

**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 December 31, 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)

8550 Mosley Road
Houston, Texas
(Address of principal executive offices)

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

77075-1180
(Zip Code)

Registrant's telephone number, including area code:
(713) 944-6900

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

At January 29, 2016, there were 11,358,711 outstanding shares of the registrant's common stock, par value \$0.01 per share.

POWELL INDUSTRIES, INC. AND SUBSIDIARIES
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PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

POWELL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (Unaudited)
(In thousands, except share and per share data)

	<u>December 31, 2015</u>	<u>September 30, 2015</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 58,924	\$ 43,569
Accounts receivable, less allowance for doubtful accounts of \$1,010 and \$746	82,237	101,784
Inventories	34,245	32,891
Costs and estimated earnings in excess of billings on uncompleted contracts	99,266	104,793
Income taxes receivable	2,995	1,232
Deferred income taxes	4,390	3,910
Prepaid expenses	4,401	5,004
Other current assets	4,244	3,916
Total Current Assets	<u>290,702</u>	<u>297,099</u>
Property, plant and equipment, net	150,195	154,594
Goodwill and intangible assets, net	2,299	2,393
Deferred income taxes	1,760	2,288
Other assets	10,611	10,117
Long-term receivable (Note D)	2,333	2,333
	<u>\$ 457,900</u>	<u>\$ 468,824</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 45,582	\$ 48,008
Accrued salaries, bonuses and commissions	15,332	19,223
Billings in excess of costs and estimated earnings on uncompleted contracts	43,407	42,057
Current maturities of long-term debt and capital lease obligations	400	400
Accrued product warranty	5,105	4,930
Other accrued expenses	9,167	7,521
Income taxes payable	1,221	784
Deferred credit — short term (Note D)	2,029	2,029
Total Current Liabilities	<u>122,243</u>	<u>124,952</u>
Long-term debt and capital lease obligations, net of current maturities	2,000	2,400
Deferred compensation	5,759	4,950
Other long-term liabilities	787	723
Deferred credit — long term (Note D)	2,029	2,537
Total Liabilities	<u>\$ 132,818</u>	<u>\$ 135,562</u>
Commitments and Contingencies (Note F)		
Stockholders' Equity:		
Preferred stock, par value \$.01; 5,000,000 shares authorized; none issued	—	—
Common stock, par value \$.01; 30,000,000 shares authorized; 12,164,729 and 12,100,459 shares issued and outstanding, respectively	122	121
Additional paid-in capital	50,055	48,507
Retained earnings	324,843	328,294
Treasury stock, 806,018 and 670,181 shares at cost, respectively	(24,999)	(21,259)
Accumulated other comprehensive loss	(24,939)	(22,401)
Total Stockholders' Equity	<u>325,082</u>	<u>333,262</u>
Total Liabilities and Stockholders' Equity	<u>\$ 457,900</u>	<u>\$ 468,824</u>

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations (Unaudited)
(In thousands, except per share data)

	Three months ended December 31,	
	2015	2014
Revenues	\$ 149,977	\$ 152,601
Cost of goods sold	126,827	131,532
Gross profit	23,150	21,069
Selling, general and administrative expenses	19,400	20,816
Research and development expenses	1,854	1,840
Amortization of intangible assets	88	118
Restructuring and separation expenses	3,797	—
Operating loss	(1,989)	(1,705)
Other income	(507)	(507)
Interest expense	24	33
Interest income	—	(1)
Loss before income taxes	(1,506)	(1,230)
Income tax benefit	(1,047)	(991)
Net loss	\$ (459)	\$ (239)
Loss per share:		
Basic	\$ (0.04)	\$ (0.02)
Diluted	\$ (0.04)	\$ (0.02)
Weighted average shares:		
Basic	11,395	12,041
Diluted	11,395	12,041
Dividends per share	\$ 0.26	\$ 0.26

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)

	<u>Three months ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Net loss	\$ (459)	\$ (239)
Foreign currency translation adjustments	(2,538)	(4,238)
Comprehensive loss	<u>\$ (2,997)</u>	<u>\$ (4,477)</u>

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)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>		<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			<u>Shares</u>	<u>Amount</u>		
Balance, September 30, 2015	12,100	\$ 121	\$ 48,507	\$ 328,294	(670)	\$ (21,259)	\$ (22,401)	\$ 333,262
Net loss	—	—	—	(459)	—	—	—	(459)
Foreign currency translation adjustments	—	—	—	—	—	—	(2,538)	(2,538)
Stock-based compensation	64	1	2,343	—	—	—	—	2,344
Shares withheld in lieu of employee tax withholding	—	—	(795)	—	—	—	—	(795)
Issuance of restricted stock	1	—	—	—	—	—	—	—
Purchase of treasury shares	—	—	—	—	(136)	(3,740)	—	(3,740)
Dividends paid	—	—	—	(2,992)	—	—	—	(2,992)
Balance, December 31, 2015	<u>12,165</u>	<u>\$ 122</u>	<u>\$ 50,055</u>	<u>\$ 324,843</u>	<u>(806)</u>	<u>\$ (24,999)</u>	<u>\$ (24,939)</u>	<u>\$ 325,082</u>

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)

	Three months ended December 31,	
	2015	2014
Operating Activities:		
Net loss	\$ (459)	\$ (239)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	3,196	3,318
Amortization	88	118
Stock-based compensation	2,343	1,116
Bad debt expense	248	283
Deferred income tax expense (benefit)	48	(317)
Gain on amended supply agreement	(507)	(507)
Changes in operating assets and liabilities:		
Accounts receivable, net	18,603	(25,674)
Costs and billings in excess of estimated earnings on uncompleted contracts	6,921	20,943
Inventories	(1,478)	(3,998)
Prepaid expenses and other current assets	(1,522)	467
Accounts payable and income taxes payable	(1,874)	(5,462)
Accrued liabilities	(1,898)	(12,793)
Other, net	356	17
Net cash provided by (used in) operating activities	24,065	(22,728)
Investing Activities:		
Proceeds from sale of property, plant and equipment	12	31
Purchases of property, plant and equipment	(629)	(18,962)
Net cash used in investing activities	(617)	(18,931)
Financing Activities:		
Payments on industrial development revenue bonds	(400)	(400)
Shares withheld in lieu of employee tax withholding	(795)	(454)
Purchase of treasury shares	(3,740)	—
Dividends paid	(2,992)	(3,128)
Net cash used in financing activities	(7,927)	(3,982)
Net increase (decrease) in cash and cash equivalents	15,521	(45,641)
Effect of exchange rate changes on cash and cash equivalents	(166)	(1,013)
Cash and cash equivalents, beginning of period	43,569	103,118
Cash and cash equivalents, end of period	<u>\$ 58,924</u>	<u>\$ 56,464</u>

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

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. Headquartered in Houston, Texas, we serve the oil and gas refining, offshore oil and gas production, petrochemical, pipeline, terminal, mining and metals, light rail traction power, electric utility, pulp and paper and other industrial markets.

Basis of Presentation

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

These unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X for interim financial information. Certain information and footnote disclosures, normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP), have been condensed or omitted pursuant to those rules and regulations. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly state the financial position, results of operations and cash flows with respect to the interim 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, 2015, which was filed with the Securities and Exchange Commission (SEC) on December 2, 2015.

References to Fiscal 2016, Fiscal 2015 and Fiscal 2014 used throughout this report shall mean our fiscal years ended September 30, 2016, 2015 and 2014, 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 intangible assets, self-insurance, warranty accruals, liquidated damages and income taxes. The amounts recorded for insurance claims, warranties, legal, liquidated damages, 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 May 2014, the FASB issued a new standard on revenue recognition that supersedes previously issued revenue recognition guidance. This standard provides a five-step approach to be applied to all contracts with customers and requires expanded disclosures about the nature, amount, timing and uncertainty of revenue (and the related cash flows) arising from customer contracts, significant judgments and changes in judgments used in applying the revenue model and the assets recognized from costs incurred to obtain or fulfill a contract. This guidance is now effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, which would be our fiscal year ending September 30, 2019. 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.

In July 2015, the FASB issued a new topic on simplifying the measurement of inventory. The current standard is to measure inventory at lower of cost or market; where market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. This topic updates this guidance to measure inventory at the lower of cost and net realizable value; where net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This update is effective for annual reporting periods beginning after December 15, 2016, which would be our fiscal year ending September 30, 2018. The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. This topic is not expected to have a material impact on our consolidated financial position or results of operations.

In November 2015, the FASB issued an amendment to the topic regarding income taxes which requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in the statement of financial position. Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting. Deferred tax liabilities and assets that are not related to an asset or liability for financial reporting are classified according to the expected reversal date of the temporary difference. To simplify the presentation of deferred income taxes, the amendments require that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This amendment is effective for us beginning with fiscal year 2018 and we have no plans for early adoption. The adoption of this guidance is not expected to have a material impact on our consolidated financial position or results of operations.

B. EARNINGS PER SHARE

We compute basic earnings per share by dividing net income 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):

	<u>Three months ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
<i>Numerator:</i>		
Net loss	\$ (459)	\$ (239)
<i>Denominator:</i>		
Weighted average basic shares	11,395	12,041
Dilutive effect of restricted stock units	—	—
Weighted average diluted shares with assumed conversions	11,395	12,041
<i>Net loss per share:</i>		
Basic	\$ (0.04)	\$ (0.02)
Diluted	\$ (0.04)	\$ (0.02)

For the quarters ended December 31, 2015 and 2014, we incurred net losses and therefore all potential common shares were deemed to be anti-dilutive.

C. DETAIL OF SELECTED BALANCE SHEET ACCOUNTS

Allowance for Doubtful Accounts

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

	Three months ended December 31,	
	2015	2014
Balance at beginning of period	\$ 746	\$ 1,577
Bad debt expense	248	283
Uncollectible accounts written off, net of recoveries	26	(2)
Change in foreign currency translation	(10)	(14)
Balance at end of period	<u>\$ 1,010</u>	<u>\$ 1,844</u>

Inventories:

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

	December 31, 2015	September 30, 2015
Raw materials, parts and subassemblies, net	\$ 33,552	\$ 31,807
Work-in-progress	693	1,084
Total inventories	<u>\$ 34,245</u>	<u>\$ 32,891</u>

Cost and Estimated Earnings on Uncompleted Contracts

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

	December 31, 2015	September 30, 2015
Costs incurred on uncompleted contracts	\$ 934,278	\$ 912,237
Estimated earnings	274,099	271,640
	<u>1,208,377</u>	<u>1,183,877</u>
Less: Billings to date	(1,152,518)	(1,121,141)
Net underbilled position	<u>\$ 55,859</u>	<u>\$ 62,736</u>

Included in the accompanying balance sheets under the following captions:

Costs and estimated earnings in excess of billings on uncompleted contracts – underbilled	\$ 99,266	\$ 104,793
Billings in excess of costs and estimated earnings on uncompleted contracts – overbilled	(43,407)	(42,057)
Net underbilled position	<u>\$ 55,859</u>	<u>\$ 62,736</u>

Warranty Accrual

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

	Three months ended December 31,	
	2015	2014
Balance at beginning of period	\$ 4,930	\$ 4,557
Increase to warranty expense	1,326	537
Deduction for warranty charges	(1,100)	(524)
Change in foreign currency translation	(51)	(90)
Balance at end of period	<u>\$ 5,105</u>	<u>\$ 4,480</u>

D. GOODWILL AND INTANGIBLE ASSETS

Our intangible assets consist of goodwill, which is not being amortized, and purchased technology, which is amortized over its estimated useful life. Intangible assets balances, subject to amortization, at December 31, 2015 and September 30, 2015 consisted of the following (in thousands):

	December 31, 2015			September 30, 2015		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Purchased technology	\$ 11,749	\$ (10,453)	\$ 1,296	\$ 11,749	\$ (10,359)	\$ 1,390
Goodwill	1,003	—	1,003	1,003	—	1,003
Total	\$ 12,752	\$ (10,453)	\$ 2,299	\$ 12,752	\$ (10,359)	\$ 2,393

Amortization of intangible assets was \$0.1 million for the three months ended December 31, 2015 and 2014.

On August 7, 2006, we purchased certain assets related to the manufacturing of ANSI medium-voltage switchgear and circuit breaker business from General Electric Company (GE). In connection with the acquisition, we entered into a 15 year supply agreement with GE pursuant to which GE would purchase from the Company all of its requirements for ANSI medium-voltage switchgear and circuit breakers and other related equipment and components (the Products). In connection with the acquisition, we recorded an intangible asset related to this supply agreement. On December 30, 2013, the Company and GE amended the supply agreement to allow GE to manufacture similar Products for sale immediately and allow GE to begin purchasing Products from other suppliers beginning December 31, 2014. In return, GE paid us \$10 million upon execution of the amended supply agreement and agreed to pay an additional \$7 million over three years, subject to certain conditions. The first payment of \$2.3 million was received in March 2015. We have \$2.3 million recorded in other current assets and the remaining \$2.3 million is recorded as a long-term receivable. 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. We are amortizing this deferred credit over the four-year life of the agreement and have recognized gains in other income of \$0.5 million for the quarters ended December 31, 2015 and 2014.

E. LONG-TERM DEBT

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

	December 31, 2015	September 30, 2015
Industrial development revenue bonds	\$ 2,400	\$ 2,800
Less current portion	(400)	(400)
Total long-term debt and capital lease obligations	\$ 2,000	\$ 2,400

U.S. Revolver

In Fiscal 2014, we amended and restated our existing credit agreement (the Amended Credit Agreement) with a major domestic bank. In Fiscal 2015, we entered into the Second Amendment of the Amended Credit Agreement (the Second Amendment). The Second Amendment provided for the expansion of our Canadian manufacturing facility and allowed 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 \$21.6 million for our outstanding letters of credit at December 31, 2015.

