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

Form 10-K

(Mark One)

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

For the fiscal year ended September 30, 2014

OR

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

Commission File Number 001-12488

Powell Industries, Inc.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**88-0106100** **(I.R.S. Employer Identification No.)**
8550 Mosley Road **Houston, Texas** **(Address of principal executive offices)**	**77075-1180** **(Zip Code)**

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

Securities registered pursuant to section 12(b) of the Act:
Common Stock, par value $.01 per share

Securities registered pursuant to Section 12(g) of Act:
None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

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 Date 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405 of this chapter) is not contained herein and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 (Do not check if a smaller reporting company)	☐ Smaller reporting company

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

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately $375 million as of March 31, 2014, based upon the closing price on the NASDAQ Global Market on that date. For purposes of the calculation above only, all directors, executive officers and beneficial owners of 5% or more are considered to be "affiliates."

At November 28, 2014, there were 12,031,243 outstanding shares of the registrant's common stock, par value $0.01 per share.

Documents Incorporated By Reference

Portions of the registrant's definitive Proxy Statement for the 2015 annual meeting of stockholders to be filed not later than 120 days after September 30, 2014, are incorporated by reference into Part III of this Form 10-K.

POWELL INDUSTRIES, INC.
TABLE OF CONTENTS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS; RISK FACTORS

Unless otherwise indicated, all references to "we," "us," "our," "Powell" or "the Company" include Powell Industries, Inc. and its consolidated subsidiaries.

Forward-Looking Statements

This Annual Report on Form 10-K (Annual Report) includes forward-looking statements based on our current expectations, which are subject to risks and uncertainties. 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. These forward-looking statements are subject to risks and uncertainties, and many factors could affect the future financial results and condition of the Company. Factors that may have a material effect on our revenues, expenses and operating results include adverse business or market conditions, our ability to meet our customers' scheduling requirements, our customers' financial conditions and their ability to secure financing to support current and future projects, the availability and cost of materials from suppliers, availability of skilled labor force, adverse competitive developments and changes in customer requirements as well as those circumstances discussed under "Item 1A. Risk Factors," below. Accordingly, actual results may differ materially from those expressed or implied by the forward-looking statements contained in this Annual Report. Any forward-looking statements made by or on our behalf are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

The forward-looking statements contained in this Annual Report are based on current assumptions that we will continue to develop, market, manufacture and ship products and provide services on a competitive and timely basis; that competitive conditions in our markets will not change in a materially adverse way; that we will accurately identify and meet customer needs for products and services; that we will be able to hire and retain skilled laborers and key employees; that our products and capabilities will remain competitive; that the financial markets and banking systems will remain stable and availability of credit will continue; that risks related to shifts in customer demand are minimized and that there will be no material adverse change in the operations or business of the Company. Assumptions relating to these factors involve judgments that are based on available information, which may not be complete, and are subject to changes in many factors beyond the Company's control that can materially affect results. Because of these and other factors that affect our operating results, past financial performance should not be considered an indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

PART I

Item 1. *Business*

Overview

Powell Industries, Inc. 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. We are headquartered in Houston, Texas, and our major subsidiaries, all of which are wholly owned, include: Powell Electrical Systems, Inc.; Powell (UK) Limited (formerly Switchgear & Instrumentation Limited); Powell Canada Inc. and Powell Industries International, B.V.

Our website is powellind.com. We make available, free of charge on or through our website, copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC).

We develop, design, manufacture and service custom-engineered equipment and systems for the distribution, control and monitoring of electrical energy designed to (1) distribute, monitor and control the flow of electrical energy and (2) provide protection to motors, transformers and other electrically powered equipment. Our principal products include integrated power control room substations (PCRs®), custom-engineered modules, electrical houses (E-Houses), traditional and arc-resistant distribution switchgear and control gear, medium-voltage circuit breakers, monitoring and control communications systems, motor control centers and bus duct systems. These products are designed for application voltages ranging from 480 volts to 38,000 volts and are used in oil and gas refining, offshore oil and gas production, petrochemical, pipeline, terminal, pulp and paper, mining and metals, light rail traction power, electric utility and other heavy industrial markets. Our product scope includes designs tested to meet both U.S. standards (ANSI) and international standards (IEC). We assist customers by providing value-added services such as spare parts, field service inspection, installation, commissioning, modification and repair, retrofit and retrofill components for existing systems and replacement circuit breakers for switchgear that is obsolete or that is no longer produced by the original manufacturer. We seek to establish long-term relationships with the end users of our systems as well as the design and construction engineering firms contracted by those end users.

References to Fiscal 2014, Fiscal 2013 and Fiscal 2012 used throughout this Annual Report on Form 10-K relate to our fiscal years ended September 30, 2014, 2013 and 2012, respectively.

Revenues from customers located in the United States of America (U.S.) accounted for approximately 56%, 58% and 56% of our consolidated revenues for Fiscal 2014, 2013 and 2012, respectively. Revenues from customers located in Canada accounted for approximately 21%, 18% and 13% of consolidated revenues for Fiscal 2014, 2013 and 2012, respectively. Approximately 64% of our long-lived assets were located in the U.S. at September 30, 2014, with the remaining long-lived assets located primarily in the United Kingdom (U.K.) and Canada. Detailed geographic information is included in Note L of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

We previously reported two business segments: Electrical Power Products and Process Control Systems. In January 2014, we sold our wholly owned subsidiary Transdyn Inc. (Transdyn) which was reported in our Process Controls business segment. We reclassified the assets and liabilities of Transdyn as held for sale within the accompanying consolidated balance sheet as of September 30, 2013, and presented the results of these operations as income from discontinued operations, net of tax, for each of the accompanying consolidated statements of operations. While this sale did not result in a material disposition of assets or material reduction to income before income taxes relative to our consolidated financial statements, the revenues, gross profit, income before income taxes and assets of Transdyn comprised a significant majority of those respective amounts previously reported in our Process Control Systems business segment. As we previously reported only two business segments, Electrical Power Products and Process Control Systems, we have removed the presentation of business segments in this Annual Report. Additionally, all current and historical financial information presented in this Annual Report excludes the financial information for Transdyn or presents it as discontinued operations where applicable. For more information about this disposition, see Note N of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Customers and Markets

Our principal customers are sophisticated users of large amounts of electrical energy that typically require a complex combination of electrical components and systems. These customers and their industries include oil and gas refining, offshore oil and gas production, petrochemical, pipeline, terminal, pulp and paper, mining and metals, light rail traction power and electric utility customers.

Products and services are principally sold directly to the end user or to an engineering, procurement and construction (EPC) firm on behalf of the end user. Each project is specifically engineered and manufactured to meet the exact specifications and requirements of the individual customer. Powell's expertise is in the design and engineering, manufacturing, project management and integration of the various systems into a single deliverable (custom-engineered). We market and sell our products and services, which are typically awarded in competitive bid situations, to a wide variety of customers, governmental agencies, markets and geographic regions. Contracts often represent large-scale and complex projects with an individual customer. By their nature, these projects are typically nonrecurring. Thus, multiple and/or continuous projects of similar magnitude with the same customer may vary. As such, the timing of large project awards may cause material fluctuations in revenues and gross margins.

Due to the nature and timing of large projects, a significant percentage of revenues in a given period may result from one specific contract or customer. Although we could be adversely impacted by a significant reduction in business volume from a particular industry, we do not believe the loss of any specific customer would have a material adverse effect on our business. No customer accounted for more than 10% of our revenues in Fiscal 2014, Fiscal 2013 or Fiscal 2012.

Competition

We strive to be the supplier of choice for custom-engineered system solutions and services to a variety of customers and markets. Our activities are predominantly in the oil and gas and the electric utility industries, but also include other markets where customers need to manage, monitor and control large amounts of electrical energy. The majority of our business is in support of capital investment projects that are highly complex and competitively bid. Our customized systems are designed to meet the specifications of our customers. Each system is designed, engineered and manufactured to the specific requirements of the particular application. We consider our engineering, project management, systems integration and technical support capabilities vital to the success of our business.

We believe our products and services, turn-key integration capabilities, technical and project management strengths, application expertise and specialty contracting experience, together with our responsiveness and flexibility to the needs of our customers and financial strength, give us a sustainable competitive advantage in our markets. We compete with a small number of multinational competitors that sell to a broad industrial and geographic market and with smaller, regional competitors that typically have limited capabilities and scope of supply. Our principal competitors include ABB, Eaton, General Electric Company, Schneider and Siemens. The competitive factors used during bid evaluation by our customers vary from project to project and may include technical support and application expertise, engineering and manufacturing capabilities, equipment rating, delivered value, scheduling and price. While projects are typically non-recurring, a significant portion of our business is from repeat customers and many times involves third-party EPC firms hired by the end user and with which we also have long and established relationships. Ultimately, our competitive position is dependent upon our ability to provide quality custom-engineered products, services and systems on a timely basis at a competitive price.

Backlog

Backlog represents the dollar amount of revenue that we expect to realize from work to be performed on uncompleted contracts, including new contractual agreements on which work has not begun. Our methodology for determining backlog may not be comparable to the methodology used by other companies. Orders included in our backlog are represented by customer purchase orders and contracts, which we believe to be firm. Our backlog at September 30, 2014 totaled $507.1 million compared to $437.9 million at September 30, 2013. We anticipate that approximately $415 million of Fiscal 2014 ending backlog will be fulfilled during our fiscal year ending September 30, 2015. Projects may be delayed or cancelled for various reasons; accordingly, backlog may not be indicative of future operating results as orders in our backlog may be cancelled or modified by our customers.

Raw Materials and Suppliers

The principal raw materials used in our operations include steel, copper and aluminum and various electrical components. Material costs represented 48% of revenues in Fiscal 2014 compared to 46% in Fiscal 2013. Unanticipated increases in material requirements, disruptions in supplies or price increases could increase production costs and adversely affect our results of operations.

We purchase certain key electrical components on a sole-sourced basis and maintain a qualification and performance monitoring program to control risk associated with sole-sourced items. Changes in our design to accommodate similar components from other suppliers could be implemented to resolve a supply problem related to a sole-sourced component. In this circumstance, supply problems could result in delays in our ability to meet commitments to our customers. We believe that sources of supply for raw materials and components are generally sufficient, and we do not believe a shortage of materials will cause any significant adverse impact in the future. While we are not dependent on any one supplier for the majority of our raw materials, we are highly dependent on our suppliers in order to meet commitments to our customers. We have not experienced significant or unusual issues in the purchase of key raw materials or components in the past three fiscal years.

Our business is subject to the effects of changing material prices. During the last three fiscal years, we have not experienced significant price volatility for raw materials or component parts used in the production of our products. While the cost outlook for commodities used in the production of our products is not certain, we believe we can manage this volatility through contract pricing adjustments, with material-cost predictive estimating and by actively pursuing internal cost reduction efforts. We did not enter into any derivative contracts to hedge our exposure to commodity price changes in Fiscal 2014, 2013 or 2012.

Employees

At September 30, 2014, we had 2,940 full-time employees located primarily in the United States, the United Kingdom and Canada. Our employees are not represented by unions, and we believe that our relationship with our employees is good.

Intellectual Property

While we are the holder of various patents, trademarks, servicemarks, copyrights and licenses, we do not consider any individual intellectual property to be material to our consolidated business operations.

Item 1A. *Risk Factors*

Our business is subject to a variety of risks and uncertainties, including, but not limited to, the most significant risks and uncertainties described below. Additional risks and uncertainties not known to us or not described below may also impair our business operations. If any of the following risks actually occur, our business, financial condition, cash flows and results of operations could be harmed and we may not be able to achieve our goals. This Annual Report also includes statements reflecting assumptions, expectations, projections, intentions or beliefs about future events that are intended as “forward-looking statements” under the Private Securities Litigation Reform Act of 1995 and should be read in conjunction with the discussion under “Forward-Looking Statements,” above.

Economic uncertainty and financial market conditions may impact our customer base, suppliers and backlog.

Various factors drive demand for our products and services, including the price and demand for oil and gas, capital expenditures, economic forecasts and financial markets. Uncertainty regarding these factors could impact our customers and severely impact the demand for projects and orders for our products and services. If one or more of our suppliers or subcontractors experiences difficulties that result in a reduction or interruption in supply to us, or they fail to meet our manufacturing requirements, our business could be adversely impacted until we are able to secure alternative sources. Furthermore, our ability to expand our business would be limited in the future if we are unable to increase our bonding capacity or our credit facility on favorable terms or at all. These disruptions could lead to reduced demand for our products and services, could materially impact our business, financial condition, cash flows and results of operations and could potentially impact the trading price of our common stock.

Our backlog is subject to unexpected adjustments and cancellations and, therefore, may not be a reliable indicator of our future earnings.

We have a backlog of uncompleted contracts. Backlog represents the dollar amount of revenue that we expect to realize from work to be performed on uncompleted contracts, including new contractual agreements on which work has not begun. From time to time, projects are cancelled that appeared to have a high certainty of going forward at the time they were recorded as new business taken. In the event of a project cancellation, we may be reimbursed for certain costs but typically have no contractual right to the total revenue reflected in our backlog. In addition to our being unable to recover certain direct costs, cancelled projects may also result in additional unrecoverable costs due to underutilization of our assets.

The use of percentage-of-completion accounting on our fixed-price contracts could result in volatility in our results of operations.

As discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates” and in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report, the majority of our revenues are recognized on the percentage-of-completion method of accounting. Under the percentage-of-completion method of accounting, revenues are recognized as work is performed. The estimated completion to date is calculated by multiplying the total contract price by the percentage of performance to date, which is based on total costs or total labor dollars incurred to date compared to the total estimated costs or total labor dollars estimated at completion. The method used to determine the percentage of completion is typically the cost method, unless the labor method is a more accurate method of measuring the progress of the project. Application of the percentage-of-completion method of accounting requires the use of estimates of costs to be incurred for the performance of the contract. The cost estimation process is based upon the professional knowledge and experience of our engineers, project managers and financial professionals. Contract losses are recognized in full when determined, and estimates of revenue and cost to complete are adjusted based on ongoing reviews of estimated contract performance. Previously recorded estimates are adjusted as the project progresses. In certain circumstances, it is possible that such adjustments could have a significant impact on our operating results for any fiscal quarter or year.

A portion of our contracts contain terms with penalty provisions.

Some of our contracts contain penalty provisions for the failure to meet specified contractual provisions. These contractual provisions define the conditions under which our customers may make claims against us.

Fluctuations in the price and supply of materials used to manufacture our products may reduce our profits and could materially impact our ability to meet commitments to our customers.

Our material costs represented 48% of our consolidated revenues for Fiscal 2014. We purchase a wide variety of materials and component parts to manufacture our products, including steel, aluminum, copper and various electrical components. Unanticipated increases in raw material requirements, changes in supplier availability or price increases could increase production costs and adversely affect profitability. Our ability to meet customer commitments could be negatively impacted due to the time and effort associated with the selection and qualification of a new supplier. Additionally, we rely on certain competitors for key materials used in our products. This could put us at risk if the relationships change or become adversarial.

Our industry is highly competitive.

Some of our competitors are significantly larger and have substantially greater resources. Competition in the industry depends on a number of factors, including technical ability, production capacity and price. Certain of our competitors may have lower cost structures and may, therefore, be able to provide their products or services at lower prices than we are able to provide. Similarly, we cannot be certain that we will be able to maintain or enhance our competitive position within our industry, maintain our customer base at current levels or increase our customer base.

Our operations could be adversely impacted by the effects of government regulations.

Changes in policy, laws or regulations regarding oil and gas exploration and development activities and decisions by customers and other industry participants could reduce demand for our services, which would have a negative impact on our operations. Various regulations have been implemented around the world related to safety and certification requirements applicable to oil and gas drilling and production activities and we cannot predict whether operators will be able to satisfy these requirements. Further, we cannot predict future changes in any country in which we operate and how those changes may affect our ability to perform projects in those regions.

Changes in tax laws and regulations may change our effective tax rate and could have a material effect on our financial results.

We are subject to income taxes in the United States and numerous foreign jurisdictions. A change in tax laws, deductions or credits, treaties or regulations, or their interpretation, in the countries in which we operate could result in a higher tax rate on our pre-tax income, which could have a material impact on our net income and cash flows from operations. We are regularly under audit by tax authorities, and our tax estimates and tax positions could be materially affected by many factors including the final outcome of tax audits and related litigation, the introduction of new tax accounting standards, legislation, regulations and related interpretations, our global mix of earnings, the realizability of deferred tax assets and changes in uncertain tax positions. A significant increase in our tax rate could have a material effect on our profitability.

In Fiscal 2013, we released a valuation allowance of $7 million recorded against our Canadian deferred tax assets. We believed it was more likely than not these deferred tax assets would be realized in future periods as taxable income is generated in Canada. Although in Fiscal 2014 our Canadian operations reported a loss, we still believe these deferred tax assets will be realized in the future periods. A valuation allowance, with a corresponding increase to deferred tax expense and thus a reduction in net income, may be required to be recorded against the deferred tax assets in the future if we do not generate income in Canada. 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. If we were to record this valuation allowance in the future, it would have a material adverse effect on our profitability.

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.

Revenues with customers located outside of the U.S., including sales from our operations in the United Kingdom and Canada, accounted for approximately 44% of our consolidated revenues in Fiscal 2014. While our manufacturing facilities are in developed countries with historically stable operating and fiscal environments, our consolidated results of operations, cash flows and financial condition could be adversely affected by a number of factors, including: political and economic instability; social unrest, acts of terrorism, force majeure, war or other armed conflict; inflation; currency fluctuations, devaluations and conversion restrictions; governmental activities that limit or disrupt markets, restrict payments or limit the movement of funds and trade restrictions or economic embargoes imposed by the U.S. or other countries. Additionally, the compliance with foreign and domestic import and export regulations and anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act, or similar laws of other jurisdictions outside the United States, could adversely impact our ability to compete for contracts in such jurisdictions. Moreover, the violation of such laws or regulations could result in severe penalties including monetary fines, criminal proceedings and suspension of export privileges.

Acquisitions involve a number of risks.

Our strategy has been to pursue growth and product diversification through the acquisition of companies or assets that will enable us to expand our product and service offerings. We routinely review potential acquisitions however we may be unable to implement this strategy. Acquisitions involve certain risks, including difficulties in the integration of operations and systems; failure to realize cost savings; the termination of relationships by key personnel and customers of the acquired company and a failure to add additional employees to handle the increased volume of business. Additionally, financial and accounting challenges and complexities in areas such as valuation, tax planning, treasury management and financial reporting from our acquisitions pose risks to our strategy. Due diligence may not reveal all risks and challenges associated with our acquisitions. It is possible that impairment charges resulting from the overpayment for an acquisition may negatively impact our results of operations. Financing for acquisitions may require us to obtain additional equity or debt financing, which, if available, may not be available on attractive terms.

Our operating results may vary significantly from quarter to quarter.

Our quarterly results may be materially and adversely affected by a number of factors including: changes in estimated costs or revenues under fixed-price contracts; the timing and volume of work under new agreements; general economic conditions; the spending patterns of customers; variations in the margins of projects performed during any particular quarter; losses experienced in our operations not otherwise covered by insurance; a change in the demand or production of our products and our services caused by severe weather conditions; a change in the mix of our customers, contracts and business; increases in design and manufacturing costs; the ability of customers to pay their invoices owed to us and disagreements with customers related to project performance on delivery. Accordingly, our operating results in any particular quarter may not be indicative of future results.

The departure of key personnel could disrupt our business.

We depend on the continued efforts of our executive officers, senior management and other key professionals. We cannot be certain that any individual will continue in such capacity for any particular period of time. The loss of key personnel, or the inability to hire and retain qualified employees, could negatively impact our ability to manage our business.

Our business requires skilled labor and we may be unable to attract and retain qualified employees.

Our ability to maintain our productivity and profitability will be limited by our ability to employ, train and retain personnel necessary to meet our requirements. We may experience shortages of qualified personnel such as engineers, project managers and select skilled trades. We cannot be certain that we will be able to maintain an adequate skilled labor force necessary to operate efficiently and to support our growth strategy and ramp of operations or that our labor expenses will not increase as a result of a shortage in the supply of skilled personnel. Labor shortages or increased labor costs could impair our ability to maintain our business, meet customer commitments or grow our revenues, and may adversely impact our results of operations.

Actual and potential claims, lawsuits and proceedings could ultimately reduce our profitability and liquidity and weaken our financial condition.

We could be named as a defendant in future legal proceedings that claim damages in connection with the operation of our business. Most of the actions against us arise out of the normal course of our performing services or manufacturing equipment. From time to time, we may be a plaintiff in legal proceedings against customers in which we seek to recover payment of contractual amounts due to us, as well as claims for increased costs incurred by us. When appropriate, we establish provisions against certain legal exposures, and we adjust such provisions from time to time according to ongoing developments related to each exposure. If in the future our assumptions and estimates related to such exposures prove to be inadequate or wrong, or our insurance coverage is insufficient, our consolidated results of operations, cash flows and financial condition could be adversely affected. In addition, claims, lawsuits and proceedings may harm our reputation or divert management resources away from operating our business.

Unforeseen difficulties with our enterprise resource planning (ERP), engineering and manufacturing process systems (Business Systems) could adversely affect our internal controls and our business.

The efficient execution of our business is dependent upon the proper functioning of our Business Systems that support our production, engineering, human resources, estimating, financial, project management and customer systems. Any significant failure or malfunction of our Business Systems may result in disruption of our operations. These systems may be susceptible to outages due to natural disaster, power loss, telecommunications failures, break-ins and similar events. Despite the implementation of network security measures, our systems may be vulnerable to security breaches such as computer viruses and similar disruptions from unauthorized tampering. The occurrence of these or other events could disrupt or damage our Business Systems and adversely affect our business or results of operations.

In Fiscal 2014, we re-implemented our existing ERP system and added a suite of new software tools to expand our Business Systems. These upgrades and enhancements were designed to standardize best process practices, drive efficiency and increase productivity across our organization. There can be no certainty that these Business Systems will deliver the expected benefits and the inability to do so may impact our ability to deliver on our commitment to our customers which could negatively impact our operations and may adversely impact our results of operations.

We carry insurance against many potential liabilities, but our management of risk may leave us exposed to unidentified or unanticipated risks.

Although we maintain insurance policies with respect to our related exposures, including certain casualty, property, business interruption, self-insured medical and dental programs, these policies contain deductibles, self-insured retentions and limits of coverage. We estimate our liabilities for known claims and unpaid claims and expenses based on information available as well as projections for claims incurred but not reported. However, insurance liabilities, some of which are self-insured, are difficult to estimate due to various factors. If any of our insurance policies or programs are not effective in mitigating our risks, we may incur losses that are not covered by our insurance policies, subject to deductibles, or that exceed our accruals or our coverage limits and could adversely impact our consolidated results of operations, cash flows and financial position.

Technological innovations by competitors may make existing products and production methods obsolete.

All of the products manufactured and sold by Powell depend upon the best available technology for success in the marketplace. This competitive environment is highly sensitive to technological innovation. It is possible for competitors (both domestic and international) to develop products or production methods that will make current products or methods obsolete or at least hasten their obsolescence; therefore, we cannot be certain that our competitors will not develop the expertise, experience and resources to provide products and services that are superior in both price and quality.

Catastrophic events could disrupt our business.

The occurrence of catastrophic events, ranging from natural disasters such as hurricanes, to health epidemics, to acts of war and terrorism, could disrupt or delay our ability to complete projects for our customers and could potentially expose us to third-party liability claims. Such events may or may not be fully covered by our various insurance policies or may be subject to deductibles or exceed coverage limits. In addition, such events could impact our customers and suppliers, resulting in temporary or long-term delays and/or cancellations of orders for raw materials used in normal business operations. These situations are outside our control and could have a significant adverse impact on our consolidated results of operations, cash flows and financial position.

Unforeseen difficulties with expansions or relocation of our existing facilities could adversely affect our operations.

From time to time we may decide to build additional facilities, expand our existing facilities or relocate or consolidate one or more of our operations. Challenges arising from the staffing, relocation or expansion of our facilities could adversely affect our operations and may adversely impact our profitability.

Due to the cyclical nature of the oil and gas industry, our business may be adversely impacted by extended periods of low oil or natural gas prices or unsuccessful exploration efforts which may decrease our customers' spending and therefore our results in the future.

Oil and natural gas prices have been, and are expected to, remain volatile. This volatility causes oil and natural gas companies to change their strategies, delay or cancel projects. The price for oil and natural gas can be influenced by many factors, including global economic growth, inventory levels and supply and demand for these commodities. These factors could cause the oil and natural gas prices to decrease which could result in a decrease in projects with our customers that would adversely impact our business and our results. No assurances can be given that extended periods of reduced oil and natural gas prices will not negatively impact our business and our consolidated results of operations and cash flows.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. *Properties*

We own or lease manufacturing facilities, warehouse space, sales offices, field offices and repair centers located throughout the United States, Canada and the United Kingdom. Our facilities are generally located in areas that are readily accessible to materials and labor pools and are maintained in good condition. These facilities, together with recent expansions, are expected to meet our needs for the foreseeable future.

