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, 2011

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

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 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 voting stock held by non-affiliates of the registrant as of the last business day of the most recently completed second fiscal quarter, March 31, 2011, was approximately $462,404,000.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

At December 1, 2011, there were 11,766,981 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 2012 annual meeting of stockholders to be filed not later than 120 days after September 30, 2011, are incorporated by reference into Part III of this Form 10-K.

POWELL INDUSTRIES, INC.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS; RISK FACTORS

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 secure and satisfy customers, our customers’ financial conditions and their ability to secure financing to support current and future projects, the availability and cost of materials from suppliers, 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 retain and hire key employees; that our products and capabilities will remain competitive; that the financial markets and banking systems will stabilize 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. (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.; Transdyn, Inc.; Powell Industries International, Inc.; Switchgear & Instrumentation Limited (S&I) and Powell Canada Inc.

We develop, design, manufacture and service custom engineered-to-order equipment and systems for the management and control of electrical energy and other critical processes. Headquartered in Houston, Texas, we serve the transportation, environmental, energy, industrial and utility industries.

Our website address is www.powellind.com. We make available, free of charge on or through our website, copies of our Annual Reports, 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). Paper or electronic copies of such material may also be requested by contacting the Company at our corporate offices.

Our business operations are consolidated into two business segments: Electrical Power Products and Process Control Systems. Approximately 67%, 71% and 77% of our consolidated revenues for the fiscal years ended September 30, 2011, 2010 and 2009, respectively, were generated in the United States of America (U.S.). Approximately 80% of our long-lived assets were located in the U.S. at September 30, 2011, with the remaining long-lived assets located primarily in the United Kingdom (U.K.) and Canada. Financial information related to our business and geographical segments is included in Note N of Notes to Consolidated Financial Statements.

In December 2009, we acquired the business and certain assets of PowerComm Inc. and its subsidiaries, Redhill Systems Ltd., Nextron Corporation, PCG Technical Services Inc. and Concorde Metal Manufacturing Ltd (the entire business of which is referred to herein as Powell Canada) for $23.4 million, excluding debt assumed of $15.1 million and acquisition-related expenses. Powell Canada is headquartered in Edmonton, Alberta, Canada, and provides electrical, maintenance and services. Powell Canada is also a manufacturer of switchgear and related products, primarily serving the oil and gas industry in western Canada. The operating results of Powell Canada are included in our Electrical Power Products business segment from the acquisition date. For further information on the Powell Canada acquisition, see Note D of Notes to Consolidated Financial Statements.

Electrical Power Products

Our Electrical Power Products business segment designs, develops, manufactures and markets custom engineered-to-order electrical power distribution and control systems designed (1) to distribute, monitor and control the flow of electrical energy and (2) to provide protection to motors, transformers and other electrically-powered equipment. Our principal products include power control room substation packages, traditional and arc-resistant distribution switchgear, medium-voltage circuit breakers, offshore generator and control modules, monitoring and control communications systems, motor control centers and bus duct systems. These products are designed for application voltages ranging from 480 volts to in excess of 38,000 volts and are used in electric rail transportation, refining, chemical manufacturing, offshore oil and gas production, electric utility systems and other heavy industrial markets. Our product scope includes designs tested to meet both U.S. standards (ANSI) and international design standards (IEC — International Electrotechnical Commission). We also seek to assist customers by providing value-added services such as spare parts, field service inspection 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 work to establish long-term relationships with the end users of our systems and with the design and construction engineering firms contracted by those end users.

Customers and Markets

This business segment's principal products are designed for use by and marketed to technologically sophisticated users of large amounts of electrical energy that typically have a need for complex combinations of electrical components and systems. Our customers and their industries include oil and gas producers, oil and gas pipelines, refineries, petrochemical plants, electrical power generators, public and private utilities, co-generation facilities, mining/metals operations, pulp and paper plants, transportation authorities, governmental agencies and other large industrial 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 tailored to meet the exact specifications and requirements of the individual customer. Powell's expertise is in the engineering and packaging of the various systems into a single deliverable. We market and sell our products and services to a wide variety of customers, markets and geographic regions, which are typically awarded in competitive bid situations. Contracts may represent large-scale 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, gaps in large project awards may cause material fluctuations in segment revenues.

We could be adversely impacted by a significant reduction in business volume from a particular industry which we currently serve. As a result of the fifteen-year supply agreement that we entered into on August 7, 2006, with General Electric Company (GE), our revenues from GE were $54 million, $58 million and $86 million in fiscal 2011, fiscal 2010 and fiscal 2009, respectively, or 10%, 11% and 14% of our consolidated revenues for these periods. Aside from GE, with whom we have a long-term supply agreement, we do not believe that the loss of any specific customer would have a material adverse effect on our business. GE has become a significant customer and has accounted for, and could continue to account for, more than 10% of the annual revenues of this business segment as a result of the supply agreement that we entered into on August 7, 2006.

During fiscal years 2010 and 2009, no one country outside of the U.S. accounted for more than 10% of revenues with customers. However, during fiscal year 2011, our operations in Canada accounted for 17% of revenues with customers. For information on the geographic areas in which our consolidated revenues were recorded in each of the past three fiscal years, see Note N of Notes to Consolidated Financial Statements.

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 which are competitively bid. 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 Corporation, GE, Schneider Electric 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. A significant portion of our business is from repeat customers and many times involves third-party engineering and construction companies hired by the end-user and with which we also have long and established relationships. We consider our engineering, manufacturing and service capabilities vital to the success of our business, and believe our technical and project management strengths, together with our responsiveness and flexibility to the needs of our customers, give us a competitive advantage in our markets. Ultimately, our competitive position is dependent upon our ability to provide quality custom engineered-to-order 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. Orders in the Electrical Power Products business segment backlog at September 30, 2011, totaled $394.6 million compared to $245.4 million at September 30, 2010. Our backlog has increased due to orders received for large petrochemical and offshore oil and gas construction projects. We anticipate that approximately $370 million of our fiscal 2011 ending backlog will be fulfilled during our fiscal year 2012. Conditions outside of our control have caused us to experience some customer delays and cancellations of certain projects in the past; 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 Electrical Power Products' operations include steel, copper, aluminum and various electrical components. These raw material costs represented 50% of our revenues in fiscal 2011. Unanticipated increases in raw material requirements, disruptions in supplies or price increases could increase production costs and adversely affect profitability.

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 short-term 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 have no reason to believe a shortage of raw materials will cause any material adverse impact during fiscal year 2012. While we are not dependent on any one supplier for a material amount of our raw materials, we are highly dependent on our suppliers in order to meet commitments to our customers. We did not experience significant or unusual issues in the purchase of key raw materials and commodities in the past three years.

Inflation

This business segment is subject to the effects of changing prices. During the last three fiscal years, we experienced price volatility for certain commodities, in particular steel, copper and aluminum products, which are 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 these inflationary pressures through contract pricing adjustments 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 years 2011, 2010 or 2009.

Employees

At September 30, 2011, the Electrical Power Products business segment had 2,566 full-time employees located in the United States, the United Kingdom, Canada and Singapore. Our employees are not represented by unions, and we believe that our relationship with our employees is good.

Research and Development

This business segment's research and development activities are directed toward the development of new products and processes as well as improvements in existing products and processes. Research and development expenditures were $6.4 million, $6.0 million and $5.8 million in fiscal years 2011, 2010 and 2009, respectively, and are reported in selling, general and administrative expenses in the consolidated statement of operations.

Intellectual Property

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

Process Control Systems

Our Process Control Systems business segment designs and delivers custom engineered-to-order technology solutions that help our customers manage their critical transportation, environmental and energy management processes and facilities. Our proprietary DYNAC® software suite provides a highly integrated operations management solution for these vital operations. The mission-critical information may be traffic flow in our intelligent transportation management solutions, water quality in our environmental treatment solutions or electrical power status in the case of our substation automation solutions. DYNAC® has user configurable applications designed specifically for clients that require high performance, 24/7 availability and superior data integrity in a secure environment.

We provide a comprehensive set of technical services to deliver these systems. A diverse team of professional systems engineers, software engineers, analysts, network specialists and automation engineers provide expertise for the entire life cycle of a technology project. We have designed and built systems for various facilities and roadways around the world.

Customers and Markets

This business segment's products and services are principally sold directly to end-users in the transportation, environmental and energy sectors. From time to time, a significant percentage of revenues may result from one specific contract or customer due to the nature of large projects common to this business segment. In fiscal years 2010 and 2009, revenues with one or more customers individually accounted for more than 10% of our segment revenues. Revenues from these customers totaled $3.2 million and $7.4 million in fiscal 2010 and 2009, respectively. In fiscal year 2011, no customer individually accounted for more than 10% of our segment revenues. Contracts often represent large-scale, single-need projects with an individual customer. By their nature, these projects are typically nonrecurring for a given customer. Thus, multiple and/or continuous projects of similar magnitude with the same customer are rare. As such, gaps in large project awards may cause material fluctuations in segment revenues.

During each of the past three fiscal years, the U.S. is the only country that accounted for more than 10% of segment revenues. For information on the geographic areas in which our consolidated revenues were recorded in each of the past three fiscal years, see Note N of Notes to Consolidated Financial Statements.

Competition

This business segment operates in a competitive market where competition for each contract varies. Depending upon the type of system and customer requirements, the competition may include large multinational firms as well as smaller regional competitors.

Our customized systems are designed to meet the specifications of our customers. Each system is designed, delivered and installed to the specific requirements of the particular application. We consider our engineering, systems integration and technical support capabilities vital to the success of our business. We believe our turnkey systems integration capabilities, customizable software, domain expertise, specialty contracting experience and financial strength give us a competitive advantage in our markets.

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. Orders in the Process Control Systems business segment backlog at September 30, 2011, totaled $48.4 million compared to $36.9 million at September 30, 2010. We anticipate that approximately $22 million of our ending fiscal 2011 backlog will be fulfilled during our 2012 fiscal year. Conditions outside of our control have caused us to experience some customer delays and cancellations of certain projects in the past; accordingly, backlog may not be indicative of future operating results as orders in our backlog may be cancelled or modified by our customers.

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Employees

The Process Control Systems business segment had 156 full-time employees at September 30, 2011, primarily located in the United States. Our employees are not represented by unions, and we believe that our relationship with our employees is good.

Research and Development

The majority of research and development activities of this business segment are directed toward the development of our software suites for the management and control of the critical processes and facilities of our customers. Non-project research and development expenditures were $1.1 million, $0.4 million and $0.3 million in fiscal years 2011, 2010 and 2009, respectively, and are reported in selling, general and administrative expenses in the Consolidated Statements of Operations.

Intellectual Property

While we are the holder of various copyrights related to software for this business segment, 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 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.

The ongoing economic uncertainty and financial market conditions have negatively impacted and may continue to impact our customer base, suppliers and backlog.

Various factors drive demand for our products and services, including the price of oil, capital expenditures, economic forecasts and financial markets. Continued uncertainty in the price of oil, capital expenditures, economic recovery or the financial markets could continue to impact our customers and severely impact the demand for projects that would result in 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 a lower demand for our products and services and could materially impact our business, financial condition, cash flows and results of operations and 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 work to be completed on contracts. Orders included in our backlog are represented by customer purchase orders and contracts, which we believe to be firm. Backlog develops as a result of new business taken, which represents the revenue value of new project commitments received by us during a given period. Backlog consists of projects which either (1) have not yet been started or (2) are in progress and are not yet completed. In the latter case, the revenue value reported in backlog is the remaining value associated with work that has not yet been completed. 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 the resulting underutilization of our assets.