There were no borrowings outstanding under the U.S. Revolver as of December 31, 2015. Amounts available under the U.S. Revolver were \$53.4 million at December 31, 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 December 31, 2015, we were in compliance with all of the financial covenants of the Amended Credit Agreement.

Canadian Revolver

We have a \$7.2 million credit agreement with a major international bank in Canada (the Canadian Revolver) to provide working capital support and letters of credit for our operations in Canada. The Canadian Revolver provides for the issuance of letters of credit which reduce the amounts that may be borrowed under this revolver. There were no outstanding letters of credit under the Canadian Revolver at December 31, 2015.

There were no borrowings outstanding under the Canadian Revolver as of December 31, 2015 and amounts available under the Canadian Revolver were \$7.2 million at December 31, 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 Canadian Revolver expires on March 31, 2018.

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

The Canadian Revolver is secured by the assets of our Canadian operations and provides for customary events of default and carries cross-default provisions with our existing debt agreements. If an event of default (as defined in the Canadian Revolver) occurs and is continuing, per the terms and subject to the conditions set forth in the Canadian Revolver, amounts outstanding under the Canadian Revolver may be accelerated and may become immediately due and payable. As of December 31, 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 December 31, 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. 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 0.15% as of December 31, 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 \$21.6 million as of December 31, 2015. We also had performance and maintenance bonds totaling \$307.5 million that were outstanding, with additional bonding capacity of \$442.5 million available, at December 31, 2015.

We have a \$14.8 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 December 31, 2015, we had outstanding guarantees totaling \$3.0 million under this Facility Agreement and amounts available under this Facility Agreement were \$11.8 million. This facility is renewable in May 2016.

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 therein, obligations outstanding under the Facility Agreement may be accelerated and may become or be declared immediately due and payable. As of December 31, 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 from our commercial operations, projects, employees and other matters which, in general, are subject to uncertainties and in which the outcomes are not predictable. Although we can give no assurances about the resolution of pending claims, litigation or other disputes 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. As of December 31, 2015, our exposure to possible liquidated damages is \$7.5 million, of which approximately \$2.2 million is probable. Based on our actual or projected failure to meet these various contractual commitments, \$1.7 million has been recorded against revenue in our statement of operations. 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, 2015 for a full description of our existing stock-based compensation plans.

Restricted Stock Units

We issue restricted stock units (RSUs) to certain officers and key employees of the Company. The 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. Typically, these grants vest over a three-year period from their date of issuance, of which sixty percent of the grant will be earned based on the three year earnings performance of the Company following the grant date. The remaining forty percent of the grant is time-based and vests over a three-year period on each anniversary of the grant date, based on continued employment. At December 31, 2015, there were 153,522 RSUs outstanding. The RSUs do not have voting rights but receive dividend equivalents upon vesting; additionally, the shares of common stock underlying the RSUs are not considered issued and outstanding until vested and common stock is issued.

RSU activity (number of shares) for the quarter is summarized below:

	Number of Restricted Stock Units	Weighted Average Fair Value Per Share
Outstanding at September 30, 2015	133,506	\$ 50.26
Granted	123,000	30.27
Vested ⁽¹⁾	(91,934)	33.36
Forfeited/cancelled	(11,050)	30.27
Outstanding at December 31, 2015	<u>153,522</u>	<u>\$ 45.80</u>

⁽¹⁾ Includes the accelerated vesting of 60,909 shares previously issued to our former Chief Executive Officer as part of his separation package, see Note J.

During the three months ended December 31, 2015 and 2014, we recorded compensation expense of \$2.1 million and \$0.8 million, respectively, related to the RSUs. The increase in compensation expense recorded in the three months ended December 31, 2015, was primarily due to separation costs, see Note J.

Restricted Stock

Restricted stock grants vest equally over their respective vesting period on each anniversary of the grant date and compensation expense is recognized over their respective vesting periods based on the price per share on the grant date. During the first quarter of Fiscal 2015 and Fiscal 2014, there was no restricted stock granted.

During the three months ended December 31, 2015 and 2014, we recorded compensation expense of \$0.2 million and \$0.3 million, respectively, related to restricted stock grants.

H. 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 December 31, 2015 (in thousands):

	Fair Value Measurements at December 31, 2015			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2015
Assets:				
Cash equivalents	\$ 134	\$ —	\$ —	\$ 134
Deferred compensation	2,502	2,980	—	5,482
Liabilities:				
Deferred compensation	—	5,315	—	5,315

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, 2015 (in thousands):

	Fair Value Measurements at September 30, 2015			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at September 30, 2015
Assets:				
Cash equivalents	\$ 434	\$ —	\$ —	\$ 434
Deferred compensation	1,879	2,904	—	4,783
Liabilities:				
Deferred compensation	—	4,487	—	4,487

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 both 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 December 31, 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 three months ended December 31, 2015.

I. INCOME TAXES

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

	Three months ended December 31,	
	2015	2014
Loss before income taxes	\$ (1,506)	\$ (1,230)
Income tax benefit	(1,047)	(991)
Net loss	<u>\$ (459)</u>	<u>\$ (239)</u>
Effective tax rate	70%	81%

	Three months ended December 31,	
	2015	2014
Statutory rate	35%	35%
Foreign valuation allowance	(11)	—
Research and development credit	45	46
State income taxes, net of federal benefit	3	2
Domestic production activities deduction	(2)	(2)
Effective rate	<u>70%</u>	<u>81%</u>

We recorded an income tax benefit of \$1.0 million in the first quarter of Fiscal 2016 and Fiscal 2015. The effective tax rate for the first quarter of Fiscal 2016 was 70% compared to an effective tax rate of 81% in the first quarter of Fiscal 2015, primarily due to our inability to recognize a tax benefit on the Canadian loss incurred in the first quarter of Fiscal 2016. A tax benefit related to the Canadian loss was recognized in the first quarter of Fiscal 2015.

In the second quarter of Fiscal 2015, we recorded a valuation allowance against the Canadian net deferred assets. Due to the historical Canadian losses, and the projected losses in the near term, we were required under the more-likely-than-not accounting standard to record a valuation allowance against the Canadian net deferred assets because we anticipated that we may not be able to realize the benefits of the net operating loss carryforwards and other deductible differences.

On December 18, 2015, the “Protecting Americans from Tax Hikes Act of 2015” was enacted which retroactively reinstated and made permanent the Research and Development Tax Credit (R&D Tax Credit). The retroactive tax benefit for the previously expired period from January 1, 2015 to September 30, 2015 of \$0.8 million is reflected as a discrete item and had a favorable impact to our consolidated tax benefit for the first quarter of Fiscal 2016. A retroactive reinstatement of the R&D Tax Credit resulting in a discrete item of \$0.6 million was made in the first quarter of Fiscal 2015.

J. RESTRUCTURING AND SEPARATION COSTS

In the first quarter of Fiscal 2016, we incurred \$3.8 million of restructuring and separation costs associated with the departure of our former Chief Executive Officer on December 24, 2015. This includes stock-based compensation expense of \$1.8 million due to the accelerated vesting of 60,909 restricted stock units, as well as future cash payments of \$2.0 million, of which \$1.7 million will be paid in Fiscal 2016.

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,” “continue,” “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.
- The majority of our contracts contain performance obligations that may subject us to penalties or additional liabilities.
- 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 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.
- Changes in and compliance with environmental laws could adversely impact our financial results.
- Technological innovations by competitors may make existing products and production methods obsolete.
- Catastrophic events could disrupt our business.

- Unforeseen difficulties with expansions, relocations or consolidations of existing facilities could adversely affect our operations.
- Due to the cyclical nature of the oil and gas industry, our business may be adversely impacted by extended periods of low oil or 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 these factors in more detail in our Annual Report on Form 10-K for the year ended September 30, 2015. 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, 2015 which was filed with the Securities and Exchange Commission (SEC) on December 2, 2015 and is available on the SEC's website at www.sec.gov.

Overview

We develop, design, manufacture and service custom-engineered equipment and systems for the distribution, control and monitoring of electrical energy. Headquartered in Houston, Texas, we serve the oil and gas refining, offshore oil and gas production, petrochemical, pipeline, terminal, mining and metals, light rail traction power, electric utility, pulp and paper and other industrial 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 economic and 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. Our operating results can be impacted by factors outside of our control.

During Fiscal 2015, our operating results were negatively impacted by operational inefficiencies resulting from increased volume and project scheduling delays. Our inability to meet contractual commitments on existing projects, as well as delays in customer construction schedules, negatively impacted the timing and costs related to 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 were, and may continue to be, negatively impacted by the timing and resolution of change orders, project close-out and resolution of potential liquidated damage claims, all of which impact gross margins during the period in which these items are resolved with our customers.

Our strategy in Canada has been to replicate our U.S. project-based integration model which allows for the design, fabrication, integration and testing of our products at a single location. This strategic initiative presented challenges for our Canadian operations over the last two years resulting in inefficiencies that led to higher operating costs, gross margin deterioration and operating losses. We have taken various actions which have improved our operational efficiencies in Canada this quarter.

Results of Operations

Revenue and Gross Profit

Revenues decreased by 2%, or \$2.6 million, to \$150.0 million in the first quarter of Fiscal 2016, compared to the first quarter of Fiscal 2015, primarily due to the decrease in our project backlog entering Fiscal 2016. Domestic revenues increased by 9%, or \$8.5 million, to \$105.4 million in the first quarter of Fiscal 2016, compared to the first quarter of Fiscal 2015, and international revenues decreased by 20%, or \$11.1 million, to \$44.5 million in the first quarter of Fiscal 2016, compared to the first quarter of Fiscal 2015 due to the reduced number of large projects in our overseas markets year over year. Revenues from commercial and industrial customers decreased \$10.0 million to \$112.5 million in the first quarter of Fiscal 2016, compared to the first quarter of Fiscal 2015. Revenues from public and private utilities increased \$4.3 million to \$28.8 million in the first quarter of Fiscal 2016, compared to the first quarter of Fiscal 2015. Revenues from municipal and transit projects increased \$3.1 million to \$8.7 million in the first quarter of Fiscal 2016, compared to the first quarter of Fiscal 2015.

Gross profit for the first quarter of Fiscal 2016 increased 10%, or \$2.1 million, to \$23.2 million, compared to the first quarter of Fiscal 2015. Gross profit as a percentage of revenues increased to 15% in the first quarter of Fiscal 2016, compared to 14% in the first quarter of Fiscal 2015, primarily due to improvements at our Canadian operations, as well as the overall mix of project types. Our improvement in Canada was partially offset by unfavorable project costs from a municipal transit project.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased \$1.4 million to \$19.4 million during the first quarter of Fiscal 2016 when compared to the first quarter of Fiscal 2015 partially due to cost reduction efforts. Selling, general and administrative expenses, as a

percentage of revenues, decreased slightly to 13% during the first quarter of Fiscal 2016, compared to 14% during the first quarter of Fiscal 2015 as we have begun to align our spending with current market conditions.

Restructuring and separation costs

In the first quarter of Fiscal 2016, we incurred \$3.8 million of restructuring and separation costs associated with the departure of our former Chief Executive Officer on December 24, 2015, which includes stock-based compensation expense of approximately \$1.8 million. We did not incur any restructuring or separation costs in the first quarter of Fiscal 2015.

Income Tax Provision

We recorded a benefit for income taxes of \$1.0 million in the first quarter of Fiscal 2016 and Fiscal 2015. The effective tax rate for the first quarter of Fiscal 2016 was 70% compared to an effective tax rate of 81% in the first quarter of Fiscal 2015, primarily due to our inability to recognize a tax benefit on the Canadian loss incurred in the first quarter of Fiscal 2016 while a tax benefit related to the Canadian loss was recognized in the first quarter of Fiscal 2015. Additionally, our income tax benefits were favorably impacted in the first quarters of Fiscal 2016 and Fiscal 2015 by the retroactive reinstatement of the Federal Research and Development Tax Credit.

Net loss

In the first quarter of Fiscal 2016, we recorded a loss of \$0.5 million, or \$0.04 per diluted share compared to a loss of \$0.2 million, or \$0.02 per diluted share, in the first quarter of Fiscal 2015. Our improvement in gross profit in Fiscal 2016 was offset by the \$3.8 million of separation costs.

Backlog

The order backlog at December 31, 2015 was \$390.8 million, which declined from \$441.4 million at September 30, 2015. New orders declined during the first quarter of Fiscal 2016 to \$101.8 million, compared to \$154.4 million in the first quarter of Fiscal 2015, primarily due to the continued decline in oil and gas markets.

Liquidity and Capital Resources

Cash and cash equivalents increased to \$58.9 million at December 31, 2015, compared to \$43.6 million at September 30, 2015. As of December 31, 2015, current assets exceeded current liabilities by 2.4 times and our debt to total capitalization was 0.73%.

We have a \$75.0 million revolving credit facility in the U.S., which expires in December 2018. As of December 31, 2015, there were no amounts borrowed under this line of credit. We also have a \$7.2 million revolving credit facility in Canada. At December 31, 2015, there was no balance outstanding under the Canadian revolving credit facility. Total long-term debt, including current maturities, totaled \$2.4 million at December 31, 2015, compared to \$2.8 million at September 30, 2015. Total letters of credit outstanding were \$21.6 million at December 31, 2015 and \$21.1 million at September 30, 2015, which reduced our availability under our U.S. credit facility. Amounts available at December 31, 2015 under the U.S. and Canadian revolving credit facilities were \$53.4 million and \$7.2 million, respectively. For further information regarding our debt, see Notes E and F of Notes to Condensed Consolidated Financial Statements.