Our principal locations as of September 30, 2014, are as follows:

			Approximate Square Footage	
Location	**Description**	**Acres**	**Owned**	**Leased**
Houston, TX	Corporate office and manufacturing facility	21.4	428,515	—
Houston, TX	Office and manufacturing facility	53.4	290,554	—
Houston, TX	Office, fabrication facility and yard	63.3	82,320	—
North Canton, OH	Office and manufacturing facility	8.0	115,200	—
Northlake, IL	Office and manufacturing facility	10.0	103,500	—
Bradford, United Kingdom	Office and manufacturing facility	7.9	129,200	—
Acheson, Alberta, Canada	Office and manufacturing facility	20.1	163,000	—
Acheson, Alberta, Canada	Office and service shop	3.5	—	44,248
Edmonton, Alberta, Canada	Office and service shop	1.0	—	28,000
Calgary, Alberta, Canada	Office and manufacturing facility	—	—	8,200

All leased properties are subject to long-term leases. We do not anticipate experiencing significant difficulty in retaining occupancy of any of our leased facilities through lease renewals prior to expiration or through month-to-month occupancy, or in replacing them with equivalent facilities.

In Fiscal 2012, we acquired land in Houston, Texas, and in Acheson, Alberta, Canada, and began construction of two facilities to allow us to expand our operations. The construction of these two facilities was substantially completed in September 2013 and we relocated our operations and personnel from their existing leased facilities. We are in the process of expanding our manufacturing facility in Acheson, Alberta, Canada. The expansion is expected to cost approximately $33 million and will increase that facility by approximately 158,000 square feet. We expect the expansion of our Canadian facility to be completed in early Fiscal 2015. Such costs are expected to be funded from our existing cash and cash equivalents and future cash flows from operations.

Item 3. *Legal Proceedings*

We are involved in various legal proceedings, claims and other disputes arising in the ordinary course of business which, in general, are subject to uncertainties and in which the outcomes are not predictable. We do not believe that the ultimate conclusion of these disputes could materially affect our results of operations, cash flow and financial position.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Price Range of Common Stock

Our common stock trades on the NASDAQ Global Market (NASDAQ) under the symbol "POWL." The following table sets forth, for the periods indicated, the high and low sales prices per share as reported on the NASDAQ for our common stock.

	High	Low
Fiscal 2013:		
First Quarter	$ 43.95	$ 37.00
Second Quarter	59.89	41.45
Third Quarter	53.02	44.94
Fourth Quarter	61.29	49.20
Fiscal 2014:		
First Quarter	$ 68.86	$ 60.87
Second Quarter	69.50	59.17
Third Quarter	65.40	60.20
Fourth Quarter	67.65	40.86

As of November 28, 2014, the last reported sales price of our common stock on the NASDAQ was $42.55 per share. As of November 28, 2014, there were 443 stockholders of record of our common stock. All common stock held in street names are recorded in the Company's stock register as being held by one stockholder.

See "Part III, Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" of this Annual Report for information regarding securities authorized for issuance under our equity compensation plans.

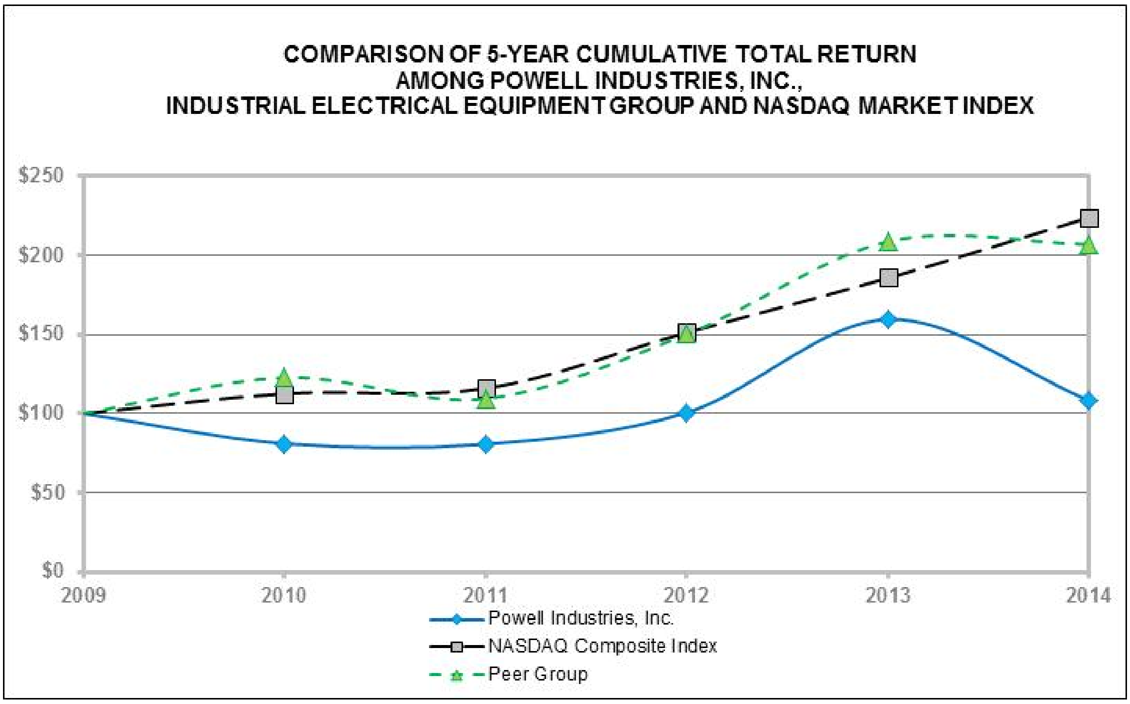
Dividend Policy

In November 2013, our Board of Directors (the Board) elected to begin the payments of quarterly cash dividends. In Fiscal 2014, we paid $12.0 million in dividends. In November 2014, the Board elected to increase our quarterly cash dividend by 4% to $0.26 per share from $0.25 per share. This increase will be effective beginning with the first quarter of Fiscal 2015. The Board anticipates declaring cash dividends in future quarters; however, there is no assurance as to future dividends or their amounts because they depend on future earnings, capital requirements and financial condition.

Performance Graph

The following Performance Graph and related information shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

The following graph compares, for the period from October 1, 2009 to September 30, 2014, the cumulative stockholder return on our common stock with the cumulative total return on the NASDAQ Market Index and the Industrial Electrical Equipment Group (a select group of peer companies – Altra Holdings Inc.; Ameresco, Inc.; AZZ Inc.; Belden Inc.; Coleman Cable, Inc.; Daktronics Inc./SD; Electro Scientific Industries, Inc.; EnerSys; Franklin Electric Co, Inc.; GrafTech International Ltd; Littelfuse Inc./DE; LSI Industries Inc.; Preformed Line Products; A O Smith Corporation and Woodward, Inc.). The comparison assumes that $100 was invested on October 1, 2009, in our common stock, the NASDAQ Market Index and the Industrial Electrical Equipment Group, and that all dividends were re-invested. The stock price performance reflected on the following graph is not necessarily indicative of future stock price performance.



Item 6. Selected Financial Data

The selected financial data shown below for the past five years was derived from our audited financial statements, adjusted for discontinuing operations. The historical results are not necessarily indicative of the operating results to be expected in the future. The selected financial data should be read in conjunction with "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included elsewhere in this Annual Report.

	Years ended September 30,				
	2014	2013	2012	2011	2010
Statement of Operations:	(In thousands, except per share data)				
Revenues	$ 647,814	$ 640,867	$ 690,741	$ 536,623	$ 524,237
Cost of goods sold	522,340	502,375	557,938	444,861	390,459
Gross profit	125,474	138,492	132,803	91,762	133,778
Selling, general and administrative expenses	87,756	79,707	76,961	71,934	71,655
Research and development expenses	7,608	7,615	6,286	6,435	6,110
Amortization of intangible assets	779	1,659	2,599	4,752	4,477
Restructuring and relocation expenses	—	3,927	—	—	—
Impairments	—	—	—	7,158	7,452
Operating income	29,331	45,584	46,957	1,483	44,084
Gain on sale of investment	—	—	—	(1,229)	—
Gain on settlement	—	(1,709)	—	—	—
Other income	(1,522)	—	—	—	—
Interest expense (net)	165	167	158	194	610
Income from continuing operations before income taxes	30,688	47,126	46,799	2,518	43,474
Income tax provision (1)	11,068	7,387	18,056	6,190	19,306
Income (loss) from continuing operations before non-controlling interest	19,620	39,739	28,743	(3,672)	24,168
Non-controlling interest	—	—	—	—	(159)
Income (loss) from continuing operations	19,620	39,739	28,743	(3,672)	24,009
Income from discontinued operations, net of tax	9,604	2,337	914	957	999
Net income (loss)	$ 29,224	$ 42,076	$ 29,657	$ (2,715)	$ 25,008
Earnings per share:					
Continuing operations	$ 1.63	$ 3.32	$ 2.43	$ (0.31)	$ 2.08
Discontinued operations	0.80	0.20	0.07	0.08	0.09
Basic earnings per share	$ 2.43	$ 3.52	$ 2.50	$ (0.23)	$ 2.17
Continuing operations	$ 1.62	$ 3.32	$ 2.41	$ (0.31)	$ 2.05
Discontinued operations	0.80	0.19	0.08	0.08	0.09
Diluted earnings per share	$ 2.42	$ 3.51	$ 2.49	$ (0.23)	$ 2.14

(1) For an explanation of the effective tax rate for the last three fiscal years, see Note H of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

	Years ended September 30,				
	2014	2013	2012	2011	2010
Balance Sheet Data:	(In thousands)				
Cash and cash equivalents	$ 103,118	$ 107,411	$ 89,669	$ 123,161	$ 115,061
Property, plant and equipment, net	156,896	144,495	78,489	59,416	63,370
Total assets	541,443	530,903	448,312	421,676	400,712
Long-term debt and capital lease obligations, including current maturities	3,200	3,616	4,355	5,441	6,885
Total stockholders' equity	371,097	355,226	310,103	275,343	277,303
Total liabilities and stockholders' equity	541,443	530,903	448,312	421,676	400,712
Dividends paid on common stock	11,998	—	—	—	—

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion should be read in conjunction with the accompanying consolidated financial statements and related notes. Any forward-looking statements made by or on our behalf are made pursuant to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Readers are cautioned that such forward-looking statements involve risks and uncertainties in that the actual results may differ materially from those projected in the forward-looking statements. For a description of the risks and uncertainties, please see "Cautionary Statement Regarding Forward-Looking Statements; Risk Factors" and "Item 1A. Risk Factors" included elsewhere in this Annual Report.

Overview

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

The markets in which we participate are capital intensive and cyclical in nature. Cyclicality 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 for oil, gas and electrical energy, the overall financial environment, governmental budgets, regulatory actions and environmental concerns. These factors influence the release of new capital projects by our customers, which are traditionally awarded in competitive bid situations. Scheduling is matched to the customer requirements and projects may take a number of months to produce; schedules also may change during the course of any particular project. Our operating results can be impacted by factors outside of our control. For example, many of our projects have contracting arrangements where the approval of engineering and design specifications may affect the timing of the project execution thus impacting the recognition of revenue and costs. In the second half of Fiscal 2014, we experienced schedule changes on various U.S. projects which negatively impacted our results as the revenues have been pushed into subsequent quarters.

As of September 30, 2014, our order backlog strengthened to $507.1 million, an increase of approximately $69.2 million over the beginning of this fiscal year. 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 strength in the western Canadian oil and gas markets continued to be a major contributor to our increase in revenue in Fiscal 2014. We completed the construction of our new Canadian facility and relocated operations from our previous facility in the fall of 2013. The production ramp of our Canadian operations has presented challenges resulting in inefficiencies that have led to extended project delivery times, higher operating costs, gross margin deterioration and project revenues being pushed into Fiscal 2015. We continue to take actions to mitigate the risks associated with these challenges.

On January 15, 2014, we sold Transdyn to a global provider of electronic toll collection systems, headquartered in Vienna, Austria. The purchase price from the sale of this subsidiary totaled $16.0 million, of which we received cash of $14.4 million. The remaining $1.6 million was placed into an escrow account until April 2015, to be released subject to certain contingent obligations, and was recorded to other assets. We received additional cash of $0.4 million after the final working capital adjustment was calculated in March 2014. We recorded a gain on this transaction of $8.6 million, net of tax, which has been included in income from discontinued operations in Fiscal 2014 in the accompanying consolidated statements of operations. We reclassified the assets and liabilities of Transdyn as held for sale within the accompanying consolidated balance sheets as of September 30, 2013 and presented the results of these operations as income from discontinued operations, net of tax, for each of the accompanying consolidated statements of operations. Accordingly, we have removed Transdyn from the Results of Operations discussions below. For more information about this disposition, see Note N of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

In the fourth quarter of Fiscal 2013, we recovered approximately $5.1 million related to one large project at Powell Canada, of which approximately $3.8 million was recorded as revenue and the remaining $1.3 million was related to amounts recorded to other assets in prior periods. This recovery related to cost overruns on a large project with execution challenges which negatively impacted revenue and gross profit in Fiscal 2012.

Results of Operations

Twelve Months Ended September 30, 2014 Compared to Twelve Months Ended September 30, 2013

Revenue and Gross Profit

Revenues increased 1.1% or $6.9 million, to $647.8 million in Fiscal 2014. Domestic revenues decreased 2.5%, or $9.3 million, to $365.1 million in Fiscal 2014 primarily due to the mix of projects and international revenues increased 6.1%, or $16.3 million, to $282.7 million in Fiscal 2014. The expansion of our Canadian operations contributed to the increase in international revenues. Revenues from industrial customers increased $18.8 million to $474.4 million in Fiscal 2014. Revenues from public and private utilities decreased $11.6 million to $127.0 million in Fiscal 2014. Revenues from municipal and transit projects decreased $0.3 million to $46.3 million in Fiscal 2014. Additionally, revenues in Fiscal 2013 were favorably impacted by the recovery of $3.8 million related to cost overruns from a previous year on a large industrial project.

Gross profit decreased 9.4%, or $13.0 million, to $125.5 million in Fiscal 2014. Gross profit as a percentage of revenues decreased to 19.4% in Fiscal 2014, compared to 21.6% in Fiscal 2013 primarily due to higher costs resulting from the efficiency and utilization challenges associated with the ramp of our Canadian operations. Additionally, we incurred higher operating costs associated with inefficiencies from the re-implementation of our existing ERP system and added a suite of new software tools to expand our Business Systems. These higher costs were partially offset by various supply chain and productivity initiatives. Gross profit for Fiscal 2013 was favorably impacted by the $3.8 million recovery from the project discussed above.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by $8.0 million to $87.8 million in Fiscal 2014, compared to Fiscal 2013, primarily due to increased personnel costs, travel and administrative expenses and bad debts. Selling, general and administrative expenses, as a percentage of revenues, increased to 13.5% in Fiscal 2014, compared to 12.4% in Fiscal 2013. This increase in selling, general and administrative expense was partially offset by a decrease in depreciation expense as our existing Business Systems became fully depreciated in December 2012 and the favorable impact of the capitalization of certain personnel costs associated with the development and implementation of our new Business Systems, which went live in May 2014. However, going forward, the favorable impact of depreciation expense and capitalization of certain personnel costs will no longer be realized.

Amortization of Intangible Assets

Amortization of intangible assets decreased to $0.8 million in Fiscal 2014 compared to $1.7 million in Fiscal 2013 primarily due to the amendment to the supply agreement which is discussed in Note E of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Other Income

We recorded other income of $1.5 million in Fiscal 2014 which represents the amortization of the deferred gain from the amendment to the supply agreement discussed above. We did not record other income in Fiscal 2013.

Income Tax Provision

Our provision for income taxes for continuing operations was $11.1 million in Fiscal 2014, compared to $7.4 million in Fiscal 2013. The effective tax rate in Fiscal 2014 was 36.1%, which approximates the combined U.S. federal and state statutory rates as the majority of our income is attributable to the U.S. Additionally, the Federal Research and Development Tax Credit (R&D Credit) expired December 31, 2013. The effective tax rate for Fiscal 2013 was 15.7% and was favorably impacted by the release of the $7 million valuation allowance recorded as an offset to the prior years' Canadian pre-tax losses and the R&D Credit as well as the utilization of certain foreign tax credits. For further information on the effective tax rate for Fiscal 2013, see Note H of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Income from Continuing Operations

In Fiscal 2014, we recorded income from continuing operations of $19.6 million, or $1.62 per diluted share, compared to $39.7 million, or $3.32 per diluted share, in Fiscal 2013. This decrease in income from continuing operations was primarily due to efficiency and utilization challenges associated with the ramp of our Canadian operations, higher operating costs associated with inefficiencies from the re-implementation of our existing ERP system and the mix of projects in process at our domestic operations.

Income from Discontinued Operations

In Fiscal 2014, we recorded $9.6 million, or $0.80 per diluted share, of income from discontinued operations compared to $2.3 million, or $0.19 per diluted share, in Fiscal 2013 as the current fiscal year includes the gain on the sale. For additional information about this disposition, see Note N of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Backlog

The order backlog at September 30, 2014 was $507.1 million, compared to $437.9 million at September 30, 2013. New orders placed in Fiscal 2014 totaled $725.8 million compared to $715.7 million in Fiscal 2013. The year over year increase in new orders was primarily due to the continued strength in oil and gas production and petrochemical and pipeline projects.

Twelve Months Ended September 30, 2013 Compared to Twelve Months Ended September 30, 2012

Revenue and Gross Profit

Revenues decreased 7.2%, or $49.9 million, to $640.9 million in Fiscal 2013 compared to Fiscal 2012. Domestic revenues decreased by 3.7%, or $14.6 million, to $374.4 million in Fiscal 2013 and international revenues decreased 11.7%, or $35.3 million, to $266.5 million in Fiscal 2013. Revenues decreased primarily due to the completion of certain complex domestic and international petrochemical and oil and gas construction projects that were in process during Fiscal 2012. However, revenues in Fiscal 2013 were favorably impacted by the recovery of $3.8 million related to cost overruns on a large industrial project at Powell Canada. This Canadian project experienced execution challenges in the first half of Fiscal 2012, which negatively impacted revenue and gross profit in Fiscal 2012. Revenues from public and private utilities increased $22.8 million to $138.6 million in Fiscal 2013. Revenues from industrial customers decreased $70.7 million to $455.6 million in Fiscal 2013. Revenues from municipal and transit projects decreased $2.0 million to $46.6 million in Fiscal 2013.

Gross profit increased 4.3%, or $5.7 million, to $138.5 million in Fiscal 2013. Gross profit as a percentage of revenues increased to 21.6% in Fiscal 2013, compared to 19.2% in Fiscal 2012. These increases were primarily driven by the recovery from the Canadian contract settlement discussed above, the margins associated with the mix of projects in process during Fiscal 2012 and 2013, as well as the increased focus on cost reduction activities.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $2.7 million to $79.7 million in Fiscal 2013. Selling, general and administrative expenses, as a percentage of revenues, increased to 12.4% in Fiscal 2013 from 11.1% in Fiscal 2012. This increase was primarily related to increased personnel costs and increased long-term incentive compensation resulting from higher levels of operating performance over the three-year performance cycle. This increase in selling, general and administrative expenses was offset by a decrease in depreciation expense as our Business Systems became fully depreciated in December 2012. Additionally, selling, general and administrative costs for Fiscal 2013 were favorably impacted by the capitalization of certain personnel costs in Fiscal 2013 associated with the development and implementation of our new Business Systems. However, the favorable impact of depreciation expense and capitalization of certain personnel costs will no longer be realized as the Business Systems were implemented in Fiscal 2014.

Amortization of Intangible Assets

Amortization of intangible assets decreased to $1.7 million in Fiscal 2013, compared to $2.6 million in Fiscal 2012, as certain intangible assets became fully amortized.

Restructuring and Relocation Costs

During Fiscal 2013, we recorded restructuring and relocation charges totaling $3.9 million. We incurred approximately $2.8 million in Fiscal 2013 related to relocation efforts in connection with the construction of our new facility in Houston, Texas and our new facility in Acheson, Alberta, Canada. These costs were primarily related to the relocation of our operations, the loss on the sublease, and the abandonment of leasehold improvements on the previously occupied facilities in the second half of Fiscal 2013. The construction of our two new facilities was substantially completed in September 2013 and we relocated the majority of our operations and personnel from their previously leased facilities.

In the third quarter of Fiscal 2013, we recorded and paid $1.1 million related to severance at our United Kingdom operations. These operations were negatively impacted by market conditions and competitive pressures in the international markets in which they operate; therefore, we exited certain non-core operations and eliminated certain positions to better align our workforce with current market conditions.

Gain on Settlement

In March 2013, we settled a lawsuit we had filed against the previous owners of Powell Canada in the amount of $1.7 million, which was received in April 2013. There was no gain on settlement in Fiscal 2012.

Income Tax Provision

Our provision for income taxes reflected an effective tax rate on earnings before income taxes of 15.7% in Fiscal 2013 compared to 38.6% in Fiscal 2012. The effective tax rate for Fiscal 2013 was favorably impacted by the release of the $7 million valuation allowance recorded as an offset to the prior years' Canadian pre-tax losses. We believe that it is more likely than not that the market conditions and our operating results going forward will allow us to realize the deferred tax assets associated with the prior year losses in Canada. The rate for Fiscal 2013 was also favorably impacted by the Federal Research and Development Tax Credit and the utilization of certain foreign tax credits. The effective tax rate for Fiscal 2012 was negatively impacted by our inability to record a tax benefit related to pre-tax losses in Canada. For further information on the effective tax rate for Fiscal 2013, see Note H of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Income from Continuing Operations

In Fiscal 2013, we recorded income from continuing operations of $39.7 million, or $3.32 per diluted share, compared to $28.7 million, or $2.41 per diluted share, in Fiscal 2012. Income from continuing operations in Fiscal 2013 was positively impacted by the recovery of $3.8 million from the Canadian contract settlement and the favorable tax benefits discussed above.

Income from Discontinued Operations

In Fiscal 2013, we recorded $2.3 million, or $0.19 per diluted share, of income from discontinued operations compared to $0.9 million, or $0.08 per diluted share, in Fiscal 2012. For additional information about this disposition, see Note N of the Notes to Consolidated Financial Statements.

Backlog

The order backlog at September 30, 2013, was $437.9 million, compared to $365.9 million at September 30, 2012. New orders placed during Fiscal 2013 totaled $715.7 million compared to $659.9 million in Fiscal 2012. The backlog for Fiscal 2013 increased primarily due to continued strength in oil and gas production projects, refining projects and transportation markets.

Liquidity and Capital Resources

Cash and cash equivalents decreased to $103.1 million at September 30, 2014, compared to $107.4 million at September 30, 2013. As of September 30, 2014, current assets exceeded current liabilities by 2.3 times and our debt to total capitalization ratio was 0.85%.

We have a $75.0 million revolving credit facility in the U.S., which expires in December 2016. As of September 30, 2014, there were no amounts borrowed under this line of credit. We also have a $9.0 million revolving credit facility in Canada. At September 30, 2014, there was no balance outstanding under the Canadian revolving credit facility. Total long-term debt and capital lease obligations, including current maturities, totaled $3.2 million at September 30, 2014, compared to $3.6 million at September 30, 2013. Total letters of credit outstanding were $21.5 million and $20.1 million at September 30, 2014 and 2013, respectively, which reduce our availability under our U.S. credit facility and our Canadian revolving credit facility. Amounts available at September 30, 2014 under the U.S. and Canadian revolving credit facilities were $53.5 million and $9.0 million, respectively. For further information regarding our debt, see Notes F and G of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Approximately $5.9 million of our cash at September 30, 2014 was held outside of the United States for international operations. It is our intention to indefinitely reinvest all current and future foreign earnings internationally in order to ensure sufficient working capital and support and expand these international operations. In the event that we elect to repatriate some or all of the foreign earnings that were previously deemed to be indefinitely reinvested outside the U.S., under current tax laws we would incur additional tax expense upon such repatriation.

