuating foreign currencies have on our consolidated results of operations is limited because the foreign operations primarily invoice customers and collect obligations in their respective currencies or U.S. Dollars. Our international operations are financed utilizing local credit facilities denominated in local currencies. Additionally, expenses associated with these transactions are generally contracted and paid for in the same local currencies.

#### Interest Rate Risk

If we decide to borrow under one of our credit facilities, we will be subject to market risk resulting from changes in interest rates related to our floating rate bank credit facility. If we were to make such borrowings, a hypothetical 100 basis point increase in variable interest rates may result in a material impact to our financial statements. While we do not currently have any derivative contracts to hedge our exposure to interest rate risk, in the past we have entered and may in the future enter into such contracts. During each of the past three years, we have not experienced a significant effect on our business due to changes in interest rates.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

We have established and maintain a system of disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosures.

Management, with the participation of our CEO and CFO, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our CEO and CFO have each concluded that as of the end of the period, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

##### Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

#### Item 1. Legal Proceedings

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. We do not believe that the ultimate conclusion of these disputes could materially affect our financial position or results of operations.

#### Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below summarizes information about our purchases of common stock, based on settlement date, during the quarter ended June 30, 2015:

| Total<br>Number | Maximum |
|-----------------|---------|
|-----------------|---------|

|                                                    | Total<br>Number<br><br>of Shares<br>Purchased | Average<br>Price<br><br>Paid per<br>Share<br>(1) | Part of<br>Publicly<br>Announced<br>Plans<br>or<br>Programs | Dollar Value<br>of<br>Shares that<br>May<br>Yet Be<br>Purchased<br>Under the<br>Plans<br>or<br>Programs <sup>(2)</sup> |
|----------------------------------------------------|-----------------------------------------------|--------------------------------------------------|-------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
| April 1 - April 30                                 | 93,461                                        | \$ 34.41                                         | 93,461                                                      | \$16,024,567                                                                                                           |
| May 1 - May 31                                     | 44,608                                        | 35.46                                            | 44,608                                                      | 14,442,691                                                                                                             |
| June 1 - June 30                                   | 53,476                                        | 36.75                                            | 53,476                                                      | 12,477,375                                                                                                             |
| Total activity for the quarter ended June 30, 2015 | 191,545                                       | \$ 35.31                                         | 191,545                                                     | \$12,477,375                                                                                                           |

(1)Includes commissions.

(2)On December 18, 2014, we announced that on December 17, 2014 our Board of Directors authorized a repurchase program (the Repurchase Program) under which we may repurchase up to \$25 million of our outstanding stock. The Repurchase Program will expire as of the close of business on December 31, 2015.

Item 6. Exhibits

| Number   | Description of Exhibits                                                                                                                                                                                                                         |
|----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1      | —Certificate of Incorporation of Powell Industries, Inc. filed with the Secretary of State of the State of Delaware on February 11, 2004 (filed as Exhibit 3.1 to our Form 8-A/A filed November 1, 2004, and incorporated herein by reference). |
| 3.2      | —Amended and Restated Bylaws of Powell Industries, Inc. (filed as Exhibit 3.1 to our Form 8-K filed October 12, 2012, and incorporated herein by reference).                                                                                    |
| *31.1    | —Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).                                                                                                                                                                 |
| *31.2    | —Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).                                                                                                                                                                 |
| *32.1    | —Certification of Chief Executive Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                     |
| *32.2    | —Certification of Chief Financial Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                     |
| *101.INS | —XBRL Instance Document                                                                                                                                                                                                                         |
| *101.SCH | —XBRL Taxonomy Extension Schema Document                                                                                                                                                                                                        |
| *101.CAL | —XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                                                                                                          |
| *101.DEF | —XBRL Taxonomy Extension Definition Linkbase Document                                                                                                                                                                                           |
| *101.LAB | —XBRL Taxonomy Extension Label Linkbase Document                                                                                                                                                                                                |
| *101.PRE | —XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                                                                                         |

\* Filed herewith

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.

POWELL INDUSTRIES, INC.  
(Registrant)

Date: August 5, 2015 By: /s/ Michael A. Lucas  
Michael A. Lucas  
President and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Don R. Madison  
Don R. Madison  
Executive Vice President  
Chief Financial and Administrative Officer  
(Principal Financial Officer)

EXHIBIT INDEX

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| * Filed herewith |                                                                                                                                                                                                                                                 |