Approximately \$21.0 million of our cash at December 31, 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 to 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 future operating activities, capital improvements and debt repayments for the foreseeable future. We continue to monitor the factors that drive our markets and will continue to 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 \$24.1 million during the first quarter of Fiscal 2016, compared to cash used in operating activities of \$22.7 million during the first quarter of Fiscal 2015. This change was primarily due to the reduction in accounts receivable since September 30, 2015. Cash flow from operations is primarily influenced by the timing of milestone payments from our customers and the payment terms with our suppliers.

Investing Activities

Purchases of property, plant and equipment during the first quarter of Fiscal 2016 totaled \$0.6 million compared to \$19.0 million during the first quarter of Fiscal 2015. In the first quarter of Fiscal 2015, we were completing the expansion of our Canadian facilities.

Financing Activities

Net cash used in financing activities was \$7.9 million during the first quarter of Fiscal 2016 and \$4.0 million during the first quarter of Fiscal 2015. This increase was primarily due to the \$3.7 million of cash used for the share repurchase program discussed below.

Share Repurchase Program

On December 17, 2014, our Board of Directors authorized a share repurchase program which allowed us to repurchase up to \$25 million of our outstanding stock. The purchases were 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 was funded from cash on hand and cash provided by operating activities. The Repurchase Program expired on December 31, 2015. As of December 31, 2015, we had purchased 806,018 shares at an aggregate cost of \$25 million under the Repurchase Program. The average purchase price per share since inception of the program was \$31.02.

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, 2015.

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 economic and 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 have historically been from the oil and gas markets. Unfavorable long-term commodity price levels can cause oil and gas companies to change their strategies or delay or cancel projects. Due to the precipitous decline in oil and gas prices over the past eighteen months, 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 and gas prices from a continued global supply/demand imbalance will negatively impact future orders due to reduced capital spending by our customers which may result in project deferrals and cancellations. The reduction in available projects, across the markets we serve, will increase market price pressures during this downward cycle. This reduction in new business opportunities and increased market price pressures will negatively impact our revenues, backlog, operating results and cash flows from operations. If commodity prices do not improve, or they continue to decline, the number of projects in our markets could further decline. We will continue to monitor our cost structure and strategic objectives and continue to take actions to align our resources and facilities with expected production requirements.

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 have, a negative impact on 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 customers' scheduling requirements, resulting in higher production costs due to inefficiencies. Our operating results also have been, and may continue to be, impacted by the timing and resolution of change orders, project close-out and resolution of potential contract claims, all of which could improve or deteriorate gross margins during the period in which these items are resolved with our customers.

Our strategy in Canada has been to replicate our U.S. project-based integration model which allows for the design, fabrication, integration and testing of our products at a single location. This strategic initiative has presented challenges for our Canadian operations over the last two years resulting in inefficiencies that led to higher operating costs, gross margin deterioration and operating losses. We have taken various actions which have improved our operational efficiencies in Canada this quarter. We anticipate that the long-term demand for our solutions in the Canadian oil and gas markets will continue to be a contributor to this strategy.

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

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, mining and metals, light rail traction power, electric utility, pulp and paper and other heavy 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 used in our products. While such materials are typically available from numerous suppliers, commodity raw materials 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. We continue to experience price volatility with some of our key raw materials and components. 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. Additionally, expenses associated with these transactions are generally contracted and paid for in the same local currencies. For the quarter ended December 31, 2015, our realized foreign exchange gains were \$0.4 million and are included in selling, general and administrative expenses in the Consolidated Statements of Operations.

Our accumulated other comprehensive loss, which is included as a component of stockholders' equity, was \$24.9 million as of December 31, 2015, an increase of \$2.5 million compared to September 30, 2015. This additional loss was primarily a result of fluctuations in the currency exchange rates for the Canadian Dollar and British Pound Sterling as we re-measured the foreign operations of those divisions. During the first quarter of Fiscal 2016, the U.S. Dollar continued to strengthen relative to these foreign currencies and as a result our accumulated other comprehensive losses increased.

We do not currently hedge our exposure to potential foreign currency translation adjustments.

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 provide reasonable assurance 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 report. 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 from our commercial operations, projects, employees and other matters which, in general, are subject to uncertainties and in which the outcomes are not predictable. Although we can give no assurances about the resolution of pending claims, litigation or other disputes 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.

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, 2015.

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 December 31, 2015:

	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
October 1 - October 31	20,529	\$ 29.46	20,529	\$ 3,136,041
November 1 - November 30	—	—	—	3,136,041
December 1 - December 31	115,308	27.19	115,308	—
Total activity for the quarter ended December 31, 2015	<u>135,837</u>	\$ 27.53	<u>135,837</u>	—

- (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 were able to repurchase up to \$25 million of our outstanding stock. The Repurchase Program expired 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).
*10.1	— Severance Agreement and Release effective as of December 24, 2015, between the Company and Michael A. Lucas.
*10.2	— Employment Agreement dated as of December 30, 2015, between the Company and Brett A. Cope.
*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: February 3, 2016

By: /s/ Thomas W. Powell
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

Number	Exhibit Title
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* Filed herewith

SEVERANCE AGREEMENT AND RELEASE

This Severance Agreement and Release (the "Agreement") is entered into by and between Michael A. Lucas ("Executive") and Powell Industries, Inc. (the "Company") as follows:

1. Termination of Employment. Executive and the Company acknowledge that Executive has resigned his employment as president, chief executive officer and director of the Company and as an officer and/or director of any of the Company's subsidiaries or affiliated entities effective as of December 24, 2015 (the "Termination Date"). Except as expressly set forth below, Executive is entitled to no payment, compensation or other benefits from the Company after the Termination Date.

2. Consideration.

a. Whether Executive signs this Agreement or not, the Company will pay: (i) all wages and compensation due Executive through the Termination Date; (ii) any accrued but unused vacation, provided that Executive is qualified for such payment under the terms of the Company's policies; and (iii) reimbursement of properly authorized business expenses upon compliance with the Company's expense reimbursement policies. Furthermore, notwithstanding anything in the Agreement to the contrary, Executive shall retain all his rights under and in accordance with any tax-qualified retirement plan and the Powell Industries, Inc. Deferred Compensation Plan.

b. If Executive (i) signs this Agreement; (ii) does not revoke this Agreement as provided below; and (iii) furnishes to the Company a written or electronic notice that Executive has not exercised Executive's right to revoke this Agreement dated not less than eight days after the date on which Executive signs this Agreement, the Company agrees to pay to Executive in full satisfaction of any obligations the Company may have under that certain Executive Employment Agreement by and between the Company and Executive effective as of August 20, 2012 (the "Employment Agreement") a separation payment and other benefits (all of which are collectively referred to as the "Severance Payment") as follows:

i. Payment of Executive's base salary, and all other employment benefits to which Executive would otherwise be entitled through December 31, 2015;

ii. Cash payments less applicable withholdings, equal to a total of ONE MILLION NINE HUNDRED and FIFTY-FOUR THOUSAND DOLLARS (\$1,954,000.00), to be paid in accordance with the following schedule:

On or within five (5) business after days after:	Amount
--	--------

January 1, 2016\$688,958
July 1, 2016\$884,124
August 1, 2016\$53,583
September 1, 2016\$53,583
October 1, 2016\$53,583
November 1, 2016\$53,583
December 1, 2016\$53,583
January 1, 2017\$53,583
February 1, 2017\$59,420

iii. Monthly payments equal to 100% of the applicable monthly COBRA premium under the Company's group health plan payable on the first business day of each month beginning January 2016, and continuing for the lesser of i) 18 months from the Termination Date or ii) the date on which Executive qualifies for health insurance as a result of employment by or association with a subsequent employer; and

iv. Early vesting of a total of 60,909 shares of the stock of the Company, previously awarded to Executive under the Company's Long Term Incentive Compensation Plan, which shares shall be issued and delivered to Executive within five (5) business days after January 1, 2016, provided that Executive signs and does not revoke this Agreement.

c. Executive acknowledges that the Severance Benefit represents full and final payment and satisfaction of all of the Company's obligations to Executive under the terms of the Employment Agreement including benefits to which Executive would be entitled under the Company's Short Term Incentive Compensation Plan, Long Term Incentive Compensation Plan, and/or any other compensation plan or benefit to which Executive would be entitled, except for the plans set forth in Section 2.a. of this Agreement. Executive acknowledges that the Severance Benefit includes payments and/or benefits to which Executive would not otherwise be entitled, but for Executive's execution and non-revocation of this Agreement.

d. Provided that Executive does not revoke this Agreement, Executive and the Company agree and acknowledge that the Employment Agreement, and all rights and obligations of the Company or Executive under the Employment Agreement terminated effective as of Termination Date, and the Employment Agreement is of no further force or effect from and after the Termination Date; provided, however, that nothing contained herein shall constitute a release, modification, waiver of amendment of any of the terms of the Confidentiality, Non-Competition and Non Solicitation Agreements attached to the Employment Agreement as Attachment A (the "Attachment A Agreement"); provided further that Executive and the Company agree that the "Restricted Period" (as that term is used in the Attachment A Agreement) is reduced from two years to one year following the Termination Date. Executive and the Company acknowledge and agree that, except as modified above, the Attachment A Agreement remains in full force and effect, and

Executive hereby ratifies and affirms the Attachment A Agreement and agrees to fully comply with the terms thereof, Executive acknowledges that the Company is paying the Severance Benefit in consideration of, and in reliance upon, Executive's promise and obligation to comply with the post-employment terms of the Attachment A Agreement.

3. Cooperation.

a. For a period not to exceed one (1) year from the Termination Date, Executive shall make himself available to the Company at times mutually and reasonably agreed upon by Executive and the Company's officers or directors to answer questions, provide information and assist in the transition of Executive's duties to other individuals. Executive shall not be entitled to additional compensation for these services, and any reasonable expenses incurred by Executive to perform such services shall be promptly reimbursed by Company. All of such services shall be performed during reasonable working hours, and after reasonable notice to Executive.

b. Executive shall make himself available to the Company, its officers, directors and/or attorneys to provide information and/or testimony in connection with legal, regulatory, investigative or administrative proceedings now or hereafter involving the Company, including, without limitation, the currently pending arbitration proceedings between the Company and General Electric Company. Executive shall be entitled to reimbursement of any reasonable expenses incurred by Executive to perform such services. To the extent reasonably possible, the Company shall ensure that all of such services shall be performed during reasonable working hours and after reasonable notice to Executive.

4. Indemnity. Anything herein to the contrary notwithstanding, this Release does not constitute a release of any of Executive's right to defense and/or indemnification in accordance with the Company's By-Laws, certificate or articles of incorporation, policies, insurance policies and/or any Indemnification Agreement heretofore entered into between Executive and the Company.

5. Releases.

a. In consideration of the promises and covenants made herein, Executive, for Executive, Executive's heirs, executors, administrators, successors and assigns, does hereby RELEASE, ACQUIT AND FOREVER DISCHARGE the Company, and each of its parent, subsidiary, related and affiliated corporations or other entities, and each of their respective present or former officers, directors, shareholders, employees, agents, representatives, successors and assigns (all of whom are hereinafter collectively referred to as "Releasees") from any and all claims, demands, causes of action and liabilities of any kind or character, accrued or to accrue hereafter, which Executive ever had, now has or may hereafter have against Releasees, through the Effective Date of this Agreement, arising out of any act, omission, statement, representation, transaction or occurrence, including, without limitation, those related to Executive's employment by the Company or the termination thereof. Without limiting the generality of the foregoing, it is understood and agreed that this Release constitutes a release of any claim or cause of

action: (i) for breach of the Employment Agreement, or any other employment, commission or other agreement existing between Executive and the Company all of which are hereby acknowledged to have terminated, except with regard to the Attachment A Agreement as described above; or (ii) for the issuance, grant or vesting of any unvested stock, stock options or equity rights in or to the Company, Executive acknowledging that the Severance Benefit includes payment to Executive for the value of all of such benefits and (iii) otherwise related, in any way, to Executive's employment by the Company, including the termination thereof, and includes, without limitation, claims under Title VII of the Civil Rights Act of 1964 (and all of its amendments); the Americans with Disabilities Act of 1990, as amended; the Age Discrimination in Employment Act; the Older Workers Benefit Protection Act; the Anti-Retaliation provision of the Texas Workers Compensation Act; the Fair Labor Standards Act; the Texas Pay Day Law; the Texas Labor Code; the Family and Medical Leave Act; the National Labor Relations Act; the Fair Credit Reporting Act, as amended; the Rehabilitation Act; the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA); the Executive Polygraph Protection Act; the Financial Institutions Reform, Recovery and Enforcement Act; the Uniform Services Employment and Reemployment Rights Act of 1994; and any other state or federal statute or regulation governing the employment relationship or Executive's rights, or the Company's obligations, in connection therewith. This release also constitutes a release of any claim or cause of action for invasion of privacy, intentional or negligent infliction of emotional distress, wrongful termination, promissory estoppel, false imprisonment, defamation, negligence, gross negligence, breach of contract, libel or slander, tortious interference with contract or business relationship, misrepresentation, deceptive trade practices, fraud, and any employment-related claims, or for any personal injuries, however characterized, or by virtue of any fact(s), act(s) or event(s) occurring prior to the date of this Agreement.