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

Operating Activities

During Fiscal 2014, net cash provided by operating activities was $9.1 million. During Fiscal 2013, net cash provided by operating activities was $91.4 million and in Fiscal 2012, net cash used in operating activities was $6.0 million. Cash flow from operations is primarily influenced by demand for our products and services and is impacted as our progress payment terms with our customers are matched with the payment terms with our suppliers. During Fiscal 2014, our cash from operations decreased over Fiscal 2013, primarily due to the timing of billing and collection of contracts receivable based on the progress billing milestones, an increase in inventories and a decrease in accounts payable and income taxes payable. The increase in inventories resulted in part from supply chain inefficiencies resulting from the re-implementation of our Business Systems. These uses of cash were partially offset by the $10.0 million received from the amended supply agreement. For further information regarding the amended supply agreement, see Note E of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report. Additionally in Fiscal 2013, we received $6.8 million in contract settlements related to Fiscal 2012 matters. During Fiscal 2012, the cash used in operations of $6.0 million was primarily the result of increased unbilled contract receivables based on progress billing milestones.

Investing Activities

Purchases of property, plant and equipment during Fiscal 2014 totaled $16.5 million compared to $74.4 million and $29.1 million in Fiscal 2013 and 2012, respectively. A significant portion of the investments in Fiscal 2012 and 2013 were to acquire land and build facilities in the United States and Canada to support our continued expansion in our key markets, including the oil and gas markets and Canadian oil sands region. Costs related to the re-implementation and additional software added to our Business Systems were incurred during Fiscal 2013 and were placed into service in the third quarter of Fiscal 2014.

Financing Activities

Net cash used in financing activities was $12.5 million in Fiscal 2014 and $0.5 million in Fiscal 2013. Net cash provided by financing activities was $1.3 million during Fiscal 2012 due to cash being received from the exercise of stock options. The increase in the use of cash in Fiscal 2014 was primarily driven by the payment of $12.0 million in cash dividends.

Contractual and Other Obligations

At September 30, 2014, our long-term contractual obligations were limited to debt and leases. The table below details our commitments by type of obligation, including interest if applicable, and the period that the payment will become due (in thousands).

As of September 30, 2014, Payments Due by Period:	**Long-Term Debt Obligations**	**Operating Lease Obligations**	**Total**
Less than 1 year	$ 406	$ 4,155	$ 4,561
1 to 3 years	809	5,490	6,299
3 to 5 years	806	3,036	3,842
More than 5 years	1,202	5,586	6,788
Total long-term contractual obligations	$ 3,223	$ 18,267	$ 21,490

The lease on our previously occupied Canadian facility does not expire until July 2023; however, we have sublet that facility through July 2019.

As of September 30, 2014, the total unrecognized tax benefit related to uncertain tax positions was $4.0 million. We estimate that none of this will be paid within the next 12 months. However, we believe that it is reasonably possible that within the next 12 months, the total unrecognized tax benefits will decrease by approximately 1% due to the expiration of certain statutes of limitations in various state and local jurisdictions. We are unable to make reasonably reliable estimates regarding the timing of future cash outflows, if any, associated with the remaining unrecognized tax benefits.

Other Commercial Commitments

We are contingently liable for secured and unsecured letters of credit of $24.2 million as of September 30, 2014, of which $21.5 million reduces our borrowing capacity.

The following table reflects potential cash outflows that may result in the event that we are unable to perform under our contracts (in thousands):

As of September 30, 2014, Payments Due by Period:		Letters of Credit
Less than 1 year	$	12,939
1 to 3 years		8,340
More than 3 years		2,893
Total long-term commercial obligations	$	24,172

We also had performance and maintenance bonds totaling $298.7 million that were outstanding at September 30, 2014. Performance and maintenance bonds are primarily used to guarantee our contract performance to our customers.

Outlook

The markets in which we participate are capital-intensive and cyclical in nature. Cyclicality 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 for oil, gas and electrical energy, the overall financial environment, governmental budgets, regulatory actions and environmental concerns. These factors influence the release of new capital projects by our customers, which are traditionally awarded in competitive bid situations. Scheduling is matched to the customer requirements; and projects may take a number of months to produce; schedules also may change during the course of any particular project.

Growth in demand for energy is expected to continue over the long term. This, when coupled with the need for replacement of existing infrastructure that is nearing the end of its life cycle, demonstrates a continued need for products and services produced by us. Our orders over the past year have been solid, driven primarily by the relative stability in the oil and gas industry overall, along with the specific demand associated with Canadian oil sands related projects. We continue to experience timing challenges in the near-term related to the awarding of large projects due to various global market conditions and industry constraints. However, the long-term outlook for continued opportunities for our products and services remains positive; even though the timing and pricing of many of these projects are difficult to predict.

Our operating results are frequently impacted by the timing and resolution of change orders and project close-out which could cause gross margins to improve or deteriorate during the period in which these items are approved and finalized with customers. Our operating results are also impacted by factors outside of our control, such as our projects that have contract arrangements where the approval of engineering and design specifications may affect the timing of the project execution.

The western Canadian oil and gas market continues to provide project opportunities for Powell. Demand for our products and solutions in this market are placing pressure on our production ramp plan. We completed the construction of our new Acheson, Alberta facility and relocated operations from our previous facility in the fall of 2013. The production ramp of our Canadian operations has presented and may continue to present challenges resulting in inefficiencies and extended project delivery times. We believe the challenges from the ramp of our Canadian operations will likely result in higher costs, gross margin deterioration and delay the recognition of revenues into Fiscal 2015. We continue to take actions to mitigate the risks associated with these challenges.

We are in the process of expanding our manufacturing facility in Acheson, Alberta, Canada. The expansion is expected to cost approximately $33 million and is expected to be funded from our existing cash and cash equivalents and future cash flows from operations. We expect the expansion of our Canadian facility to be completed in early Fiscal 2015.

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

Effects of Inflation

We are subject to inflation, which can cause increases in our costs of raw materials, primarily copper, aluminum and steel. Fixed-price contracts can limit our ability to pass these increases to our customers, thus negatively impacting our earnings. The inflation in commodity prices could potentially impact our operations in future years.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosures of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. We believe the following accounting policies and estimates to be critical in the preparation and reporting of our consolidated financial statements.

Revenue Recognition

Our revenues are primarily generated from the engineering and manufacturing of custom products under long-term contracts that may last from one month to several years, depending on the contract. Revenues from long-term contracts are recognized on the percentage-of-completion method of accounting. Occasionally a contract may require that we segment the project into specific deliverables for revenue recognition. Segmenting a contract may result in different interim rates of profitability for each scope of service than if we had recognized revenue on a combined basis.

Under the percentage-of-completion method of accounting, revenues are recognized as work is performed. The estimated completion to date is calculated by multiplying the total contract price by the percentage of performance to date, which is based on total costs or total labor dollars incurred to date compared to the total estimated costs or total labor dollars estimated at completion. The method used to determine the percentage of completion is typically the cost method, unless the labor method is a more accurate method of measuring the progress of the project. Application of the percentage-of-completion method of accounting requires the use of estimates of costs to be incurred for the performance of the contract. Contract costs include all direct material costs, direct labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and all costs associated with operation of equipment. The cost estimation process is based upon the professional knowledge and experience of our engineers, project managers and financial professionals. Factors that are considered in estimating the work to be completed and ultimate contract recovery include the availability and productivity of labor, the nature and complexity of the work to be performed, the effect of change orders, the availability of materials, the effect of any delays on our project performance and the recoverability of any claims. Changes in job performance, job conditions, estimated profitability and final contract settlements, including our estimate of liquidated damages, if any, may result in revisions to costs and income, with their effects being recognized in the period in which the revisions are determined. Whenever revisions of estimated contract costs and contract values indicate that the contract costs will exceed estimated revenues, thus creating a loss, a provision for the total estimated loss is recorded in that period.

Revenues associated with maintenance, repair and service contracts are recognized when the services are performed. Expenses related to these types of services are recognized as incurred.

Costs and estimated earnings in excess of billings on uncompleted contracts also include certain costs associated with unapproved change orders. These costs are included when change order approval is probable. Amounts are carried at the lower of cost or net realizable value. Revenue is recognized to the extent of costs incurred when recovery is probable. The amounts recorded involve the use of judgments and estimates; thus, actual recoverable amounts could differ from original assumptions.

Allowance for Doubtful Accounts

We maintain and continually assess the adequacy of an allowance for doubtful accounts representing our estimate for losses resulting from the inability of our customers to pay amounts due to us. This estimated allowance is based on historical experience of uncollected accounts, the level of past due accounts, the overall level of outstanding accounts receivable, information about specific customers with respect to their inability to make payments and expectations of future conditions that could impact the collectability of accounts receivable. However, future changes in our customers' operating performance and cash flows, or in general economic conditions, could have an impact on their ability to fully pay these amounts, which, among other things, could have a material adverse impact on our operating results.

Impairment of Long-Lived Assets

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be realizable. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such asset is necessary. This requires us to make long-term forecasts of the future revenues and costs related to the assets subject to review. Forecasts require assumptions about demand for our products and future market conditions. Estimating future cash flows requires significant judgment, and our projections may vary from cash flows eventually realized. Future events and unanticipated changes to assumptions could require a provision for impairment in a future period. The effect of any impairment would be reflected in income (loss) from operations in the Consolidated Statements of

Operations. In addition, we estimate the useful lives of our long-lived assets and other intangibles and periodically review these estimates to determine whether these lives are appropriate.

Intangible Assets

Goodwill and other intangible assets with indefinite useful lives are no longer amortized, but are evaluated for impairment annually, or immediately if conditions indicate that impairment could exist. The evaluation requires a two-step impairment test to identify potential goodwill impairment and measure the amount of a goodwill impairment loss. The first step of the test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of the impairment loss. Both steps of the goodwill impairment testing involve significant estimates.

The costs of intangible assets with determinable useful lives are amortized over their estimated useful lives. When certain events or changes in operating conditions occur, an impairment assessment is performed and the lives of intangible assets with determinable lives may be adjusted.

Accruals for Contingent Liabilities

From time to time, contingencies such as insurance, liquidated damages and legal claims arise in the normal course of business. Pursuant to current accounting standards, we must evaluate such contingencies to subjectively determine the likelihood that an asset has been impaired or a liability has been incurred at the date of the financial statements, as well as evaluate whether the amount of the loss can be reasonably estimated. If the likelihood is determined to be probable and it can be reasonably estimated, the estimated loss is recorded. The amounts we record for insurance claims, warranties, legal and other contingent liabilities require judgments regarding the amount of expenses that will ultimately be incurred. We use past experience and history, as well as the specific circumstances surrounding each contingent liability, in evaluating the amount of liability that should be recorded. Actual results could differ from our estimates.

Warranty Costs

We provide for estimated warranty costs with the recognition of revenue based upon historical rates applicable to individual product lines. In addition, specific provisions are made when the costs of such warranties are expected to exceed accruals. Our standard terms and conditions of sale include a warranty for parts and service for the earlier of 18 months from the date of shipment or 12 months from the date of energization. Occasionally projects require warranty terms that are longer than our standard terms due to the nature of the project. Extended warranty terms may be negotiated and included in our contracts. We use past experience and historical claims to determine the estimated liability. Actual results could differ from our estimate.

Accounting for Income Taxes

We account for income taxes under the asset and liability method, based on the income tax laws and rates in the countries in which operations are conducted and income is earned. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Developing our provision for income taxes requires significant judgment and expertise in federal, international and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Although our Canadian operations reported a loss for Fiscal 2014, we believe that the net deferred tax asset recorded as of September 30, 2014, is realizable through future reversals of existing taxable temporary differences and future taxable income. 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. We will continue to assess the adequacy of the valuation allowance on a quarterly basis. Our judgments and tax strategies are subject to audit by various taxing authorities.

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity’s financial statements or tax returns. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Accounting literature also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our financial statements.

See Note H of Notes to Consolidated Financial Statements included elsewhere in this Annual Report for disclosures related to the valuation allowance recorded in relation to foreign deferred taxes.

Foreign Currency Translation

The functional currency for our foreign subsidiaries is the local currency in which the entity is located. The financial statements of all subsidiaries with a functional currency other than the U.S. Dollar have been translated into U.S. Dollars. All assets and liabilities of foreign operations are translated into U.S. Dollars using year-end exchange rates, and all revenues and expenses are translated at average rates during the respective period. The U.S. Dollar results that arise from such translation, as well as exchange gains and losses on intercompany balances of a long-term investment nature, are included in the cumulative currency translation adjustments in accumulated other comprehensive income in stockholders' equity.

New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (the FASB), which are adopted by us as of the specified effective date. Unless otherwise discussed, management believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on our consolidated statements upon adoption.

In March 2013, the FASB issued accounting guidance to resolve the diversity in practice for accounting for the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of real estate or conveyance of oil and gas mineral rights) within a foreign entity. This guidance is effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013, which would be our fiscal year ended September 30, 2015. We do not expect this guidance to have a material impact on our consolidated financial position or results of operations.

In July 2013, the FASB issued accounting guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, which would be our fiscal year ended September 30, 2015. This guidance should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this guidance is not expected to have a significant impact on our consolidated financial position or results of operations.

In April 2014, the FASB issued an amendment to the financial reporting of discontinued operations. The amendments in this update changed the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent application related to the financial reporting of discontinued operations guidance in U.S. GAAP. Under the new guidance, only disposals representing a strategic shift in operations that have a major effect on the organization's operations and financial results should be presented as discontinued operations. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. This disclosure will provide users with information about the ongoing trends in a reporting organization's results from continuing operations. The amendments in this update are effective in the first quarter of 2015, which would be our fiscal year end September 30, 2016. Early adoption is permitted for disposals that have not been previously reported as discontinued operations.

In May 2014, the FASB issued a new standard on revenue recognition that supersedes previously issued revenue recognition guidance. This standard provides a five-step approach to be applied to all contracts with customers and requires expanded disclosures about the nature, amount, timing and uncertainty of revenue (and the related cash flows) arising from customer contracts, significant judgments and changes in judgments used in applying the revenue model and the assets recognized from costs incurred to obtain or fulfill a contract. This new standard is effective for us beginning in fiscal year 2018. Early application is not permitted. 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.

Item 7A. ***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 interest rates, foreign exchange rates and commodity prices.

Market Risk

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

Commodity Price Risk

We are subject to market risk from fluctuating market prices of certain raw materials. 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 our 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. Our international operations are financed utilizing local credit facilities denominated in local currencies. Additionally, expenses associated with these transactions are generally contracted and paid for in the same local currencies. A 10% unfavorable change in the U.S. Dollar exchange rate, relative to other functional currencies in which we operate, would not materially impact our consolidated balance sheet at September 30, 2014. During Fiscal 2014, our realized foreign exchange losses were $1.5 million and are included in selling, general and administrative expenses in the Consolidated Statements of Operations.

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 8. ***Financial Statements and Supplementary Data***

Index to Consolidated Financial Statements | **Page**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
and Stockholders of Powell Industries, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Powell Industries, Inc. and its subsidiaries at September 30, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2014, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Houston, Texas
December 3, 2014

POWELL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	September 30, 2014	September 30, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 103,118	$ 107,411
Accounts receivable, less allowance for doubtful accounts of $1,577 and $572, respectively	107,162	112,074
Costs and estimated earnings in excess of billings on uncompleted contracts	95,970	79,420
Inventories	32,815	28,963
Income taxes receivable	2,804	3,022
Deferred income taxes	5,297	4,490
Prepaid expenses	5,870	5,893
Other current assets	4,291	658
Current assets held for sale	—	15,409
Total Current Assets	357,327	357,340
Property, plant and equipment, net	156,896	144,495
Goodwill	1,003	1,003
Intangible assets, net	1,904	11,612
Deferred income taxes	11,422	9,016
Other assets	8,224	7,293
Long-term receivable (Note E)	4,667	—
Long-term assets held for sale	—	144
Total Assets	$ 541,443	$ 530,903
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital lease obligations	$ 400	$ 416
Income taxes payable	705	4,647
Accounts payable	70,209	55,528
Accrued salaries, bonuses and commissions	25,206	25,799
Billings in excess of costs and estimated earnings on uncompleted contracts	48,702	48,334
Accrued product warranty	4,557	5,282
Other accrued expenses	6,291	10,209
Deferred credit − short term (Note E)	2,029	—
Current liabilities held for sale	—	17,848
Total Current Liabilities	158,099	168,063
Long-term debt and capital lease obligations, net of current maturities	2,800	3,200
Deferred compensation	4,226	3,480
Other long-term liabilities	655	730
Deferred credit − long term (Note E)	4,566	—
Long-term liabilities held for sale	—	204
Total Liabilities	$ 170,346	$ 175,677
Commitments and Contingencies (Note G)		
Stockholders' Equity:		
Preferred stock, par value $.01; 5,000,000 shares authorized; none issued	—	—
Common stock, par value $.01; 30,000,000 shares authorized; 12,031,243 and 11,970,967 shares issued and outstanding, respectively	120	119
Additional paid-in capital	46,267	43,193
Retained earnings	331,213	313,987
Accumulated other comprehensive loss	(6,503)	(2,073)
Total Stockholders' Equity	371,097	355,226
Total Liabilities and Stockholders' Equity	$ 541,443	$ 530,903

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended September 30,		
	2014	2013	2012
Revenues	$ 647,814	$ 640,867	$ 690,741
Cost of goods sold	522,340	502,375	557,938
Gross profit	125,474	138,492	132,803
Selling, general and administrative expenses	87,756	79,707	76,961
Research and development expenses	7,608	7,615	6,286
Amortization of intangible assets	779	1,659	2,599
Restructuring and relocation expenses	—	3,927	—
Operating income	29,331	45,584	46,957
Gain on settlement	—	(1,709)	—
Other income (See Note E)	(1,522)	—	—
Interest expense	178	202	272
Interest income	(13)	(35)	(114)
Income from continuing operations before income taxes	30,688	47,126	46,799
Income tax provision	11,068	7,387	18,056
Income from continuing operations	19,620	39,739	28,743
Income from discontinued operations, net of tax (Note N)	9,604	2,337	914
Net income	$ 29,224	$ 42,076	$ 29,657
Earnings per share:			
Continuing operations	$ 1.63	$ 3.32	$ 2.43
Discontinued operations	0.80	0.20	$ 0.07
Basic earnings per share	$ 2.43	$ 3.52	$ 2.50
Continuing operations	$ 1.62	$ 3.32	$ 2.41
Discontinued operations	0.80	0.19	0.08
Diluted earnings per share	$ 2.42	$ 3.51	$ 2.49
Weighted average shares:			
Basic	12,003	11,948	11,850
Diluted	12,058	11,994	11,925
Dividends per share	$ 1.00	$ —	$ —

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Year Ended September 30,		
	2014	2013	2012
Net income	$ 29,224	$ 42,076	$ 29,657
Foreign currency translation adjustments	(4,447)	(1,719)	833
Postretirement benefit adjustment, net of tax	17	25	159
Comprehensive income	$ 24,794	$ 40,382	$ 30,649

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Income/(Loss)	Total
Balance, September 30, 2011	11,752	$ 117	$ 34,343	$ 242,254	$ (1,371)	$ 275,343
Net income	—	—	—	29,657	—	29,657
Foreign currency translation adjustments	—	—	—	—	833	833
Exercise of stock options	98	1	1,798	—	—	1,799
Stock-based compensation	7	—	1,004	—	—	1,004
Excess tax benefit from share-based compensation	—	—	743	—	—	743
Shares withheld in lieu of employee tax withholding	—	—	(154)	—	—	(154)
Amortization of restricted stock	—	—	135	—	—	135
Issuance of restricted stock	74	1	583	—	—	584
Retirement of stock	(15)	—	—	—	—	—
Postretirement benefit adjustment, net of tax of $20	—	—	—	—	159	159
Balance, September 30, 2012	11,916	$ 119	$ 38,452	$ 271,911	$ (379)	$ 310,103
Net income	—	—	—	42,076	—	42,076
Foreign currency translation adjustments	—	—	—	—	(1,719)	(1,719)
Stock-based compensation	39	—	2,369	—	—	2,369
Excess tax benefit from share-based compensation	—	—	464	—	—	464
Shares withheld in lieu of employee tax withholding	—	—	(187)	—	—	(187)
Amortization of restricted stock	—	—	2,095	—	—	135
Issuance of restricted stock	17	—	—	—	—	—
Retirement of stock	(1)	—	—	—	—	—
Postretirement benefit adjustment, net of tax of $14	—	—	—	—	25	25
Balance, September 30, 2013	11,971	$ 119	$ 43,193	$ 313,987	$ (2,073)	$ 355,226
Net income	—	—	—	29,224	—	29,224
Foreign currency translation adjustments	—	—	—	—	(4,447)	(4,447)
Stock-based compensation	44	—	3,385	—	—	3,385
Excess tax benefit from share-based compensation	—	—	407	—	—	407
Shares withheld in lieu of employee tax withholding	—	—	(718)	—	—	(718)
Issuance of restricted stock	16	1	—	—	—	1
Dividends paid	—	—	—	(11,998)	—	(11,998)
Postretirement benefit adjustment, net of tax of $9	—	—	—	—	17	17
Balance, September 30, 2014	12,031	$ 120	$ 46,267	$ 331,213	$ (6,503)	$ 371,097

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended September 30, 2014	2013	2012
Operating Activities:			
Net income	$ 29,224	$ 42,076	$ 29,657
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	11,386	8,519	10,465
Amortization	779	1,671	2,612
Gain on sale of discontinued operations, net of tax	(8,563)	—	—
Stock-based compensation	3,385	4,464	1,723
Excess tax benefit from stock-based compensation	(407)	(464)	(743)
Bad debt expense/(recovery)	1,074	(544)	842
Deferred income tax benefit	(3,212)	(6,720)	(1,422)
Gain on amended supply agreement	(1,522)	—	—
Cash received from amended supply agreement	10,000	—	—
Changes in operating assets and liabilities:			
Accounts receivable, net	1,959	5,838	(16,209)
Costs and billings in excess of estimates on uncompleted contracts	(17,089)	23,054	(42,247)
Inventories	(3,959)	3,881	3,948
Prepaid expenses and other current assets	(1,101)	(3,530)	4,821
Accounts payable and income taxes payable	1,002	13,029	(5,293)
Accrued liabilities	(4,997)	(633)	6,411
Other, net	1,524	784	(530)
Net assets held for sale	(10,355)	—	—
Net cash provided by (used in) operating activities	9,128	91,425	(5,965)
Investing Activities:			
Proceeds from sale of property, plant and equipment	118	885	195
Proceeds from sale of Transdyn	14,819	—	—
Decrease in cash held in escrow	—	—	1,000
Purchases of property, plant and equipment	(16,495)	(74,369)	(29,063)
Net cash used in investing activities	(1,558)	(73,484)	(27,868)
Financing Activities:			
Payments on industrial development revenue bonds	(400)	(400)	(400)
Excess tax benefit from stock-based compensation	407	464	743
Shares withheld in lieu of employee tax withholding	(499)	(187)	(154)
Dividends paid	(11,998)	—	—
Proceeds from exercise of stock options	—	—	1,799
Payments on short-term and other financing	(16)	(329)	(717)
Net cash provided by (used in) financing activities	(12,506)	(452)	1,271
Net increase (decrease) in cash and cash equivalents	(4,936)	17,489	(32,562)
Effect of exchange rate changes on cash and cash equivalents	643	(118)	(864)
Cash and cash equivalents, beginning of period	107,411	90,040	123,466
Cash and cash equivalents, end of period	$ 103,118	$ 107,411	$ 90,040

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

A. Business and Organization

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 (formerly Switchgear & Instrumentation Limited); Powell Canada Inc. and Powell Industries International, B.V.

We develop, design, manufacture and service custom-engineered equipment and systems for the distribution, control and monitoring of electrical energy designed to (1) distribute, monitor and control the flow of electrical energy and (2) provide protection to motors, transformers and other electrically powered equipment. Our principal products include integrated power control room substations (PCRs®), custom-engineered modules, electrical houses (E-Houses), traditional and arc-resistant distribution switchgear and control gear, medium-voltage circuit breakers, monitoring and control communications systems, motor control centers and bus duct systems. These products are designed for application voltages ranging from 480 volts to 38,000 volts and are used in oil and gas refining, offshore oil and gas production, petrochemical, pipeline, terminal, pulp and paper, mining and metals, light rail traction power, electric utility and other heavy industrial markets. Our product scope includes designs tested to meet both U.S. standards (ANSI) and international standards (IEC). We assist customers by providing value-added services such as spare parts, field service inspection, installation, commissioning, modification and repair, retrofit and retrofill components for existing systems and replacement circuit breakers for switchgear that is obsolete or that is no longer produced by the original manufacturer. We seek to establish long-term relationships with the end users of our systems as well as the design and construction engineering firms contracted by those end users.

References to Fiscal 2014, Fiscal 2013 and Fiscal 2012 used throughout these Notes to Consolidated Financial Statements relate to our fiscal years ended September 30, 2014, 2013 and 2012, respectively.