Our volume of fixed-price contracts and use of percentage-of-completion accounting 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 Notes to Consolidated Financial Statements, a significant portion of our revenues is recognized on the percentage-of-completion method of accounting. The percentage-of-completion accounting practice we use results in our recognizing contract revenues and earnings ratably over the contract term in proportion to our incurrence of contract costs. The earnings or losses recognized on individual contracts are based on estimates of contract revenues, costs and profitability. The process of estimating costs on projects requires a significant amount of judgment and combines professional engineering, cost estimating, pricing and accounting inputs. Contract losses are recognized in full when determined, and contract profit estimates of revenue and cost to complete are adjusted based on ongoing reviews of estimated contract profitability. 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. Some of our contracts contain penalty provisions that require us to pay liquidated damages if we are responsible for the failure to meet specified contractual milestones and the applicable customer asserts a claim under these provisions. These contractual provisions define the conditions under which our customers may make claims against us to pay liquidated damages. In many cases in which we have had potential exposure for liquidated damages, such damages ultimately were not fully asserted by our customers.

Fluctuations in the price and supply of raw materials used to manufacture our products may reduce our profits.

Our raw material costs represented 49% of our revenues for the fiscal year ended September 30, 2011. We purchase a wide variety of raw materials to manufacture our products, including steel, aluminum, copper and various electrical components. Unanticipated increases in raw material requirements or price increases could increase production costs and adversely affect profitability.

We face risks relating to material weaknesses in our internal control over financial reporting.

In connection with the preparation of our consolidated financial statements for the year ended September 30, 2011, we identified control deficiencies that constitute material weaknesses in our internal control over financial reporting. The following control deficiencies were present at September 30, 2011:

1) Financial close and reporting process, Powell Canada — Controls over the month-end financial close and reporting process, which provide for the completeness, accuracy, valuation and presentation of account balances at Powell Canada were not effective, which resulted in misstatements to cost of sales, inventory, work in progress and accounts payable.

2) Revenue recognition process for long-term construction projects, Powell Canada — Controls over revenue recognition for long-term construction projects to ensure completeness, accuracy, existence and presentation of revenue, cost and estimated earnings in excess of billings on uncompleted projects, billings in excess of cost and estimated earnings on uncompleted projects, and other accrued expenses at Powell Canada were not effective which resulted in misstatements related to these accounts.

3) Cost accumulation process, Powell Canada — Controls over the accumulation and reporting of construction job costs, including the application of overhead and recording labor, to provide for the accurate reporting of revenue and cost and estimated earnings in excess of billings on completed projects at Powell Canada were not effective.

4) Revenue and accounts receivable process for service contracts, Powell Canada — Controls over the revenue and accounts receivable process for service contracts to ensure the completeness, accuracy, existence, valuation, rights and presentation of service contract revenues and accounts receivable were not effective or adequate to prevent or detect material misstatements of these accounts in our consolidated financial statements.

These control deficiencies could result in a future material misstatement of the annual and interim consolidated financial statements that would not be prevented or detected. Accordingly, we have determined that the above control deficiencies represent material weaknesses.

While we have taken certain actions to address the material weaknesses identified, additional measures may be necessary as we work to improve the overall effectiveness of our internal reporting over financial reporting and revenue recognition. Through these steps, we believe that we are addressing the deficiencies that affected our internal control over financial reporting as of September 30, 2011. However, until the newly implemented controls have operated for a sufficient period of time, we will not be able to conclude that the material weaknesses have been remediated. We will continue to monitor and assess our remediation activities to ensure that the material weaknesses discussed above are remediated as soon as practicable. Please see Item 9A. "Controls and Procedures" of this Annual Report for a more complete description of these control deficiencies and material weaknesses and certain measures we have undertaken to remediate our deficiencies.

Our industry is highly competitive.

Many of our competitors are significantly larger and have substantially greater resources than we do. Competition in the industry depends on a number of factors, including 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. We cannot be certain that our competitors will not develop the expertise, experience and resources to provide products or services that are superior in both price and quality to our services. 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 continuing effects from the U.S. government regulations on offshore deepwater drilling projects.

In response to the Deepwater Horizon incident in the U.S. Gulf of Mexico in April 2010, the U.S. government has implemented new safety and certification requirements applicable to drilling activities in the U.S. Gulf of Mexico, has imposed additional requirements with respect to development and production activities in the U.S. Gulf of Mexico and has delayed the approval of applications to drill in both deepwater and shallow-water areas. In addition, the U.S. government has announced that it intends to require that operators demonstrate their compliance with new regulations before they resume deepwater drilling. While certain new drilling plans and drilling permits have been approved during 2011, we cannot predict when the pace at which operators in the U.S. Gulf of Mexico will be able to satisfy these requirements and return to previous levels of active drilling. Further, we cannot predict what the continuing effects from the U.S. government regulations on offshore deepwater drilling projects may have on offshore oil and gas exploration and development activity, or what actions may be taken by our customers or other industry participants in response to these regulations. Changes in laws or regulations regarding offshore 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.

International and political events may adversely affect our operations.

International sales accounted for 33% of our revenues in fiscal 2011, including sales from our operations in the United Kingdom and Canada. We primarily operate 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 the occurrence of 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 and economic embargoes imposed by the U.S. or other countries.

Our acquisition strategy involves 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. We may be unable to implement this strategy if we cannot reach agreement on potential strategic acquisitions on acceptable terms or for other reasons. Our acquisition strategy involves 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 impairment charges resulting from the overpayment for an acquisition may negatively impact our earnings. A disruption of our ongoing business or an inability of our ongoing business to receive sufficient management attention could adversely affect profitability.

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 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 the results that you can expect for any other quarter or for an entire year.

We may be unsuccessful at generating profitable internal growth.

Our ability to generate profitable internal growth will be affected by, among other factors, potential regulatory changes, our ability to attract new customers, increase the number or size of projects performed for existing customers, hire and retain employees and increase volume utilizing our existing facilities.

In addition, our customers may reduce the number or size of projects available to us. Many of the factors affecting our ability to generate internal growth may be beyond our control, and we cannot be certain that our strategies will be successful or that we will be able to generate cash flow sufficient to fund our operations and to support internal growth. If we are unsuccessful, we may not be able to achieve internal growth, expand our operations or grow our business.

The departure of key personnel could disrupt our business.

We depend on the continued efforts of our executive officers and senior management. 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 skilled personnel necessary to meet our requirements. We may experience shortages of qualified personnel. 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 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 or grow our revenues, and may adversely impact our profitability.

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 claiming damages from us 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. We are and will likely continue to 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, 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 the implementation or operation of our enterprise resource planning system could adversely affect our internal controls and our business.

The efficient execution of our business is dependent upon the proper functioning of our enterprise resource planning (ERP) system that supports our human resources, accounting, estimating, financial, job management and customer systems. Any significant failure or malfunction of our ERP system may result in disruption of our operations. Our results of operations could be adversely affected if we encounter unforeseen problems with respect to the operation of this ERP system.

We carry insurance against many potential liabilities, and 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 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 or that exceed our accruals or that exceed our coverage limits and could adversely impact our consolidated results of operations, cash flows and financial position.

We may incur additional healthcare costs arising from federal healthcare reform legislation.

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law in the U.S. This legislation expands health care coverage to many uninsured individuals and expands coverage to those already insured. The changes required by this legislation could cause us to incur additional healthcare and other costs, but we do not expect any material short-term impact on our financial results as a result of the legislation and are currently assessing the extent of any long-term impact.

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

All of the products manufactured and sold by the Company depend upon the best available technology for success in the marketplace. The competitive environment is highly sensitive to technological innovation in both segments of our business. It is possible for competitors (both domestic and foreign) to develop products or production methods, which will make current products or methods obsolete or at least hasten their obsolescence.

Catastrophic events could disrupt our business.

The occurrence of catastrophic events ranging from natural disasters such as hurricanes to epidemics such as health epidemics to acts of war and terrorism could disrupt or delay the Company’s ability to complete projects for its customers and could potentially expose the Company 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. In addition, such events could impact the Company’s customers and suppliers, resulting in temporary or long-term delays and/or cancellations of orders or raw materials used in normal business operations. These situations are outside the Company’s control and could have a significant adverse impact on the results of operations.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. ***Properties***

We own or lease manufacturing facilities, sales offices, field offices and repair centers located throughout the U.S. and Canada, and we have a manufacturing facility located in the United Kingdom. Our facilities are generally located in areas that are readily accessible to raw 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 by segment as of September 30, 2011, are as follows:

Location	Number of Facilities	Acres	Approximate Square Footage Owned	Approximate Square Footage Leased
Electrical Power Products:				
Houston, TX	3	78.1	446,600	138,600
North Canton, OH	1	8.0	115,200	—
Northlake, IL	1	10.0	103,500	—
Bradford, United Kingdom	1	7.9	129,200	—
Edmonton, Alberta, Canada	2		—	70,700
Calgary, Alberta, Canada	1		—	8,200
Process Control Systems:				
Pleasanton, CA	1		—	21,200
Duluth, GA	1		—	29,700
Chantilly, VA	1		—	5,200
East Rutherford, NJ	1		—	8,700

All leased properties are subject to long-term leases with remaining lease terms ranging from one to five years as of September 30, 2011. 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.

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

Item 4. ***Submission of Matters to a Vote of Security Holders***

We did not submit any matter to a vote of our stockholders during the fourth quarter of fiscal year 2011.

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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 Year 2010:		
First Quarter	$41.66	$30.32
Second Quarter	34.27	27.71
Third Quarter	36.10	27.01
Fourth Quarter	36.67	26.26
Fiscal Year 2011:		
First Quarter	$37.65	$29.13
Second Quarter	40.88	32.97
Third Quarter	40.82	32.01
Fourth Quarter	41.64	30.28

As of December 1, 2011, the last reported sales price of our common stock on the NASDAQ was $30.95 per share. As of December 1, 2011, there were 514 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 for information regarding securities authorized for issuance under our equity compensation plans.

Dividend Policy

Our current credit agreements limit the payment of dividends, other than dividends payable solely in our capital stock, without prior consent of our lenders. To date, we have not paid cash dividends on our common stock, and for the foreseeable future we intend to retain earnings for the development of our business. Future decisions to pay cash dividends will be at the discretion of the Board of Directors and will depend upon our results of operations, financial condition and capital expenditure plans and restrictive covenants under our credit facilities, along with other relevant factors.