b. EXECUTIVE UNDERSTANDS THAT BY SIGNING AND NOT REVOKING THIS RELEASE, EXECUTIVE IS WAIVING ANY AND ALL RIGHTS OR CLAIMS WHICH EXECUTIVE MAY HAVE UNDER THE AGE DISCRIMINATION IN EMPLOYMENT ACT AND/OR THE OLDER WORKERS' BENEFIT ACT FOR AGE DISCRIMINATION ARISING FROM EMPLOYMENT WITH THE COMPANY, INCLUDING, WITHOUT LIMITATION, THE RIGHT TO SUE THE COMPANY IN FEDERAL OR STATE COURT FOR AGE DISCRIMINATION. EXECUTIVE FURTHER ACKNOWLEDGES THAT EXECUTIVE (1) DOES NOT WAIVE ANY CLAIMS OR RIGHTS THAT MAY ARISE AFTER THE DATE THE AGREEMENT IS EXECUTED; (2) WAIVES CLAIMS OR RIGHTS ONLY IN EXCHANGE FOR CONSIDERATION IN ADDITION TO ANYTHING OF VALUE TO WHICH EXECUTIVE IS ALREADY ENTITLED; (3) HAS BEEN ADVISED BY THE COMPANY TO CONSULT WITH AN ATTORNEY BEFORE SIGNING THIS RELEASE; AND (4) AGREES THAT THIS AGREEMENT IS WRITTEN IN A MANNER CALCULATED TO BE UNDERSTOOD BY EXECUTIVE, AND EXECUTIVE, IN FACT, UNDERSTANDS THE TERMS, CONTENTS, CONDITIONS AND EFFECTS OF THIS AGREEMENT AND HAS ENTERED INTO THIS AGREEMENT KNOWINGLY AND VOLUNTARILY.

c. Anything herein to the contrary notwithstanding, this Agreement does not constitute a release nor a waiver of Executive's right to file a charge or participate in an investigation or proceeding conducted by the Equal Employment Opportunity Commission, the Texas Workforce Commission, or any other governmental agency with jurisdiction to regulate employment conditions or regulations; provided further, that Executive does release and relinquish any right to receive any money, property, or any other thing of value, or any other financial benefit or award, as a result of any proceeding of any kind or character initiated by any such governmental agencies or organizations.

d. Executive acknowledges that the Severance Payment includes consideration which Executive would not be entitled to receive but for Executive's execution and non revocation of this Agreement.

e. For the same consideration, the Company does hereby RELEASE, ACQUIT AND FOREVER DISCHARGE Executive, Executive's heirs, executors, administrators, successors and assigns, from any and all claims, demands, causes of action and liabilities of any kind or character, accrued or to accrue hereafter, which the Company ever had, now has or may hereafter have against Executive, through the Effective Date of this Agreement, arising out of any act, omission, statement, representation, transaction or occurrence, including, without limitation, those related to Executive's employment by the Company or the termination thereof; provided, however, that this Release does not constitute a release of any claim or cause of action, nor any of the Company's rights to damages, contribution, indemnity or other relief, based upon a final, unappealable judicial and/or regulatory determination that Executive has violated any applicable statute, regulation or ordinance or the Employment Agreement.

6. Legal Proceedings. Executive represents that Executive has not filed any claim, notice or any other document describing or naming the Company with any governmental agency.

7. Return of the Company's Property. Executive represents and agrees that Executive:

a. Has not taken, altered, destroyed, or deleted any files, documents, electronically stored information or other materials belonging to, or created by or on behalf of the Company, whether or not containing any trade secrets or confidential information;

b. Will not use or disclose any of the Company's trade secrets or confidential information in any way or in any format including written information, information stored by electronic means, information retained in Executive's memory, and any and all copies of these materials. In any event, Executive shall hold, in confidence, all non-public information employee has regarding the Company's marketing, business development, budgets or financial projections, or pending contracts, proposals or solicitations.

c. Acknowledges that all (i) correspondence, proposals, notes, reports, memoranda, records and files; (ii) plans, specifications, drawings, blueprints, and

designs; (iii), training, service or other manuals; (iv) Customer or personnel lists or files, including mailing or contact lists; (v) computer software, programs, disks or files; (vi) tools, materials or equipment; (vii) photographs, photostats, negatives, undeveloped film; (viii) tape or electronic recordings (ix) information contained on any electronic storage or communications device used by Executive during Executive's employment with the Company, including those furnished by the Company and those owned by Executive, and (x) any other documents or programs, whether compiled by Executive or other employees of the Company, or its contractors, vendors or consultants, and those which were made available to Executive while employed at the Company, which contain any confidential information or trade secrets or concern or describe any part of the Company's business, Executive's employment or the Company's or Executive's dealings, transactions or communications with any Customers (all of which is hereinafter collectively referred to as Company Information), are and shall remain the sole and exclusive property of the Company. Executive agrees that this includes any Company Information contained on or within any personal computer, blackberry, cell phone, iPad, or any other telephonic or electronic communication or data storage device, including those owned by Executive which were used during Executive's employment with the Company (all of which are hereinafter collectively called Electronic Devices). As a condition to receipt of the Severance Benefit described herein, Executive agrees to deliver to the Company any files, records, notes or other documents, and any Electronic Devices which were used during Executive's employment with the Company or which contain any Company Information. The Company shall have the right to inspect any Electronic Device and to remove any Company Information therefrom and to retain any file, record, note or other document containing Company Information.

d. Has not kept in Executive's possession and will not disclose nor deliver to anyone else any Company Information whether in electronic, paper or any other format.

e. Has returned to the Company all of the Company's property and all Company Information which had been in Executive's possession, including, but not limited to all access cards, notes, data, forms, reference and training materials, applications, memoranda, computer programs, print-outs, disks and the information contained in any computer, and any other records which contain, reflect or describe any confidential or proprietary information or trade secrets belonging exclusively to the Company. Executive shall promptly deliver such materials and all copies thereof to the Company on the Effective Date of this Agreement.

8. Confidentiality and Confidential Information.

a. Executive acknowledges that by reason of Executive's position as Chief Executive Officer and President of the Company, as well as serving as a Director of the Company's Board of Directors, Executive has been given access to trade secrets and confidential information regarding the Company's business affairs. Executive acknowledges that all confidentiality, nondisclosure or other agreements relating to the Company's confidential information or trade secrets, and any non-compete or other agreement containing post-employment obligations, including, without limitation, those contained in the Attachment A Agreement, shall remain in full force and effect, and

nothing contained in this Agreement constitutes a release, modification or waiver of any of Executive's obligations under any such agreements. Executive represents that Executive has complied with all of such agreements, and agrees to continue to comply with such agreements after the date hereof.

b. Nothing contained herein shall limit or prevent Executive from exercising any and all rights granted under the National Labor Relations Act, including, without limitation, the right to communicate regarding wages, hours and working conditions.

9. No Reemployment. Executive expressly waives and disclaims any right to reinstatement or reemployment with the Company, and agrees never to seek employment with the Company at any time in the future unless requested to do so by the Company.

10. Tax Liability. The Company will deduct from that portion of the Severance Benefit described in Sections 2b(i), 2b(ii), and 2b(iii) all applicable withholdings and deductions as required by federal or state law.

11. Mutual Non-disparagement. Whether such statements are true or untrue, and whether made verbally, in writing or by electronic means, neither the Company nor Executive will make or publish any other's negative or unfavorable statements of any kind about, nor criticize or disparage the other nor the other's business practices or conduct, nor (in the case of the Company) the Company's business, products, services, employees or operations; provided, however, that this provision does not prohibit either Executive or the Company from testifying truthfully under oath where compelled by law to do so.

12. No Admission. Neither the execution of this Agreement, nor the payment or performance of the consideration hereof shall constitute or be deemed to be an admission of liability on the part of any party, all of which is expressly denied.

13. Acknowledgments.

a. Executive represents and acknowledges that in executing this Agreement, Executive does not rely and has not relied upon any representation or statement made by the Company, or its agents, representatives, or attorneys with regard to the subject matter, basis or effect of this Agreement or otherwise, and that Executive has engaged, and been represented by, an attorney of Executive's choosing in the negotiation and execution of this Agreement. Executive acknowledges that Executive has been advised by the Company to consult with counsel of Executive's choosing with regard to the negotiation and execution of this Release and Executive has, in fact, consulted with Executive's Counsel.

B .Executive acknowledges that Executive has been fully compensated for all labor and services performed for the Company and has been reimbursed for all business expenses incurred on behalf of the Company through the Termination Date, and that the Company does not owe Executive any expense reimbursement amounts, or wages, including vacation pay or paid time-off benefits, except for any expense reports that have been submitted but not yet processed.

14. Governing Law. This Agreement is made and entered into in the State of Texas and shall in all respects be interpreted, enforced, and governed under the laws of the State of Texas and all obligations hereunder shall be payable and performable in Houston, Harris County, Texas. Executive and the Company both agree that any dispute arising under the terms of this Agreement or under any other agreement referenced herein, shall be heard in either the state or federal courts in Houston, Texas.

15. Savings Clause. Should any provision of this Agreement be declared to be determined by any court to be illegal or invalid, the validity of the remaining parts, terms, or provisions shall not be affected thereby and said illegal or invalid part, term, or provision shall be deemed not to be a part of this Agreement.

16. Entirety of Agreement. This Agreement sets forth the entire Agreement between the parties hereto, and fully supersedes any and all prior agreements or understandings between the parties hereto pertaining to the subject matter hereof, except that this Agreement does not in any way supersede or alter the Attachment A Agreement, nor any policies or other agreements containing covenants not to compete, non-disclosure, non-solicitation agreements, or confidentiality agreements that may exist between Executive and the Company.

17. Binding Effect. This Agreement shall be binding upon, and inure to the benefit of, the parties hereto, their successors and permitted assigns; provided, however, that Executive may not assign nor transfer to any person or entity any of Executive's rights or benefits hereunder, and any such purported assignment shall be void. Executive warrants and represents to the Company that Executive has not conveyed nor assigned, nor attempted to convey or assign, any interest in or to any of the claims being released herein to any other person or entity.

18. No Admission. This Agreement is entered into to compromise and settle disputed claims and legal issues, and neither the execution of this Agreement, nor the payment or furnishing of the Settlement Payment shall constitute or be deemed to be an admission of liability on the part of any of the Releasees all of which is expressly denied.

19. Time Period for Enforceability/Revocation of Agreement. The Company's obligation to pay the Severance Payment and provide any other benefits described in this Agreement is contingent upon Executive executing and returning this Agreement to the Company. Executive may take up to twenty-one (21) days to consider this Agreement prior to executing it. Executive may sign this Agreement at any time during this twenty-one (21) day period. Any changes made to this Agreement after presentation to Executive will not restart the running of the twenty-one (21) day period. After executing this Agreement, Executive shall have seven (7) days during which time Executive may revoke Executive's consent to this Agreement by given written or electronic notification of the decision to revoke to the Company. This Agreement will not become effective or enforceable, and the payments and benefits described herein shall not become due, until such revocation period has expired and Executive has delivered a written or electronic notice that Executive has not exercised Executive's right to revoke this Agreement which notice is dated not less than eight (8) days after the date on which this Agreement is executed.

20. Notice of Revocation. Any notice of revocation to be given pursuant to the foregoing paragraph shall be sent by email or facsimile transmission to: Don Madison at don.madison@powellind.com or 713.947.4435 and Ross Margraves at rmargraves@winstead.com or 713.650.2400. Executive understands and acknowledges that Executive will not receive any monies or benefits pursuant to this Agreement except upon the execution and non-revocation of this Agreement, and the fulfillment of the promises contained herein.

21. Effective Date. The Effective Date of this Agreement shall be the later of the date on which it is signed by the Executive and the Company, provided that Executive does not revoke this Agreement in accordance with the provisions hereof.

22. Section 409A. It is intended that the payments made under this Agreement shall be structured and administered to be exempt from or comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). If the payments made under this Severance Agreement are subject to Section 409A of the Code, then in no event will the Company be liable for any additional tax, interest or penalties that may be imposed on Executive by Section 409A of the Code or any damages for failing to comply with Section 409A the Code, and Executive agrees to release the Company from any such liability and assumes all liability therefor. By Executive's signature below, Executive attests that (i) Executive has reviewed this agreement with Executive's own tax advisors, (ii) Executive is relying solely on the advice of such advisors as to whether 409A applies to any payments made under this letter, and (iii) Executive has not relied upon any statements or representations of the Company or any of its agents regarding the provisions hereof or the applicability of Section 409A of the Code.

EXECUTIVE'S SIGNATURE BELOW MEANS THAT EXECUTIVE HAS READ THIS AGREEMENT AND AGREES AND CONSENTS TO ALL THE TERMS AND CONDITIONS CONTAINED HEREIN.

SIGNED this ____ day of December, 2015.

EXECUTIVE:

MICHAEL A. LUCAS

SIGNED this ____ day of December, 2015.

COMPANY:

POWELL INDUSTRIES, INC.

By: _____
Authorized Representative

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT and an ancillary agreement to be effective simultaneously herewith entitled "Confidentiality, Non-Competition and Non-Solicitation Agreement" (the "Confidentiality Agreement"), a copy of which is attached hereto as Attachment A, and incorporated herein by reference for all purposes, (this agreement and the Confidentiality Agreement being hereinafter collectively referred to as "this Agreement") is entered into effective as of December 30, 2015 (the "Effective Date"), by and between Powell Industries, Inc. and its affiliates (the "Company") and Brett A. Cope ("Executive").