We previously reported two business segments: Electrical Power Products and Process Control Systems. In January 2014, we sold our wholly owned subsidiary Transdyn Inc. (Transdyn), which was reported in our Process Controls business segment. We reclassified the assets and liabilities of Transdyn as held for sale within the accompanying consolidated balance sheet as of September 30, 2013 and presented the results of these operations as income from discontinued operations, net of tax, for each of the accompanying consolidated statements of operations. While this sale did not result in a material disposition of assets or material reduction to income before income taxes relative to our consolidated financial statements, the revenues, gross profit, income before income taxes and assets of Transdyn comprised a significant majority of those respective amounts previously reported in our Process Control Systems business segment. As we previously reported only two business segments, Electrical Power Products and Process Control Systems, we have removed the presentation of business segments in these Notes to Consolidated Financial Statements. All current and historical financial information presented exclude the financial information for Transdyn or presents it as discontinued operations where applicable. For more information about this disposition, see Note N.

B. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Powell and our wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

Reclassifications have been made in prior years' Consolidated Statements of Cash Flows and Consolidated Statements of Stockholders' Equity to conform and expand the presentation of shares withheld in lieu of employee tax withholding in the current year. These reclassifications have not resulted in any changes to previously reported cash flows or equity for any periods.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying footnotes. The most significant estimates used in our financial statements affect revenue and cost recognition for construction contracts, the allowance for doubtful accounts, provision for excess and obsolete inventory, goodwill and other intangible assets, self-insurance, warranty accruals and income taxes. The amounts recorded for insurance claims, warranties, legal, income taxes and other contingent liabilities require judgments regarding the amount of expenses that will ultimately be incurred. We base our estimates on historical experience and on various other assumptions, as well as the specific circumstances surrounding these contingent liabilities, in evaluating the amount of liability that should be recorded. Additionally, the recognition of deferred tax assets requires estimates related to future income and other assumptions regarding timing and future profitability. Estimates may change as new events occur, additional information becomes available or operating environments change. Actual results may differ from our estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits with banks and highly liquid investments with original maturities of three months or less.

Supplemental Disclosures of Cash Flow Information (in thousands):

	Year Ended September 30,		
	2014	2013	2012
Cash paid during the period for:			
Interest, net of interest income	$ 149	$ 164	$ 141
Income taxes, net of refunds	18,889	14,783	12,104
Non-cash capital expenditures	13,527	2,807	—

Fair Value of Financial Instruments

Financial instruments include cash, cash equivalents, receivables, deferred compensation, payables and debt obligations. Except as described below, due to the short-term nature of account receivables and account payables, the book value is representative of their fair value. The carrying value of debt approximates fair value as interest rates are indexed to the Federal Funds Rate, the Canadian Prime Rate or the bank’s prime rate.

Accounts Receivable

Accounts receivable are stated net of allowances for doubtful accounts. We maintain and continually assess the adequacy of the allowance for doubtful accounts representing our estimate for losses resulting from the inability of our customers to pay amounts due to us. This estimated allowance is based on historical experience of uncollected accounts, the level of past due accounts, the overall level of outstanding accounts receivable, information about specific customers with respect to their inability to make payments and expectations of future conditions that could impact the collectability of accounts receivable. Future changes in our customers’ operating performance and cash flows, or in general economic conditions, could have an impact on their ability to fully pay these amounts, which could have a material impact on our operating results. In most cases, receivables are not collateralized. However, we utilize letters of credit to secure payment on sales when possible. At September 30, 2014 and 2013, accounts receivable included retention amounts of $6.7 million and $9.7 million, respectively. Retention amounts are in accordance with applicable provisions of contracts and become due upon completion of contractual requirements. Approximately $0.4 million of the retained amount at September 30, 2014, is expected to be collected subsequent to September 30, 2015.

Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts

Costs and estimated earnings in excess of billings on uncompleted contracts arise when revenues are recorded on a percentage-of-completion basis but cannot be invoiced under the terms of the contract. Such amounts are invoiced upon completion of contractual milestones.

Costs and estimated earnings in excess of billings on uncompleted contracts also include certain costs associated with unapproved change orders. These costs are included when the approval of the change order is probable. Amounts are carried at the lower of cost or net realizable value. Revenue is recognized to the extent of costs incurred when recovery is probable. The amounts recorded involve the use of judgments and estimates; thus, actual recoverable amounts could differ from original assumptions.

In accordance with industry practice, assets and liabilities related to costs and estimated earnings in excess of billings on uncompleted contracts, as well as billings in excess of costs and estimated earnings on uncompleted contracts, have been classified as current. The contract cycle for certain long-term contracts may extend beyond one year; thus, collection of amounts related to these contracts may extend beyond one year.

Inventories

Inventories are stated at the lower of cost or market using weighted-average methods and include the cost of materials, labor and manufacturing overhead. We use estimates in determining the level of reserves required to state inventory at the lower of cost or market. Our estimates are based on market activity levels, production requirements, the physical condition of products and technological innovation. Changes in any of these factors may result in adjustments to the carrying value of inventory.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and improvements, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property, plant and equipment, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the Consolidated Statements of Operations.

We review property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be realizable. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such asset is necessary. This requires us to make long-term forecasts of the future revenues and the costs related to the assets subject to review. Forecasts require assumptions about demand for our products and future market conditions. Estimating future cash flows requires significant judgment and our projections may vary from cash flows eventually realized. Future events and unanticipated changes to assumptions could require a provision for impairment in a future period. The effect of any impairment would be reflected in income (loss) from operations in the Consolidated Statements of Operations. In addition, we estimate the useful lives of our property, plant and equipment and periodically review these estimates to determine whether these lives are appropriate.

Intangible Assets

The costs of intangible assets with determinable useful lives are amortized over their estimated useful lives. When certain events or changes in operating conditions occur, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such assets is necessary. For intangible assets that are amortized, we review their estimated useful lives and evaluate whether events and circumstances warrant a revision to the remaining useful life. For additional information regarding our intangible assets and related impairment, see Note E herein.

Goodwill

Goodwill is evaluated for impairment annually, or immediately if conditions indicate that impairment could exist. The evaluation requires a two-step impairment test to identify potential goodwill impairment and measure the amount of a goodwill impairment loss. The first step of the test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of the impairment loss. Both steps of the goodwill impairment testing involve significant estimates.

Income Taxes

We account for income taxes under the asset and liability method, based on the income tax laws and rates in the countries in which operations are conducted and income is earned. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Developing our provision for income taxes requires significant judgment and expertise in federal, international and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Although our Canadian operations reported a loss for Fiscal 2014, we believe that the deferred tax asset recorded as of September 30, 2014, is realizable through future reversals of existing taxable temporary differences and future taxable income. 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. We will continue to assess the adequacy of the valuation allowance on a quarterly basis. Our judgments and tax strategies are subject to audit by various taxing authorities.

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Accounting literature also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our financial statements.

Revenue Recognition

Our revenues are primarily generated from engineering and manufacturing of custom products under long-term contracts that may last from one month to several years, depending on the contract. Revenues from long-term contracts are recognized on the percentage-of-completion method of accounting. Occasionally a contract may require that we segment the project into specific deliverables for revenue recognition. Segmenting a contract may result in different interim rates of profitability for each scope of service than if we had recognized revenue on a combined basis.

Under the percentage-of-completion method of accounting, revenues are recognized as work is performed. The estimated completion to date is calculated by multiplying the total contract price by the percentage of performance to date, which is based on total costs or total labor dollars incurred to date compared to the total estimated costs or total labor dollars estimated at completion. The method used to determine the percentage of completion is typically the cost method, unless the labor method is a more accurate method of measuring the progress of the project. Application of the percentage-of-completion method of accounting requires the use of estimates of costs to be incurred for the performance of the contract. Contract costs include all direct material costs, direct labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and all costs associated with operation of equipment. The cost estimation process is based upon the professional knowledge and experience of our engineers, project managers and financial professionals. Factors that are considered in estimating the work to be completed and ultimate contract recovery include the availability and productivity of labor, the nature and complexity of the work to be performed, the effect of change orders, the availability of materials, the effect of any delays on our project performance and the recoverability of any claims. Changes in job performance, job conditions, estimated profitability and final contract settlements, including our estimate of liquidated damages, if any, may result in revisions to costs and income, with their effects being recognized in the period in which the revisions are determined. Whenever revisions of estimated contract costs and contract values indicate that the contract costs will exceed estimated revenues, thus creating a loss, a provision for the total estimated loss is recorded in that period.

Revenues associated with maintenance, repair and service contracts are recognized when the services are performed. Expenses related to these types of services are recognized as incurred.

Warranties

We provide for estimated warranty costs with the recognition of revenue based upon historical rates applicable to individual product lines. In addition, specific provisions are made when the costs of such warranties are expected to exceed accruals. Our standard terms and conditions of sale include a warranty for parts and service for the earlier of 18 months from the date of shipment or 12 months from the date of energization, whichever occurs first. Occasionally projects require warranty terms that are longer than our standard terms due to the nature of the project. Extended warranty terms may be negotiated and included in our contracts. We use past experience and historical claims to determine the estimated liability. Actual results could differ from our estimate.

Research and Development Expense

Research and development activities are directed toward the development of new products and processes as well as improvements in existing products and processes. These costs, which primarily include salaries, contract services and supplies, are expensed as incurred. Such amounts were $7.6 million, $7.6 million and $6.3 million in Fiscal 2014, 2013 and 2012, respectively.

Foreign Currency Translation

The functional currency for our foreign subsidiaries is the local currency in which the entity is located. The financial statements of all subsidiaries with a functional currency other than the U.S. Dollar have been translated into U.S. Dollars. All assets and liabilities of foreign operations are translated into U.S. Dollars using year-end exchange rates, and all revenues and expenses are translated at average rates during the respective period. The U.S. Dollar results that arise from such translation, as well as exchange gains and losses on intercompany balances of a long-term investment nature, are included in the cumulative currency translation adjustments in accumulated other comprehensive income in stockholders' equity.

Stock-Based Compensation

We measure stock-based compensation cost at the grant date based on the fair value of the award. Compensation expense is recognized over the period during which the employee is required to provide service in exchange for the awards, typically the vesting period. Excess income tax benefits related to share-based compensation expense that must be recognized directly in equity are considered financing rather than operating cash flow activities.

New Accounting Standards

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (the FASB), which are adopted by us as of the specified effective date. Unless otherwise discussed, management believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on our consolidated statements upon adoption.

In March 2013, the FASB issued accounting guidance to resolve the diversity in practice for accounting for the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of real estate or conveyance of oil and gas mineral rights) within a foreign entity. This guidance is effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013, which would be our fiscal year ending September 30, 2015. We do not expect this guidance to have a material impact on our consolidated financial position or results of operations.

In July 2013, the FASB issued accounting guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, which would be our fiscal year ended September 30, 2015. This guidance should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted**.** The adoption of this guidance is not expected to have a significant impact on our consolidated financial position or results of operations.

In April 2014, the FASB issued an amendment to the financial reporting of discontinued operations. The amendments in this update changed the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent application related to the financial reporting of discontinued operations guidance in U.S. GAAP. Under the new guidance, only disposals representing a strategic shift in operations that have a major effect on the organization's operations and financial results should be presented as discontinued operations. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. This disclosure will provide users with information about the ongoing trends in a reporting organization's results from continuing operations. The amendments in this update are effective in the first quarter of 2015, which would be our fiscal year end September 30, 2016. Early adoption is permitted for disposals that have not been previously reported as discontinued operations.

In May 2014, the FASB issued a new standard on revenue recognition that supersedes previously issued revenue recognition guidance. This standard provides a five-step approach to be applied to all contracts with customers and requires expanded disclosures about the nature, amount, timing and uncertainty of revenue (and the related cash flows) arising from customer contracts, significant judgments and changes in judgments used in applying the revenue model and the assets recognized from costs incurred to obtain or fulfill a contract. This new standard is effective for us beginning in fiscal year 2018. Early application is not permitted. 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.

C. 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 for the years ended September 30, 2014, 2013 and 2012 (in thousands, except per share data):

	Year Ended September 30,		
	2014	2013	2012
Numerator:			
Income from continuing operations	$ 19,620	$ 39,739	$ 28,743
Income from discontinued operations	9,604	2,337	914
Net income	$ 29,224	$ 42,076	$ 29,657
Denominator:			
Weighted average basic shares	12,003	11,948	11,850
Dilutive effect of restricted stock units	55	46	75
Weighted average diluted shares with assumed conversions	12,058	11,994	11,925
Net earnings per share:			
Continuing operations	$ 1.63	$ 3.32	$ 2.43
Discontinued operations	0.80	0.20	0.07
Basic earnings per share	$ 2.43	$ 3.52	$ 2.50
Continuing operations	$ 1.62	$ 3.32	$ 2.41
Discontinued operations	0.80	0.19	0.08
Diluted earnings per share	$ 2.42	$ 3.51	$ 2.49

D. Detail of Selected Balance Sheet Accounts

Allowance for Doubtful Accounts

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

	September 30,	
	2014	2013
Balance at beginning of period	$ 572	$ 1,297
Bad debt expense/(recovery)	1,074	(544)
Uncollectible accounts written off, net of recoveries	(58)	(171)
Change in foreign currency translation	(11)	(10)
Balance at end of period	$ 1,577	$ 572

Inventories

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

	September 30, 2014		September 30, 2013	
Raw materials, parts and subassemblies	$	35,349	$	30,077
Work-in-progress		2,035		3,818
Provision for excess and obsolete inventory		(4,569)		(4,932)
Total inventories	$	32,815	$	28,963

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):

	September 30, 2014		September 30, 2013	
Costs incurred on uncompleted contracts	$	604,939	$	618,570
Estimated earnings		157,562		159,962
		762,501		778,532
Less: Billings to date		(715,233)		(747,446)
Net underbilled position	$	47,268	$	31,086
Included in the accompanying balance sheets under the following captions:				
Costs and estimated earnings in excess of billings on uncompleted contracts – underbilled	$	95,970	$	79,420
Billings in excess of costs and estimated earnings on uncompleted contracts – overbilled		(48,702)		(48,334)
Net underbilled position	$	47,268	$	31,086

Property, Plant and Equipment

Property, plant and equipment are summarized below (in thousands):

	September 30, 2014		September 30, 2013		Range of Asset Lives
Land	$	23,545	$	24,022	—
Buildings and improvements		100,901		79,621	3 - 39 Years
Machinery and equipment		100,922		71,808	3 - 15 Years
Furniture and fixtures		3,852		2,736	3 - 10 Years
Construction in process		15,878		48,301	—
	$	245,098	$	226,488	
Less: Accumulated depreciation		(88,202)		(81,993)	
Total property, plant and equipment, net	$	156,896	$	144,495	

The increase in buildings and improvements and machinery and equipment was primarily the result of construction of the new facilities in Houston, Texas, and Acheson, Alberta, Canada.

There were no assets under capital lease as of September 30, 2014; however, at September 30, 2013, we had assets under capital lease of $0.5 million, with related accumulated depreciation of $0.5 million which was included in property and equipment. Depreciation expense from continuing operations, including the depreciation of capital leases, was $11.4 million, $8.5 million and $10.5 million for fiscal years 2014, 2013 and 2012, respectively.

Warranty Accrual

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

	September 30, 2014	September 30, 2013
Balance at beginning of period	$ 5,282	$ 5,548
Increase to warranty expense	3,237	4,020
Deduction for warranty charges	(3,892)	(4,321)
Increase (decrease) due to foreign currency translations	(70)	35
Balance at end of period	$ 4,557	$ 5,282

E. Intangible Assets

Our intangible assets consist of goodwill, which is not being amortized, purchased technology (6- to 7-year useful lives) and trade names (10-year useful life), which are amortized over their estimated useful lives. We test for impairment of goodwill and intangible assets annually, or immediately if conditions indicate that impairment could exist. No impairment was identified as a result of performing our annual impairment test of goodwill for Fiscal 2014 or 2013.

Intangible assets balances, subject to amortization, at September 30, 2014 and 2013, consisted of the following (in thousands):

	September 30, 2014			September 30, 2013		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Purchased technology	$ 11,749	$ (9,918)	$ 1,831	$ 11,749	$ (9,489)	$ 2,260
Trade name	1,136	(1,063)	73	1,136	(967)	169
Supply agreement	—	—	—	17,580	(8,397)	9,183
Total	$ 12,885	$ (10,981)	$ 1,904	$ 30,465	$ (18,853)	$ 11,612

Amortization of intangible assets recorded for the years ended September 30, 2014, 2013 and 2012, was $0.8 million, $1.7 million and $2.6 million, respectively.

Estimated amortization expense for each of the five subsequent fiscal years is expected to be (in thousands):

Years Ending September 30,	Total
2015	$ 449
2016	376
2017	376
2018	376
2019	327

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. We have $2.3 million recorded in other current assets and the remaining $4.7 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, the amount by which the total 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 the $1.5 million gain in other income in Fiscal 2014.

F. Long-Term Debt

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

	September 30, 2014	September 30, 2013
Industrial development revenue bonds	$ 3,200	$ 3,600
Capital lease obligations	—	16
Subtotal long-term debt and capital lease obligations	3,200	3,616
Less: current portion	(400)	(416)
Total long-term debt and capital lease obligations	$ 2,800	$ 3,200

The annual maturities of long-term debt as of September 30, 2014, were as follows (in thousands):

Year Ending September 30,	Long-Term Debt Maturities
2015	$ 400
2016	400
2017	400
2018	400
2019	400
Thereafter	1,200
Total long-term debt maturities	$ 3,200

U.S. Revolver

In Fiscal 2014, we amended and restated our existing credit agreement (Amended Credit Agreement) with a major domestic bank. We entered into this Amended Credit Agreement to, among other things, allow for the payment of dividends and to extend the expiration date of the facility. 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 $21.5 million for our outstanding letters of credit at September 30, 2014.

There were no borrowings outstanding under the U.S. Revolver as of September 30, 2014. Amounts available under the U.S. Revolver were $53.5 million at September 30, 2014. The U.S. Revolver expires on December 31, 2018.

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

The Amended Credit Agreement is collateralized by a pledge of 100% of the voting capital stock of each of our domestic subsidiaries and 66% of the voting capital stock of each non-domestic subsidiary, excluding Powell Canada. The Amended Credit Agreement provides for customary events of default and carries cross-default provisions with other existing debt agreements. If an event of default (as defined in the Amended Credit Agreement) occurs and is continuing, on the terms and subject to the conditions set forth in the Amended Credit Agreement, amounts outstanding under the Amended Credit Agreement may be accelerated and may become immediately due and payable. As of September 30, 2014, we were in compliance with all of the financial covenants of the Amended Credit Agreement.

Canadian Revolver

We have a $9.0 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 at September 30, 2014.

There were no borrowings outstanding under the Canadian Revolver as of September 30, 2014 and amounts available under the Canadian Revolver were $9.0 million at September 30, 2014. The Canadian Revolver expires on February 28, 2015. The interest rate for amounts outstanding under the Canadian Revolver is a floating interest rate based upon either the Canadian Prime Rate, or the lender's Bankers' Acceptance Rate. Once the applicable rate is determined, a margin of 0.50% to 1.75%, as determined by our consolidated leverage ratio, is added to the applicable rate.

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

The Canadian Revolver is secured by the assets of our Canadian operations and provides for customary events of default and carries cross-default provisions with our existing debt agreements. If an event of default (as defined in the Canadian Revolver) occurs and is continuing, per the terms and subject to the conditions set forth in the Canadian Revolver, amounts outstanding under the Canadian Revolver may be accelerated and may become immediately due and payable. As of September 30, 2014, we were in compliance with all of the financial covenants of the Canadian Revolver.

Industrial Development Revenue Bonds

We borrowed $8.0 million in October 2001 through a loan agreement funded with proceeds from tax-exempt industrial development revenue bonds (Bonds). These Bonds were issued by the Illinois Development Finance Authority and were used for the completion of our Northlake, Illinois facility. Pursuant to the Bond issuance, a reimbursement agreement between us and a major domestic bank required an issuance by the bank of an irrevocable direct-pay letter of credit (Bond LC), as collateral, to the Bonds' trustee to guarantee payment of the Bonds' principal and interest when due. The Bond LC is subject to both early termination and extension provisions customary to such agreements, as well as various covenants, for which we were in compliance at June 30, 2014. While the Bonds mature in 2021, the reimbursement agreement requires annual redemptions of $0.4 million that commenced on October 25, 2002. A sinking fund is used for the redemption of the Bonds. At September 30, 2014, the balance in the restricted sinking fund was approximately $0.4 million and was recorded in cash and cash equivalents. The Bonds bear interest at a floating rate determined weekly by the Bonds' remarketing agent, which was the underwriter for the Bonds and is an affiliate of the bank. This interest rate was 0.20% as of September 30, 2014.

G. Commitments and Contingencies

Long-Term Debt

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

Leases

We lease certain offices, facilities and equipment under operating leases expiring at various dates through 2023.

At September 30, 2014, the minimum annual rental commitments under leases having terms in excess of one year were as follows (in thousands):

Years Ending September 30,		Operating Leases
2015	$	4,155
2016		3,183
2017		2,307
2018		1,600
2019		1,436
Thereafter		5,586
Total lease commitments	$	18,267

Lease expense for all operating leases was $3.9 million, $4.7 million and $4.3 million for Fiscal 2014, 2013 and 2012, respectively. The lease on our previous Canadian facility does not expire until July 2023; however, we have sublet that facility through July 2019. We recorded a $1.7 million loss in the fourth quarter of fiscal year 2013 for the net difference between our annual lease costs and the expected receipts from the anticipated sublease, as well as the write-off of leasehold improvements.

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 $21.5 million as of September 30, 2014. We also had performance and maintenance bonds totaling $298.7 million that were outstanding, with additional bonding capacity of $301.3 million available, at September 30, 2014.

In October 2014 we extended our $16.2 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 September 30, 2014, we had outstanding guarantees totaling $2.6 million under this Facility Agreement. Amounts available under this Facility Agreement were $13.6 million as of September 30, 2014.

The Facility Agreement provides for financial covenants and customary events of default, and carries cross-default provisions with our Amended Credit Facility. If an event of default (as defined in the Facility Agreement) occurs and is continuing, per the terms and subject to the conditions set forth in the Facility Agreement, obligations outstanding under the Facility Agreement may be accelerated and may become or be declared immediately due and payable. As of September 30, 2014, we were in compliance with all of the financial covenants of the Facility Agreement.

Litigation

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

In March 2013, we settled a lawsuit we had filed against the previous owners of Powell Canada in the amount of $1.7 million, which was received in April 2013 and is recorded as gain on settlement in the accompanying Consolidated Statement of Operations.

H. Income Taxes

The components of the income tax provision were as follows (in thousands):

	Year Ended September 30,		
	2014	2013	2012
Current:			
Federal	$ 12,184	$ 10,919	$ 17,648
State	2,226	1,757	1,513
Foreign	(130)	1,575	331
	14,280	14,251	19,492
Deferred:			
Federal	(1,798)	(580)	(1,853)
State	(311)	(114)	24
Foreign	(1,103)	(6,170)	393
	(3,212)	(6,864)	(1,436)
Total income tax provision	$ 11,068	$ 7,387	$ 18,056

Income before income taxes was as follows (in thousands):

	Year Ended September 30,		
	2014	2013	2012
U.S.	$ 35,131	$ 43,299	$ 52,450
Other than U.S.	(4,443)	3,827	(5,651)
Income before income taxes	$ 30,688	$ 47,126	$ 46,799

A reconciliation of the statutory U.S. income tax rate and the effective income tax rate, as computed on earnings before income tax provision in each of the three years presented in the Consolidated Statements of Operations, was as follows:

	Year Ended September 30,		
	2014	2013	2012
Statutory rate	35%	35%	35%
State income taxes, net of federal benefit	3	2	2
International withholding tax	—	(1)	(1)
Other permanent tax items	1	1	—
Foreign rate differential	1	(1)	1
Domestic production activities deduction	(3)	(3)	(3)
Foreign valuation allowance and other	(1)	(17)	4
Effective rate	36%	16%	38%

Our provision for income taxes reflects an effective tax rate on pre-tax earnings of 36% in Fiscal 2014 compared to 16% and 38% in Fiscal 2013 and 2012, respectively. The effective tax rates for Fiscal 2014 and 2012 are comparable while the effective tax rate in Fiscal 2013 was materially lower, resulting from the release of a valuation allowance that was recorded against Canadian deferred tax assets.

We have not recorded deferred income taxes on $19 million of undistributed earnings of our foreign subsidiaries because of management's intent to indefinitely reinvest such earnings. Upon distribution of these earnings in the form of dividends or otherwise, we may be subject to U.S. income taxes and foreign withholding taxes. It is not practical, however, to estimate the amount of taxes that may be payable on the eventual remittance of these earnings.