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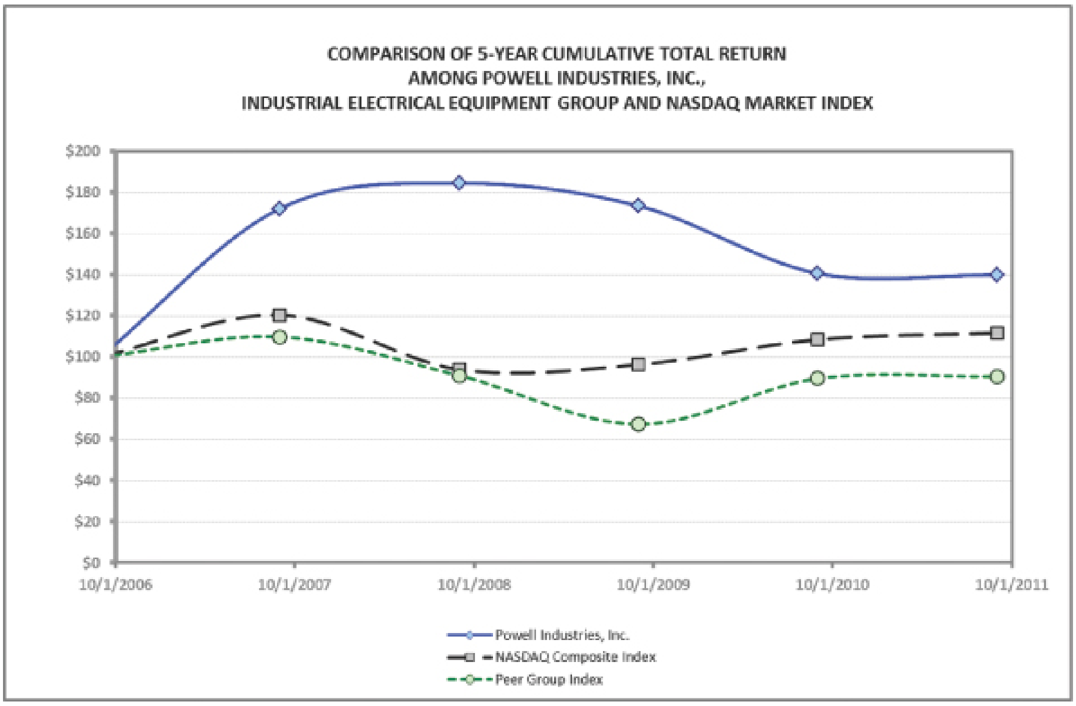
Performance Graph

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, 2006, to September 30, 2011, the cumulative stockholder return on our common stock with the cumulative total return on the NASDAQ Market Index and Industrial Electrical Equipment Group (a select group of peer companies – Advanced Energy Industries, Inc.; Altra Holdings Inc.; AZZ Inc.; CTC Corporation; DXP Enterprises Inc.; ENGlobal Corporation; ESCO Technologies Inc.; Franklin Electric Company, Inc.; Integrated Electrical Services, Inc.; Methode Electronics Inc. and Power-One Inc.). The comparison assumes that $100 was invested on October 1, 2006, in our common stock, the NASDAQ Market Index and Industrial Electrical Equipment Group. 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. 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 "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.

In December 2009, we acquired Powell Canada. Powell Canada is headquartered in Edmonton, Alberta, Canada and provides electrical, maintenance and services. Powell Canada is also a manufacturer of switchgear and related products, primarily serving the oil and gas industry in western Canada. The operating results of Powell Canada, are included in our Electrical Power Products business segment from the acquisition date.

	Years Ended September 30,				
	2011	2010	2009	2008	2007
	(In thousands, except per share data)				
Statements of Operations:					
Revenues	$562,397	$550,692	$665,851	$638,704	$564,282
Cost of goods sold	462,467	408,635	520,802	512,298	468,691
Gross profit	99,930	142,057	145,049	126,406	95,591
Selling, general and administrative expenses	85,058	84,457	79,954	80,416	73,639
Amortization of intangible assets	4,752	4,477	3,460	3,585	3,607
Impairments	7,158	7,452	—	—	—
Operating income	2,962	45,671	61,635	42,405	18,345
Gain on sale of investment	(1,229)	—	—	—	—
Interest expense, net	194	610	976	2,537	2,943
Income before income taxes	3,997	45,061	60,659	39,868	15,402
Income tax provision	6,712	19,894	20,734	14,072	5,468
Net income (loss)	(2,715)	25,167	39,925	25,796	9,934
Net (income) loss attributable to noncontrolling interest	—	(159)	(208)	51	(21)
Net income (loss) attributable to Powell Industries, Inc.	$ (2,715)	$ 25,008	$ 39,717	$ 25,847	$ 9,913
Basic earnings per share attributable to Powell Industries, Inc.	$ (0.23)	$ 2.17	$ 3.48	$ 2.29	$ 0.90
Diluted earnings per share attributable to Powell Industries, Inc.	$ (0.23)	$ 2.14	$ 3.43	$ 2.26	$ 0.88

	As of September 30,				
	2011	2010	2009	2008	2007
	(In thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$123,466	$115,353	$ 97,403	$ 10,134	$ 5,257
Property, plant and equipment, net	59,637	63,676	61,036	61,546	67,401
Total assets	421,676	400,712	404,840	397,634	341,015
Long-term debt and capital lease obligations, including current maturities	5,441	6,885	9,492	41,758	35,836
Total stockholders’ equity	275,343	277,303	246,761	206,874	173,549
Total liabilities and stockholders’ equity	421,676	400,712	404,840	397,634	341,015

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” contained in this Annual Report.

In December 2009, we acquired the business and certain assets of PowerComm Inc. and its subsidiaries (referred to herein as Powell Canada) for $23.4 million, excluding debt assumed of $15.1 million and acquisition-related expenses. Powell Canada is headquartered in Edmonton, Alberta, Canada, and provides electrical, maintenance and services. Powell Canada is also a manufacturer of switchgear and related products, primarily serving the oil and gas industry in western Canada. The operating results of Powell Canada are included in our Electrical Power Products business segment from the acquisition date.

Overview

We develop, design, manufacture and service custom engineered-to-order equipment and systems for the management and control of electrical energy and other critical processes. Headquartered in Houston, Texas, we serve the transportation, environmental, energy, industrial and utility industries. Our business operations are consolidated into two business segments: Electrical Power Products and Process Control Systems. Revenues and costs are primarily related to engineered-to-order equipment and systems which precludes us from providing detailed price and volume information.

The markets in which Powell participates in are capital-intensive and cyclical in nature. Cyclicality is driven by customer demand, global economic markets and potential environmental or regulatory impacts which affect the manner in which our customers proceed with capital projects. Our customers analyze various factors including the short-term demand for oil and electrical energy, the overall banking environment, federal and state budgets, the outlook for offshore drilling and related regulatory actions and the drive towards environmental controls over the type and way energy is produced and utilized. These factors over the last two fiscal years have contributed to decisions by customers to delay or to change where they place new capital projects, which decreased our backlog of orders to $282.3 million entering fiscal 2011, down $83.5 million from the beginning of fiscal 2010. However, during fiscal 2011, orders received were $725.2 million compared to $466.8 million during fiscal 2010 and our backlog has increased to $443.0 million at September 30, 2011. Some of our recent orders received are for large petrochemical and offshore oil and gas construction projects which will take several months to produce, most of which were awarded in competitive bid situations. This increased competition, along with higher commodity prices, will continue to place downward pressure on gross profit margins as we work to fulfill these orders in fiscal 2012 and 2013. Project execution challenges and integration efforts at Powell Canada could also negatively impact net income in fiscal 2012.

Results of Operations

Twelve Months Ended September 30, 2011 (Fiscal 2011) Compared to Twelve Months Ended September 30, 2010 (Fiscal 2010)

Revenue and Gross Profit

Consolidated revenues increased $11.7 million to $562.4 million in Fiscal 2011 compared to $550.7 million in Fiscal 2010. Revenues increased primarily as a result of the $25.0 million full year impact of revenues from Powell Canada which was acquired in the first quarter of Fiscal 2010. Domestic revenues decreased by 3.6% to $378.9 million in Fiscal 2011 compared to $393.3 million in Fiscal 2010, primarily due to reduced manufacturing and service activities because of the lower level of backlog at the beginning of Fiscal 2011. International revenues increased from $157.6 million in Fiscal 2010 to $183.5 million in Fiscal 2011. Gross profit in Fiscal 2011 decreased by $42.1 million compared to Fiscal 2010, as a result of the competitive pressure on margins, as discussed above, as well as execution-related challenges on certain large projects at Powell Canada. These factors also contributed to the decrease in gross profit as a percentage of revenues to 17.8% in Fiscal 2011, compared to 25.8% in Fiscal 2010.

Electrical Power Products

Our Electrical Power Products business segment recorded revenues of $533.3 million in Fiscal 2011, compared to $517.1 million in Fiscal 2010. Revenues increased as a result of the $25.0 million full year impact of revenues from Powell Canada which was acquired in the first quarter of Fiscal 2010. Excluding the increase related to the revenues at Powell Canada, revenues decreased primarily due to reduced manufacturing and service activities because of the lower level of backlog at the beginning of Fiscal 2011. In Fiscal 2011, revenues from public and private utilities were $166.6 million compared to $148.6 million in Fiscal 2010. Revenues from commercial and industrial customers totaled $320.5 million in Fiscal 2011, a decrease of $10.2 million compared to Fiscal 2010. Municipal and transit projects generated revenues of $46.2 million in Fiscal 2011 compared to $37.6 million in Fiscal 2010.

Business segment gross profit, as a percentage of revenues, was 17.2% in Fiscal 2011 compared to 25.1% in Fiscal 2010. This decrease in gross profit as a percentage of revenues resulted primarily from the competitive pressure on margins, as discussed above, as well as execution-related challenges on certain large projects at Powell Canada. Gross profit in Fiscal 2010 benefitted from the favorable execution of large projects, as well as cancellation fees and the successful negotiation of change orders on projects which were substantially completed in prior periods.

Process Control Systems

In Fiscal 2011, our Process Control Systems business segment recorded revenues of $29.1 million, a decrease from $33.6 million in Fiscal 2010. Business segment gross profit, as a percentage of revenues, decreased to 28.2% for Fiscal 2011, compared to 36.5% for Fiscal 2010. This decrease in revenues and gross profit as a percentage of revenues resulted from a less favorable mix of projects.

For additional information related to our business segments, see Note N of Notes to Consolidated Financial Statements.

Consolidated Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses decreased to 15.1% of revenues in Fiscal 2011 compared to 15.3% of revenues in Fiscal 2010. Selling, general and administrative expenses remained relatively unchanged at $85.1 million in Fiscal 2011 compared to $84.5 million in Fiscal 2010. Decreases in short-term and long-term incentive compensation resulting from lower earnings compared to Fiscal 2010 were offset by increased depreciation expense related to the Company's ERP system in Fiscal 2011, compared to Fiscal 2010. Additionally, separation payments of $2.6 million to our former CEO were recorded in selling, general and administrative expenses in the fourth quarter of which $1.2 million was paid in October 2011, with the balance being comprised of deferred payments and compensation expense related to the vesting of outstanding equity-based awards. In the prior year there were acquisition-related costs of $2.4 million related to the acquisition of Powell Canada. Selling, general and administrative expenses decreased as a percentage of revenues in Fiscal 2011 as a result of the increase in revenue of $11.7 million.

Amortization of Intangible Assets

Amortization of intangible assets increased to $4.8 million in Fiscal 2011, compared to $4.5 million in Fiscal 2010. This increase was from the full year impact of the amortization of the intangible assets recorded as a result of acquisitions in Canada.

Gain on sale of investment

Gain on sale of investment resulted from a $1.2 million gain recorded in the second quarter of Fiscal 2011 from cash received for the sale of our 50% equity investment in Kazakhstan which was previously a part of the acquisition of Powell Canada in Fiscal 2010

Impairments

An impairment charge of $7.2 million was recorded in Fiscal 2011 related to the impairment of the intangible assets related to the Powell Canada. This impairment of intangible assets is the result of continued operating losses from Powell Canada and the execution-related challenges on certain large projects, which have reduced the Company's projections for future revenues and cash flows from Powell Canada.

An impairment of goodwill of $7.5 million was recorded in Fiscal 2010 related to the Powell Canada acquisition. The Company's strategic decision to exit the 50% owned joint venture in Kazakhstan and delays in the anticipated growth in capital investments in the Oil Sands Region of western Canada, relative to our expectations, resulted in the impairment charge.

Interest Income and Expense

Interest expense was $0.4 million in Fiscal 2011, a decrease of approximately $0.5 million compared to Fiscal 2010. The decrease in interest expense was primarily due to lower amounts outstanding under our credit facilities during Fiscal 2011.

Interest income was $0.2 million in Fiscal 2011 compared to $0.3 million in Fiscal 2010.