WHEREAS, Executive has been employed by the Company on an "at-will" basis without a specific, written employment agreement; and

WHEREAS, the Company desires to employ Executive as Senior Vice President and Chief Operating Officer of the Company from and after the Effective Date until the date upon which Executive is promoted to and accepts a more senior position which date shall be not later than February 28, 2017, or, in the event that such promotion does not occur as specified hereinabove, until such date as his employment shall end pursuant to the terms and conditions contained herein; and

WHEREAS, Executive desires to be employed with the Company in such position pursuant to the terms and conditions contained herein;

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

I. EMPLOYMENT TERM

A. The term of this Agreement shall commence on the Effective Date and, unless the Company and Executive agree in writing to renew or extend this Agreement, shall expire on the earlier of:

1. February 28, 2017, after which, unless the Parties agree in writing otherwise, Executive's employment shall continue at-will and shall be terminable by either party for any reason; or
2. The date Executive's employment terminates subject to the provisions of this Agreement regarding termination, resignation or retirement.

B. Executive and the Company acknowledge that the employment relationship provided herein may be terminated at any time, upon written notice to the other party for any reason, at the option of either the Company or Executive. However, as provided in this Agreement, Executive may be entitled to certain severance benefits depending upon the circumstances of Executive's termination of employment. The period Executive is employed by the Company under this Agreement is referred to herein as the "Employment Term."

C. Notwithstanding anything contained elsewhere herein to the contrary, including but not limited to Section V. Termination of Employment, in the event that the Company does not offer to Executive, in writing, promotion to a more senior position with a commensurate compensation package (*which promotion shall be effective immediately upon Executive's delivery of acceptance to the Company in writing*) by not later than ten (10) days prior to February 28, 2017 and provide to Executive a period of ten (10) calendar days following Executive's receipt of Company's written offer to accept or decline the promotion, then, regardless of whether or not Executive elects to continue his employment with Company in the current position of Chief Operating Officer or resigns that position within that period or at any time thereafter regardless of whether or not Executive's reason for resignation falls within the definition of "Good Reason" as defined hereinafter, the Company shall pay to Executive, within ten (10) days after February 28, 2017, a financial compensation payment consisting of (a) one times (1X) of Executive's base salary in effect as of that date, plus (b) one times (1X) of Executive's Short Term Incentive Compensation maximum payout, plus (c) immediate full acceleration of all of Executive's unvested stock rights comprising the accrued rights portion of the Company's Long Term Incentive Compensation Plan in effect as of that date, and (ii) the immediate cancellation of any and all non-competition agreements between Company and Executive.

D. Notwithstanding anything contained herein to the contrary, including but not limited to Section I.C above, in the event that the Company does make a written offer to Executive in accordance with the provisions of Section I.C above, and Executive fails to accept that offer within the time specified in Section I.C above, then: (i) Executive shall not be entitled to the compensation described in Section I.C above; (ii) Executive shall not be entitled to resign for a "Good Reason"; and (iii) Executive shall not be subject to the non-competition and non-solicitation provisions of Section III of the "Attachment A Agreement" (as that term is defined herein).

II. CERTAIN DEFINITIONS

A. "Accrued Rights" shall mean:

1. Executive's earned, but unpaid compensation, to include base salary, vehicle allowance, short term incentive and long term incentive compensation through the date of termination;

2. Reimbursement, within sixty (60) days following submission by Executive to the Company of appropriate supporting documentation, for any unreimbursed reasonable business expenses properly incurred by Executive in the performance of Executive's duties in accordance with the Company's expense reimbursement policy prior to the date of Executive's termination, provided claims for such reimbursement (accompanied by appropriate supporting documentation) are submitted to the Company within ninety (90) days following the date such expenses were incurred and within thirty (30) days following Executive's termination; and

3. Such Employee Benefits, if any, as to which Executive may be entitled under the terms of the employee benefit plans of the Company in effect as of the Effective Date and those coming into effect thereafter.

B. "Cause" shall mean:

1. Executive's conviction of (or plea of nolo contendere to) a felony;
2. Executive's dishonesty, theft, embezzlement or fraud with respect to the business, property, reputation or affairs of the Company;
3. Executive's willful violation of the Company's Business Code of Conduct and Business Ethics and/or any other of the Company's employment, personnel, safety or other policies as now exist or as may hereafter be amended;
4. Executive's having committed any material violation of any federal or state law regulating securities (without having relied on the advice of the Company's attorney or outside auditor) or having been the subject of any final order, judicial or administrative, obtained or issued by the Securities and Exchange Commission, or any regulatory authority having jurisdiction over the Company's securities for any securities law violation involving fraud, including, without limitation, any such order consented to by Executive in which findings of facts or any legal conclusions establishing liability are neither admitted nor denied;
5. Executive's willful and continued failure to devote substantially all of his business time to the Company's business affairs (excluding failures due to illness, incapacity, vacations, incidental civic activities and incidental personal time); or
6. Executive's unauthorized disclosure of Confidential Information and Trade Secrets of the Company, (as defined in the Attachment A Agreement attached hereto), that is materially injurious to the Company.

Notwithstanding the above, however, and except with regard to the events described in subparagraph (1) above, Cause shall not exist with respect to any matter unless the Company gives the Executive written notice of such matter within ninety (90) days of the date the Company knew of its occurrence. Such notice shall specify with reasonable particularity the acts, events or conditions which are claimed to constitute Cause. If the Company fails to give such notice timely, the Company shall be deemed to have waived its right to terminate Executive for Cause with respect to such matter.

Upon receipt of the notice described above, Executive shall have thirty (30) days to (i) cure or correct the acts, event or conditions specified in the notice, (ii) commence Executive's best efforts to cure or correct the event constituting such and continue such efforts until the act, event or condition is cured; or (iii) if applicable, provide the Company with written evidence or documentation that the acts or events claimed to constitute Cause did not occur, or were not performed or omitted by Executive, or otherwise do not constitute Cause as described in this Agreement.

For purposes of this definition, no act, or failure to act, on Executive's part shall be deemed "willful" unless done, or omitted to be done, by Executive not in good faith and without reasonable belief that Executive's action or omission was in the best interest of the Company.

C. "Change of Control" shall mean any of the following:

1. any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), (other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any affiliate, or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), acquires "beneficial ownership" (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company representing 35% or more of the combined voting power of the Company's then outstanding securities; provided, however, that if the Company engages in a merger or consolidation in which the Company or surviving entity in such merger or consolidation becomes a subsidiary of another entity, then references to the Company's then outstanding securities shall be deemed to refer to the outstanding securities of such parent entity;

2. a change in the composition of the Board, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" shall mean directors who either (i) are directors of the Company as of the Effective Date, or (ii) are elected, or nominated for election, to the Board with the affirmative votes of at least two-thirds of the Incumbent Directors at the time of such election or nomination, but Incumbent Director shall not include an individual whose election or nomination occurs as a result of either (1) an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or (2) an actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board of Directors of the Company;

3. the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity (or if the surviving entity is or shall become a subsidiary of another entity, then such parent entity) more than 50% of the combined voting power of the voting securities of the Company (or such surviving entity or parent entity, as the case may be) outstanding immediately after such merger or consolidation;

4. the stockholders of the Company approve a plan of complete liquidation of the Company; or

5. the sale or disposition (other than a pledge or similar encumbrance) by the Company of all or substantially all of the assets of the Company other than to a subsidiary or subsidiaries of the Company.

D. "Date of Termination" shall mean the date the Notice of Termination is given unless such Notice of Termination is by Executive in which event the Date of Termination shall not be less than 30 days following the date the Notice of Termination is given. Further, a Notice of Termination given by Executive due to a Good Reason event that is corrected by the Company before the Date of Termination shall be void.

E. "Disability" shall mean that Executive: (i) is unable to perform the essential functions of Executive's job title and duties by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, provided that Executive or his representative has provided the Company with certification of such disability from a licensed physician or other medical services provider acceptable to the Company in its sole discretion; (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three months under an accident and health plan or disability insurance policy covering employees of the Company; or (iii) is determined by the Social Security Administration to be disabled.

F. "Good Reason" shall mean:

1. a material reduction in Executive's authority, duties or responsibilities or the assignment to Executive of duties or responsibilities inconsistent in any material respect from those of Executive in effect immediately prior to the change;

2. a material reduction of Executive's compensation and benefits, including, without limitation, annual base salary, targeted short-term incentive compensation, targeted long-term incentive compensation, and equity incentive opportunities, from those in effect immediately prior to the change;

3. the Company fails to obtain a written agreement from any successor or assigns of the Company to assume and perform this Agreement as provided in Section VI.I hereof;

4. the Company requires Executive, without Executive's consent, to be based at any office located more than 50 miles from the Company's offices to which Executive was based immediately prior to the Change of Control, except for travel reasonably required in the performance of Executive's duties;

5. the Company's breach of a material term of this Agreement; or

6. the Company's failure to elect Executive to a more senior position at least ten (10) days prior to February 27, 2017.

Notwithstanding the above, however, Good Reason shall not exist with respect to any matter unless the Executive gives the Company written notice of such matter within ninety (90) days of the date the Executive knew or reasonably should have known of its occurrence. Such notice shall specify with reasonable particularity, the acts, events or conditions which are claimed to constitute Good Reason. If the Executive fails to give such notice timely, the

Executive shall be deemed to have waived Executive's right to resign for Good Reason with respect to such matter; provided, however, that no such notice shall be required, and the Company shall have no right to cure if Executive resigns for Good Reason as defined in Section II.F.6 above.

Upon receipt of the notice described above, the Company shall have sixty (60) days to (i) cure or correct the acts, event or conditions specified in the notice, (ii) commence the Company's best efforts to cure or correct the event constituting such and continue such efforts until the act, event or condition is cured; or (iii) if applicable, provide the Executive with written evidence or documentation that the acts or events claimed to constitute Good Reason did not occur, or otherwise do not constitute Good Reason as described in this Agreement.

For purposes of this Agreement, "Good Reason" shall be construed to refer to Executive's positions, duties, and responsibilities in the position or positions in which Executive was serving at the time immediately before any event as described in subparagraphs (1) through (5) above, which shall not include titles or positions with subsidiaries and affiliates of the Company that are held primarily for administrative convenience.

"Good Reason" shall also include any of the foregoing acts or omissions by a successor in interest to the Company as referenced in Sections II.C(3), (4) or (5) above.

G. "Notice of Termination" shall mean a written notice delivered to the other party indicating the specific termination provision in this Agreement relied upon for termination of Executive's employment which shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated. For the purpose, termination of Executive's employment shall be interpreted consistent with the meaning of the term "Separation from Service" in Section 409A(a)(2)(A)(i) of the Internal Revenue Code of 1986, as amended (the "Code") and applicable regulation authority.

H. "Poor Performance" shall mean Executive's willful and continued failure to perform substantially the duties of Executive's position after a written demand for substantial performance is delivered to him which specifically identifies the nature of such unacceptable performance, and which is not cured by Executive within a reasonable period, not to exceed sixty (60) days. For purposes of the definition in of "Poor Performance" as used herein, no act, or failure to act, on Executive's part shall be deemed "willful" unless done, or omitted to be done, by Executive not in good faith and without reasonable belief that Executive's action or omission was in the best interest of the Company.

I. "Protected Period" shall mean the 24-month period beginning on the effective date of a Change of Control.

J. "Retirement" shall mean Executive has reached 62 years of age ("normal retirement") or age 60 with at least five (5) years of active service ("early retirement"); provided, however that Executive cannot be required to retire and must consent in writing to any Retirement.

K. "Severance Period" shall mean the time period during which the Executive receives salary continuation benefits following a termination of employment by the Company for Poor Performance as described in Section V.C Without Cause or Resignation by Executive for Good Reason either prior to a Change in Control as described Section V.D or after a Change in Control as described in Section V.E.

L. "Targeted STIC" shall mean the targeted value of Executive's annual Short Term Incentive Compensation opportunity for the year in which the Date of Termination occurs, or the target value in place prior to a material reduction in compensation, or the fiscal year immediately preceding a Change of Control whichever is a greater amount.

M. "Targeted LTIC" shall mean the targeted value of Executive's annual Long Term Incentive Compensation opportunity for the year in which the Date of Termination occurs, or the target value in place prior to a material reduction in compensation, or the fiscal year immediately preceding a Change of Control, whichever is a greater amount.

N. "Termination Base Salary" shall be the greater of, the Executive's base salary at the rate in effect at the time the Notice of Termination, or the Executive's base salary in place prior to a material reduction in compensation, or the Executive's base salary in effect immediately prior to a Change of Control.

III. POSITION

A. During the Employment Term, Executive shall serve as the Company's Senior Vice President and Chief Operating Officer. In such position, Executive shall report to President & Chief Executive Officer, or as directed by the Board of Directors of the Company, and shall have the authority, responsibilities, and duties reasonably accorded to, expected of and consistent with Executive's position, as may be assigned to Executive. The Executive's principal place of employment shall be the principal offices of the Company currently located in Houston; provided, however, that Executive understands and agrees that Executive will be required to travel from time to time for business reasons.

B. During the Employment Term, Executive shall devote his full business time, attention and efforts to the performance of Executive's duties hereunder and will not engage in any other activity (for compensation or otherwise without written notice to, and the written consent of the Board of Directors of the Company (the "Board")) which, in the good faith opinion of the Board, could, either individually or in the aggregate, reasonably be expected to conflict or interfere with or otherwise adversely affect the rendition of such performance either directly or indirectly. The foregoing limitations shall not be construed as prohibiting Executive from making personal investments in such form or manner as will neither require Executive's services in the operation or affairs of the companies or businesses in which such investments are made nor violate the terms of this Agreement or otherwise conflict or interfere with Executive's responsibilities to the Company; provided, however, that Executive agrees he will not join any boards (other than community and civic boards which do not interfere with his duties to the Company) without the prior written approval of the Board.

IV. COMPENSATION

A. Base Salary. The Company shall pay Executive a base salary at the annual rate of \$370,000 payable in accordance with the Company's payroll practices for similarly situated executives (the "Base Salary"). Executive's Base Salary shall be subject to review annually by and at the sole discretion of the Compensation Committee of the Board (the "Compensation Committee").