We are subject to income tax in the U.S., multiple state jurisdictions and certain international jurisdictions, primarily the U.K. and Canada. We do not consider any state in which we do business to be a major tax jurisdiction. We remain open to examination in the other jurisdictions as follows: Canada 2010 – 2013, United Kingdom 2013 and the United States 2009 – 2013.

The net deferred income tax asset (liability) was comprised of the following (in thousands):

	September 30,	
	2014	2013
Current deferred income taxes:		
Gross assets	$ 5,297	$ 5,335
Gross liabilities	—	(845)
Net current deferred income tax asset	5,297	4,490
Noncurrent deferred income taxes:		
Gross assets	11,532	9,016
Gross liabilities	(110)	—
Net noncurrent deferred income tax asset	11,422	9,016
Net deferred income tax asset	$ 16,719	$ 13,506

The tax effect of temporary differences between U.S. GAAP accounting and federal income tax accounting creating deferred income tax assets and liabilities was as follows (in thousands):

	September 30, 2014	September 30, 2013
Deferred Tax Assets:		
Net operating loss	$ 6,236	$ 3,892
Uniform capitalization and inventory	2,529	2,510
Deferred compensation	1,611	1,297
Stock-based compensation	1,529	1,291
Reserve for accrued employee benefits	1,444	1,396
Depreciation and amortization	1,217	944
Warranty accrual	643	1,042
Goodwill	474	1,198
Postretirement benefits liability	252	396
Allowance for doubtful accounts	495	163
Workers' compensation	128	185
Accrued legal	65	57
Credit carryforwards and other	1,109	845
Gross deferred tax asset	17,732	15,216
Less: valuation allowance	(903)	(865)
Deferred tax asset	16,829	14,351
Deferred Tax Liabilities:		
Uncompleted contracts	—	(845)
Other	(110)	—
Deferred tax liabilities	(110)	(845)
Net deferred tax asset	$ 16,719	$ 13,506

At September 30, 2014, we had $24 million of gross foreign operating loss carryforwards which are subject to a 20-year carryforward period, the first of which will expire in 2031. At September 30, 2013, we released a valuation allowance that was recorded against Canadian deferred tax assets, resulting in a $7 million tax benefit. Although our Canadian operations reported a loss for Fiscal 2014, we believe these deferred tax assets are more likely than not to be utilized by future taxable income. With the exception of the deferred tax assets related to certain foreign withholding taxes as well as the net operating losses of our Dutch entities, we believe that our other deferred tax assets are more likely than not realizable through future reversals of existing taxable temporary differences and our estimate of future taxable income. 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.

A reconciliation of the beginning and ending amount of the unrecognized tax liabilities follows (in thousands):

Balance as of September 30, 2013	$ 3,845
Increases related to tax positions taken during the current period	225
Increases related to tax positions taken during a prior period	14
Decreases related to expirations of statute of limitations	(58)
Balance as of September 30, 2014	$ 4,026

Our continuing policy is to recognize interest and penalties related to income tax matters as tax expense. The amount of interest and penalty expense recorded for the year ended September 30, 2014 was not material.

During Fiscal 2013, prior year U.S. federal income tax returns were amended to reflect increased research and development credits, and unrecognized tax benefits related to these refund claims were recorded. Fiscal 2012 and 2011 tax returns, along with the refund claims, are currently under review by the Internal Revenue Service Joint Committee on Taxation (JCT). It is reasonably possible that the amount of unrecognized tax benefits related to our research and development credits will change during the next twelve months. In addition, management believes that it is reasonably possible that within the next 12 months other unrecognized tax benefits will decrease by approximately 1% due to the expiration of certain federal statutes of limitations.

Management believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in our tax audits are resolved in a manner not consistent with management's expectations, we could be required to adjust our provision for income tax in the period such resolution occurs. Although timing of the resolution and/or closure of audits is highly uncertain, with the exception of the JCT review, we do not believe it is reasonably possible that our unrecognized tax benefits could materially change in the next 12 months.

I. Employee Benefit Plans

Retirement Plans

We have defined employee contribution plans for substantially all of our U.S. employees (401(k) plan) and our Canadian employees (Registered Retirement Savings Plan). We recognized expenses under these plans primarily related to matching contributions of $5.3 million, $4.9 million and $4.2 million in Fiscal 2014, 2013 and 2012, respectively.

Deferred Compensation

We offer a non-qualified deferred compensation plan to a select group of management and highly compensated individuals. The plan permits the deferral of up to 50% of a participant's base salary and/or 100% of a participant's annual incentive bonus. The deferrals are held in a separate trust, an irrevocable rabbi trust (the Rabbi Trust), which has been established to administer the plan. The Rabbi Trust is intended to be used as a source of funds to match respective funding obligations to participants. The assets of the trust are subject to the claims of our creditors in the event that we become insolvent. Consequently, the Rabbi Trust qualifies as a grantor trust for income tax purposes. We make periodic payments into company-owned life insurance policies held in this Rabbi Trust to fund the expected obligations arising under this plan. The assets and liabilities of the plan are recorded in other assets and deferred compensation, respectively, in the accompanying Consolidated Balance Sheets. Changes in the deferred compensation balance are charged to compensation expense. The plan is not qualified under Section 401 of the Internal Revenue code. We recorded $0.2 million in compensation expense related to this plan in Fiscal 2014. Total assets held by the trustee and deferred compensation liabilities were $3.5 million and $3.7 million, respectively, at September 30, 2014.

Certain former executives were provided an executive benefit plan which provides for fixed payments upon normal retirement on or after age 65 and the completion of at least 10 years of continuous employment. The estimated present value of these payments were accrued over the service life of these individuals, and $0.5 million is recorded in deferred compensation related to this executive benefit plan. To assist in funding the deferred compensation liability, we have invested in corporate-owned life insurance policies. The cash surrender value of these policies is presented in other assets and was $4.4 million at September 30, 2014.

Retiree Medical Plan

We have a plan that extends health benefits to retirees that are also available to active employees under our existing health plans. This plan is unfunded. The plan provides coverage for employees with at least 10 years of service who are age 55 or older but less than 65. The retiree is required to pay the COBRA rate less a subsidy provided by us based on years of service at the time of retirement. The unfunded liability was $0.7 million as of September 30, 2014 and 2013 and our net periodic postretirement benefit costs have been less than $0.1 million for the last three fiscal years. Due to the immateriality of the costs and liabilities of this plan, no further disclosure is being presented.

J. Stock-Based Compensation

We have the following stock-based compensation plans:

In February 2014, our stockholders approved and adopted at the Annual Meeting of Stockholders the 2014 Equity Incentive Plan (the 2014 Plan) which replaced our 2006 Equity Compensation Plan (2006 Plan). Persons eligible to receive awards under the 2014 Plan include our officers and employees. The 2014 Plan authorizes stock options, stock appreciation rights, restricted stock, restricted stock units and performance-based awards, as well as certain other awards. We have reserved 750,000 shares of common stock for issuance under the 2014 Plan. In Fiscal 2014, 4,778 shares were issued under the 2014 Plan and the total number of shares of common stock left available was 745,222 shares. In August 2012, 45,000 shares of restricted stock were issued under the 2006 Plan to our new President and Chief Executive Officer. These shares were issued at a price of $39.11 per share and vest over a three-year period on each anniversary of the grant date. In June 2012, 2,000 shares of restricted stock were issued under the 2006 Plan to the Chairman of the Board, who was an employee of the Company at the time the shares were issued. These shares were issued at a price of $37.50 per share and vest over a two-year period on each anniversary of the grant date. The 2006 Plan terminated in December 2013 and no further awards will be made under this plan.

In February 2014, our stockholders approved and adopted at the Annual Meeting of Stockholders the 2014 Non-Employee Director Equity Incentive Plan (the 2014 Director Plan), which replaced our former Restricted Stock Plan. Persons eligible to receive awards under the 2014 Director Plan are non-employee directors of the Board. The 2014 Director Plan authorizes stock options, stock appreciation rights, restricted stock, restricted stock units, as well as certain other awards. Subject to certain conditions and restrictions as determined by the Compensation Committee of the Board and proportionate adjustments in the event of stock dividends, stock splits and similar corporate transactions, each eligible director will receive 2,000 shares of restricted stock annually. The annual restricted stock grants vest 50% per year over a two-year period on each anniversary of the grant date. We reserved 150,000 shares of common stock for issuance under the 2014 Director Plan and in February 2014, 16,000 shares of restricted stock were issued to our non-employee directors at a price of $66.15 per share under this plan. The total number of shares of common stock available for future awards under this plan was 134,000 shares as of September 30, 2014. We did not issue any shares in Fiscal 2014 under the Restricted Stock Plan, however, in January 2013, 500 shares of restricted stock were issued to a newly appointed director at a price of $42.54 per share. In February 2013, 16,000 shares of restricted stock were issued to our directors at a price of $58.54 per share. In Fiscal 2012, 16,000 shares of restricted stock were issued to our directors at a price of $37.50 per share. The Restricted Stock Plan terminates in December 2014, and no further grants shall be made under this plan.

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. At September 30, 2014 and 2013, there were 54,240 shares and 68,100 shares of unvested restricted stock outstanding. During the year ended September 30, 2014, we recorded compensation expense of $1.3 million related to restricted stock grants. We recorded compensation expense of $2.1 million and $0.7 million related to restricted stock grants for the years ended September 30, 2013 and 2012, respectively.

We also issue restricted stock units (RSUs) to certain officers and key employees of the company. The RSUs vest over a three-year period from their date of issuance. The fair value of the RSUs is based on the closing price of our common stock as reported on the NASDAQ Global Market (NASDAQ) on the grant dates. Sixty percent of the actual amount of the RSUs earned will be based on the cumulative earnings as reported relative to the three-year performance cycle which begins October 1 of the year granted, and ranges from 0% to 150% of the target RSUs granted. The remaining forty percent of the RSUs are time-based and vest over a three-year period. At September 30, 2014, there were 106,845 RSUs outstanding. The RSUs do not have voting rights and do not receive dividends on common stock; additionally, the shares of common stock underlying the RSUs are not considered issued and outstanding until actually issued. In Fiscal 2014, 2,200 restricted stock units were issued under the 2006 Plan. We recorded compensation expense of $2.1 million, $2.4 million and $1.5 million related to RSUs for the years ended September 30, 2014, 2013 and 2012, respectively.

Total RSU activity (number of shares) for the past three years is summarized below:

	Number of Restricted Stock Units	**Weighted Average Fair Value Per Share**
Outstanding at September 30, 2011	69,378	$ 36.10
Granted	54,825	31.18
Vested	(24,478)	38.71
Forfeited	—	—
Outstanding at September 30, 2012	99,725	$ 32.69
Granted	58,775	39.05
Vested	(66,383)	34.00
Forfeited	(10,562)	33.46
Outstanding at September 30, 2013	81,555	$ 38.66
Granted	57,200	66.15
Vested	(29,832)	44.88
Forfeited	(2,078)	56.34
Outstanding at September 30, 2014	106,845	$ 51.30

We record the amortization of non-vested restricted stock and restricted stock units as an increase to additional paid-in capital. As of September 30, 2014 and 2013, amounts not yet recognized related to non-vested stock totaled $2.4 million and $2.1 million, respectively. As of September 30, 2014, the total weighted average remaining contractual life of our restricted stock and RSU's is 0.87 years and 1.15 years, respectively.

K. 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 that 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 that were accounted for at fair value on a recurring basis as of September 30, 2014 (in thousands):

	Fair Value Measurements at September 30, 2014			
	Quoted 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, 2014
Assets:				
Cash equivalents	$ 10,535	$ —	$ —	$ 10,535
Deferred compensation	724	2,802	—	3,526
Liabilities:				
Deferred compensation	—	3,688	—	3,688

The following table summarizes the fair value of our assets that were accounted for at fair value on a recurring basis as of September 30, 2013 (in thousands):

	Fair Value Measurements at September 30, 2013			
	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, 2013
Assets:				
Cash equivalents	$ 10,531	$ —	$ —	$ 10,531
Deferred compensation	793	2,069	—	2,862
Liabilities:				
Deferred compensation	—	2,862	—	2,862

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 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 Bonds – 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 September 30, 2013, approximates fair value based on the current coupon rate of the bonds, which is reset weekly. It 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 with the fair value measurement hierarchy during Fiscal 2014.

L. Geographic Information

All revenues represent sales to unaffiliated customers and are summarized for the last three fiscal years by region in the table below:

	Year Ended September 30,		
	2014	2013	2012
United States	$ 365,085	$ 374,453	$ 388,977
Canada	137,684	113,391	92,656
Middle East and Africa	84,330	61,618	79,778
Europe (including former Soviet Union)	34,920	24,092	24,857
Far East	15,127	35,388	12,418
Mexico, Central and South America	10,668	31,925	92,055
Total revenues	$ 647,814	$ 640,867	$ 690,741

	September 30,	
	2014	2013
Long-lived assets:		
United States	$ 99,711	$ 96,824
Canada	51,493	41,777
United Kingdom	5,692	5,894
Total	$ 156,896	$ 144,495

Long-lived assets consist of property, plant and equipment net of accumulated depreciation.

M. Quarterly Information

The table below sets forth the unaudited consolidated operating results by fiscal quarter for the years ended September 30, 2014 and 2013 (in thousands, except per share data):

	2014 Quarters				
	First	Second	Third	Fourth	2014
Revenues	$ 171,872	$ 162,295	$ 150,800	$ 162,847	$ 647,814
Gross profit	35,158	34,928	29,642	25,746	125,474
Income from continuing operations	7,268	6,976	2,947	2,429	19,620
Net income	8,255	15,593	2,947	2,429	29,224
Earnings per share — continuing operations:					
Basic	$ 0.61	$ 0.58	$ 0.25	$ 0.20	$ 1.63
Diluted	$ 0.60	$ 0.58	$ 0.24	$ 0.20	$ 1.62
Earnings per share: (1)					
Basic	$ 0.69	$ 1.30	$ 0.25	$ 0.20	$ 2.43
Diluted	$ 0.68	$ 1.29	$ 0.24	$ 0.20	$ 2.42

	2013 Quarters				
	First	Second	Third	Fourth	2013
Revenues	$ 146,858	$ 146,041	$ 171,733	$ 176,235	$ 640,867
Gross profit	32,402	29,543	36,593	39,954	138,492
Income from continuing operations	7,120	6,202	9,083	17,334	39,739
Net income	7,385	6,818	9,305	18,568	42,076
Earnings per share — continuing operations:					
Basic	$ 0.60	$ 0.52	$ 0.76	$ 1.45	$ 3.32
Diluted	$ 0.60	$ 0.52	$ 0.76	$ 1.44	$ 3.32
Earnings per share: (2)					
Basic	$ 0.62	$ 0.57	$ 0.78	$ 1.55	$ 3.52
Diluted	$ 0.62	$ 0.57	$ 0.78	$ 1.54	$ 3.51

(1) The increase in earnings per share for the second quarter of Fiscal 2014 was primarily due to the sale of Transdyn. For additional information on this disposition, see Note N.
(2) The increase in earnings per share for the fourth quarter of Fiscal 2013 was primarily driven by the release of our Canadian valuation allowance. For an explanation of the effective tax rate in Fiscal 2013, see Note H.

The sum of the individual earnings per share amounts may not agree with year-to-date earnings per share as each period's computation is based on the weighted-average number of shares outstanding during the period.

N. Discontinued Operations

On January 15, 2014, we sold our wholly owned subsidiary Transdyn to a global provider of electronic toll collection systems, headquartered in Vienna, Austria. The purchase price from the sale of this subsidiary totaled $16.0 million, of which we received cash of $14.4 million. The remaining $1.6 million was placed into an escrow account until April 2015, to be released subject to certain contingent obligations, and was recorded to other assets. We received additional cash of $0.4 million after the final working capital adjustment was calculated in March 2014. We recorded a gain on this transaction of $8.6 million, net of tax, which has been included in income from discontinued operations in Fiscal 2014 in the accompanying consolidated statements of operations. Transdyn's results were previously reflected in the Process Control Systems business segment.

We reclassified the assets and liabilities of Transdyn as held for sale within the accompanying consolidated balance sheets as of September 30, 2013 and presented the results of these operations as income from discontinued operations, net of tax, for each of the accompanying consolidated statements of operations.

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

	Year Ended September 30,		
	2014	2013	2012
Revenues	$ 13,923	$ 33,905	$ 26,452
Income from discontinued operations, net of tax of $633, $1,269 and $522, respectively	$ 1,041	$ 2,337	$ 914
Gain on sale of discontinued operations, net of tax of $5,218	8,563	—	—
Net income from discontinued operations, net of tax	$ 9,604	$ 2,337	$ 914
Earnings per share information:			
Basic	$ 0.80	$ 0.20	$ 0.07
Diluted	$ 0.80	$ 0.19	$ 0.08

	September 30, 2013
Current assets:	
Cash and cash equivalents	$ 337
Accounts receivable	7,346
Contracts in progress	7,201
Inventories, net	20
Prepaid expenses and other current assets	505
Current assets held for sale	$ 15,409
Long-term assets:	
Property, plant and equipment, net	$ 93
Other assets	51
Long-term assets held for sale	$ 144
Current liabilities:	
Accounts payable	$ 2,973
Accrued salaries, bonuses and commissions	1,675
Billings in excess of cost	11,867
Other accrued expenses and liabilities	1,333
Current liabilities held for sale	$ 17,848
Long-term liabilities:	
Long-term liabilities held for sale	$ 204

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***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 Annual Report on Form 10-K. Based on such evaluation, our CEO and CFO have each concluded that, as of September 30, 2014, the end of the period covered by this Annual Report on Form 10-K, 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.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our system of internal control was designed using a top-down risk-based approach 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. Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become ineffective due to changes in conditions or deterioration in the degree of compliance with the policies or procedures.

Management of the Company has assessed the effectiveness of our internal control over financial reporting as of September 30, 2014. Management evaluated the effectiveness of our internal control over financial reporting based on the criteria in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management's evaluation, management has concluded that our internal control over financial reporting was effective at the reasonable assurance level as of September 30, 2014, based on criteria in Internal Control – Integrated Framework (1992) issued by the COSO.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited and issued their report on the effectiveness of our internal control over financial reporting as of September 30, 2014, which appears in their report on the financial statements included herein.

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.

Item 9B. ***Other Information***

None.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

The information required by this item is incorporated in this Annual Report by reference to our definitive proxy statement pursuant to Regulation 14A, to be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended September 30, 2014.

We have adopted a Code of Business Conduct and Ethics that applies to all employees, including our executive officers and directors. A copy of our Code of Business Conduct and Ethics may be obtained at the Investor Relations section of our website, www.powellind.com, or by written request addressed to the Secretary, Powell Industries, Inc., 8550 Mosley Road, Houston, Texas 77075. We will satisfy the requirements under Item 5.05 of Form 8-K regarding disclosure of amendments to, or waivers from, provisions of our code of ethics that apply to the chief executive officer, chief financial officer or controller by posting such information on our website.

Item 11. ***Executive Compensation***

The information required by this item is incorporated in this Annual Report by reference to our definitive proxy statement pursuant to Regulation 14A, to be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended September 30, 2014.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this item is incorporated in this Annual Report by reference to our definitive proxy statement pursuant to Regulation 14A, to be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended September 30, 2014.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information required by this item is incorporated in this Annual Report by reference to our definitive proxy statement pursuant to Regulation 14A, to be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended September 30, 2014.

Item 14. ***Principal Accountant Fees and Services***

The information required by this item is incorporated in this Annual Report by reference to our definitive proxy statement pursuant to Regulation 14A, to be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended September 30, 2014.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

1. *Financial Statements.* Reference is made to the Index to Consolidated Financial Statements at Item 8 of this Annual Report.

2. *Financial Statement Schedule.* All schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes to the financial statements.

3. *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 By-laws 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	—	Powell Industries, Inc., Incentive Compensation Plan (filed as Exhibit 10.1 to our Form 10-K for the fiscal year ended October 31, 2003, and incorporated herein by reference).
10.2	—	Description of Supplemental Executive Benefit Plan (filed as Exhibit 10 to our Form 10-K for the fiscal year ended October 31, 1984, and incorporated herein by reference).
10.3	—	1992 Powell Industries, Inc. Stock Option Plan (filed as Exhibit 10.1 to our registration statement on Form S-8 filed on December 21, 2010, and incorporated herein by reference).
10.4	—	Amendment to 1992 Powell Industries, Inc. Stock Option Plan (filed as Exhibit 10.8 to our Form 10-Q for the quarter ended April 30, 1996, and incorporated herein by reference).
10.5	—	Amendment to 1992 Powell Industries, Inc. Stock Option Plan (the cover of the 1992 Powell Industries, Inc. Stock Option Plan has been noted to reflect the increase in the number of shares authorized for issuance under the Plan from 2,100,000 to 2,700,000, which increase was approved by the stockholders of the Company at the 2005 Annual Meeting of Stockholders).
10.6	—	Powell Industries, Inc. Directors' Fees Program (filed as Exhibit 10.7 to our Form 10-K for the fiscal year ended October 31, 1992, and incorporated herein by reference).
10.7	—	Powell Industries, Inc. Executive Severance Protection Plan (filed as Exhibit 10.7 to our Form 10-K for the fiscal year ended October 31, 2002, and incorporated herein by reference).
10.8	—	Powell Industries, Inc. Non-Employee Directors Stock Option Plan (filed as Exhibit 10.9 to our Form 10-K for the fiscal year ended October 31, 2002, and incorporated herein by reference).
10.9	—	Powell Industries, Inc. Deferred Compensation Plan (filed as Exhibit 10.9 to our Form 10-K for the fiscal year ended October 31, 2002, and incorporated herein by reference).
10.10	—	Powell Industries, Inc. Non-Employee Director Restricted Stock Plan (filed as Exhibit 10.3 to our registration statement on Form S-8 filed on December 21, 2010, and incorporated herein by reference).
10.11	—	Amended Loan Agreement dated October 29, 2004, between Powell Industries, Inc. and Bank of America, N.A. (filed as Exhibit 10.10 to our Form 10-K for the fiscal year ended October 31, 2004, and incorporated herein by reference).
10.12	—	Credit and Reimbursement Agreement dated April 15, 2004, between Powell Industries, Inc. and Bank of America, N.A. (filed as Exhibit 10.11 to our Form 10-K for the fiscal year ended October 31, 2004, and incorporated herein by reference).

Number		Description of Exhibits
10.13	—	Credit Agreement dated June 29, 2005 among Powell Industries, Inc., Inhoco 3210 Limited and Switchgear & Instrumentation Properties Limited, and Bank of America and the other lenders parties thereto (filed as Exhibit 10.1 to our Form 8-K filed July 6, 2005, and incorporated herein by reference).
10.14	—	First Amendment to Credit Agreement dated November 7, 2005 among Powell Industries, Inc., Inhoco 3210 Limited (n/k/a Switchgear & Instrumentation Limited), Switchgear & Instrumentation Properties Limited, Bank of America, N.A., and the other lenders parties thereto (filed as Exhibit 10.14 to our Form 10-K for the fiscal year ended October 31, 2005, and incorporated herein by reference).
10.15	—	Second Amendment to Credit Agreement dated January 11, 2006 among Powell Industries, Inc., Switchgear & Instrumentation Limited, Switchgear & Instrumentation Properties Limited, Bank of America, N.A., and the other lenders parties thereto (filed as Exhibit 10.15 to our Form 10-K for the fiscal year ended October 31, 2005, and incorporated herein by reference).
10.16	—	Third Amendment to Credit Agreement dated August 4, 2006 among Powell Industries, Inc., Switchgear & Instrumentation Limited, Switchgear & Instrumentation Properties Limited, Bank of America, N.A., and the other lenders parties thereto (filed as Exhibit 10.3 to our Form 8-K filed August 9, 2006, and incorporated herein by reference).
10.17	—	Fourth Amendment to Credit Agreement dated December 7, 2006 among Powell Industries, Inc., Switchgear & Instrumentation Limited, Switchgear & Instrumentation Properties Limited, Bank of America, N.A., and the other lenders parties thereto (filed as Exhibit 10.17 to our Transition report on Form 10-K for the fiscal year ended September 30, 2006, and incorporated herein by reference).
10.18	—	Fifth Amendment to Credit Agreement, dated as of December 4, 2007, among Powell Industries, Inc., as Parent, the subsidiaries of Powell Industries, Inc. identified therein, as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and the Lenders party thereto (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended December 31, 2007, and incorporated herein by reference).
10.19	—	Sixth Amendment to Credit Agreement, dated as of December 14, 2007, among Powell Industries, Inc., as Parent, the subsidiaries of Powell Industries, Inc. identified therein, as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C issuer, and the Lenders party thereto (filed as Exhibit 10.1 to our Form 8-K filed December 19, 2007, and incorporated herein by reference).
10.20	—	Banking facilities between HSBC Bank plc and Switchgear & Instrumentation Limited and Switchgear & Instrumentation Properties Limited dated September 12, 2005 (filed as Exhibit 10.16 to our Form 10-K for the fiscal year ended October 31, 2005, and incorporated herein by reference).
**10.21	—	Powell Supply Agreement between the Company and General Electric Company dated August 7, 2006 (filed as Exhibit 10.1 to our Form 8-K/A filed June 16, 2008, and incorporated herein by reference).
10.22	—	Lease Agreement between the Company and C&L Partnership, Ltd. dated April 19, 2006 (filed as Exhibit 10.2 to our Form 8-K filed August 9, 2006, and incorporated herein by reference).
10.23	—	Consulting Agreement dated July 18, 2008 between the Company and Thomas W. Powell (filed as Exhibit 10.1 to our Form 8-K filed July 24, 2008, and incorporated herein by reference).
10.24	—	Seventh Amendment to Credit Agreement, dated as of December 10, 2008, among Powell Industries, Inc., as Parent, the subsidiaries of Powell Industries, Inc. identified therein, as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C issuer, and the Lenders party (filed as Exhibit 10.24 to our Form 10-K for the fiscal year ended September 30, 2008, and incorporated herein by reference).
10.25	—	Powell Industries, Inc. 2006 Equity Compensation Plan (filed as Exhibit 10.2 to our registration statement on Form S-8 filed on December 21, 2010, and incorporated herein by reference).
10.26	—	Credit Agreement dated as of December 15, 2009, between Powell PowerComm Inc., as Borrower, Powell Industries, Inc., Nextron Limited, PPC Technical Services Inc., as Guarantors, and HSBC Bank Canada, as Lender (filed as Exhibit 10.1 to our Form 8-K filed on December 21, 2009, and incorporated herein by reference).