Income Tax Provision

Our provision for income taxes reflects an effective tax rate on earnings before income taxes of 167.9% in Fiscal 2011 compared to 44.1% in Fiscal 2010. The effective tax rate for Fiscal 2011 has been negatively impacted by our inability to record the tax benefit of $4.5 million related to pre-tax losses in Canada, offset by the favorable impact on our effective tax rate for the domestic production activities deduction and the research and development credit in the United States.

Net Income (Loss) Attributable to Powell Industries, Inc.

In Fiscal 2011, we recorded a net loss of $2.7 million, or a loss of $0.23 per diluted share, compared to net income of $25.0 million, or earnings of $2.14 per diluted share, in Fiscal 2010. The impairment of intangible assets for Powell Canada of $7.2 million, and our inability to record the tax benefits of $4.5 million related to the pre-tax losses in Canada contributed to our net loss in Fiscal 2011. Fiscal 2011 was also negatively impacted by execution-related challenges on certain large projects at Powell Canada. The overall decrease in net income in Fiscal 2011 compared to Fiscal 2010 results from competitive pressure on gross margins compared to Fiscal 2010 which benefitted from the favorable execution of large projects, as well as cancellation fees and the successful negotiation of change orders on projects which were substantially completed in prior periods. Net income for Fiscal 2010 was negatively impacted by the impairment of goodwill of approximately $7.5 million and our inability to record the tax benefit of $3.7 million related to the pre-tax losses in Canada.

Backlog

The order backlog at September 30, 2011, was $443.0 million, compared to $282.3 million at September 30, 2010. New orders placed during Fiscal 2011 totaled $725.2 million compared to $466.8 million in Fiscal 2010. Backlog has increased primarily due to an increase in activity in petrochemical and offshore oil and gas construction projects. Some of our recent orders received are for large petrochemical and offshore oil and gas construction projects which will take several months to produce, and most were awarded in competitive bid situations.

Fiscal 2010 Compared to Twelve Months Ended September 30, 2009 (Fiscal 2009)

Revenue and Gross Profit

Consolidated revenues decreased $115.2 million to $550.7 million in Fiscal 2010 compared to $665.9 million in Fiscal 2009. Revenues decreased as a result of the decrease in demand for our products and services. Domestic revenues decreased by 23.8% to $393.3 million in Fiscal 2010 compared to $516.0 million in Fiscal 2009. International revenues increased from $149.9 million in Fiscal 2009 to $157.6 million in Fiscal 2010. The acquisition of Powell Canada contributed $51.1 million of our international revenues during Fiscal 2010. Gross profit in Fiscal 2010 decreased by $3.0 million compared to Fiscal 2009, primarily as a result of lower revenues.

Consolidated gross profit, as a percentage of revenues, was 25.8% in Fiscal 2010 compared to 21.8% in Fiscal 2009. This increase in gross profit as a percentage of revenues resulted from strong market demand when the projects were negotiated, reduced costs on project completion from operational efficiencies, a reduced work force, reduced warranty costs, cancellation fees for orders that were cancelled from our backlog and the successful negotiation of change orders and the favorable negotiation of a customer claim for which the costs were previously recognized.

Electrical Power Products

Our Electrical Power Products business segment recorded revenues of $517.1 million in Fiscal 2010, compared to $630.0 million in Fiscal 2009. In Fiscal 2010, revenues from public and private utilities were $148.6 million compared to $154.3 million in Fiscal 2009. The acquisition of Powell Canada contributed $51.1 million of revenue during Fiscal 2010. Revenues from commercial and industrial customers totaled $330.8 million in Fiscal 2010, a decrease of $93.9 million compared to Fiscal 2009. Municipal and transit projects generated revenues of $37.6 million in Fiscal 2010 compared to $51.1 million in Fiscal 2009.

Business segment gross profit, as a percentage of revenues, was 25.1% in Fiscal 2010 compared to 20.6% in Fiscal 2009. This increase in gross profit as a percentage of revenues resulted from strong market demand when the projects were negotiated, reduced costs on project completion from operational efficiencies, a reduced workforce, reduced warranty costs, cancellation fees, as defined in the contract, for orders that were cancelled from our backlog and the successful negotiation of change orders and the favorable negotiation of a customer claim for which the costs were previously recognized.

Process Control Systems

In Fiscal 2010, our Process Control Systems business segment recorded revenues of $33.6 million, a decrease from $35.9 million in Fiscal 2009. Business segment gross profit, as a percentage of revenues, decreased to 36.5% for Fiscal 2010, compared to 43.5% for Fiscal 2009. This decrease in revenues and gross profit as a percentage of revenues is related to the mix of jobs currently in the backlog and revenues of $3.5 million and gross profit of $2.8 million in the third quarter of Fiscal 2009, resulting from a mediated settlement related to a previously completed contract that was in dispute for several years.

For additional information related to our business segments, see Note N of Notes to Consolidated Financial Statements.

Consolidated Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses increased to 15.3% of revenues in Fiscal 2010 compared to 12.0% of revenues in Fiscal 2009. Selling, general and administrative expenses increased to $84.5 million in Fiscal 2010 compared to $80.0 million in Fiscal 2009. This increase was primarily related to the acquisition of Powell Canada and includes acquisition-related costs of $2.4 million. Selling, general and administration expenses increased as a percentage of revenues as a result of our decline in revenues, along with the fact that portions of our sales and administrative support infrastructure is necessary to support our customers, invest in information systems, continue research and development and pursue project opportunities.

Amortization of Intangible Assets

Amortization of intangible assets increased to $4.5 million in Fiscal 2010, compared to $3.5 million in Fiscal 2009. This increase was from the amortization of the intangible assets recorded as a result of the acquisition of Powell Canada.

Impairments

An impairment of goodwill of $7.5 million was recorded in Fiscal 2010 related to the Powell Canada acquisition. The Company’s strategic decision to exit the 50% owned joint venture in Kazakhstan and delays in the anticipated growth in capital investments in the Oil Sands Region of western Canada, relative to our expectations, resulted in the impairment charge.

Interest Income and Expense

Interest expense was $0.9 million in Fiscal 2010, a decrease of $0.2 million compared to Fiscal 2009. The decrease in interest expense was primarily due to lower amounts outstanding under our credit facilities in the U.S. and U.K. during Fiscal 2010.

Interest income was $0.3 million in Fiscal 2010 compared to $0.1 million in Fiscal 2009. This increase resulted from larger cash amounts being invested during Fiscal 2010.

Income Tax Provision

Our provision for income taxes reflects an effective tax rate on earnings before income taxes of 44.1% in Fiscal 2010 compared to 34.2% in Fiscal 2009. The increase in the effective tax rate was primarily related to the valuation allowance recorded related to foreign deferred tax assets.

Net Income Attributable to Powell Industries, Inc.

In Fiscal 2010, we recorded net income of $25.0 million, or $2.14 per diluted share, compared to $39.7 million, or $3.43 per diluted share, in Fiscal 2009. We generated improved gross profits as a percentage of revenues for the Company as a whole as a result of favorable margins on project completion due to operational efficiencies and cancellation fees for orders that were cancelled from our backlog, along with the successful negotiation of change orders and the favorable negotiation of a customer claim in Fiscal 2010 for which costs were previously recognized. Net income for Fiscal 2010 was negatively impacted by the impairment of goodwill of $7.5 million and the valuation allowance recorded on foreign deferred tax assets of $3.7 million. As previously discussed, net income in Fiscal 2009 included the benefit of the $3.5 million mediated settlement, reduced by legal and other expenses of approximately $0.7 million, net of tax, related to a previously completed contract that was in dispute for several years.

Backlog

The order backlog at September 30, 2010, was $282.3 million, compared to $365.8 million at September 30, 2009. New orders placed during Fiscal 2010 totaled $466.8 million compared to $511.2 million in Fiscal 2009. Backlog decreased during the second half of Fiscal 2009 and into Fiscal 2010 due to the ongoing economic downturn which has led our customers to reduce and delay spending on new capital projects. This decline in backlog throughout Fiscal 2010 negatively impacted our revenues in Fiscal 2010 and continued to negatively impact our revenues into Fiscal 2011.

Liquidity and Capital Resources

Cash and cash equivalents increased to $123.5 million at September 30, 2011, as a result of cash flow provided by operations of approximately $15.5 million for Fiscal 2011. As of September 30, 2011, current assets exceeded current liabilities by 2.4 times and our debt to total capitalization ratio was 1.9%.

At September 30, 2011, we had cash and cash equivalents of $123.5 million, compared to $115.4 million at September 30, 2010. We have a $75.0 million revolving credit facility in the U.S., which expires in December 2016. As of September 30, 2011, there were no amounts borrowed under this line of credit. We also have a $19.4 million revolving credit facility in Canada. At September 30, 2011, there was no balance outstanding under the Canadian revolving credit facility. Total long-term debt and capital lease obligations, including current maturities, totaled $5.4 million at September 30, 2011, compared to $6.9 million at September 30, 2010. Letters of credit outstanding were $13.2 million and $15.2 million at September 30, 2011 and 2010, respectively, which reduce our availability under our U.S. credit facility. Amounts available under the U.S. revolving credit facility were $61.8 million at September 30, 2011. Amounts available under the Canadian revolving credit facility were $16.5 million at September 30, 2011. For further information regarding our debt, see Notes H and L of Notes to Consolidated Financial Statements.

Approximately $8.0 million of our cash at September 30, 2011, was held internationally for international operations. It is our intention to indefinitely reinvest all current and future foreign earnings at these locations in order to ensure sufficient working capital and support and expand international operations. We believe that cash and cash equivalents, projected cash flows from operations 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. In the event that management elects to repatriate some or all of the foreign earnings that were previously deemed to be indefinitely reinvested outside the U.S., we would incur additional tax expense upon such repatriation.

Operating Activities

During Fiscal 2011 and Fiscal 2010, cash provided by operating activities was $15.5 million and $64.1 million, respectively. 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. The decrease in Fiscal 2011 cash flow from operations resulted primarily from the net loss and increase in accounts receivable. During Fiscal 2010, cash provided by operating activities was $64.1 million and resulted primarily from net income and decreases in accounts receivable, offset by decreases in accounts payable and income taxes payable. During Fiscal 2009, cash provided by operating activities was $127.0 million and resulted primarily from net income and our increased efforts to manage inventory and billings to customers.

Investing Activities

Investments in property, plant and equipment during Fiscal 2011 totaled $7.3 million compared to $4.4 million and $8.1 million in Fiscal 2010 and 2009, respectively. During Fiscal 2011, we received cash of $1.2 million from the sale of our 50% equity investment in Kazakhstan and established a restricted cash account of $1.0 million for the purchase of land near Houston, Texas, which subsequently occurred in October 2011. During Fiscal 2011, our capital expenditures primarily related to the implementation of ERP systems and construction of a warehouse at one of our U.S. facilities. During Fiscal 2010, we paid cash of $23.4 million, excluding debt assumed and acquisition-related expenses, to acquire Powell Canada. Additionally, $0.6 million was paid to acquire the noncontrolling interest related to our joint venture in Singapore (Powell Asia), which has been strategically realigned from an operating entity to a sales and marketing function within Powell. Our capital expenditures in Fiscal 2009 related primarily to the expansion of one of our operating facilities and for upgrades to our ERP systems.

There were no material proceeds from the sale of fixed assets in Fiscal 2011, 2010 or 2009.

Financing Activities

Net cash used in financing activities was $0.8 million during Fiscal 2011. Net cash used in financing activities was $19.4 million in Fiscal 2010, as we paid down our Canadian revolving line of credit and term loan from the cash flow provided by our operating activities. Net cash used in financing activities was $30.4 million in Fiscal 2009 because we paid down our U.S. and U.K. revolving lines of credit and the term loan from the cash flow provided by our operating activities.