B. Short Term Incentive Compensation Award. For each fiscal year ("Fiscal Year") of the Company during the Employment Term, Executive shall continue to be given the opportunity to earn annual Short Term Incentive Compensation Award (the "STIC Award"). Executive's annual Short Term Incentive Compensation opportunity for each Fiscal Year ending during the Employment Term shall be set by the Compensation Committee, in its sole discretion. The actual STIC Award payable to Executive with respect to a Fiscal Year shall be dependent upon the achievement of performance objectives established by the Compensation Committee for such Fiscal Year and may be greater or less than the Short Term Incentive Compensation opportunity depending on performance objective results. The Compensation Committee shall also have the sole right to determine whether Executive may be entitled to a discretionary bonus at any time and to determine the criteria to be considered in making such decision. Except as otherwise provided in this Agreement, the payment of STIC Award shall be at the same time as Short Term Incentive Compensation Awards are paid to other similar executives of the Company.

C. Long Term Incentive Compensation Award. During the Employment Term, Executive shall continue to be given the opportunity to earn annual Long Term Incentive Compensation Award (the "Target LTIC Award") under the Company's Equity Incentive Plan (the "Equity Plan"), as modified, amended or replaced from time to time. Executive's annual Targeted Long Term Incentive Compensation Award for each Fiscal Year during the Employment Term shall be set by the Compensation Committee, in its sole discretion. The actual LTIC Award payable to Executive with respect to a Fiscal Year shall be dependent upon the achievement of performance objectives established by the Compensation Committee for such Fiscal Year and may be greater or less than the Target Long Term Incentive Compensation opportunity depending on performance objective results. Except as otherwise provided in this Agreement, the payment of LTIC Award shall be at the same time as Long Term Incentive Compensation Awards are paid to other similar executives of the Company.

D. Employee Benefits. During the Employment Term, Executive shall continue to be eligible to participate in the Company's employee benefit plans as in effect from time to time (collectively, "Employee Benefits") on the same basis as such employee benefit plans are generally made available to other comparable executives of the Company.

E. Vacation. Executive shall be entitled to four (4) weeks of annual vacation leave for each Fiscal Year during which Executive is employed. Such leave shall be administered in accordance with the Company's vacation policy.

F. Automobile Allowance. During the Employment Term, Executive shall be entitled to an automobile allowance of \$2,000 per month paid in accordance with the Company's normal payroll practices.

G. Business Expenses. During the Employment Term, reasonable business expenses incurred by Executive in the performance of Executive's duties hereunder shall be reimbursed by the Company in accordance with the Company's expense reimbursement policy.

V. TERMINATION OF EMPLOYMENT

Executive shall not have a "termination of employment" for purposes of this Agreement unless such termination constitutes a "separation from service" for purposes of Section 409A of the Internal Revenue Code of 1986, as amended, and the applicable Treasury Regulations thereunder (the "Code"). Notwithstanding any other provision of this Agreement, the provisions of this Section V shall exclusively govern Executive's rights upon termination of employment with the Company and its affiliates.

A. By the Company for Cause or Resignation by Executive Without Good Reason.

1. The Employment Term and Executive's employment hereunder may be terminated by the Company for Cause or by Executive's resignation without Good Reason.

2. If Executive's employment is terminated by the Company for Cause, or if Executive resigns without Good Reason, then, subject to the further terms of this Agreement, Executive shall be entitled to receive:

a. The Accrued Rights (refer to Section II.A)

B. Retirement, Disability or Death.

1. The Employment Term and Executive's employment hereunder shall terminate upon Executive's Retirement, Disability or Death; provided, however, that if Executive retires under circumstances that would constitute "Good Reason", Executive shall be deemed to have terminated for "Good Reason" and be entitled to the applicable rights and benefits provided in this Agreement.

2. Upon termination of Executive's employment hereunder for either Retirement, Disability or Death, then Executive or Executive's estate (as the case may be) shall be entitled to receive the following:

a. The Accrued Rights (refer to Section II.A); and

b. A prorated portion of the Targeted STIC for the current Fiscal Year, prorated based on the percentage of the current Fiscal Year that shall have elapsed through the date of termination; and

c. With respect to any outstanding equity-based awards, whether "time-based" or "performance-based" vesting (including, but not limited to, any unvested options, restricted stock, restricted stock units, and performance share units) such outstanding awards shall immediately vest; and

d. In the event of termination for Disability or Death, an amount, paid on the first business day of each month, equal to 100% of the applicable monthly COBRA premium under the Company's group health plan, continued for the lesser of (i) twelve (12) months or (ii) until such COBRA coverage for Executive terminates.

C. By the Company for Poor Performance.

1. The Employment Term and Executive's employment hereunder may be terminated by the Company for Poor Performance.

2. If Executive's Employment is terminated by the Company for Poor Performance then Executive shall be entitled to receive from the Company the following:

a. The Accrued Rights (refer to Section II.A);

b. Continued payment of Executive's Termination Base Salary for twelve (12) months (the "Severance Period") following the date of such termination, payable in accordance with the Company's normal payroll practices as in effect on the date of termination;

c. With respect to any outstanding unvested equity-based awards, whether "time-based" or "performance-based" vesting (including, but not limited to, any unvested options, restricted stock, restricted stock units, and performance share units) such outstanding unvested awards shall be forfeited; and

d. An amount, paid on the first business day of each month equal to one hundred percent (100%) of the applicable COBRA premium under the Company's group health plan, continued for the lesser of (1) twelve (12) months from the date of termination of Executive's employment; or (2) the date on which Executive qualifies for health insurance as a result of employment by or association with a subsequent employer.

D. By the Company Without Cause and not for Poor Performance or Resignation by Executive for Good Reason Prior to a Change in Control.

1. The Employment Term and Executive's employment hereunder may be terminated by the Company without Cause or by Executive's resignation for Good Reason. The Company's failure to elect Executive to a more senior position at least ten (10) days prior to the expiration of the Employment Term shall have the same effect as a termination by the Company without Cause and shall entitle Executive to receive the amounts set forth in Section V.D.2. below; provided, however, that Executive shall not be required to actually terminate his employment with the Company to receive such amounts

and may continue as an at-will employee following the expiration of the Employment Term; provided, further, that if the Company elects Executive to a more senior position and Executive does not accept such position, in writing, within ten (10) days after such election, Executive shall not be entitled to receive any of the amounts set forth in Section V.D.2. below.

2. If Executive's employment is terminated by the Company without Cause (and other than by reason of Executive's death or Disability) or if Executive resigns for Good Reason, then Executive shall be entitled to receive from the Company the following:

- a. The Accrued Rights (refer to Section II.A);
- b. Continued payment of Executive's Termination Base Salary for twelve (12) months (the "Severance Period") following the date of such termination, payable in accordance with the Company's normal payroll practices as in effect on the date of termination;
- c. An amount equal to one (1) times the Target Short Term Incentive Compensation of Executive for the Fiscal Year in which Executive's employment terminates, which amount shall be payable in one (1) installment due six (6) months after the date of Executive's termination of employment;
- d. With respect to any outstanding equity-based awards, whether "time-based" or "performance-based" vesting (including, but not limited to, any unvested options, restricted stock, restricted stock units, and performance share units) such outstanding awards shall immediately vest.
- e. An amount, paid on the first business day of each month, equal to 100% of the applicable monthly COBRA premium under the Company's group health plan, continued for the lesser of (i) eighteen (18) months from the date of termination of Executive's employment or (ii) the date on which Executive qualifies for health insurance as a result of employment by or association with a subsequent employer;
- f. Outplacement services for twelve (12) months from the termination date or until Executive obtains substantially comparable employment (as determined by the Company), whichever is shorter. Such outplacement services shall be commensurate with Executive's position and reasonable in amount, but not to exceed \$25,000; and
- g. Notwithstanding anything in this Agreement to the contrary, if Executive is a "disqualified individual" (as defined in Section 280G(c) of the IRS Code), and the payments and benefits provided for in this Section V.D of this Agreement, together with any other payments and benefits which Executive has the right to receive from the Company or any other person, would constitute a "parachute payment" (as defined in Section 280G(b)(2) of the Code), then the payments and benefits provided for in this Agreement shall be either (a) reduced

(but not below zero) so that the present value of such total amounts and benefits received by Executive from the Company and/or such person(s) will be \$1.00 less than three (3) times Executive's "base amount" (as defined in Section 280G(b)(3) of the Code) and so that no portion of such amounts and benefits received by Executive shall be subject to the excise tax imposed by Section 4999 of the Code or (b) paid in full, whichever produces the better "net after-tax position" to Executive (taking into account any applicable excise tax under Section 4999 of the Code and any other applicable taxes). The reduction of payments and benefits hereunder, if applicable, shall be made by reducing, first, payments or benefits to be paid in cash hereunder in the order in which such payment or benefit would be paid or provided (beginning with such payment or benefit that would be made last in time and continuing, to the extent necessary, through to such payment or benefit that would be made first in time) and, then, reducing any benefit to be provided in-kind hereunder in a similar order. The determination as to whether any such reduction in the amount of the payments and benefits provided hereunder is necessary shall be made by the Company in good faith. If a reduced payment or benefit is made or provided and through error or otherwise that payment or benefit, when aggregated with other payments and benefits from the Company (or its affiliates) used in determining if a "parachute payment" exists, exceeds \$1.00 less than three (3) times Executive's base amount, then Executive shall immediately repay such excess to the Company upon notification that an overpayment has been made. Nothing in this paragraph shall require the Company to be responsible for, or have any liability or obligation with respect to, Executive's excise tax liabilities under Section 4999 of the Code.

E. By the Company Without Cause and Not for Poor Performance or Resignation by Executive for Good Reason During the Protected Period Following a Change in Control.

1. Upon the effective date of a Change in Control during the Employment Term, all of Executive's unvested incentive, performance and equity-based awards (including, but not limited to, any unvested options, restricted stock, performance, and phantom share units under the Company's equity incentive plan or any other equity plan subsequently adopted by the Company) granted to Executive after the Effective Date shall vest in full.

2. If Executive's employment is terminated by the Company without Cause (and other than by reason of Poor Performance or Executive's death or Disability) or if Executive resigns for Good Reason during the Protected Period immediately following a Change in Control, then Executive shall be entitled to receive from the Company (in lieu of any other severance payments or benefits under this Agreement), the following:

- a. The Accrued Rights (refer to Section II.A);
- b. Continued payment of Executive's Termination Base Salary for twenty-four (24) months ("Severance Period") following the date of such termination, payable in accordance with the Company's normal payroll practices as in effect on the date of termination;

c. An amount equal to two (2) times the Targeted Short Term Incentive Compensation of Executive for the Fiscal Year in which Executive's employment terminates; which amount shall be payable in one (1) installment due six (6) months after the date of Executive's termination of employment;

d. With respect to any outstanding equity-based awards, whether "time-based" or "performance-based" vesting (including, but not limited to, any unvested options, restricted stock, restricted stock units, and performance share units) such outstanding awards shall immediately vest.

e. An amount, paid on the first business day of each month, equal to 100% of the applicable monthly COBRA premium under the Company's group health plan, continued for the lesser of (i) eighteen (18) months from the date of termination of Executive's employment or (ii) the date on which Executive qualifies for health insurance as a result of employment by or association with a subsequent employer;

f. Outplacement services for twelve (12) months from Executive's termination date or until Executive obtains substantially comparable employment (as determined by the Company), whichever is shorter. Such outplacement services shall be commensurate with Executive's position and reasonable in amount, but not to exceed \$25,000; and

g. Notwithstanding anything in this Agreement to the contrary, if Executive is a "disqualified individual" (as defined in Section 280G(c) of the IRS Code), and the payments and benefits provided for in this Section V.E of this Agreement, together with any other payments and benefits which Executive has the right to receive from the Company or any other person, would constitute a "parachute payment" (as defined in Section 280G(b)(2) of the Code), then the payments and benefits provided for in this Agreement shall be treated in accordance with Section V.D(2)(g) of this Agreement.

F. Notice of Termination. Any purported termination of employment by the Company or by Executive (other than due to Executive's death) shall be communicated by written Notice of Termination to the other party hereto in accordance with the notice provisions hereof. With respect to any termination of employment by Executive, such notice of termination shall be communicated to the Company at least thirty (30) days prior to such termination.

G. Officer/Board Resignation. Upon termination of Executive's employment for any reason, Executive shall be deemed hereby to have resigned, effective as of the date of such termination and to the extent applicable, from the Board (and any committees thereof) and as an officer of the Company and the board of directors (and any committees thereof) and as an officer of any and all of the Company's affiliates. As a condition to receipt of the severance benefits described herein, Executive agrees to provide written confirmation of such resignations to the Company.

H. Waiver and Release. Notwithstanding any other provisions of this Agreement to the contrary, unless expressly waived, in writing, by the Compensation Committee of the Board, in its sole discretion, the Company shall not make or provide, and Executive shall not be entitled to receive, any severance payments or benefits provided under this Agreement, other than the Accrued Rights, unless (i) within fifty (50) days from the date on which Executive's employment is terminated, Executive (or his estate) executes and delivers to the Company a general release (which shall be provided by the Company not later than five (5) days from the date on which Executive's employment is terminated and be substantially in the form attached hereto as Attachment B, whereby Executive (or his estate or legally appointed personal representative) releases the Company (and affiliates of the Company and other designated persons) from all employment based or related claims of Executive and all obligations of the Company to Executive other than with respect to (x) the Company's obligations to make and provide the severance payments and benefits as provided in this Agreement and (y) any vested benefits to which Executive is entitled under the terms of any Company benefit or equity plan, and (ii) Executive does not revoke such release within any applicable revocation period following Executive's delivery of the executed release to the Company. If the requirements of this Section are satisfied, then the severance payments and benefits which Executive is otherwise entitled to receive under this Agreement shall begin or be made, as applicable, without interest, on the later of (i) the sixtieth (60th) day following the date on which Executive's employment was terminated or (ii) on the tenth (10th) business day after expiration of Executive's right to revoke the release described in this section, provided that Executive does not revoke such release. If the requirements of this Section are not satisfied by Executive (or his estate or legally appointed personal representative), then no severance payments or benefits, other than the Accrued Rights, shall be due Executive (or his estate) pursuant to this Agreement.