Number		Description of Exhibits
10.27	—	Ninth Amendment to Credit Agreement, dated as of May 18, 2011, among Powell Industries, Inc., as Parent, the subsidiaries of Powell Industries, Inc. identified therein, as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C issuer, and the Lenders party (filed as Exhibit 10.1 to our Form 8-K dated May 18, 2011, and incorporated herein by reference).
10.28	—	Severance Agreement and Release dated as of October 7, 2011 between the Company and Patrick L. McDonald. (filed as Exhibit 10.28 to our Form 10-K for the fiscal year ended September 30, 2011 and incorporated herein by reference).
10.29	—	Employment Agreement dated as of May 8, 2012 between the Company and Don R. Madison (filed as Exhibit 10.1 to our Form 10-Q for the quarter ended March 31, 2012, and incorporated herein by reference).
10.30	—	Employment Agreement dated as of May 8, 2012 between the Company and Milburn E. Honeycutt (filed as Exhibit 10.2 to our Form 10-Q for the quarter ended March 31, 2012, and incorporated herein by reference).
10.31	—	Tenth Amendment to Credit Agreement, dated as of March 26, 2012, among Powell Industries, Inc., as Parent, the subsidiaries of Powell Industries, Inc. identified herein, as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C issuer, and the Lenders party (filed as Exhibit 10.3 to our Form 10-Q for the quarter ended March 31, 2012, and incorporated herein by reference).
10.32	—	Amended and Restated Credit Agreement dated as of April 26, 2012, between Powell PowerComm Inc., as Borrower, Powell Industries, Inc., Nextron Limited, PPC Technical Services Inc., as Guarantors, and HSBC Bank Canada, as Lender (filed as Exhibit 10.4 to our Form 10-Q for the quarter ended March 31, 2012, and incorporated herein by reference).
10.33	—	Employment Agreement dated as of August 20, 2012, between the Company and Michael A. Lucas (filed as Exhibit 10.1 to our Form 8-K dated August 9, 2012, and incorporated herein by reference).
10.34	—	Eleventh Amendment to Credit Agreement, dated as of June 27, 2013, among Powell Industries, Inc., as Parent, the subsidiaries of Powell Industries, Inc. identified therein, as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C issuer, and the Lenders party thereto. (filed as Exhibit 10.1 to our Form 10-Q filed August 7, 2013, and incorporated herein by reference).
10.35	—	Employment Agreement dated as of December 1, 2013, between the Company and Neil Dial (filed as Exhibit 10.1 to our Form 8-K filed December 5, 2013, and incorporated herein by reference).
10.36	—	Stock Purchase Agreement dated as of January 15, 2014, between the Company and Kapsch TrafficCom IVHS, Inc. (filed as Exhibit 10.1 to our Form 8-K filed January 17, 2014, and incorporated herein by reference).
**10.37	—	Amended and Restated Powell Supply Agreement dated as of December 30, 2013, between the Company and General Electric Company (filed as Exhibit 10.2 to our Form 10-Q filed February 5, 2014 and incorporated herein by reference).
10.38	—	Restated Credit Agreement dated as of December 31, 2013, between the Company and Bank of America, N.A. (filed as Exhibit 10.3 to our Form 10-Q filed February 5, 2014 and incorporated herein by reference).
10.39	—	2014 Equity Incentive Plan (filed as Exhibit 10.2 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.40	—	Form of Restricted Stock Award Agreement under 2014 Equity Incentive Plan (filed as Exhibit 10.3 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.41	—	Form of Restricted Stock Unit Award Agreement under 2014 Equity Incentive Plan (filed as Exhibit 10.4 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.42	—	Form of Performance Unit Award Agreement under 2014 Equity Incentive Plan (filed as Exhibit 10.5 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.43	—	Form of Stock Option Award Agreement under 2014 Equity Incentive Plan (filed as Exhibit 10.6 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).

Number	Description of Exhibits
10.44	— Form of Stock Appreciation Right Award Agreement under 2014 Equity Incentive Plan (filed as Exhibit 10.7 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.45	— 2014 Non-Employee Director Equity Incentive Plan (filed as Exhibit 10.8 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.46	— Form of Restricted Stock Award Agreement under 2014 Non-Employee Director Equity Incentive Plan (filed as Exhibit 10.9 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.47	— First Amendment to Credit Agreement, dated as of March 28, 2014, among Powell Industries, Inc., as Parent, certain subsidiaries of Powell Industries, Inc. identified therein, as Guarantors, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C issuer, and the Lenders party thereto. (filed as Exhibit 10.10 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
*10.48	— Renewed banking facilities between HSBC Bank plc and Powell (UK) Limited dated October 20, 2014.
*21.1	— Subsidiaries of Powell Industries, Inc.
*23.2	— Consent of PricewaterhouseCoopers LLP.
*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.

** Portions of this exhibit have been omitted based on a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934. Such omitted portions have been filed separately with the Commission.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Michael A. Lucas
Michael A. Lucas
President and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the date indicated:

Signature	Title
/s/ Thomas W. Powell Thomas W. Powell	Chairman of the Board
/s/ Michael A. Lucas Michael A. Lucas	Director President and Chief Executive Officer (Principal Executive Officer)
/s/ Don R. Madison Don R. Madison	Executive Vice President Chief Financial and Administrative Officer (Principal Financial Officer)
/s/ Milburn Honeycutt Milburn Honeycutt	Vice President Chief Accounting Officer Corporate Controller (Principal Accounting Officer)
/s/ Joseph L. Becherer Joseph L. Becherer	Director
/s/ Eugene L. Butler Eugene L. Butler	Director
/s/ Christopher E. Cragg Christopher E. Cragg	Director
/s/ Bonnie V. Hancock Bonnie V. Hancock	Director
/s/ Scott E. Rozzell Scott E. Rozzell	Director
/s/ Robert C. Tranchon Robert C. Tranchon	Director
/s/ John D. White John D. White	Director

Date: December 3, 2014

EXHIBIT INDEX

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10.15	—	Second Amendment to Credit Agreement dated January 11, 2006 among Powell Industries, Inc., Switchgear & Instrumentation Limited, Switchgear & Instrumentation Properties Limited, Bank of America, N.A., and the other lenders parties thereto (filed as Exhibit 10.15 to our Form 10-K for the fiscal year ended October 31, 2005, and incorporated herein by reference).

Number		Description of Exhibits
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10.24	—	Seventh Amendment to Credit Agreement, dated as of December 10, 2008, among Powell Industries, Inc., as Parent, the subsidiaries of Powell Industries, Inc. identified therein, as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C issuer, and the Lenders party (filed as Exhibit 10.24 to our Form 10-K for the fiscal year ended September 30, 2008, and incorporated herein by reference).
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Number		Description of Exhibits
10.31	—	Tenth Amendment to Credit Agreement, dated as of March 26, 2012, among Powell Industries, Inc., as Parent, the subsidiaries of Powell Industries, Inc. identified herein, as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C issuer, and the Lenders party (filed as Exhibit 10.3 to our Form 10-Q for the quarter ended March 31, 2012, and incorporated herein by reference).
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**10.37	—	Amended and Restated Powell Supply Agreement dated as of December 30, 2013, between the Company and General Electric Company (filed as Exhibit 10.2 to our Form 10-Q filed February 5, 2014 and incorporated herein by reference).
10.38	—	Restated Credit Agreement dated as of December 31, 2013, between the Company and Bank of America, N.A. (filed as Exhibit 10.3 to our Form 10-Q filed February 5, 2014 and incorporated herein by reference).
10.39	—	2014 Equity Incentive Plan (filed as Exhibit 10.2 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.40	—	Form of Restricted Stock Award Agreement under 2014 Equity Incentive Plan (filed as Exhibit 10.3 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
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10.42	—	Form of Performance Unit Award Agreement under 2014 Equity Incentive Plan (filed as Exhibit 10.5 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.43	—	Form of Stock Option Award Agreement under 2014 Equity Incentive Plan (filed as Exhibit 10.6 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.44	—	Form of Stock Appreciation Right Award Agreement under 2014 Equity Incentive Plan (filed as Exhibit 10.7 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.45	—	2014 Non-Employee Director Equity Incentive Plan (filed as Exhibit 10.8 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.46	—	Form of Restricted Stock Award Agreement under 2014 Non-Employee Director Equity Incentive Plan (filed as Exhibit 10.9 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.47	—	First Amendment to Credit Agreement, dated as of March 28, 2014, among Powell Industries, Inc., as Parent, certain subsidiaries of Powell Industries, Inc. identified therein, as Guarantors, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C issuer, and the Lenders party thereto. (filed as Exhibit 10.10 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).

Number		Description of Exhibits
*10.48	—	Renewed banking facilities between HSBC Bank plc and Powell (UK) Limited dated October 20, 2014.
*21.1	—	Subsidiaries of Powell Industries, Inc.
*23.2	—	Consent of PricewaterhouseCoopers LLP.
*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.

** Portions of this exhibit have been omitted based on a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934. Such omitted portions have been filed separately with the Commission.

Exhibit 10.48

The Directors
Powell (UK) Limited
Ripley Road
Bradford
West Yorkshire
BD4 7EH

29 August 2014

Dear Sirs

HSBC Bank plc (the **Bank**) is pleased to offer Powell (UK) Limited (the **Borrower**) the facilities referred to below (each a **Facility** and together the **Facilities**) on and subject to the terms set out in this letter (the **Facility Letter**).

The Bank recommends that the Borrower seek independent advice before accepting the offer in the Facility Letter.

Facilities

Drawings may be made under the following Facilities, provided that the aggregate amount of drawings (or Sterling Equivalent (as defined in the General Terms and Conditions attached) as appropriate) does not at any time go over the relevant Limit, unless we agree otherwise.

	Limit
Forward Exchange Contracts and Currency Options	USD 4,500,000
Engagements including Bank Guarantees	£5,000,000
Foreign Bills/Cheques for Negotiation	£100,000
Import Line comprising: Documentary Credits	£300,000

Please refer to the relevant Schedule to the Facility Letter for details of the sub-limit (the **Sub-Limit**) which apply to the Option within the Import Line Facility.

Availability

The Bank may at any time withdraw the Facilities and/or demand repayment of all sums owing to it. Subject to this, the Facilities are due for review by 30 July 2015.
The Borrower may, at any time, repay the amount owing to the Bank, together with any interest and charges owing, and tell the Bank, in writing, that all or any of the Facilities are no longer required.

Forward Exchange Contracts and Currency Option Facility

Details of the Forward Exchange Contracts and Currency Option Facility are set out in the Forward Exchange Contracts and Currency Option Facility Schedule.

Engagements and Foreign Bills/Cheques for Negotiation Facilities

Details of the Engagements and Foreign Bills/Cheques for Negotiation Facilities are set out in the Engagements and Foreign Bills/Cheques for Negotiation Facilities Schedule.

Import Line Facility

Details of the Import Line Facility, including the rates of interest payable on this Facility are set out in the Import Line Facility Schedule.

Fees

An arrangement fee of £20,000 will be payable by the borrower upon acceptance of the Facility Letter.

All other fees, costs and expenses mentioned in the General Terms and Conditions attached will be payable by the Borrower.

Security

The Borrower's obligations to the Bank under the Facility Letter will be secured by:

(a) all existing security (if any) and any future security held by the Bank for those obligations; and

(b) security in the Bank's preferred form as set out in the Security Schedule,

(together the **Security**).

The Security is required as a secondary source of repayment in the event that the Borrower fails to repay the Facilities as set out in the Facility Letter.

The Bank is entitled at any time, at the Borrower's expense, to obtain further valuations of any assets/properties charged to secure:

(a) the Borrower's obligations to the Bank; and/or

(b) a guarantor's obligations under any guarantee which is taken to secure the Borrower's obligations to the Bank.

Pre-Drawdown Conditions

The Facilities will not become available until the conditions set out in the Pre-Drawdown Conditions Schedule (the **Pre-Drawdown Conditions**) have been complied with to the satisfaction of the Bank.

Undertakings and Representations

Without affecting the Bank's right at any time to withdraw the Facilities and/or demand repayment of all sums owing to it, the Borrower will:

(a) give the undertakings (the **Undertakings**) set out in the Undertakings Schedule to the Bank which will remain in force until the Facilities have been repaid in full; and

(b) make the representations and warranties set out in the Representations Schedule to the Bank.

Terms and Conditions

Further details of the terms and conditions that apply to the Facilities are set out in the General Terms and Conditions and the Facilities Schedules attached to the Facility Letter. The General Terms and Conditions and the terms and conditions applying to the Facilities Schedules are incorporated into the Facility Letter.

The Facilities are also subject to the Business Banking Terms and Conditions, as published from time to time, and a further copy of which is available on request. If there is any conflict between Business Banking Terms and Conditions and the terms of the Facility Letter (including the General Terms and Conditions and the Facility Schedules attached), the terms of the Facility Letter will prevail.

The Bank may, at its discretion, change any of the provisions of the Facility Letter (including interest rates, fees and/or the General Terms and Conditions attached), including so as to reflect increased risk to the Bank as a result of a change in the Borrower's circumstances and/or if the cost to the Bank of monitoring and/or administering the Facility increases by giving (except in the case of changes to the interest rate) at least 30 days' written notice to the Borrower. Changes to third party published interest rate (such as the Bank of England Base Rate or LIBOR) take effect within one working day of the change being published. For changes to all other interest rates (including without limitation the margin by which interest payable exceeds a prevailing third party published interest rate), the Bank will give at least 2 months' notice if the Borrower is a micro-enterprise or small charity (as defined in the Business Banking Terms and Conditions) or at least 30 days' notice if the Borrower is neither a micro-enterprise nor a small charity.

The Bank may introduce new fees in relation to the Facility if the risk to the Bank of making the Facility available to the Borrower increases as a result of a change in the Borrower's circumstances and/or if the cost to the Bank of monitoring and/or administering the Facility increases. If the Bank intends to introduce new fees written notice will be sent to the Borrower at least 30 days before the introduction of those fees.

Renewal

The Facility Letter replaces any previous facility letter issued by the Bank in connection with the Facilities and from the date of acceptance of the Facility Letter any such previous facility letter will be withdrawn and all existing liabilities in respect of the Facilities will be governed by the terms and conditions in the Facility Letter.

Acceptance

To accept this offer please arrange for the enclosed copy of the Facility Letter to be signed and returned to the address above to arrive no later than 60 days from the date of the Facility Letter. If not accepted within this period, the offer will lapse.

Yours faithfully

N Rochester

Senior Corporate Banking Manager

For and on behalf of HSBC Bank plc

Schedules:
- Forward Exchange Contracts and Currency Option Facility Schedule
- Engagements including Bank Guarantees and Foreign Bills/Cheques for Negotiation Facilities Schedule
- Import Line Facility Schedule
- Security Schedule
- Pre-Drawdown Conditions Schedule
- Undertakings Schedule
- Representations Schedule
- General Terms and Conditions

FORWARD EXCHANGE CONTRACTS AND CURRENCY OPTION FACILITY SCHEDULE

1 Drawings

(a) This Facility may be used for the purpose of spot and forward foreign exchange transactions and for currency options.

(b) The Bank may in its discretion decide whether or not this Facility may be utilised and may specify pre-conditions to such utilisation.

2 International Foreign Exchange Market Master Agreement (IFEMA) Terms International Currency Options Market Master Agreement (ICOM) Terms

(a) Notwithstanding any non-execution of product documentation:

(i) each foreign exchange utilisation will be deemed to be subject to and will be subject to the terms of IFEMA; and

(ii) each currency option utilisation will be deemed to be subject to and will be subject to the terms of ICOM.

(b) If there is any conflict between the terms of the Facility Letter and those of IFEMA or ICOM, the terms of IFEMA or ICOM (as appropriate) will prevail, except in respect of any provisions in this Forward Exchange Contracts and Currency Option Facility Schedule which are expressed to be additional to or in replacement for any relevant IFEMA or ICOM provisions.

(c) Copies of IFEMA and ICOM terms are available from the Bank on request.

(d) Unless there is agreement in writing to the contrary, while this option is in force, the terms of the Facility Letter and particularly the terms of (a) and (b) above will continue to apply notwithstanding any pre-existing product documentation.

3 Financial Services and Markets Act 2000

No forward purchase or sale of any currency may be made for investment purposes (as mentioned in article 84 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001) without the Bank’s prior written consent.

4 Contract Periods

Without affecting any of the Bank’s rights under the Facility Letter, the duration of any foreign exchange transaction or currency option entered into under this Facility will not exceed twelve months.

5 Settlement Limit

Without affecting any of the Bank's rights under the Facility Letter, the maximum amount for delivery for value on any one day shall not at any time exceed USD 1,800,000 (or its Sterling Equivalent as appropriate).

ENGAGEMENTS INCLUDING BANK GUARANTEES AND FOREIGN BILLS/CHEQUES FOR NEGOTIATION FACILITIES SCHEDULE

1 Drawings

(a) Each drawing under these Facilities will be made in accordance with and subject to the Bank's current practice from time to time. Such practice will be explained on request as drawings are requested.

(b) The Bank may in its discretion decide whether or not a drawing may be made under any of these Facilities and may specify pre-conditions to such drawing.

(c) Without prejudice to the foregoing, the Borrower agrees, acknowledges and authorises that any request for a drawing under the Engagements Facility will require the:

(i) completion of an application form in paper or electronic format and submitted to the Bank by delivery method(s) agreed with the Bank, and, where required by the Bank, following execution of: (A) any agreement(s) for or relating to use of the Bank's electronic banking services, and/or (B) a fax indemnity (as the case requires); and

(ii) provision of a counter-indemnity, either by execution (on a request by request basis) of the counter-indemnity appearing overleaf on paper format application form, or by execution of an omnibus counter-indemnity (at the Borrower's election, except that the execution of an omnibus counter-indemnity will be mandatory before any application can be submitted using the Bank's electronic banking services),

in each case, in the Bank's preferred form current from time to time.

(d) The Borrower agrees and authorises that any application form, and all such other documents the Bank may require completed in relation thereto, may be completed, and any issuance instructions may be given, from time to time:

(i) by any persons authorised to instruct the Bank to make payments on behalf of the Borrower, in the amount of the relevant instrument, under the terms of the account mandate provided to the Bank by the Borrower and then current; or

(ii) upon receipt of an executed omnibus counter-indemnity supporting applications made from time to time using any of the Bank's electronic banking services, by any persons authorised or purporting to be authorised to instruct the Bank by electronic means as empowered in accordance with the agreement(s) between the Borrower and the Bank relating to the Borrower's use of the electronic banking services and that any of such persons be authorised to agree with the Bank through any such electronic banking services the terms and conditions relating to such issued instrument from time to time.

2 Bills and Termination

Following demand for repayment, the Bank may require the Borrower to pay to the Bank monies equivalent in amount to the aggregate of the face value of all outstanding documentary letters of credit and bills accepted, purchased, negotiated or discounted by the Bank to meet such documentary letters of credit and bills on their maturities.

3 Recourse

Any drawings under these Facilities are made with recourse to the Borrower and will be subject to the Bank's right at any time to demand immediate repayment of all sums owing to it.

IMPORT LINE FACILITY SCHEDULE

1 Options

This Facility comprises a Documentary Credits Option (the **Option**).

2 Drawings

(a) Each drawing under this Facility will be made in accordance with and subject to the Bank's current practice from time to time. Such practice will be explained on request as drawings are requested.

(b) The Bank may in its discretion decide whether or not a drawing may be made under this Facility and may specify pre-conditions to such drawing.

3 Documentary Credits Option

(a) Without prejudice to the foregoing, the Borrower agrees, acknowledges and authorises that a request for a drawing under this Facility will require completion of an application form in paper or electronic format and submitted to the Bank by delivery method(s) agreed with the Bank, and, where required by the Bank, following execution of: (A) any agreement(s) for or relating to use of the Bank's electronic banking services, and/or (B) a fax indemnity (as the case requires).

(b) The opening by the Bank of a documentary letter of credit ("**Credit**") will constitute a drawing under this Import Option for the full amount of such Credit.

(c) The Borrower agrees and acknowledges that any Credit issued by the Bank shall be subject to the Bank's terms and conditions applicable from time to time to the issue of a Credit, as set out in the Bank's preferred form of application form (whether in paper or electronic format).

(d) The Borrower agrees and authorises that any application form, and all such other documents the Bank may require completed in relation thereto, may be completed, and any issuance instructions may be given, from time to time:

(i) by any persons authorised to instruct the Bank to make payments on behalf of the Borrower, in the amount of the relevant instrument, under the terms of the account mandate provided to the Bank by the Borrower and then current; or

(ii) by any persons authorised or purporting to be authorised to instruct the Bank by electronic means as empowered in accordance with the agreement(s) between the Borrower and the Bank relating to the Borrower's use of the electronic banking services and that any of such persons be authorised to agree with the Bank through any such electronic banking services the terms and conditions relating to such issued instrument from time to time.

(e) Within the limit relevant to this Documentary Credit Option drawings may be made up to a maximum of £300,000 (Three hundred thousand pounds) outstanding at any one time to open sight documentary credits where the Bank does not obtain control over the relevant goods via documents of title.

4 Interest

(a) Interest will be debited at the maturity of the relevant loan to the Borrower's current account with the Bank as nominated for loan repayment in the loan application form.

(b) The General Terms and Conditions attached also apply.

5 Insurance

The Borrower will ensure that insurance cover will have been effected over all goods subject to finance in connection with the Facility Letter. The Borrower confirms that it holds such cover and that declarations under the policies are made for the respective shipments. The Borrower will, upon request, produce to the Bank the relevant policy of insurance.

6 Recourse

Any drawings under this Facility are made with recourse to the Borrower and will be subject to the Bank's right at any time to demand immediate repayment of all sums owing to it.

SECURITY SCHEDULE

Company Guarantee to be given by Powell Industries PLC to secure all liabilities of Powell (UK) Limited, limited to £22,000,000.

Agreement to Postpone Repayment of all indebtedness owing by Powell (UK) Limited to Powell Industries Inc.

Counter-Indemnity from Powell (UK) Limited in respect of guarantees given by the Bank.

PRE-DRAWDOWN CONDITIONS SCHEDULE

Acceptance of the Facility Letter

Receipt by the Bank of the Facility Letter accepted on behalf of the Borrower by all appropriate signatories.

Authorisations

(a) Receipt by the Bank of a copy of the certificate of incorporation of the Borrower and each company giving Security certified as up to date by the company secretary.

(b) Receipt by the Bank of a certified copy of board resolutions of the directors of the Borrower and each company giving Security:

(i) in relation to the Borrower, approving the Facility Letter and authorising a person or persons to accept the Facility Letter; and

(ii) approving the Omnibus Counter-Indemnity and authorising a person or persons to sign the Omnibus Counter-Indemnity

(iii) approving the Fax Indemnity and authorising a person or persons to sign the Fax Indemnity

(iv) approving any Security to be given by the Borrower and each company giving Security and authorising persons to execute that Security.

The board resolutions are to be certified as true and correct by the chairman of the board meeting and the company secretary.