Contractual and Other Obligations

At September 30, 2011, 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, 2011, Payments Due by Period:	Long-Term Debt Obligations	Capital Lease Obligations	Operating Lease Obligations	Total
Less than 1 year	$ 420	$ 783	$ 3,506	$ 4,709
1 to 3 years	835	284	3,567	4,686
3 to 5 years	826	26	206	1,058
More than 5 years	2,431	—	1	2,432
Total long-term contractual obligations	$ 4,512	$ 1,093	$ 7,280	$12,885

As of September 30, 2011, the total unrecognized tax benefit related to uncertain tax positions was $0.8 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 unrecognized tax benefits will remain unchanged despite the expiration of certain statutes of limitations. 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 $22.5 million as of September 30, 2011, of which $13.2 million reduces our borrowing capacity.

The following table reflects potential cash outflows that may result from a contingent event related to our letters of credit (in thousands):

As of September 30, 2011, Payments Due by Period:	Letters of Credit
Less than 1 year	$20,656
1 to 3 years	1,539
3 to 5 years	300
More than 5 years	—
Total long-term commercial obligations	$22,495

We also had performance and maintenance bonds totaling $195.1 million that were outstanding at September 30, 2011. Performance and maintenance bonds are used to guarantee contract performance to our customers.

Outlook

The markets in which Powell participates are capital-intensive and cyclical in nature. Cyclicality is driven by customer demand, global economic markets and potential environmental or regulatory impacts which affect the manner in which our customers proceed with capital projects. Our customers analyze various factors including the short-term demand for oil and electrical energy, the overall banking environment, federal and state budgets, the outlook for offshore drilling and related regulatory actions and the drive towards environmental controls over the type and way energy is produced and utilized. These factors over the last two fiscal years have contributed to decisions by customers to delay or to change where they place new capital projects, which decreased our backlog of orders to $282.3 million entering Fiscal 2011, down $83.5 million from the beginning of Fiscal 2010. However, during the past twelve months, orders received were $725.2 million compared to $466.8 million during the same twelve-month period of Fiscal 2010 and our backlog has increased to $443.0 million at September 30, 2011. Some of our recent orders received are for large petrochemical and offshore oil and gas construction projects which will take several months to produce, most of which were awarded in competitive bid situations. This increased competition, along with higher commodity prices, has continued to place downward pressure on gross profit as we work to fulfill these orders in fiscal 2012 and 2013.

Growth in demand for energy is expected to continue over the long term. New infrastructure investments will be needed to ensure the available supply of petroleum products. New power generation and distribution infrastructure will also be needed to meet the growing demand for electrical energy. New power generation plants will also be needed to replace the aging facilities across the U.S., as those plants reach the end of their life cycle. A heightened concern for environmental damage, together with the uncertainty of gasoline prices, has expanded the popularity of urban transit systems, which should drive demand for investment in transit infrastructure, contingent upon available financing. Opportunities for future projects continue, however, the timing and pricing of many of these projects is difficult to predict. The demand for our products and services should continue to increase as investment in large capital-intensive infrastructure projects begin to receive funding and support. The increase in our backlog to $443.0 million at September 30, 2011 resulted from several large projects awarded related to petrochemical and offshore oil and gas construction projects which will help solidify our backlog going into fiscal 2012.

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

Effects of Inflation

We have experienced price volatility related to raw materials, primarily copper, aluminum and steel, during the past three years. Fixed-price contracts can limit our ability to pass cost increases to our customers, thus negatively impacting our earnings. We anticipate that the volatility in commodity prices could impact our operations in Fiscal 2012.

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 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.

Under the percentage-of-completion method of accounting, revenues are recognized as work is performed primarily based on the estimated completion to date calculated by multiplying the total contract price by percentage of performance to date, based on total costs or total labor dollars incurred to date 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, 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 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 in 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.

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 collectibility 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 lives of intangible assets with determinable lives may be adjusted.

See Note E of the Notes to Consolidated Financial Statements for a discussion of our impairment recorded related to the acquisition of Powell Canada.

Accruals for Contingent Liabilities

From time to time, contingencies such as insurance 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 evaluating 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 at the time of sale 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. 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. We believe that the net deferred tax asset recorded as of September 30, 2011, is realizable through future reversals of existing taxable temporary differences and future taxable income. If we were to subsequently determine that we would be able to realize deferred tax assets in the future in excess of our net recorded amount, an adjustment to deferred tax assets would increase earnings for the period in which such determination was made. 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 I of the Notes to Consolidated Financial Statements for disclosures related to the valuation allowance recorded related to foreign deferred tax assets.

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.

Derivative Financial Instruments

As part of managing our exposure to changes in foreign currency exchange rates, we periodically utilize foreign exchange forward contracts. The objective of these contracts is to minimize impacts to cash flows and profitability due to changes in foreign currency exchange rates on accounts receivable, accounts payable and forecasted cash transactions. These contracts are recorded in the consolidated balance sheets at fair value, which is based upon an income approach consisting of a discounted cash flow model that takes into account the present value of the future cash flows under the terms of the contracts using current market information, such as foreign currency spot and forward rates, as of the reporting date.

We formally document our hedging relationships, including identifying the hedging instruments and the hedged items, as well as our risk management objectives and strategies for undertaking the hedge transactions. We also formally assess, both at inception and at least quarterly thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged item. The effective portion of the change in fair value of a derivative is recorded as a component of accumulated other comprehensive income in the consolidated balance sheets. When the hedged item affects the consolidated statement of operations, the gain or loss included in accumulated other comprehensive income is reported on the same line in the consolidated statements of operations as the hedged item. In addition, any ineffective portion of the changes in the fair value of derivatives used as cash flow hedges is reported in the consolidated statements of operations as the changes occur. If it is determined that a derivative ceases to be a highly effective hedge, or it is probable that the forecasted transaction will not occur, we discontinue hedge accounting and any unrealized gains or losses are recorded in the consolidated statement of operations.

On January 1, 2009, we adopted accounting guidance that amended and expanded the disclosure requirements related to derivative instruments and hedging activities. This guidance enhances the disclosure requirements for derivative instruments and hedging activities. The guidance is focused on requiring enhanced disclosure on: 1) how and why an entity uses derivative instruments and hedging activities; 2) how derivative instruments and related hedging activities are accounted for and 3) how derivative instruments and related hedging activities affect an entity's cash flows, financial position and performance.

To accomplish the three objectives listed above, we are required to provide: 1) qualitative disclosures regarding the objectives and strategies for using derivative instruments and engaging in hedging activities in the context of our overall risk exposure; 2) quantitative disclosure in tabular format of the fair values of derivative instruments and their gains and losses and 3) disclosures about credit-risk related contingent features in derivative instruments.

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 April 2009, the FASB issued accounting guidance regarding the accounting for assets acquired and liabilities assumed in a business combination due to contingencies. This guidance clarifies the initial and subsequent recognition, subsequent accounting and disclosure of assets and liabilities arising from contingencies in a business combination. This guidance requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value, if the acquisition-date fair value can be reasonably estimated. If the acquisition-date fair value of an asset or liability cannot be reasonably estimated, the asset or liability would be measured at the amount that would be recognized using the accounting guidance related to accounting for contingencies or the guidance for reasonably estimating losses. This accounting guidance became effective for us on October 1, 2010. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued updated guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. This update requires new disclosures about significant transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy (including the reasons for these transfers) and the reasons for any transfers in or out of Level 3. This update also requires a reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, this update clarifies certain existing disclosure requirements. For example, this update clarifies that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities, rather than each major category of assets or liabilities. This update also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. This update became effective for us with the interim and annual reporting period beginning after December 15, 2009, our fiscal year 2011, except for the requirement to provide the Level 3 activity of purchases, sales, issuances and settlements on a gross basis, which will become effective for us with the interim and annual reporting period beginning after December 15, 2010, our fiscal year 2012. We will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. Other than requiring additional disclosures, adoption of this update has not had a material impact on our consolidated financial statements.

In May 2011, the FASB issued accounting guidance related to fair value measurement, which amends current guidance to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards. This guidance generally represents clarification of fair value measurement standards, but also includes instances where a particular principle or requirement for measuring fair value of disclosing information about fair value measurements has changed. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We will adopt this guidance for our fiscal year beginning October 1, 2012. We do not expect this pronouncement to have a material effect on our consolidated financial statements.

In June 2011, the FASB issued new accounting guidance on the presentation of comprehensive income in financial statements. Entities are required to present total comprehensive income either in a single, continuous statement of comprehensive income or in two separate, but consecutive, statements. Under the single-statement approach, entities must include the components of net income, a total for net income, the components of other comprehensive income and a total for comprehensive income. Under the two-statement approach, entities must report an income statement and, immediately following, a statement of other comprehensive income. Under either method, entities must display adjustments for items reclassified from other comprehensive income to net income in both net income and other comprehensive income. The provisions for this guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. We will adopt this guidance for our fiscal year beginning October 1, 2012.

In September 2011, the FASB issued new accounting guidance which simplifies how an entity is required to test goodwill for impairment. Under this guidance, an entity would be allowed to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This new guidance includes a number of factors to consider in conducting the qualitative assessment. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, our Fiscal 2013. Early adoption is permitted. This guidance is not expected to have a material impact on our reported results of operations or financial position.

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.

Interest Rate Risk

If we determine 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 would 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, we have in the past 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.

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, 2011.

During Fiscal 2010 and Fiscal 2011, we entered into nine foreign currency forward contracts to manage the volatility of future cash flows on certain long-term contracts that are denominated in the British Pound Sterling. The contracts were designated as cash flow hedges for accounting purposes. The changes in fair value related to the effective portion of the hedges are recognized as a component of accumulated other comprehensive income on our consolidated balance sheets. At September 30, 2011, all foreign currency forward contracts have been settled, with no balances recorded on our consolidated balance sheets related to these transactions.

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 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.

Market Risk

We are also exposed to general market and other 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 producers, oil and gas pipelines, refineries, petrochemical plants, electrical power generators, public and private utilities, co-generation facilities, mining/metals operations, pulp and paper plants, transportation authorities, governmental agencies 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.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Powell Industries, Inc. and its subsidiaries at September 30, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2011 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of September 30, 2011, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because material weaknesses in internal control over financial reporting related to the financial close and reporting process, the revenue recognition process for long-term construction projects, the cost accumulation process, and the revenue and accounts receivable process for service contracts, existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses referred to above are described in Management's Report on Internal Control Over Financial Reporting under Item 9A. We considered these material weaknesses in determining the nature, timing, and extent of audit tests applied in our audit of the fiscal year 2011 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. 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 referred to above. 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 12, 2011

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	September 30, 2011	September 30, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$123,466	$115,353
Cash held in escrow	1,000	—
Accounts receivable, less allowance for doubtful accounts of $391 and $907, respectively	109,317	91,766
Costs and estimated earnings in excess of billings on uncompleted contracts	51,568	38,064
Inventories, net	36,640	38,244
Income taxes receivable	4,071	6,726
Deferred income taxes	3,580	3,087
Prepaid expenses and other current assets	7,040	8,951
Total Current Assets	336,682	302,191
Property, plant and equipment, net	59,637	63,676
Goodwill	1,003	1,003
Intangible assets, net	15,847	26,132
Other assets	8,507	7,710
Total Assets	$421,676	$400,712
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital lease obligations	$ 1,140	$ 1,683
Income taxes payable	881	1,500
Accounts payable	56,893	41,850
Accrued salaries, bonuses and commissions	22,314	25,064
Billings in excess of costs and estimated earnings on uncompleted contracts	44,523	31,009
Accrued product warranty	4,603	5,929
Other accrued expenses	7,370	7,711
Total Current Liabilities	137,724	114,746
Long-term debt and capital lease obligations, net of current maturities	4,301	5,202
Deferred compensation	3,242	2,730
Postretirement benefit obligation	900	532
Other liabilities	166	199
Total Liabilities	146,333	123,409
Commitments and Contingencies (Note L)		
Equity:		
Stockholders' Equity:		
Preferred stock, par value $.01; 5,000,000 shares authorized; none issued	—	—
Common stock, par value $.01; 30,000,000 shares authorized; 11,752,393 and 11,676,955 shares issued and outstanding, respectively	117	117
Additional paid-in capital	34,343	33,569
Retained earnings	242,254	244,969
Accumulated other comprehensive income (loss)	(1,371)	(1,352)
Total Stockholders' Equity	275,343	277,303
Total Liabilities and Equity	$421,676	$400,712