I. Compliance with IRC Section 409A.

1. Notwithstanding anything in this Agreement to the contrary, if, at the time of Executive's termination of employment with the Company and its affiliates, Executive is a "specified employee," as defined in Section 409A of the Code, and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment is necessary in order to avoid the additional tax under Section 409A of the Code, then the Company will defer the payment or the commencement of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to Executive) until the date that is six months following Executive's termination of employment with the Company (or the earliest date as is permitted under Section 409A of the Code). Any payment amounts deferred pursuant to this Section will be accumulated and paid to Executive (without interest) in a lump sum and the balance of any remaining payments due Executive will be paid monthly or at such times as otherwise provided herein.

2. Any reimbursement of any costs and expenses by the Company to Executive under this Agreement shall be made by the Company in no event later than the close of Executive's taxable year following the taxable year in which the cost or expense is incurred by Executive. The expenses incurred by Executive in any calendar year that are eligible for reimbursement under this Agreement shall not affect the expenses incurred by Executive in any other calendar year that are eligible for reimbursement

hereunder and Executive's right to receive any reimbursement hereunder shall not be subject to liquidation or exchange for any other benefit.

3. Each payment that Executive may receive under this Agreement shall be treated as a "separate payment" for purposes of Section 409A of the Code.

4. Except as provided in V.I.1, and notwithstanding anything in this Agreement to the contrary, the payment of an Annual Bonus, Performance Award, cash incentive award or equity-based award due thereunder shall be paid in all events within 2½ months after the end of the year in which such award (or prorated part) first becomes "vested," within the meaning of Section 409A of the Code.

5. To the extent that Section 409A of the Code applies to any terms or conditions of this Agreement, such terms and conditions shall be interpreted in a manner that is consistent with Section 409A of the Code.

VI. MISCELLANEOUS

A. Agreement Ancillary to Other Agreements. This Agreement is ancillary to the Attachment A Agreement which is attached hereto and made a part hereof as Attachment A and the Company's agreements to: (i) disclose, and to continue to disclose its Confidential Information and Trade Secrets to Executive; (ii) provide initial and continued training, education and development to Executive; (iii) provide Executive with Confidential Information and Trade Secrets about, and the opportunity to develop relationships with, Company's employees, Customers and Suppliers, and employees and agents of its Customers and Suppliers.

B. Governing Law/Venue. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without regard to conflict of laws principles thereof. Each party to this Agreement hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts in Houston, Texas, for the purposes of any proceeding arising out of or based upon this Agreement.

C. Arbitration. Any dispute, claim or controversy arising out of or relating to this Agreement or the breach, termination, enforcement, interpretation or validity thereof shall be determined by arbitration in Houston, Harris County, Texas before one arbitrator. The arbitration shall be administered by the American Arbitration Association pursuant to its rules for the resolution of employment disputes, and the following provisions:

1. Unless otherwise ordered by the arbitrator, limited discovery consisting of one (1) deposition of each party and each expert; not more than fifteen (15) requests for production of documents; and not more than ten (10) interrogatories.

2. Subject to applicable law, the arbitrator may award attorneys' fees and the costs of arbitration to the prevailing party.

3. Anything herein to the contrary notwithstanding, either party shall have the right to seek and obtain injunctive relief to prevent a threatened breach of this Agreement, including the Confidentiality Agreement.

D. Other Agreements.

1. The Confidentiality Agreement attached hereto as Attachment A is an integral part of this Agreement, and this Agreement shall not become effective unless and until Executive has executed both this Agreement and the Confidentiality Agreement. A default under or breach of the Confidentiality Agreement shall constitute a breach of this Agreement. In addition to any and all other remedies available to Company, in the event of a breach of or default under this Agreement, or in the event that the Company obtains any form of equitable relief, order or injunction, whether temporary or permanent, for the enforcement of any of the provisions of this Agreement or the Confidentiality Agreement, the Company shall be entitled to recover, and the Executive (or his estate) shall be obligated to repay and return to the Company, upon written demand therefore, an amount equal to all severance or other benefits paid to, or on behalf of, the Executive (or his estate) pursuant to the provisions of this Agreement (other than the Accrued Rights) on or after the date of termination of Executive's employment.

2. In the event of a conflict between the rights and benefits granted by this Agreement, and those granted under any other incentive, stock option, stock grant or similar plan or agreement (with the exception of the "Executive Severance Protection Plan" referred to below), Executive shall be entitled to the rights and benefits described in this agreement.

E. Prior Agreements. The terms of this Agreement, the Confidentiality Agreement referred to herein, and the letter of employment offer contain the entire understanding and agreement of the parties with respect to the employment of Executive by the Company and the termination of such employment.

F. No Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

G. Severability. In the event that any one or more of the provisions of this Agreement shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement shall not be affected thereby.

H. Assignment. Neither this Agreement nor any of Executive's rights and duties hereunder, shall be assignable or delegable by Executive. Any purported assignment or delegation by Executive in violation of the foregoing shall be null and void ab initio and of no force and effect. This Agreement may be assigned by the Company to a person or entity which is an affiliate or a successor in interest to substantially all of the business operations of the Company. Upon such assignment, the rights and obligations of the Company hereunder shall become the rights and obligations of such affiliate or successor person or entity.

I. Successor Agreement. At, or simultaneously with, a Change of Control (as described in this Agreement), the Company will require any successor to all or substantially all

of the business and/or assets of the Company (whether direct or indirect, and whether by purchase, merger, consolidation or otherwise) to expressly assume and agree, in writing, to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no succession had taken place. Failure of the successor to so assume this Agreement shall constitute "Good Reason as defined in Section I.F of this Agreement.

J. Notices. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given on the earlier of (i) the date that such notice is delivered by hand or overnight courier or (ii) three (3) days after it has been mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below in this Agreement, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

IF TO THE COMPANY:

Powell Industries, Inc.
Attention: Chief Executive Officer
8550 Mosley Road
Houston, Texas 77075

IF TO EXECUTIVE:

Brett A. Cope
15711 Frio Springs Lane
Cypress, Texas 77429

K. Prior Employment. The Company has employed Executive for Executive's general skills, management abilities and experience in the Company's Business (as defined in the Confidentiality Agreement referred to herein). Executive acknowledges that Executive has been specifically instructed not to bring, disclose or use in any fashion any confidential information, trade secrets, proprietary information, data or technology, nor any confidential pricing information, belonging to any prior employer. In no event is Executive authorized to use or disclose any such information to the Company or any of its employees.

L. Executive's Representations. Executive hereby represents to the Company that (i) all confidential information, trade secrets or proprietary information, data or technology, belonging to any prior employer, including those that might have been contained on Executive's personal computer, cell phone or other electronic communications or storage device have been returned and/or deleted in accordance with any policy of or agreement with Executive's prior employer and (ii) the execution and delivery of this Agreement by Executive and the Company and the performance by Executive of Executive's duties hereunder shall not constitute a breach of, or otherwise contravene, the terms of any employment agreement or other agreement or policy to which Executive is a party or otherwise bound.

M. Reimbursement of Legal Expenses. The Company shall reimburse Executive for reasonable and customary fees charged by Executive's attorney to provide legal counsel review and defense concerning this Agreement, not to exceed \$10,000.

N. Cooperation. Executive shall provide Executive's reasonable cooperation in connection with any action or proceeding (or any appeal from any action or proceeding) which

relates to events occurring during Executive's employment hereunder. Executive shall be entitled to reimbursement for reasonable and customary expenses incurred for purposes of cooperating in any action or proceeding pursuant to this Section. This provision shall survive any termination of this Agreement.

O. Indemnification. Executive shall be defended and indemnified by the Company against liability as an employee, officer and director of the Company and any subsidiary or affiliate of the Company to the maximum extent permitted by the Company's bylaws by applicable law or by any indemnity agreement heretofore or hereafter executed between the Company and Executive. Executive's rights under this Section shall continue so long as Executive maybe subject to such liability, whether or not this Agreement may have terminated prior thereto. The Company will insure Executive, for the duration of his employment with the Company and thereafter with respect to his acts and omissions occurring during such employment, under a contract of director and officer liability insurance to the same extent as such insurance insures members of the Board.

P. Withholding of Taxes. The Company may withhold from any amounts or benefits payable under this Agreement all taxes it may be required to withhold pursuant to any applicable law or regulation.

Q. Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

R. Survival. The provisions of this Agreement, together with the provisions of the Confidentiality, Non-Competition and Non-Solicitation Agreement, attached and part of this Agreement as Attachment A, shall each survive the termination of Executive's employment, regardless of how such termination is caused.

IN WITNESS WHEREOF, THE PARTIES HERETO HAVE DULY EXECUTED THIS EMPLOYMENT AGREEMENT EFFECTIVE FOR ALL PURPOSES AS OF THE EFFECTIVE DATE.

BY EXECUTIVE:

Brett A. Cope

Date:

BY POWELL INDUSTRIES, INC.:

Thomas W. Powell

Date:

**CONFIDENTIALITY, NON-COMPETITION AND
NON-SOLICITATION AGREEMENT**

This Confidentiality, Non-Competition and Non-Solicitation Agreement ("this Agreement") is entered into between Powell Industries, Inc., on behalf of itself, and any and all of its subsidiaries, affiliates or successors (all of whom are hereinafter collectively referred to as "Company") and Neil Pendley ("Executive") in connection with and ancillary to an Executive Employment Agreement (the "Employment Agreement") being entered into between the Company and Executive of even date herewith.

I. Nondisclosure of Confidential Information and Trade Secrets

A. Company's Agreements. During the course of Executive's employment by the Company, the Company has provided, and hereby agrees to continue to provide Executive with: (i) specialized training and continuing training and development regarding its products, services, methods, systems and operations; (ii) access to its Confidential Information and Trade Secrets (as defined herein); and (iii) Confidential Information and Trade Secrets about, and the opportunity to develop close relationships with the Company's management personnel, employees, Customers (as defined herein), Suppliers (as defined herein) and the employees, agents and representatives of Customers and Suppliers.

B. Company's Business. Company is engaged in the highly competitive business of the design, manufacture and packaging of equipment and systems for the distribution, control, generation and management of electrical and other power sources (all of which is hereinafter collectively referred to as the "Company's Business"). Executive acknowledges that because of the highly competitive nature of the Company's Business, the use and protection of the Company's Confidential Information and Trade Secrets as defined in this Agreement is critical to the Company's continued successful operation and business and is an essential element of this Agreement.

C. Definition of Confidential Information and Trade Secrets. Confidential Information and Trade Secrets, as used in this Agreement, includes, but is not limited to, written, electronic, oral and visual information relating to:

1. Lists of, and all information about, each person or entity to which Company has sold, or made a proposal to sell any products, goods, services or equipment which comprise any part of the Company's Business (all of which are hereinafter collectively referred to as "Customers");
 2. Lists of, and all information about, each person or entity from which the Company has acquired equipment, inventory, components, products or services used by the Company to design, manufacture, fabricate, sell or deliver any of the products or services which comprise the Company's Business (all of which are hereinafter collectively referred to as Supplier);
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3. All Customer contact information, which includes information about the identity and location of individuals with decision-making authority and the particular preferences, needs or requirements of the Customer, or such individual, with respect to any of the products, goods, services or equipment which comprise any part of the Company's Business, and all information about the particular needs or requirements of Customers based on geographical, economic or other factors;
4. Financial information of any kind about Customers, including sales and purchase histories, trend information about the growth or shrinking of a particular Customer's needs, purchases or requirements; profit margins or markups, as well as all information about the costs and expenses which the Company incurs to provide products or services to its Customers;
5. The Company's procedures, forms, methods, and systems for marketing to Customers and potential customers including all of its Customer development techniques and procedures, including training and other internal manuals, forms and documents;
6. All Supplier contact information, which includes information about the identify and location of individuals with decision-making authority and the particular capabilities, capacities, expertise, prices and/or schedules of such Suppliers;
7. All of the Company's non-public business, expansion, marketing, development, financial or budgeting plans, strategies, forecasts or proposals;
8. All of the Company's pricing and hedging formulas, methodologies, practices and systems, including those based upon particular Customers, quantities, or geographic, seasonal, economic or other factors, including all information about the price, terms, quantities or conditions of any products or services sold or furnished by the Company to its Customers;
9. Technical information about the Company, including designs, drawings, engineering and information regarding the configuration, assembly or contents of any of the Company's products or any of its hardware, equipment, tools, machinery or other manufacturing, fabrication or assembly devices or processes, or those of any of its Customers, consultants, vendors, suppliers, or any person or entity which provides manufacturing or fabrication services to the Company;
10. Any non-public financial information of any kind about the Company or its operations;
11. Information disclosed to the Company by third parties, concerning the Company's products, goods or services, bids or bidding processes, product or manufacturing specifications (except to the extent such information is publicly disclosed), contracts, procedures, or business practices;
12. Employee lists, phone numbers and addresses, pay rates, benefits and compensation packages, training programs and manuals, and other confidential information regarding the Company's personnel; provided, however, that nothing

contained herein shall prevent or limit Executive's right to exercise any rights protected under the National Labor Relations Act; and

13. Anything contained in this Agreement to the contrary notwithstanding, Confidential Information and Trade Secrets shall not include publically available information.