(c) (i) Receipt of a copy of an Omnibus Counter-Indemnity duly executed, in support of applications for the issue of Engagements including Bank Guarantees and Standby Documentary Credits (as the case may be) from time to time

(ii) Receipt of a copy of a duly executed Fax Indemnity

Security

(a) Evidence that the Borrower and anyone else giving Security has good and marketable title to the assets (the **Assets**) over which they are providing Security.

(b) Security documents in form and content satisfactory to the Bank.

(c) Receipt by the Bank of the Security documents properly executed by the parties to them.

(d) Any documents required to enable registration of the Security at the Land Registry.

(e) Receipt of a copy of an Omnibus Counter-Indemnity duly executed, in support of applications for the issue of Engagements including Bank Guarantees and Standby Documentary Credits (as the case may be) from time to time

(f) A duly executed Fax Indemnity

(g) (i) the Omnibus Counter-Indemnity,

(ii) the Fax Indemnity

Valuation

Receipt by the Bank of a satisfactory valuation of the Assets by an independent professional valuer, addressed to the Bank (and such other persons as the Bank may require).

Insurance

Evidence of insurance of the assets of the Borrower and each Company in accordance with the Insurance provisions in the Undertakings Schedule

Miscellaneous

(a) Compliance with the Bank's "know your customer" requirements.

(b) Receipt by the Bank of a bank mandate form completed by the Borrower.

UNDERTAKINGS SCHEDULE

Additional Security

Immediately on the Bank's request, the Borrower will provide cash in the amount required by the Bank and subject to Security in favour of the Bank (at the Borrower's expense and in form and content satisfactory to the Bank) in respect of any of the Borrower's liabilities to the Bank (whether present or future, actual or contingent).

Environmental Obligations

The Borrower will comply, and will procure that each Company complies, with all applicable current laws, regulations and practices relating to the protection of the environment from pollution (the **Environmental Obligations**).

Insurance

(a) If required by the Bank, the Borrower will keep, and will procure that each Company keeps, its assets fully insured against fire, theft, explosion, terrorist activities, floods, storm and other reasonable risks for their full reinstatement value with an insurer acceptable to the Bank. The insurance will also cover financial loss following business interruption as a result of damage or loss of the Borrower's and each Company's assets caused by the insured risks.

(b) The Borrower will provide the Bank with a copy of the relevant policies and insurance premium receipts upon request.

Information

(a) The Borrower will promptly provide to the Bank any information that the Bank may, from time to time, reasonably request.

(b) The Borrower will also provide to the Bank:

   (i) where the Borrower is required to prepare audited accounts by law, audited individual accounts, or

   (ii) where the Borrower is not required to prepare audited accounts by law, unaudited individual accounts,
   not later than three months after the Borrower's balance sheet date.

(c) Where the Borrower's financial accounts have not been audited, the Bank may request an audit be carried out at the Borrower's expense by an auditor acceptable to the Bank.

(d) All accounts and other financial information provided to the Bank will be prepared in accordance with generally accepted accounting standards.

(e) The information that the Bank asks for may be required, for example, to enable it to understand the Borrower's financial position and to assess the Borrower's ability to meet its obligations in the Facility Letter.

Restriction on Lending

The Borrower will not advance, whether subject to a formal or informal arrangement, any monies by way of a loan to a director of the Borrower, a director of the Borrower's Group or a director of any Subsidiary without the prior written consent of the Bank.

In this provision:

(a) the term **Group** means a parent undertaking and its subsidiary undertakings as defined in section 1162 and Schedule 7 of the Companies Act 2006 (as the same may be amended, varied or replaced). Unless the context requires otherwise, the application of the definition of Group to any company at any time shall apply to the company as it is at that time; and

(b) the term **Subsidiary** means a subsidiary undertaking as defined in section 1162 and Schedule 7 of the Companies Act 2006 (as the same may be amended, varied or replaced). Unless the context requires otherwise:

   (i) the application of the definition of Subsidiary to any company at any time shall apply to the company as it is at that time; and

   (ii) references to **Subsidiary** are references to a Subsidiary of any of the Borrower.

Negative pledge

The Borrower will not , and will procure that each Company does not, create or allow any mortgage, charge, pledge, lien (other than a lien arising by operation of law) or other encumbrance over all or any part of its assets or revenues or uncalled capital.

Miscellaneous

If required by the Bank, the Borrower will pay, and will procure that each Company pays, any rental and other income from its assets which are the subject of any Security into an account with the Bank or to such account as the Bank may require.

Management Information

The Borrower will submit to the Bank quarterly management accounts in a form acceptable to the Bank within 60 days of the end of the quarter to which they relate. Such management accounts are to contain a management information pack from Powell Industries Inc including covenant compliance with Bank Of America facilities with Powell (UK) Limited's management information included.

REPRESENTATIONS SCHEDULE

Status

The Borrower is duly incorporated with limited liability under the laws of England and has the power to own its assets and carry on its business as it is being conducted.

Power and authority

The Borrower and each Company has:

(a) the power and authority to enter into the Facility Letter and the Security to which it is a party and to perform and observe the obligations under those documents; and

(b) has completed the Security to which it is a party in accordance with its constitutional documents.

Obligations under the Facility Letter

The Borrower is in full compliance with its obligations under the Facility Letter, including the Undertakings.

Environmental Obligations

The Borrower and each Company is in full compliance with the Environmental Obligations and the Borrower is not aware of any circumstance that may prevent full compliance in the future.

No misleading information

(a) The Borrower has disclosed to the Bank all facts to enable the Bank to consider whether to make available the Facilities to it.

(b) All information provided by or on behalf of the Borrower and each Company was true, complete and accurate in all material respects as at the date it was provided and has not become materially adversely misleading or incorrect.

Centre of main interests

For the purposes of The Council of the European Union Regulation No. 1346/2000 on Insolvency Proceedings (the **Regulation**), the centre of main interest (as that term is used in Article 3(1) of the Regulation) of the Borrower is situated in England and Wales.

Time for making representations

Each representation and warranty will be taken to be made by the Borrower daily until the Facilities have been repaid in full by reference to the facts and circumstances existing at the date the representation or warranty is made.

GENERAL TERMS AND CONDITIONS

The following terms and conditions will apply to the Facilities.

1 Sterling Equivalents

(a) The sterling equivalent (the **Sterling Equivalent**) of any amount denominated in another currency will be calculated by reference to the Bank's then prevailing spot selling rate of exchange for the relevant currency of denomination against sterling.

(b) In order to determine compliance or otherwise with the Limits, the aggregate Sterling Equivalents for all drawings outstanding and/or proposed will be calculated at such time as the Bank determines before each drawing is made.

2 Drawings

The Bank may, at any time:

(a) refuse payment of any cheque or other order for payment which would result in the Borrower going over a Limit; and/or

(b) refuse to allow any drawing or other disposal against any credit balance on any of the Borrower's current accounts with the Bank if, as a result, the Borrower would go over a Limit.

3 Repayments and Drawings on the Same Day

(a) If a drawing is due for repayment on a day when the Borrower is entitled to make a drawing, the Bank may require:

(i) the amount of the drawing to be repaid to be deducted from the amount of the drawing to be made; and

(ii) only the difference in the amounts (if any) to be paid to the Borrower.

(b) If the relevant drawings are denominated in different currencies, any difference will be calculated at such time as the Bank determines before the drawing by the Borrower by application of the Bank's then prevailing spot selling rate of exchange for the currency due to the Bank against the currency to be drawn by the Borrower.

4 Interest on Facilities available in Sterling

(a) Interest will be calculated on a daily basis and on the basis that there are 365 days in each year. Interest calculated on this basis will be payable in respect of each of the 365 days in a calendar year (366 in a leap year).

(b) On the dates interest (or any other charge) is debited, interest will become payable on any borrowings created by such debit.

(c) The Bank may, from time to time and at its discretion, change its interest rates. The Bank makes its current interest rates available and gives notice of changes in its interest rates in accordance with the Facility Letter and/or the Business Banking Terms and Conditions.

(d) If the Bank demands repayment of the Facilities or any of them, interest after demand will be charged at the same rates and on the same basis as before demand., except that:

(i) in relation to the Import Line Facility, the Bank reserves the right to charge interest after demand on the Bank's quarterly charging dates which at present are during March, June, September and December even though the relevant loan may not have matured at the date of such demand.

5 Interest on Facilities available in Currencies other than Sterling

(a) Interest will be payable on the outstanding amount of the relevant Facility at the rate specified in the Facility Letter calculated on a daily basis and on the basis that there are 360 days in each year. Interest calculated on this basis will be payable in respect of each of the 365 days in a calendar year (366 in a leap year).

(b) Interest will be calculated up to and including the last Business Day of each May and November or upon earlier termination of any relevant Facility and debited in arrears on such day as the Bank determines to the relevant currency account together with any applicable commission charge in accordance with the Bank's then current tariff.

(c) On the dates interest (or any other charge) is debited, interest will become payable on any borrowings created by such debit.

(d) If the Bank demands repayment of the Facilities or any of them, interest after demand will be charged at the same rates and on the same basis as before demand., except that in relation to the Import Line Facility, the Bank reserves the right to charge interest after demand on the Bank's quarterly charging dates which at present are during March, June, September and December even though the relevant loan may not have matured at the date of such demand.

6 Miscellaneous Provisions Relating to Facilities available in Currencies other than Sterling

(a) If, in the opinion of the Bank, deposits in a currency are not available to the Bank to finance any drawing on the relevant currency account:

(i) such drawing may, at the Bank's discretion, be re-denominated in such currency as the Bank determines by reference to the Bank's then prevailing spot selling rate of exchange for the outstanding currency against the currency of re-denomination; and

(ii) any re-denominated drawing may also be subject to re-denomination in accordance with (i) above.

(b) Upon any re-denomination, for any reason, the Bank may vary the terms of any relevant Facility relating to notice periods, interest rates, the basis of interest calculations and the value dating of credits received, if, in the opinion of the Bank, these terms are not appropriate for the re-denominated currency.

(c) If the Bank demands repayment, the Bank may at any time re-denominate in sterling any amount due to the Bank at the Bank's then prevailing spot selling rate of exchange for the relevant outstanding currency against sterling. The provisions of (b) above will remain in force following any such re-denomination.

(d) Any reference to **euro** means the **euro unit** as defined in Regulation (EC) No. 1103/97 pronounced by the Council of the European Union and any reference to **national currency unit** has the meaning given to such expression by such Regulation, namely a unit of the currency of a participating Member State, as that unit is defined on the day before the start of the third stage of Economic and Monetary Union.

If a change in any national currency unit occurs (including where there is more than one currency or currency unit recognised at the same time as the lawful currency), the Facility Letter will be amended to the extent the Bank determines is necessary to reflect this change.

(e) The Bank will not be under any obligation to accept any instructions, receive or make any payment or carry out any other transaction denominated in the euro or in any national currency unit on a day on which the Bank is not normally open for general business in the relevant jurisdiction where such transactions are to be received or carried out, whether or not such a day is a Business Day for transactions in the euro or the relevant national currency unit.

7 Payments

(a) All payments by the Borrower will be made in cleared funds in the currency in which the payment is due on a Business Day on the due date for payment or, if that day is not a Business Day, on the next succeeding Business Day.

(b) All payments will be made without any deduction or withholding (whether in respect of set-off, counterclaim, duties, taxes, charges or otherwise).

(c) If the Borrower is required by law to make any deduction or withholding from a payment, it will promptly pay to the Bank such additional sums as will make the net sum received by the Bank equal to the full sum payable had there been no deduction or withholding.

8 Costs and Expenses

(a) The Borrower will pay to the Bank the amount of all costs and expenses (including any legal, security and valuation fees), stamp duty, taxes and other charges and registration costs incurred or charged by the Bank in connection with:

(i) the negotiation, preparation, administration, amendment, variation or supervision of the Facilities, the Facility Letter and/or any Security; and

(ii) the enforcement of or the preservation of any rights under the Facility Letter and/or any Security and any proceedings instituted by or against the Bank as a consequence of taking or holding the Security or enforcing these rights.

The Bank will debit these costs to the Borrower's current account with the Bank. The Bank will advise the Borrower of the amount of such costs before they are debited.

9 Indemnity

The Borrower will indemnify the Bank on demand against any cost, loss or liability incurred by the Bank in connection with or arising out of:

(a) the application of any Facility or any part of it by the Borrower; and/or

(b) the provision of any Facility or any other banking facilities by the Bank to the Borrower; and/or

(c) the Bank having a security interest in any assets of the Borrower or any other person providing Security, including:

(i) those incurred in connection with any litigation, arbitration or administrative proceedings or regulatory enquiry concerning any Facility or its application; or

(ii) in respect of a breach of, or a failure to meet, any Environmental Obligations.

10 Demand and Notice

Any demand or notice given by the Bank under the Facility Letter may be:

(a) by letter addressed to the Borrower or any officer of the Borrower sent by first class post to or left at the Borrower's address last known to the Bank or at the Borrower's registered office; or

(b) by fax or other electronic means to the Borrower's last known fax number or electronic mail address.

If sent by post, the demand or notice will be taken to have been made or given at noon the second day following the day the letter was posted. If sent by fax or other electronic means, the demand or notice will be taken to have been made or given at the time of transmission.

Unless otherwise advised by the Bank any notices given by the Borrower to the Bank under this letter will be delivered to this office.

11 Joint Borrowers

If the Borrower consists of two or more persons (whether corporates, partners or otherwise):

(a) they will be jointly and individually liable to the Bank for the Facilities and for any other moneys from time to time owing to the Bank in respect of the Facilities;

(b) any notice given to any one of them under the Facility Letter will be notice to all of them;

(c) if at any time any one or more of the provisions of the Facility Letter is or becomes invalid, illegal or unenforceable against any one or more of them, it will remain enforceable against the others as if it had been addressed to only to those others;

(d) the Bank's rights against any one such person will not be impaired, discharged or otherwise affected by:

— the Bank granting any time or indulgence to any of the others;

— the Bank varying or releasing any of the others from any liability to the Bank or any Security relating to such liability;

— the Bank failing to take any such Security; and/or

— any act, event or omission which would, but for these provisions, impair, discharge or otherwise affect any of such rights of the Bank; and

(e) no such person will be entitled without the written consent of the Bank to exercise any right or make any claim against any of the others (including any right of subrogation or right to prove in a liquidation) arising by virtue of any payment made in accordance with the Facility Letter or otherwise in connection with the Facility Letter.

12 Miscellaneous

(a) **Business Day** means a day (other than a Saturday or Sunday) and time on which the relevant banking offices and markets are open for business for the currency and transaction involved and, if the relevant currency is the euro, a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer payment system is open for settlement of payments in euro.

(b) **Facility Current Account** means the current account of the Borrower with the Bank on which the Facility is run.

(c) No delay or failure by the Bank in exercising any right or remedy will be taken to mean or take effect as a waiver or release of that right or remedy. The Bank will always be entitled to exercise all its rights and remedies unless it has expressly waived them in writing.

(d) If at any time any one or more of the provisions of the Facility Letter is or becomes invalid, illegal or unenforceable in any respect, the validity, legality or enforceability of the remaining provisions of the Facility Letter will not be in any way affected.

(e) If it becomes unlawful for the Bank to perform all or any of its obligations under the Facility Letter, then the Bank will notify the Borrower and:

(i) the Borrower will repay any parts of the Facilities which have been drawn down together with all other amounts due and owing to the Bank; and

(ii) any parts of the Facilities that have not been drawn down will be cancelled.

(f) The Bank and the Borrower agree that the terms of the Facility Letter will not be enforceable by virtue of the Contracts (Rights of Third Parties) Act 1999 by any person who is not a party to the Facility Letter.

(g) If the Borrower does not accept the Facility Letter, the Bank may allow drawings under the Facilities and this will be taken to be acceptance of the terms and conditions of the Facility Letter (without amendment).

(h) The Borrower may sign any number of copies of the Facility Letter and these copies, together with the copy or copies signed on behalf of the Bank, will form a single document.

13 Governing Law and Enforcement

(a) For facilities on accounts held in England, the Facility is governed by and construed in accordance with English law and all claims and disputes (including non-contractual claims and disputes) arising out of or in connection with the Facility or its subject matter, negotiation or formation will be determined in accordance with English law.

(b) The Borrower and the Bank both submit to the non-exclusive jurisdiction of the courts of England and Wales in relation to all claims, disputes, differences or other matters (including non-contractual claims, disputes, differences or other matters) arising out of or in connection with the Facility

(c) The Borrower:

(i) waives any objection to the courts of England including an objection on grounds of inconvenience; and

(ii) agrees that a judgment or order of a court of England in connection with the Facility Letter is binding on it and may be enforced against it in the courts of any other jurisdiction.

ACCEPTANCE BY THE BORROWER

We, Powell (UK) Limited, accept the offer and agree to all the terms and conditions contained in the Facility Letter dated 28 August 2014.

Date:

Director:

Director and
Secretary:

(Signed for and on behalf of Powell (UK) Limited, pursuant to a Resolution of the Board of Directors passed on .   ).

The Directors
Powell (UK) Limited
Ripley Road
Bradford
West Yorkshire
BD4 7EH

29 August 2014

Dear Sirs

HSBC Bank plc (the **Bank**) is pleased to offer Powell (UK) Limited (the **Borrower**) the facilities referred to below (each a **Facility** and together the **Facilities**) on and subject to the terms set out in this letter (the **Facility Letter**).

The Bank recommends that the Borrower seek independent advice before accepting the offer in the Facility Letter.

Facilities

Drawings may be made under the following Facilities, provided that the aggregate amount of drawings (or Sterling Equivalent (as defined in the General Terms and Conditions attached) as appropriate) does not at any time go over the relevant Limit, unless we agree otherwise.

	Limit
Forward Exchange Contracts and Currency Options	USD 4,500,000
Engagements including Bank Guarantees	£5,000,000
Foreign Bills/Cheques for Negotiation	£100,000
Import Line comprising: Documentary Credits	£300,000

Please refer to the relevant Schedule to the Facility Letter for details of the sub-limit (the **Sub-Limit**) which apply to the Option within the Import Line Facility.

Availability

The Bank may at any time withdraw the Facilities and/or demand repayment of all sums owing to it. Subject to this, the Facilities are due for review by 30 July 2015.

The Borrower may, at any time, repay the amount owing to the Bank, together with any interest and charges owing, and tell the Bank, in writing, that all or any of the Facilities are no longer required.

Forward Exchange Contracts and Currency Option Facility

Details of the Forward Exchange Contracts and Currency Option Facility are set out in the Forward Exchange Contracts and Currency Option Facility Schedule.

Engagements and Foreign Bills/Cheques for Negotiation Facilities

Details of the Engagements and Foreign Bills/Cheques for Negotiation Facilities are set out in the Engagements and Foreign Bills/Cheques for Negotiation Facilities Schedule.

Import Line Facility

Details of the Import Line Facility, including the rates of interest payable on this Facility are set out in the Import Line Facility Schedule.

Fees

An arrangement fee of £20,000 will be payable by the borrower upon acceptance of the Facility Letter.

All other fees, costs and expenses mentioned in the General Terms and Conditions attached will be payable by the Borrower.

Security

The Borrower's obligations to the Bank under the Facility Letter will be secured by:

(c) all existing security (if any) and any future security held by the Bank for those obligations; and

(d) security in the Bank's preferred form as set out in the Security Schedule,

(together the **Security**).

The Security is required as a secondary source of repayment in the event that the Borrower fails to repay the Facilities as set out in the Facility Letter.

The Bank is entitled at any time, at the Borrower's expense, to obtain further valuations of any assets/properties charged to secure:

(c) the Borrower's obligations to the Bank; and/or

(d) a guarantor's obligations under any guarantee which is taken to secure the Borrower's obligations to the Bank.

Pre-Drawdown Conditions

The Facilities will not become available until the conditions set out in the Pre-Drawdown Conditions Schedule (the **Pre-Drawdown Conditions**) have been complied with to the satisfaction of the Bank.

Undertakings and Representations

Without affecting the Bank's right at any time to withdraw the Facilities and/or demand repayment of all sums owing to it, the Borrower will:

(c) give the undertakings (the **Undertakings**) set out in the Undertakings Schedule to the Bank which will remain in force until the Facilities have been repaid in full; and

(d) make the representations and warranties set out in the Representations Schedule to the Bank.

Terms and Conditions

Further details of the terms and conditions that apply to the Facilities are set out in the General Terms and Conditions and the Facilities Schedules attached to the Facility Letter. The General Terms and Conditions and the terms and conditions applying to the Facilities Schedules are incorporated into the Facility Letter.

The Facilities are also subject to the Business Banking Terms and Conditions, as published from time to time, and a further copy of which is available on request. If there is any conflict between Business Banking Terms and Conditions and the terms of the Facility Letter (including the General Terms and Conditions and the Facility Schedules attached), the terms of the Facility Letter will prevail.

The Bank may, at its discretion, change any of the provisions of the Facility Letter (including interest rates, fees and/or the General Terms and Conditions attached), including so as to reflect increased risk to the Bank as a result of a change in the Borrower's circumstances and/or if the cost to the Bank of monitoring and/or administering the Facility increases by giving (except in the case of changes to the interest rate) at least 30 days' written notice to the Borrower. Changes to third party published interest rate (such as the Bank of England Base Rate or LIBOR) take effect within one working day of the change being published. For changes to all other interest rates (including without limitation the margin by which interest payable exceeds a prevailing third party published interest rate), the Bank will give at least 2 months' notice if the Borrower is a micro-enterprise or small charity (as defined in the Business Banking Terms and Conditions) or at least 30 days' notice if the Borrower is neither a micro-enterprise nor a small charity.

The Bank may introduce new fees in relation to the Facility if the risk to the Bank of making the Facility available to the Borrower increases as a result of a change in the Borrower's circumstances and/or if the cost to the Bank of monitoring and/or administering the Facility increases. If the Bank intends to introduce new fees written notice will be sent to the Borrower at least 30 days before the introduction of those fees.

Renewal

The Facility Letter replaces any previous facility letter issued by the Bank in connection with the Facilities and from the date of acceptance of the Facility Letter any such previous facility letter will be withdrawn and all existing liabilities in respect of the Facilities will be governed by the terms and conditions in the Facility Letter.

Acceptance

To accept this offer please arrange for the enclosed copy of the Facility Letter to be signed and returned to the address above to arrive no later than 60 days from the date of the Facility Letter. If not accepted within this period, the offer will lapse.

Yours faithfully

N Rochester

Senior Corporate Banking Manager

For and on behalf of HSBC Bank plc

Schedules: Forward Exchange Contracts and Currency Option Facility Schedule
Engagements including Bank Guarantees and Foreign Bills/Cheques for Negotiation Facilities Schedule
Import Line Facility Schedule
Security Schedule
Pre-Drawdown Conditions Schedule
Undertakings Schedule
Representations Schedule
General Terms and Conditions

FORWARD EXCHANGE CONTRACTS AND CURRENCY OPTION FACILITY SCHEDULE

1 Drawings

(c) This Facility may be used for the purpose of spot and forward foreign exchange transactions and for currency options.

(d) The Bank may in its discretion decide whether or not this Facility may be utilised and may specify pre-conditions to such utilisation.

2 International Foreign Exchange Market Master Agreement (IFEMA) Terms

International Currency Options Market Master Agreement (ICOM) Terms

(e) Notwithstanding any non-execution of product documentation:

(iii) each foreign exchange utilisation will be deemed to be subject to and will be subject to the terms of IFEMA; and

(iv) each currency option utilisation will be deemed to be subject to and will be subject to the terms of ICOM.

(f) If there is any conflict between the terms of the Facility Letter and those of IFEMA or ICOM, the terms of IFEMA or ICOM (as appropriate) will prevail, except in respect of any provisions in this Forward Exchange Contracts and Currency Option Facility Schedule which are expressed to be additional to or in replacement for any relevant IFEMA or ICOM provisions.

(g) Copies of IFEMA and ICOM terms are available from the Bank on request.

(h) Unless there is agreement in writing to the contrary, while this option is in force, the terms of the Facility Letter and particularly the terms of (a) and (b) above will continue to apply notwithstanding any pre-existing product documentation.

3 Financial Services and Markets Act 2000

No forward purchase or sale of any currency may be made for investment purposes (as mentioned in article 84 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001) without the Bank’s prior written consent.

4 Contract Periods

Without affecting any of the Bank’s rights under the Facility Letter, the duration of any foreign exchange transaction or currency option entered into under this Facility will not exceed twelve months.

5 Settlement Limit

Without affecting any of the Bank's rights under the Facility Letter, the maximum amount for delivery for value on any one day shall not at any time exceed USD 1,800,000 (or its Sterling Equivalent as appropriate).

ENGAGEMENTS INCLUDING BANK GUARANTEES AND FOREIGN BILLS/CHEQUES FOR NEGOTIATION FACILITIES SCHEDULE

1 Drawings

(d) Each drawing under these Facilities will be made in accordance with and subject to the Bank's current practice from time to time. Such practice will be explained on request as drawings are requested.