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,		
	2011	2010	2009
Revenues	$562,397	$550,692	$665,851
Cost of goods sold	462,467	408,635	520,802
Gross profit	99,930	142,057	145,049
Selling, general and administrative expenses	85,058	84,457	79,954
Amortization of intangible assets	4,752	4,477	3,460
Impairments	7,158	7,452	—
Operating income	2,962	45,671	61,635
Gain on sale of investment	(1,229)	—	—
Interest expense	408	870	1,107
Interest income	(214)	(260)	(131)
Income before income taxes	3,997	45,061	60,659
Income tax provision	6,712	19,894	20,734
Net income (loss)	(2,715)	25,167	39,925
Net (income) loss attributable to noncontrolling interest	—	(159)	(208)
Net income (loss) attributable to Powell Industries, Inc.	$ (2,715)	$ 25,008	$ 39,717
Earnings (loss) per share attributable to Powell Industries, Inc.:			
Basic	$ (0.23)	$ 2.17	$ 3.48
Diluted	$ (0.23)	$ 2.14	$ 3.43
Weighted average shares:			
Basic	11,735	11,545	11,424
Diluted	11,735	11,693	11,591

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

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Other Comprehensive Income (Loss)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance, September 30, 2008		11,404	$ 114	$ 26,181	$ 180,244	$ 335	$206,874
Net income	$ 39,717	—	—	—	39,717	—	39,717
Foreign currency translation adjustments	(2,867)	—	—	—	—	(2,867)	(2,867)
Amortization of deferred compensation-ESOP	—	—	—	158	—	—	158
Exercise of stock options	—	31	1	513	—	—	514
Stock-based compensation	—	29	—	1,623	—	—	1,623
Income tax benefit from stock options exercised	—	—	—	291	—	—	291
Amortization of restricted stock	—	—	—	476	—	—	476
Issuance of restricted stock	—	16	—	159	—	—	159
Unrealized loss on cash flow hedges, net of tax of $164	(304)	—	—	—	—	(304)	(304)
Postretirement benefit adjustment, net of tax of $67	120	—	—	—	—	120	120
Total comprehensive income	36,666	—	—	—	39,717	(3,051)	36,666
Balance, September 30, 2009		11,480	115	29,401	219,961	(2,716)	246,761
Net income	25,008	—	—	—	25,008	—	25,008
Foreign currency translation adjustments	1,467	—	—	—	—	1,467	1,467
Exercise of stock options	—	109	1	1,699	—	—	1,700
Stock-based compensation	—	58	1	791	—	—	792
Income tax benefit from stock options exercised	—	—	—	878	—	—	878
Amortization of restricted stock	—	—	—	467	—	—	467
Issuance of restricted stock	—	30	—	333	—	—	333
Unrealized loss on cash flow hedges, net of tax of $265	(206)	—	—	—	—	(206)	(206)
Postretirement benefit adjustment, net of tax of $58	103	—	—	—	—	103	103
Total comprehensive income	26,372	—	—	—	25,008	1,364	26,372
Balance, September 30, 2010		11,677	117	33,569	244,969	(1,352)	277,303
Net loss	(2,715)	—	—	—	(2,715)	—	(2,715)
Foreign currency translation adjustments	(19)	—	—	—	—	(19)	(19)
Exercise of stock options	—	27	—	495	—	—	495
Stock-based compensation (see Note M)	—	20	—	(1,223)	—	—	(1,223)
Income tax benefit from stock options exercised	—	—	—	180	—	—	180
Amortization of restricted stock	—	—	—	280	—	—	280
Issuance of restricted stock	—	28	—	1,042	—	—	1,042
Unrealized gain on cash flow hedges, net of tax of $94	111	—	—	—	—	111	111
Postretirement benefit adjustment, net of tax of $60	(111)	—	—	—	—	(111)	(111)
Total comprehensive income (loss)	$ (2,734)	—	—	—	(2,715)	(19)	(2,734)
Balance, September 30, 2011		11,752	$ 117	$ 34,343	$ 242,254	$ (1,371)	$275,343

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

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended September 30, 2011	2010	2009
Operating Activities:			
Net income (loss)	$ (2,715)	$ 25,167	$ 39,925
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	10,598	9,154	7,493
Amortization	4,848	4,549	3,469
Impairments	7,158	7,452	—
Stock-based compensation	99	1,929	2,256
Bad debt expense	(114)	410	959
Deferred income taxes	(425)	(348)	(1,447)
Gain on sale of investment	(1,229)	—	—
Changes in operating assets and liabilities:			
Accounts receivable, net	(17,616)	39,687	15,392
Costs and estimated earnings in excess of billings on uncompleted contracts	(13,519)	8,243	35,701
Inventories	1,542	12,320	25,884
Prepaid expenses and other current assets	4,514	(5,813)	(3,432)
Other assets	(2,627)	440	(194)
Accounts payable and income taxes payable	14,487	(20,281)	(4,891)
Accrued liabilities	(4,255)	(5,392)	(40)
Billings in excess of costs and estimated earnings on uncompleted contracts	13,553	(13,762)	5,789
Other	1,188	378	120
Net cash provided by operating activities	15,487	64,133	126,984
Investing Activities:			
Proceeds from sale of fixed assets	354	14	30
Purchases of property, plant and equipment	(7,347)	(4,420)	(8,081)
Proceeds from sale of investment	1,229	—	—
Increase in cash held in escrow	(1,000)	—	—
Purchase of noncontrolling interest — Powell Asia	—	(659)	—
Acquisition of Powell Canada	—	(23,394)	—
Net cash used in investing activities	(6,764)	(28,459)	(8,051)
Financing Activities:			
Borrowings on US revolving line of credit	—	—	50,953
Payments on US revolving line of credit	—	—	(69,953)
Payments on UK revolving line of credit	—	—	(2,388)
Payments on UK term loan	—	—	(4,223)
Borrowings on Canadian revolving line of credit	7,810	891	—
Payments on Canadian revolving line of credit	(7,818)	(13,984)	—
Payments on Canadian term loan	—	(2,429)	—
Payments on industrial development revenue bonds	(400)	(400)	(400)
Payments on deferred acquisition payable	—	(4,292)	(5,220)
Payments on short-term and other financing	(1,068)	(1,087)	(13)
Proceeds from exercise of stock options	495	1,700	515
Tax benefit from exercise of stock options	180	209	291
Net cash used in financing activities	(801)	(19,392)	(30,438)
Net increase in cash and cash equivalents	7,922	16,282	88,495
Effect of exchange rate changes on cash and cash equivalents	191	1,668	(1,226)
Cash and cash equivalents at beginning of year	115,353	97,403	10,134
Cash and cash equivalents at end of year	$123,466	$115,353	$ 97,403

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

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO 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.; Transdyn, Inc.; Powell Industries International, Inc.; Switchgear & Instrumentation Limited (S&I) and Powell Canada Inc.

We develop, design, manufacture and service custom engineered-to-order equipment and systems for the management and control of electrical energy and other critical processes. Headquartered in Houston, Texas, we serve the transportation, environmental, energy, industrial and utility industries.

In December 2009, we acquired the business and certain assets of PowerComm Inc. and its subsidiaries, Redhill Systems Ltd., Nextron Corporation, PCG Technical Services Inc. and Concorde Metal Manufacturing Ltd (the entire business of which is referred to herein as Powell Canada) for $23.4 million, excluding debt assumed of $15.1 million and acquisition-related expenses. Powell Canada is headquartered in Edmonton, Alberta, Canada, and provides electrical, maintenance and services. Powell Canada is also a manufacturer of switchgear and related products, primarily serving the oil and gas industry in western Canada. The operating results of Powell Canada are included in our Electrical Power Products business segment from the acquisition date. For further information on the Powell Canada acquisition, see Note D.

B. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Powell and our wholly-owned subsidiaries. The financial position and results of operation of our Singapore joint venture, in which we held a majority ownership, have also been consolidated. As a result of this consolidation, we record noncontrolling interest on our balance sheet for our joint venture partner's share of equity in the joint venture. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

Certain reclassifications have been made in prior years' financial statements to conform to the presentation used in the current year. These reclassifications have not resulted in any changes to previously reported net income 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, income taxes and estimates related to acquisition valuations. The amounts recorded for insurance claims, warranties, legal, income taxes and other contingent liabilities require judgments regarding the amount of expenses that will ultimately be incurred. We base our estimates on historical experience and on various other assumptions, as well as the specific circumstances surrounding these contingent liabilities, in evaluating the amount of liability that should be recorded. Estimates may change as new events occur, additional information becomes available or operating environments change. Actual results may differ from our estimates.

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.

Restricted Cash

Cash of $1.0 million was held in escrow at September 30, 2011. This restricted cash was related to a purchase of land which subsequently closed in October 2011 for $6.5 million.

Supplemental Disclosures of Cash Flow Information (in thousands):

	Year Ended September 30,		
	2011	2010	2009
Cash paid during the period for:			
Interest	$ 102	$ 563	$ 439
Income taxes, net of refunds	3,889	31,993	21,527

Fair Value of Financial Instruments

Financial instruments include cash, short-term investments, marketable securities, receivables, payables and debt obligations. Except as described below, due to the short-term nature of the investments, 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 collectibility 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, 2011 and 2010, accounts receivable included retention amounts of $6.1 million and $9.0 million, respectively. Retention amounts are in accordance with applicable provisions of engineering and construction contracts and become due upon completion of contractual requirements. Approximately $1.9 million of the retained amount at September 30, 2011, is expected to be collected subsequent to September 30, 2012.

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 change order approval is probable. Amounts are carried at the lower of cost or net realizable value. No profit is recognized on costs incurred until change order approval is obtained. 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 first-in, first-out (FIFO) or 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 Which Are Amortized

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.

Goodwill and Indefinite Lived Assets

Goodwill and other intangible assets with indefinite useful lives 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.

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. We believe that the deferred tax asset recorded as of September 30, 2011, is realizable through future reversals of existing taxable temporary differences and future taxable income. If we were to subsequently determine that we would be able to realize deferred tax assets in the future in excess of our net recorded amount, an adjustment to deferred tax assets would increase earnings for the period in which such determination was made. 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.

Under the percentage-of-completion method of accounting, revenues are recognized as work is performed primarily based on the estimated completion to date calculated by multiplying the total contract price by percentage of performance to date, based on total costs or total labor dollars incurred to date 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 determined to be a more accurate method of measuring the progress of the projects. 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, 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 in 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 at the time of sale 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 initial operations.

Research and Development Expense

Research and development costs are charged to expense as incurred. These costs are included as a component of selling, general and administrative expenses on the Consolidated Statements of Operations. Such amounts were $7.5 million, $6.5 million and $6.0 million in fiscal years 2011, 2010 and 2009, 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 stock option or restricted stock award and recognize it as expense over the applicable vesting period of the stock award using the straight-line method. 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.