D. Confidential Information and Trade Secrets. Company and Executive agree that Confidential Information and Trade Secrets includes current, updated and future data, information, reports, evaluations and analyses of Company, its financial performance and results, or its Executives, including their compensation, performance or evaluation, as well as correspondence, proposals, contracts and other communications with, or financial, sales or other information about the Company's Customers and Suppliers, and includes (i) those which are provided to Executive after the date hereof, (ii) those which Executive creates, in whole or in part; (iii) those to which or for which Executive provides input or information; and (iv) those which Executive uses for the purpose of performing Executive's duties for the Company or making decisions relating to the Company's Business, its Customers, Suppliers or employees. Anything to the contrary notwithstanding, however, Confidential Information and Trade Secrets shall not include (i) general industry knowledge acquired by Executive as a result of Executive's prior employment, (ii) non-confidential information acquired by Executive from any prior employment, (iii) contact information about Customers, Suppliers and others with whom Executive dealt prior to Executive's employment with the Company; and (iv) any other information generally available to the public.

E. Protection of Confidential Information and Trade Secrets. During the term of Executive's employment and at all times thereafter, Executive will keep all Confidential Information and Trade Secrets in strict confidence and will not use or disclose any Confidential Information and Trade Secrets for any purpose other than the performance of Executive's duties for Company. Executive will not use any Confidential Information and Trade Secrets for the gain or benefit of any person or entity other than the Company or for Executive's own personal gain or benefit. Executive will not cause the transmission, removal or transport of Confidential Information and Trade Secrets from the Company's premises except in accordance with the Company's approved procedures and then only to the extent necessary to perform Executive's duties, while employed by the Company. Executive will not provide any information about the Company's Executives to any competitor or recruiter.

II. Intellectual Property and Work Product.

A. If Executive creates, invents, designs, develops, contributes to or improves any Works, either alone or with third parties, at any time during Executive's employment by the Company and within the scope of such employment and/or with the use of any the Company resources ("Company Works"), Executive shall promptly and fully disclose same to the Company and hereby irrevocably assigns, transfers and conveys, to the maximum extent permitted by applicable law, all rights and intellectual property rights therein (including rights under patent, industrial property, copyright, trademark, trade secret, unfair competition and related laws) to the Company to the extent ownership of any such rights does not vest originally in the Company.

B. Executive agrees to keep and maintain adequate and current written records (in the form of notes, sketches, drawings, and any other form or media requested by the Company) of all Company Works. The records will be available to and remain the sole property and intellectual property of the Company at all times.

C. During the Employment Term, Executive shall take all requested actions and execute all requested documents (including any licenses or assignments required by a government contract) at the Company's expense (but without further remuneration) to assist the Company in validating, maintaining, protecting, enforcing, perfecting, recording, patenting or registering any of the Company's rights in the Prior Works and Company Works. If the Company is unable for any other reason to secure Executive's signature on any document for this purpose, then Executive hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Executive's agent and attorney in fact, to act for and in Executive's behalf and stead to execute any documents and to do all other lawfully permitted acts in connection with the foregoing.

D. Executive shall not improperly use for the benefit of, bring to any premises of, divulge, disclose, communicate, reveal, transfer or provide access to, or share with the Company any confidential, proprietary or non-public information or intellectual property relating to a former employer or other third party without the prior written permission of such third party. Executive hereby indemnifies, holds harmless and agrees to defend the Company and its officers, directors, partners, employees, agents and representatives from any breach of the foregoing covenant. Executive shall comply with all relevant policies and guidelines of the Company, including regarding the protection of confidential information and intellectual property and potential conflicts of interest. Executive acknowledges that the Company may amend any such policies and guidelines from time to time, and that Executive remains at all times bound by their most current version.

III. Non-Competition and Non-Solicitation of Customers

A. Non-Competition.

1. So long as Executive is employed by the Company or one of its affiliates, and for the greater of (i) one year from the date of the termination of Executive's employment or (ii) the "Severance Period" as defined in Section II-I of the Executive's Employment Agreement (collectively the "Restricted Period"), Executive will not, whether on Executive's own behalf or on behalf of or in conjunction with any person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise whatsoever ("Person"), directly or indirectly:

- a. call upon, communicate with, solicit or assist in soliciting any Customer or Supplier, or any agent or employer of either, using any Confidential Information and Trade Secrets in any way;
- b. participate in, work on or otherwise be involved in or with any project, contract, proposal, work, sale, bid or other undertaking (collectively "Project"), if Executive worked on, participated in, was involved, or

communicated with other employees of the Company, Customers, Suppliers or other third parties, with regard to any such Project during the six (6) months prior to the date of the termination of Executive's employment.

B. Non-Solicitation.

1. During the Restricted Period, Executive will not, whether on Executive's own behalf or on behalf of or in conjunction with any Person, directly or indirectly:

a. solicit or encourage any employee of the Company or its affiliates to leave the employment of the Company or its affiliates; or

b. hire any employee who was employed by the Company or its affiliates as of the date of Executive's termination of employment with the Company or who left the employment of the Company or its affiliates coincident with, or within one year prior to or after, the termination of Executive's employment with the Company.

2. During the Restricted Period, Executive will not, directly or indirectly, solicit or encourage to cease to work with the Company or its affiliates any consultant then under contract with the Company or its affiliates.

3. It is expressly understood and agreed that although Executive and the Company consider the restrictions contained in this Section 3 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or territory or any other restriction contained in this Agreement is an unenforceable restriction against Executive, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

C. Exceptions. The Company and Executive agree that Executive shall not be subject to the non-competition provisions of this Section III.A. if any of the following events occur prior to the expiration of the Employment Term:

1. The Company fails to elect Executive to a more senior position at least ten (10) days prior to the expiration of the Employment Term;

2. Executive is terminated without Cause; or

3. Executive resigns for a Good Reason.

IV. Company Property

Executive also agrees that all (i) correspondence, proposals, notes, reports, memoranda, records and files; (ii) plans, specifications, drawings, blueprints, and designs; (iii) training, service or other manuals; (iv) Customer or personnel lists or files, including mailing or contact lists; (v) computer software, programs, disks or files; (vi) tools, materials or equipment; (vii) photographs, photostats, negatives, undeveloped film; (viii) tape or electronic recordings (ix) information contained on any electronic storage or communications device used by Executive during Executive's employment with the Company, including those furnished by the Company and those owned by Executive, and (x) any other documents or programs, whether compiled by Executive or other Executives of the Company, or its contractors, vendors or consultants, and those which were made available to Executive while employed at the Company, which contain any Confidential Information and Trade Secrets or concern or describe any part of the Company's Business, Executive's employment or the Company's or Executive's dealings, transactions or communications with any Customers (all of which is hereinafter collectively referred to as Company Information), are and shall remain the sole and exclusive property of the Company. Executive agrees that this includes any Company Information contained on or within any personal computer, blackberry, cell phone, iPad, or any other telephonic or electronic communication or data storage device, including those owned by Executive which were used during Executive's employment with the Company (all of which are hereinafter collectively called Electronic Devices). At any time upon the Company's request, and without request upon termination of Executive's employment, however such termination is caused, Executive will deliver to the Company any files, records, notes or other documents which were used during Executive's employment with the Company or which contain any Company Information. Executive will not keep in Executive's possession nor disclose nor deliver to anyone else any Company Information whether in electronic, paper or any other format.

V. Rights and Remedies Upon Breach

A. If Executive breaches any of the provisions of this Agreement, the Company will have all of the following rights and remedies, each of which shall be independent of the other and severally enforceable, and all of which shall be in addition to, and not in lieu of, any other rights and remedies available to the Company under law or in equity: (i) to have this Agreement specifically enforced by any court of competent jurisdiction; (ii) to seek and obtain injunctive or other equitable relief of any kind, Executive hereby acknowledging and agreeing that any such breach or threatened breach will cause irreparable injury to the Company and that monetary damages will not provide an adequate remedy to the Company; (iii) to require Executive to account for and pay over to the Company all compensation, profits, monies, or other benefits derived or received by Executive as a result of any act or transaction constituting a breach of this Agreement.

B. Executive agrees and stipulates that in any action or claim brought by Executive or in any action or claim brought against Executive involving the provisions of this Agreement, Executive hereby expressly waives any claim or defense that the non-competition, non-solicitation and non-disclosure covenants contained in this Agreement are unenforceable, void or voidable, for any reason, including, but not limited to, fraud, misrepresentation, illegality, failure

of consideration, illusory contract, mistake, or any other legal defense as to the validity or enforceability of this Agreement.

C. In addition to any and all other remedies available to Company, in the event of a breach of or default under this Agreement, or in the event that the Company obtains a judgment, which becomes final after the expiration of time for all appeals, that Executive has violated any of the provisions of Section II or Section III of this Attachment A, the Company shall be entitled to recover, and the Executive (or his estate) shall be obligated to repay and return to the Company, upon written demand therefore, an amount equal to all severance or other benefits paid to, or on behalf of, the Executive (or his estate) pursuant to the provisions of the Employment Agreement (other than the Accrued Rights) on or after the date of termination of Executive's employment.

VI. General Provisions

A. Employment Agreement. The Employment Agreement is an integral part of this Agreement, and this Agreement is an integral part of the Employment Agreement. A breach of or default under this Agreement shall constitute a material breach of the Employment Agreement; provided, however, that none of the notice requirements of the Employment Agreement shall be applicable to any actual breach of this Agreement.

B. Other Agreements. To the extent that Executive has heretofore entered into an agreement with the Company containing confidentiality, non-disclosure, non-competition and/or non-solicitation provisions, this Agreement shall constitute an amendment, modification and continuation of all such agreements and obligations, which shall be deemed to be modified as provided herein. No modification of or amendment to this Agreement, nor any waiver of rights under this Agreement, shall be effective unless it is in writing and signed by both Executive and the Company. Any subsequent change or changes in Executive's duties, salary or compensation will not affect the validity or scope of this Agreement.

C. Agreement Ancillary to Other Agreements. This Agreement is ancillary to and part of other agreements between the Company and the Executive, including the Employment Agreement and the Company's agreements to: (i) disclose, and to continue to disclose its Confidential Information and Trade Secrets to Executive; (ii) provide initial and continued training, education and development to Executive; (iii) provide Executive with Confidential Information and Trade Secrets about, and the opportunity to develop close relationships with the Company's management personnel, employees, Customers, Suppliers and the employee's agents and representative of Customers and Suppliers.

D. Severability. If one or more of the provisions in this Agreement are held to be void or unenforceable in whole or in part, the remaining provisions will continue in full force and effect. Executive further agrees that in the event the length of time, the geographic area or definition of business activity as set forth herein, is deemed unreasonable, or otherwise unenforceable, in any court proceedings, the Executive and the Court may reform, modify or reduce such restrictions such that they are reasonable and enforceable.

E. "At Will" and Termination. This Agreement does not alter in any way the at-will nature of employment between Executive and the Company, which may be terminated by the Company or by Executive in accordance with the terms of Executive Employment Agreement of even date herewith.

F. Choice of Law. This Agreement shall be construed and interpreted in accordance with the laws of the State of Texas. All obligations payable or performable hereunder shall be payable and performable at the Company's offices in Houston, Harris County, Texas.

G. Enforceability. This Agreement shall be enforceable by the Company, and any of its successors, assigns, affiliates, subsidiaries, parent or related corporations or entities, including any person or entity to which the Company sells, transfers or assigns all or any part of its assets, or any entity to, in or with which the Company may hereafter enter into a merger transaction of any kind. Executive shall have no right to transfer or assign Executive's rights or obligations hereunder.

H. Survival. The provisions of this Agreement shall survive the termination of Executive's employment by the Company, regardless of how such employment is terminated.

I. Definitions. All Terms in this Attachment A shall have the same meaning as defined in the Executive Employment Agreement to which this Attachment is attached and of which it is part.

BY SIGNING BELOW, EXECUTIVE REPRESENTS THAT EMPLOYEE HAS READ THIS CONFIDENTIALITY, NON-COMPETITION AND NON-SOLICITATION AGREEMENT CAREFULLY AND UNDERSTANDS AND AGREES TO ITS TERMS, INCLUDING THOSE LIMITING EXECUTIVE'S RIGHTS TO SOLICIT CUSTOMERS OR EXECUTIVES OF THE COMPANY.

BY EXECUTIVE:

Brett A. Cope

Date:

BY POWELL INDUSTRIES, INC.:

Thomas W. Powell

Date:
4839-8102-1740v.5
10811-1 12/31/2015

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CERTIFICATION

I, Thomas W. Powell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Powell Industries, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Thomas W. Powell
Thomas W. Powell
President and Chief Executive Officer
(Principal Executive Officer)

Date: February 3, 2016

CERTIFICATION

I, Don R. Madison, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Powell Industries, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

Date: February 3, 2016

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Quarterly Report (the "Report") on Form 10-Q of Powell Industries, Inc. (the "Company") for the quarter ended December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof, I, Thomas W. Powell, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas W. Powell
Thomas W. Powell
President and Chief Executive Officer

Date: February 3, 2016

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Quarterly Report (the "Report") on Form 10-Q of Powell Industries, Inc. (the "Company") for the quarter ended December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof, I, Don R. Madison, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company.

/s/ Don R. Madison
Don R. Madison
Executive Vice President
Chief Financial and Administrative Officer

Date: February 3, 2016