(e) The Bank may in its discretion decide whether or not a drawing may be made under any of these Facilities and may specify pre-conditions to such drawing.

(c) Without prejudice to the foregoing, the Borrower agrees, acknowledges and authorises that any request for a drawing under the Engagements Facility will require the:

(iii) completion of an application form in paper or electronic format and submitted to the Bank by delivery method(s) agreed with the Bank, and, where required by the Bank, following execution of: (A) any agreement(s) for or relating to use of the Bank's electronic banking services, and/or (B) a fax indemnity (as the case requires); and

(iv) provision of a counter-indemnity, either by execution (on a request by request basis) of the counter-indemnity appearing overleaf on paper format application form, or by execution of an omnibus counter-indemnity (at the Borrower's election, except that the execution of an omnibus counter-indemnity will be mandatory before any application can be submitted using the Bank's electronic banking services),

in each case, in the Bank's preferred form current from time to time.

(d) The Borrower agrees and authorises that any application form, and all such other documents the Bank may require completed in relation thereto, may be completed, and any issuance instructions may be given, from time to time:

(i) by any persons authorised to instruct the Bank to make payments on behalf of the Borrower, in the amount of the relevant instrument, under the terms of the account mandate provided to the Bank by the Borrower and then current; or

(ii) upon receipt of an executed omnibus counter-indemnity supporting applications made from time to time using any of the Bank's electronic banking services, by any persons authorised or purporting to be authorised to instruct the Bank by electronic means as empowered in accordance with the agreement(s) between the Borrower and the Bank relating to the Borrower's use of the electronic banking services and that any of such persons be authorised to agree with the Bank through any such electronic banking services the terms and conditions relating to such issued instrument from time to time.

2 Bills and Termination

Following demand for repayment, the Bank may require the Borrower to pay to the Bank monies equivalent in amount to the aggregate of the face value of all outstanding documentary letters of credit and bills accepted, purchased, negotiated or discounted by the Bank to meet such documentary letters of credit and bills on their maturities.

3 Recourse

Any drawings under these Facilities are made with recourse to the Borrower and will be subject to the Bank's right at any time to demand immediate repayment of all sums owing to it.

IMPORT LINE FACILITY SCHEDULE

1 Options

This Facility comprises a Documentary Credits Option (the **Option**).

2 Drawings

(c) Each drawing under this Facility will be made in accordance with and subject to the Bank's current practice from time to time. Such practice will be explained on request as drawings are requested.

(d) The Bank may in its discretion decide whether or not a drawing may be made under this Facility and may specify pre-conditions to such drawing.

3 Documentary Credits Option

(a) Without prejudice to the foregoing, the Borrower agrees, acknowledges and authorises that a request for a drawing under this Facility will require completion of an application form in paper or electronic format and submitted to the Bank by delivery method(s) agreed with the Bank, and, where required by the Bank, following execution of: (A) any agreement(s) for or relating to use of the Bank's electronic banking services, and/or (B) a fax indemnity (as the case requires).

(b) The opening by the Bank of a documentary letter of credit ("**Credit**") will constitute a drawing under this Import Option for the full amount of such Credit.

(f) The Borrower agrees and acknowledges that any Credit issued by the Bank shall be subject to the Bank's terms and conditions applicable from time to time to the issue of a Credit, as set out in the Bank's preferred form of application form (whether in paper or electronic format).

(d) The Borrower agrees and authorises that any application form, and all such other documents the Bank may require completed in relation thereto, may be completed, and any issuance instructions may be given, from time to time:

  (j) by any persons authorised to instruct the Bank to make payments on behalf of the Borrower, in the amount of the relevant instrument, under the terms of the account mandate provided to the Bank by the Borrower and then current; or

  (ii) by any persons authorised or purporting to be authorised to instruct the Bank by electronic means as empowered in accordance with the agreement(s) between the Borrower and the Bank relating to the Borrower's use of the electronic banking services and that any of such persons be authorised to agree with the Bank through any such electronic banking services the terms and conditions relating to such issued instrument from time to time.

(e) Within the limit relevant to this Documentary Credit Option drawings may be made up to a maximum of £300,000 (Three hundred thousand pounds) outstanding at any one time to open sight documentary credits where the Bank does not obtain control over the relevant goods via documents of title.

4 Interest

(c) Interest will be debited at the maturity of the relevant loan to the Borrower's current account with the Bank as nominated for loan repayment in the loan application form.

(d) The General Terms and Conditions attached also apply.

5 Insurance

The Borrower will ensure that insurance cover will have been effected over all goods subject to finance in connection with the Facility Letter. The Borrower confirms that it holds such cover and that declarations under the policies are made for the respective shipments. The Borrower will, upon request, produce to the Bank the relevant policy of insurance.

6 Recourse

Any drawings under this Facility are made with recourse to the Borrower and will be subject to the Bank's right at any time to demand immediate repayment of all sums owing to it.

SECURITY SCHEDULE

Company Guarantee to be given by Powell Industries PLC to secure all liabilities of Powell (UK) Limited, limited to £22,000,000.

Agreement to Postpone Repayment of all indebtedness owing by Powell (UK) Limited to Powell Industries Inc.

Counter-Indemnity from Powell (UK) Limited in respect of guarantees given by the Bank.

PRE-DRAWDOWN CONDITIONS SCHEDULE

Acceptance of the Facility Letter

Receipt by the Bank of the Facility Letter accepted on behalf of the Borrower by all appropriate signatories.

Authorisations

(b) Receipt by the Bank of a copy of the certificate of incorporation of the Borrower and each company giving Security certified as up to date by the company secretary.

(c) Receipt by the Bank of a certified copy of board resolutions of the directors of the Borrower and each company giving Security:

(ii) in relation to the Borrower, approving the Facility Letter and authorising a person or persons to accept the Facility Letter; and

(ii) approving the Omnibus Counter-Indemnity and authorising a person or persons to sign the Omnibus Counter-Indemnity

(iii) approving the Fax Indemnity and authorising a person or persons to sign the Fax Indemnity

(iv) approving any Security to be given by the Borrower and each company giving Security and authorising persons to execute that Security.

The board resolutions are to be certified as true and correct by the chairman of the board meeting and the company secretary.

(c) (i) Receipt of a copy of an Omnibus Counter-Indemnity duly executed, in support of applications for the issue of Engagements including Bank Guarantees and Standby Documentary Credits (as the case may be) from time to time

(ii) Receipt of a copy of a duly executed Fax Indemnity

Security

(e) Evidence that the Borrower and anyone else giving Security has good and marketable title to the assets (the **Assets**) over which they are providing Security.

(f) Security documents in form and content satisfactory to the Bank.

(g) Receipt by the Bank of the Security documents properly executed by the parties to them.

(h) Any documents required to enable registration of the Security at the Land Registry.

(e) Receipt of a copy of an Omnibus Counter-Indemnity duly executed, in support of applications for the issue of Engagements including Bank Guarantees and Standby Documentary Credits (as the case may be) from time to time

(f) A duly executed Fax Indemnity

(g) (i) the Omnibus Counter-Indemnity,

(ii) the Fax Indemnity

Valuation

Receipt by the Bank of a satisfactory valuation of the Assets by an independent professional valuer, addressed to the Bank (and such other persons as the Bank may require).

Insurance

Evidence of insurance of the assets of the Borrower and each Company in accordance with the Insurance provisions in the Undertakings Schedule

Miscellaneous

(c) Compliance with the Bank's "know your customer" requirements.

(d) Receipt by the Bank of a bank mandate form completed by the Borrower.

UNDERTAKINGS SCHEDULE

Additional Security

Immediately on the Bank's request, the Borrower will provide cash in the amount required by the Bank and subject to Security in favour of the Bank (at the Borrower's expense and in form and content satisfactory to the Bank) in respect of any of the Borrower's liabilities to the Bank (whether present or future, actual or contingent).

Environmental Obligations

The Borrower will comply, and will procure that each Company complies, with all applicable current laws, regulations and practices relating to the protection of the environment from pollution (the **Environmental Obligations**).

Insurance

(c) If required by the Bank, the Borrower will keep, and will procure that each Company keeps, its assets fully insured against fire, theft, explosion, terrorist activities, floods, storm and other reasonable risks for their full reinstatement value with an insurer acceptable to the Bank. The insurance will also cover financial loss following business interruption as a result of damage or loss of the Borrower's and each Company's assets caused by the insured risks.

(d) The Borrower will provide the Bank with a copy of the relevant policies and insurance premium receipts upon request.

Information

(f) The Borrower will promptly provide to the Bank any information that the Bank may, from time to time, reasonably request.

(g) The Borrower will also provide to the Bank:

  (iii) where the Borrower is required to prepare audited accounts by law, audited individual accounts, or

  (iv) where the Borrower is not required to prepare audited accounts by law, unaudited individual accounts,

  not later than three months after the Borrower's balance sheet date.

(h) Where the Borrower's financial accounts have not been audited, the Bank may request an audit be carried out at the Borrower's expense by an auditor acceptable to the Bank.

(i) All accounts and other financial information provided to the Bank will be prepared in accordance with generally accepted accounting standards.

(j) The information that the Bank asks for may be required, for example, to enable it to understand the Borrower's financial position and to assess the Borrower's ability to meet its obligations in the Facility Letter.

Restriction on Lending

The Borrower will not advance, whether subject to a formal or informal arrangement, any monies by way of a loan to a director of the Borrower, a director of the Borrower's Group or a director of any Subsidiary without the prior written consent of the Bank.

In this provision:

(a) the term **Group** means a parent undertaking and its subsidiary undertakings as defined in section 1162 and Schedule 7 of the Companies Act 2006 (as the same may be amended, varied or replaced). Unless the context requires otherwise, the application of the definition of Group to any company at any time shall apply to the company as it is at that time; and

(b) the term **Subsidiary** means a subsidiary undertaking as defined in section 1162 and Schedule 7 of the Companies Act 2006 (as the same may be amended, varied or replaced). Unless the context requires otherwise:

  (i) the application of the definition of Subsidiary to any company at any time shall apply to the company as it is at that time; and

  (ii) references to **Subsidiary** are references to a Subsidiary of any of the Borrower.

Negative pledge

The Borrower will not , and will procure that each Company does not, create or allow any mortgage, charge, pledge, lien (other than a lien arising by operation of law) or other encumbrance over all or any part of its assets or revenues or uncalled capital.

Miscellaneous

If required by the Bank, the Borrower will pay, and will procure that each Company pays, any rental and other income from its assets which are the subject of any Security into an account with the Bank or to such account as the Bank may require.

Management Information

The Borrower will submit to the Bank quarterly management accounts in a form acceptable to the Bank within 60 days of the end of the quarter to which they relate. Such management accounts are to contain a management information pack from Powell Industries Inc including covenant compliance with Bank Of America facilities with Powell (UK) Limited's management information included.

REPRESENTATIONS SCHEDULE

Status

The Borrower is duly incorporated with limited liability under the laws of England and has the power to own its assets and carry on its business as it is being conducted.

Power and authority

The Borrower and each Company has:

(c) the power and authority to enter into the Facility Letter and the Security to which it is a party and to perform and observe the obligations under those documents; and

(d) has completed the Security to which it is a party in accordance with its constitutional documents.

Obligations under the Facility Letter

The Borrower is in full compliance with its obligations under the Facility Letter, including the Undertakings.

Environmental Obligations

The Borrower and each Company is in full compliance with the Environmental Obligations and the Borrower is not aware of any circumstance that may prevent full compliance in the future.

No misleading information

(c) The Borrower has disclosed to the Bank all facts to enable the Bank to consider whether to make available the Facilities to it.

(d) All information provided by or on behalf of the Borrower and each Company was true, complete and accurate in all material respects as at the date it was provided and has not become materially adversely misleading or incorrect.

Centre of main interests

For the purposes of The Council of the European Union Regulation No. 1346/2000 on Insolvency Proceedings (the **Regulation**), the centre of main interest (as that term is used in Article 3(1) of the Regulation) of the Borrower is situated in England and Wales.

Time for making representations

Each representation and warranty will be taken to be made by the Borrower daily until the Facilities have been repaid in full by reference to the facts and circumstances existing at the date the representation or warranty is made.

GENERAL TERMS AND CONDITIONS

The following terms and conditions will apply to the Facilities.

1 Sterling Equivalents

(c) The sterling equivalent (the **Sterling Equivalent**) of any amount denominated in another currency will be calculated by reference to the Bank's then prevailing spot selling rate of exchange for the relevant currency of denomination against sterling.

(d) In order to determine compliance or otherwise with the Limits, the aggregate Sterling Equivalents for all drawings outstanding and/or proposed will be calculated at such time as the Bank determines before each drawing is made.

3 Drawings

The Bank may, at any time:

(c) refuse payment of any cheque or other order for payment which would result in the Borrower going over a Limit; and/or

(d) refuse to allow any drawing or other disposal against any credit balance on any of the Borrower's current accounts with the Bank if, as a result, the Borrower would go over a Limit.

3 Repayments and Drawings on the Same Day

(c) If a drawing is due for repayment on a day when the Borrower is entitled to make a drawing, the Bank may require:

(iii) the amount of the drawing to be repaid to be deducted from the amount of the drawing to be made; and

(iv) only the difference in the amounts (if any) to be paid to the Borrower.

(d) If the relevant drawings are denominated in different currencies, any difference will be calculated at such time as the Bank determines before the drawing by the Borrower by application of the Bank's then prevailing spot selling rate of exchange for the currency due to the Bank against the currency to be drawn by the Borrower.

4 Interest on Facilities available in Sterling

(e) Interest will be calculated on a daily basis and o n the basis that there are 365 days in each year. Interest calculated on this basis will be payable in respect of each of the 365 days in a calendar year (366 in a leap year).

(f) On the dates interest (or any other charge) is debited, interest will become payable on any borrowings created by such debit.

(g) The Bank may, from time to time and at its discretion, change its interest rates. The Bank makes its current interest rates available and gives notice of changes in its interest rates in accordance with the Facility Letter and/or the Business Banking Terms and Conditions.

(h) If the Bank demands repayment of the Facilities or any of them, interest after demand will be charged at the same rates and on the same basis as before demand., except that:

(ii) in relation to the Import Line Facility, the Bank reserves the right to charge interest after demand on the Bank's quarterly charging dates which at present are during March, June, September and December even though the relevant loan may not have matured at the date of such demand.

5 Interest on Facilities available in Currencies other than Sterling

(e) Interest will be payable on the outstanding amount of the relevant Facility at the rate specified in the Facility Letter calculated on a daily basis and on the basis that there are 360 days in each year. Interest calculated on this basis will be payable in respect of each of the 365 days in a calendar year (366 in a leap year).

(f) Interest will be calculated up to and including the last Business Day of each May and November or upon earlier termination of any relevant Facility and debited in arrears on such day as the Bank determines to the relevant currency account together with any applicable commission charge in accordance with the Bank's then current tariff.

(g) On the dates interest (or any other charge) is debited, interest will become payable on any borrowings created by such debit.

(h) If the Bank demands repayment of the Facilities or any of them, interest after demand will be charged at the same rates and on the same basis as before demand., except that in relation to the Import Line Facility, the Bank reserves the right to charge interest after demand on the Bank's quarterly charging dates which at present are during March, June, September and December even though the relevant loan may not have matured at the date of such demand.

6 **Miscellaneous Provisions Relating to Facilities available in Currencies other than Sterling**

(f) If, in the opinion of the Bank, deposits in a currency are not available to the Bank to finance any drawing on the relevant currency account:

(j) such drawing may, at the Bank's discretion, be re-denominated in such currency as the Bank determines by reference to the Bank's then prevailing spot selling rate of exchange for the outstanding currency against the currency of re-denomination; and

(iii) any re-denominated drawing may also be subject to re-denomination in accordance with (i) above.

(g) Upon any re-denomination, for any reason, the Bank may vary the terms of any relevant Facility relating to notice periods, interest rates, the basis of interest calculations and the value dating of credits received, if, in the opinion of the Bank, these terms are not appropriate for the re-denominated currency.

(h) If the Bank demands repayment, the Bank may at any time re-denominate in sterling any amount due to the Bank at the Bank's then prevailing spot selling rate of exchange for the relevant outstanding currency against sterling. The provisions of (b) above will remain in force following any such re-denomination.

(i) Any reference to **euro** means the **euro unit** as defined in Regulation (EC) No. 1103/97 pronounced by the Council of the European Union and any reference to **national currency unit** has the meaning given to such expression by such Regulation, namely a unit of the currency of a participating Member State, as that unit is defined on the day before the start of the third stage of Economic and Monetary Union.

If a change in any national currency unit occurs (including where there is more than one currency or currency unit recognised at the same time as the lawful currency), the Facility Letter will be amended to the extent the Bank determines is necessary to reflect this change.

(j) The Bank will not be under any obligation to accept any instructions, receive or make any payment or carry out any other transaction denominated in the euro or in any national currency unit on a day on which the Bank is not normally open for general business in the relevant jurisdiction where such transactions are to be received or carried out, whether or not such a day is a Business Day for transactions in the euro or the relevant national currency unit.

7 **Payments**

(d) All payments by the Borrower will be made in cleared funds in the currency in which the payment is due on a Business Day on the due date for payment or, if that day is not a Business Day, on the next succeeding Business Day.

(e) All payments will be made without any deduction or withholding (whether in respect of set-off, counterclaim, duties, taxes, charges or otherwise).

(f) If the Borrower is required by law to make any deduction or withholding from a payment, it will promptly pay to the Bank such additional sums as will make the net sum received by the Bank equal to the full sum payable had there been no deduction or withholding.

8 **Costs and Expenses**

(b) The Borrower will pay to the Bank the amount of all costs and expenses (including any legal, security and valuation fees), stamp duty, taxes and other charges and registration costs incurred or charged by the Bank in connection with:

(iii) the negotiation, preparation, administration, amendment, variation or supervision of the Facilities, the Facility Letter and/or any Security; and

(iv) the enforcement of or the preservation of any rights under the Facility Letter and/or any Security and any proceedings instituted by or against the Bank as a consequence of taking or holding the Security or enforcing these rights.

The Bank will debit these costs to the Borrower's current account with the Bank. The Bank will advise the Borrower of the amount of such costs before they are debited.

9 **Indemnity**

The Borrower will indemnify the Bank on demand against any cost, loss or liability incurred by the Bank in connection with or arising out of:

(d) the application of any Facility or any part of it by the Borrower; and/or

(e) the provision of any Facility or any other banking facilities by the Bank to the Borrower; and/or

(f) the Bank having a security interest in any assets of the Borrower or any other person providing Security, including:

(iii) those incurred in connection with any litigation, arbitration or administrative proceedings or regulatory enquiry concerning any Facility or its application; or

(iv) in respect of a breach of, or a failure to meet, any Environmental Obligations.

10 Demand and Notice

Any demand or notice given by the Bank under the Facility Letter may be:

(c) by letter addressed to the Borrower or any officer of the Borrower sent by first class post to or left at the Borrower's address last known to the Bank or at the Borrower's registered office; or

(d) by fax or other electronic means to the Borrower's last known fax number or electronic mail address.

If sent by post, the demand or notice will be taken to have been made or given at noon the second day following the day the letter was posted. If sent by fax or other electronic means, the demand or notice will be taken to have been made or given at the time of transmission.

Unless otherwise advised by the Bank any notices given by the Borrower to the Bank under this letter will be delivered to this office.

11 Joint Borrowers

If the Borrower consists of two or more persons (whether corporates, partners or otherwise):

(f) they will be jointly and individually liable to the Bank for the Facilities and for any other moneys from time to time owing to the Bank in respect of the Facilities;

(g) any notice given to any one of them under the Facility Letter will be notice to all of them;

(h) if at any time any one or more of the provisions of the Facility Letter is or becomes invalid, illegal or unenforceable against any one or more of them, it will remain enforceable against the others as if it had been addressed to only to those others;

(i) the Bank's rights against any one such person will not be impaired, discharged or otherwise affected by:

— the Bank granting any time or indulgence to any of the others;

— the Bank varying or releasing any of the others from any liability to the Bank or any Security relating to such liability;

— the Bank failing to take any such Security; and/or

— any act, event or omission which would, but for these provisions, impair, discharge or otherwise affect any of such rights of the Bank; and

(j) no such person will be entitled without the written consent of the Bank to exercise any right or make any claim against any of the others (including any right of subrogation or right to prove in a liquidation) arising by virtue of any payment made in accordance with the Facility Letter or otherwise in connection with the Facility Letter.

12 Miscellaneous

(i) **Business Day** means a day (other than a Saturday or Sunday) and time on which the relevant banking offices and markets are open for business for the currency and transaction involved and, if the relevant currency is the euro, a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer payment system is open for settlement of payments in euro.

(j) **Facility Current Account** means the current account of the Borrower with the Bank on which the Facility is run.

(k) No delay or failure by the Bank in exercising any right or remedy will be taken to mean or take effect as a waiver or release of that right or remedy. The Bank will always be entitled to exercise all its rights and remedies unless it has expressly waived them in writing.

(l) If at any time any one or more of the provisions of the Facility Letter is or becomes invalid, illegal or unenforceable in any respect, the validity, legality or enforceability of the remaining provisions of the Facility Letter will not be in any way affected.

(m) If it becomes unlawful for the Bank to perform all or any of its obligations under the Facility Letter, then the Bank will notify the Borrower and:

(iii) the Borrower will repay any parts of the Facilities which have been drawn down together with all other amounts due and owing to the Bank; and

(iv) any parts of the Facilities that have not been drawn down will be cancelled.

(n) The Bank and the Borrower agree that the terms of the Facility Letter will not be enforceable by virtue of the Contracts (Rights of Third Parties) Act 1999 by any person who is not a party to the Facility Letter.

(o) If the Borrower does not accept the Facility Letter, the Bank may allow drawings under the Facilities and this will be taken to be acceptance of the terms and conditions of the Facility Letter (without amendment).

(p) The Borrower may sign any number of copies of the Facility Letter and these copies, together with the copy or copies signed on behalf of the Bank, will form a single document.

13 Governing Law and Enforcement

(a) For facilities on accounts held in England, the Facility is governed by and construed in accordance with English law and all claims and disputes (including non-contractual claims and disputes) arising out of or in connection with the Facility or its subject matter, negotiation or formation will be determined in accordance with English law.

(b) The Borrower and the Bank both submit to the non-exclusive jurisdiction of the courts of England and Wales in relation to all claims, disputes, differences or other matters (including non-contractual claims, disputes, differences or other matters) arising out of or in connection with the Facility

(c) The Borrower:

(ii) waives any objection to the courts of England including an objection on grounds of inconvenience; and

(iii) agrees that a judgment or order of a court of England in connection with the Facility Letter is binding on it and may be enforced against it in the courts of any other jurisdiction.

ACCEPTANCE BY THE BORROWER

We, Powell (UK) Limited, accept the offer and agree to all the terms and conditions contained in the Facility Letter dated 28 August 2014.

Date:

Director:

Director and
Secretary:

(Signed for and on behalf of Powell (UK) Limited, pursuant to a Resolution of the Board of Directors passed on .   ).

Exhibit 21.1

SUBSIDIARIES OF POWELL INDUSTRIES, INC.

Name of Subsidiary	Incorporated
Powell Industries, Inc.	Delaware
Powell Electrical Systems, Inc.	Delaware
Transdyn, Inc.	Delaware
Powell Industries International, Inc.	Delaware
Powell Industries Asia, Pte, Ltd.	Delaware
Powell International Europe B.V.	Netherlands
Powell (UK) Limited	United Kingdom
Nextron Limited	Canada
Powell Canada B.V.	Netherlands
Powell Canada Inc.	Canada
Powell Industries International B.V.	Netherlands

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos.333-63740, 333-171311 and 333-196171) of Powell Industries, Inc. of our report dated December 3, 2014 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Houston, Texas
December 3, 2014

Exhibit 31.1

CERTIFICATION

I, Michael A. Lucas, certify that:

1. I have reviewed this Annual Report on Form 10-K 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/ Michael A. Lucas

Michael A. Lucas
President and Chief Executive Officer
(Principal Executive Officer)

Date: December 3, 2014

CERTIFICATION

I, Don R. Madison, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: December 3, 2014

Exhibit 32.1

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 Annual Report (the “Report”) on Form 10-K of Powell Industries, Inc. (the “Company”) for the year ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof, I, Michael A. Lucas, 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/ Michael A. Lucas
Michael A. Lucas
President and Chief Executive Officer

Date: December 3, 2014

Exhibit 32.2

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 Annual Report (the "Report") on Form 10-K of Powell Industries, Inc. (the "Company") for the year ended September 30, 2014, 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: December 3, 2014