We use the Black-Scholes option pricing model, with expanded guidance for the development of our assumption used as inputs, to estimate the fair value of our stock options. Expected volatility is determined using volatilities based on historical stock prices for a period equal to the expected term. The expected volatility assumption is adjusted if future volatility is expected to vary from historical experience. The expected term of options represents the period of time that options granted are expected to be outstanding and falls between the options' vesting and contractual expiration dates. The risk-free interest rate is based on the yield at the date of grant of a zero-coupon U.S. Treasury bond whose maturity period equals the option's expected term. There have been no stock options granted since July 2005.

Derivative Financial Instruments

As part of managing our exposure to changes in foreign currency exchange rates, we periodically utilize foreign exchange forward contracts. The objective of these contracts is to minimize impacts to cash flows and profitability due to changes in foreign currency exchange rates on accounts receivable, accounts payable and forecasted cash transactions. These contracts are recorded in the Consolidated Balance Sheets at fair value, which is based upon an income approach consisting of a discounted cash flow model that takes into account the present value of the future cash flows under the terms of the contracts using current market information as of the reporting date, such as foreign currency spot and forward rates.

We formally document our hedging relationships, including identifying the hedging instruments and the hedged items, as well as our risk management objectives and strategies for undertaking the hedge transaction. We also formally assess, both at inception and at least quarterly thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged item. The effective portion of the change in fair value of a derivative is recorded as a component of accumulated other comprehensive income in the Consolidated Balance Sheets. When the hedged item affects the income statement, the gain or loss included in accumulated other comprehensive income is reported on the same line in the Consolidated Statements of Operations as the hedged item. In addition, any ineffective portion of the changes in the fair value of derivatives used as cash flow hedges is reported in the Consolidated Statements of Operations as the changes occur. If it is determined that a derivative ceases to be a highly effective hedge, or it is probable that the forecasted transaction will not occur, we discontinue hedge accounting and any unrealized gains or losses are recorded in the consolidated financial statements.

On January 1, 2009, we adopted accounting guidance that amended and expanded the disclosure requirements related to derivative instruments and hedging activities. This guidance enhances the disclosure requirements for derivative instruments and hedging activities. The guidance is focused on requiring enhanced disclosure on: 1) how and why an entity uses derivative instruments and hedging activities; 2) how derivative instruments and related hedging activities are accounted for and 3) how derivative instruments and related hedging activities affect an entity's cash flows, financial position and performance.

To accomplish the three objectives listed above, we are required to provide: 1) qualitative disclosures regarding the objectives and strategies for using derivative instruments and engaging in hedging activities in the context of our overall risk exposure; 2) quantitative disclosure in tabular format of the fair values of derivative instruments and their gains and losses and 3) disclosures about credit-risk related contingent features in derivative instruments.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss), which is included as a component of stockholders' equity net of tax, includes unrealized gains or losses on derivative instruments, postretirement benefit adjustments and currency translation adjustments in foreign consolidated subsidiaries.

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 April 2009, the FASB issued accounting guidance regarding the accounting for assets acquired and liabilities assumed in a business combination due to contingencies. This guidance clarifies the initial and subsequent recognition, subsequent accounting and disclosure of assets and liabilities arising from contingencies in a business combination. This guidance requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value, if the acquisition-date fair value can be reasonably estimated. If the acquisition-date fair value of an asset or liability cannot be reasonably estimated, the asset or liability would be measured at the amount that would be recognized using the accounting guidance related to accounting for contingencies or the guidance for reasonably estimating losses. This accounting guidance became effective for us on October 1, 2010. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued updated guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. This update requires new disclosures about significant transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy (including the reasons for these transfers) and the reasons for any transfers in or out of Level 3. This update also requires a reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, this update clarifies certain existing disclosure requirements. For example, this update clarifies that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities, rather than each major category of assets or liabilities. This update also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. This update became effective for us with the interim and annual reporting period beginning after December 15, 2009, our fiscal year 2011, except for the requirement to provide the Level 3 activity of purchases, sales, issuances and settlements on a gross basis, which will become effective for us with the interim and annual reporting period beginning after December 15, 2010, our fiscal year 2012. We will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. Other than requiring additional disclosures, adoption of this update has not had a material impact on our consolidated financial statements.

In May 2011, the FASB issued accounting guidance related to fair value measurement, which amends current guidance to achieve common fair value measurement and disclosure requirements in U.S. GAAP and

International Financial Reporting Standards. This guidance generally represents clarification of fair value measurement standards, but also includes instances where a particular principle or requirement for measuring fair value of disclosing information about fair value measurements has changed. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We will adopt this guidance for our fiscal year beginning October 1, 2012. We do not expect this pronouncement to have a material effect on our consolidated financial statements.

In June 2011, the FASB issued new accounting guidance on the presentation of comprehensive income in financial statements. Entities are required to present total comprehensive income either in a single, continuous statement of comprehensive income or in two separate, but consecutive, statements. Under the single-statement approach, entities must include the components of net income, a total for net income, the components of other comprehensive income and a total for comprehensive income. Under the two-statement approach, entities must report an income statement and, immediately following, a statement of other comprehensive income. Under either method, entities must display adjustments for items reclassified from other comprehensive income to net income in both net income and other comprehensive income. The provisions for this guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. We will adopt this guidance for our fiscal year beginning October 1, 2012.

In September 2011, the FASB issued new accounting guidance which simplifies how an entity is required to test goodwill for impairment. Under this guidance, an entity would be allowed to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This new guidance includes a number of factors to consider in conducting the qualitative assessment. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, our Fiscal 2013. Early adoption is permitted. This guidance is not expected to have a material impact on our reported results of operations or financial position.

Subsequent Events

We evaluated subsequent events through the time of filing this Annual Report on Form 10-K. No significant events occurred subsequent to the balance sheet or prior to the filing of this report that would have a material impact on our consolidated financial statements or results of operations.

C. Fair Value Measurements

We measure certain financial assets and liabilities at fair value. Fair value is defined as an “exit price” which represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in valuing an asset or liability. The accounting guidance requires the use of valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. As a basis for considering such assumptions and inputs, a fair value hierarchy has been established which identifies and prioritizes three levels of inputs to be used in measuring fair value.

The three levels of the fair value hierarchy are as follows:

Level 1 — Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 — Inputs other than the quoted prices in active markets that are observable either directly or indirectly, including: quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data.

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

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The following table summarizes the fair value of our assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2011 (in thousands):

	Fair Value Measurements at September 30, 2011			
	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, 2011
Assets				
Cash equivalents	$ 65,792	$ —	$ —	$ 65,792
Total	$ 65,792	$ —	$ —	$ 65,792
Liabilities				
Foreign currency forward contracts	$ —	$ —	$ —	$ —
Total	$ —	$ —	$ —	$ —

The following table summarizes the fair value of our assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2010 (in thousands):

	Fair Value Measurements at September 30, 2010			
	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, 2010
Assets				
Cash equivalents	$ 64,014	$ —	$ —	$ 64,014
Total	$ 64,014	$ —	$ —	$ 64,014
Liabilities				
Foreign currency forward contracts	$ —	$ 47	$ —	$ 47
Total	$ —	$ 47	$ —	$ 47

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.

Foreign currency forward contracts are valued using an income approach which consists of a discounted cash flow model that takes into account the present value of future cash flows under the terms of the contracts using observable market spot and forward rates as of our reporting date, and are included in Level 2 inputs in the above tables. We use these derivative instruments to mitigate non-functional currency transaction exposure on certain contracts with customers and vendors. We mitigate derivative credit risk by transacting with highly rated counterparties. We have evaluated the credit and non-performance risks associated with our derivative counterparties and believe them to be insignificant at September 30, 2011. All contracts are recorded at fair value and marked-to-market at the end of each reporting period, with unrealized gains and losses being included in accumulated other comprehensive income on the Consolidated Balance Sheets for that period. See Note J for further discussion regarding our derivative instruments.

D. Acquisitions

On December 15, 2009, we acquired the business and certain assets of PowerComm Inc. and its subsidiaries, Redhill Systems, Ltd., Nextron Corporation, PCG Technical Services Inc. and Concorde Metal Manufacturing Ltd (the entire business of which is referred to herein as Powell Canada). Powell Canada is headquartered in Edmonton, Alberta, Canada and provides electrical, maintenance and services in western

Canada. Powell Canada is also a manufacturer of switchgear and related products, primarily serving the oil and gas industry in western Canada. This acquisition supports our strategy to expand our geographic presence into Canada, as well as increasing our service and maintenance capabilities.

We paid $23.4 million, plus acquisition-related expenses of $2.4 million, for the acquisition from our existing cash and cash equivalents and assumed $15.1 million of existing bank debt. See the table below for assets acquired and liabilities assumed. In December 2009, $2.4 million of the $23.4 million purchase price was placed into an escrow account related to the purchase of PowerComm's 50% interest in the operations of a joint venture in Kazakhstan. This transaction closed in April 2010 and the escrow was released.

Additionally, the finalization of the net asset adjustment related to the Kazakhstan transaction and the calculation of the management fee agreement related to the operating results of the Kazakhstan joint venture from December 16, 2009, through March 31, 2010, as defined in the acquisition agreement, resulted in a refund to the Company of $472,000, which was received subsequent to September 30, 2010, and was recorded as a receivable at September 30, 2010, in our consolidated balance sheet.

In the fourth quarter of fiscal year 2010, the Company made a strategic decision to exit the 50% owned joint venture in Kazakhstan. We did not record our share of revenue and expense or assets and liabilities as financial information was not available and based on the fact that this information was not material to the consolidated financial results of operations or cash flows of the Company. We received $1.2 million in the second quarter of fiscal 2011 resulting from the sale of our 50% investment in a joint venture in Kazakhstan, which is recorded in gain on sale of investment in our Consolidated Statements of Operations.

The purchase price allocated to the assets acquired and liabilities assumed was based on the estimated fair value as of the acquisition date.

The purchase price allocation was as follows, based on the exchange rate as of December 15, 2009 (in thousands):

Accounts receivable	$ 16,643
Inventories	4,180
Prepaid expenses and other current assets	3,401
Property, plant and equipment	7,863
Goodwill (see discussion below)	7,180
Intangible assets (see discussion below)	9,043
Accounts payable and other current liabilities	(7,649)
Capital lease obligations	(2,667)
Bank debt assumed	(15,072)
Total purchase price	$ 22,922

Goodwill was initially recorded at $7.2 million and was not amortized. Goodwill represented the excess purchase price over the estimated fair value allocated to the net assets acquired. During fiscal 2010, our impairment analysis indicated that the goodwill related to the acquisition of Powell Canada was completely impaired, thus a loss on impairment of $7.5 million was recorded in the fourth quarter of fiscal 2010. See discussion of impairment in Note E.

Intangible assets were initially recorded in the amount of $9.0 million and were being amortized over an initial weighted average life of approximately 8.4 years. During the fourth quarter of fiscal 2011, as a result of the continued operating losses from Powell Canada and the execution-related challenges on certain large projects, which have reduced the projected revenues and cash flows from Powell Canada, all remaining intangible assets recorded related to the acquisition of Powell Canada were deemed to be impaired. An impairment loss of $7.2 million was recorded in the fourth quarter of fiscal 2011. See discussion in Note E.

Operating results of Powell Canada are included in our Electrical Power Products business segment in our Consolidated Statements of Operations from December 15, 2009.

In October 2010, we acquired certain assets related to a technology for real-time optical fiber-based thermal sensors that have application for monitoring of hot spots in electrical power equipment systems. There were no operations associated with this patent-pending technology acquired. This transaction was recorded as an increase in intangible assets of $1.5 million at December 31, 2010, and is being amortized over seven years.

Pro forma results for Powell Canada Acquisition (Unaudited)

The unaudited pro forma data presented below reflects the results of Powell Industries, Inc. and the acquisition of Powell Canada, assuming the acquisition was completed on October 1, 2008, (in thousands, except per share data):

	Year Ended September 30, 2009
Revenues	$ 718,156
Net income attributable to Powell Industries, Inc.	34,077
Earnings per share attributable to Powell Industries, Inc.:	
Basic	$ 2.98
Diluted	$ 2.94

Pro forma results for fiscal year 2010 are not included above because the results would not be materially different from the actual results reported, as the results of Powell Canada are included in our consolidated financial statements for 9 1/2 months.

The unaudited pro forma information includes operating results of Powell Canada prior to the acquisition date adjusted to include the pro forma impact of the following:

1) Impact of interest expense as a result of increased borrowings to fund the purchase price;

2) Elimination of the operating results of certain businesses to be disposed of;

3) Impact of amortization expense related to intangible assets; and

4) Adjustment to record no income tax benefit from the losses of Powell Canada.

The unaudited pro forma results above do not purport to be indicative of the results that would have been obtained if the acquisitions had occurred as of the beginning of the periods presented or that may be obtained in the future.

E. Goodwill and Other Intangible Assets

Our intangible assets consist of (1) goodwill, which is not being amortized, and (2) customer relationships (15 years), trademarks (15 years), trade names (10 years), non-compete agreements (5 years), a supply agreement (15 years) and purchased technologies (6 to 7 years) which are amortized over their estimated useful lives. We test for impairment of goodwill annually, or immediately if conditions indicate that impairment could exist.

During the year ended September 30, 2010, we acquired intangible assets and recorded goodwill in connection with our acquisition of Powell Canada and our acquisition of a 50% interest in the operations of a joint venture in Kazakhstan. See Note D for additional information regarding the acquisition. During fiscal year 2010, our impairment analyses for goodwill indicated that an impairment was required. A loss on impairment of $7.5 million was recorded in fiscal year 2010 related to the Powell Canada acquisition. Our strategic decision to exit the 50% owned joint venture in Kazakhstan and delays in the anticipated growth in capital investments in the Oil Sands Region of western Canada, relative to our expectations, resulted in the impairment charge. No impairment was identified as a result of performing our annual impairment test of goodwill for fiscal years 2011 or 2009.

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Goodwill consisted of the following at September 30, 2011 and September 30, 2010 (in thousands):

	September 30, 2011	September 30, 2010
Goodwill	$ 8,183	$ 8,183
Accumulated impairment loss	(7,452)	(7,452)
Foreign currency translation	272	272
Goodwill, net	$ 1,003	$ 1,003

During fiscal year 2011, our impairment analysis indicated that the non-compete agreements, trade name and customer relationships intangible assets related to the Powell Canada acquisition were impaired due to continued operating losses at Powell Canada, which have reduced our projections for future revenues and cash flows. Accordingly, we recognized a loss on impairment of $7.2 million.

Intangible assets balances, subject to amortization, at September 30, 2011 and September 30, 2010 consisted of the following (in thousands):

	September 30, 2011			September 30, 2010		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Supply agreement						
Balance, beginning of period	$17,580	$ (4,881)	$12,699	$17,580	$ (3,709)	$13,871
Amortization	—	(1,171)	(1,171)	—	(1,172)	(1,172)
Balance, end of period	$17,580	$ (6,052)	$11,528	$17,580	$ (4,881)	$12,699
Purchased technology						
Balance, beginning of period	$10,272	$ (6,318)	$ 3,954	$10,387	$ (5,053)	$ 5,334
Acquisition	1,500	—	1,500	—	—	—
Amortization	—	(1,689)	(1,689)	—	(1,347)	(1,347)
Foreign currency translation	(25)	248	223	(115)	82	(33)
Balance, end of period	$11,747	$ (7,759)	$ 3,988	$10,272	$ (6,318)	$ 3,954
Non-compete agreements						
Balance, beginning of period	$ 5,365	$ (3,666)	$ 1,699	$ 4,170	$ (2,643)	$ 1,527
Acquisition	—	—	—	1,160	—	1,160
Amortization	—	(920)	(920)	—	(1,018)	(1,018)
Foreign currency translation	(35)	—	(35)	35	(5)	30
Impairment (a)	(1,160)	416	(744)	—	—	—
Balance, end of period	$ 4,170	$ (4,170)	$ —	$ 5,365	$ (3,666)	$ 1,699
Trade name						
Balance, beginning of period	$ 5,437	$ (938)	$ 4,499	$ 1,147	$ (573)	$ 574
Acquisition	—	—	—	4,215	—	4,215
Amortization	—	(583)	(583)	—	(414)	(414)
Foreign currency translation	(124)	(1)	(125)	75	49	124
Impairment (a)	(4,215)	755	(3,460)	—	—	—
Balance, end of period	$ 1,098	$ (767)	$ 331	$ 5,437	$ (938)	$ 4,499
Customer relationships						
Balance, beginning of period	$ 3,479	$ (198)	$ 3,281	$ —	$ —	$ —
Acquisition	—	—	—	3,376	—	3,376
Amortization		(205)	(205)	—	(178)	(178)
Foreign currency translation	(103)	—	(103)	103	(20)	83
Impairment (a)	(3,376)	403	(2,973)	—	—	—
Balance, end of period	$ —	$ —	$ —	$ 3,479	$ (198)	$ 3,281
Total	$34,595	$ (18,748)	$15,847	$42,133	$ (16,001)	$26,132

(a) Represents the $7.2 million impairment charge recorded in fiscal 2011 related to the intangible assets of Powell Canada.

All goodwill and intangible assets disclosed above are reported in our Electrical Power Products business segment.

Amortization of intangible assets recorded for the years ended September 30, 2011, 2010 and 2009, was $4.8 million, $4.5 million and $3.5 million, respectively.

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

Years Ending September 30,	Total
2012	$2,772
2013	2,401
2014	1,665
2015	1,643
2016	1,575

F. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	Year Ended September 30,		
	2011	2010	2009
Numerator:			
Net income (loss) attributable to Powell Industries, Inc.	$ (2,715)	$25,008	$39,717
Denominator:			
Weighted average basic shares	11,735	11,545	11,424
Dilutive effect of stock options, restricted stock and restricted stock units (1)	—	148	167
Weighted average diluted shares with assumed conversions	11,735	11,693	11,591
Net earnings (loss) per share:			
Basic	$ (0.23)	$ 2.17	$ 3.48
Diluted	$ (0.23)	$ 2.14	$ 3.43

(1) In fiscal year 2011, these items were excluded from diluted income (loss) per share as the effect would have been anti-dilutive.

Approximately 23,000 shares related to outstanding stock options and restricted stock units were excluded from the computation of diluted earnings (loss) per share because they were antidilutive. All options were included in the computation of diluted earnings per share for the years ended September 30, 2010 and 2009, respectively, as the options' exercise prices were less than the average market price of our common stock.

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G. Detail of Selected Balance Sheet Accounts

Allowance for Doubtful Accounts

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

	September 30, 2011	September 30, 2010
Balance at beginning of year	$ 907	$ 1,607
Increase (decrease) to bad debt expense	(114)	422
Deductions for uncollectible accounts written off, net of recoveries	(394)	(1,168)
Increase (decrease) due to foreign currency translation	(8)	46
Balance at end of year	$ 391	$ 907

Warranty Accrual

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

	September 30, 2011	September 30, 2010
Balance at beginning of year	$ 5,929	$ 7,558
Increase to warranty expense	788	1,118
Deductions for warranty charges	(2,432)	(2,703)
Increase (decrease) due to foreign currency translation	318	(44)
Balance at end of year	$ 4,603	$ 5,929

Inventories

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

	September 30, 2011	September 30, 2010
Raw materials, parts and subassemblies	$38,400	$40,325
Work-in-progress	5,892	4,646
Provision for excess and obsolete inventory	(7,652)	(6,727)
Total inventories	$36,640	$38,244

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, 2011	September 30, 2010
Costs incurred on uncompleted contracts	$475,525	$482,149
Estimated earnings	131,367	138,836
	606,892	620,985
Less: Billings to date	599,847	613,930
Net underbilled position	$ 7,045	$ 7,055
Included in the accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts – underbilled	$ 51,568	$ 38,064
Billings in excess of costs and estimated earnings on uncompleted contracts – overbilled	(44,523)	(31,009)
Net underbilled position	$ 7,045	$ 7,055

Property, Plant and Equipment

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

	September 30, 2011	September 30, 2010	Range of Asset Lives
Land	$ 7,640	$ 7,641	—
Buildings and improvements	54,321	52,627	3 - 39 Years
Machinery and equipment	62,456	61,877	3 - 15 Years
Furniture and fixtures	3,203	3,332	3 - 10 Years
Construction in process	2,625	1,384	—
	130,245	126,861	
Less: Accumulated depreciation	(70,608)	(63,185)	
Total property, plant and equipment, net	$ 59,637	$ 63,676	

Included in property and equipment are assets under capital lease of $2.9 million and $4.2 million at September 30, 2011 and 2010, with related accumulated depreciation of $1.4 million and $2.2 million, respectively. Depreciation expense, including the depreciation of capital leases, was $10.6 million, $9.2 million and $7.5 million for fiscal years 2011, 2010 and 2009, respectively.

H. Long-Term Debt

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

	September 30, 2011	September 30, 2010
Industrial development revenue bonds	$ 4,400	$ 4,800
Capital lease obligations	1,041	2,085
Subtotal long-term debt and capital lease obligations	5,441	6,885
Less current portion	(1,140)	(1,683)
Total long-term debt and capital lease obligations	$ 4,301	$ 5,202

The annual maturities of long-term debt as of September 30, 2011, were as follows (in thousands):

Year Ending September 30,	Long-Term Debt Maturities
2012	$ 1,140
2013	676
2014	425
2015	400
2016	400
Thereafter	2,400
Total long-term debt maturities	$ 5,441

US Revolver

In May 2011, we amended our existing credit agreement (Amended Credit Agreement) with a major domestic bank. This amendment to our credit facility was made to expand our US borrowing capacity to provide additional working capital support for the Company, and to terminate the revolving credit facility for the Company's subsidiaries located in the United Kingdom. The Amended Credit Agreement provides for a $75.0 million revolving credit facility (US 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 US Revolver is a floating rate based upon the higher of the Federal Funds Rate plus 0.50% or the bank's prime rate. Once the applicable rate is determined, a margin ranging from negative 0.5% to 1.75%, as determined by our consolidated leverage ratio, is added to the applicable rate.

The US Revolver provides for the issuance of letters of credit which reduce the amounts which may be borrowed under the revolver. The amount available under the US Revolver was reduced by $13.2 million for our outstanding letters of credit at September 30, 2011.

There were no borrowings under the US Revolver as of September 30, 2011. Amounts available under the US Revolver were $61.8 million at September 30, 2011. The US Revolver expires on December 31, 2016.

The Amended Credit Agreement contains certain restrictive and maintenance-type covenants, including restrictions on our ability to pay dividends, as well as restriction 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's principal financial covenants include:

Minimum Fixed Charge Coverage Ratio — The Amended Credit Agreement requires that the consolidated fixed charge coverage ratio be greater than 1.25 to 1.00. The consolidated fixed charge calculation is income before interest and income taxes, increased by depreciation and amortization expense (EBITDA) and reduced by income taxes and capital expenditures for the previous 12 months, divided by the sum of payments on long-term debt, excluding the US Revolver and interest expense, during the previous 12 months.

Maximum Leverage Ratio — The Amended Credit Agreement requires that the ratio be less than 2.75 to 1.00. The maximum leverage ratio is the sum of total long-term debt and outstanding letters of credit, less industrial development revenue bonds, divided by the EBITDA for the previous 12 months.

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, 2011, we were in compliance with all of the financial covenants of the Amended Credit Agreement.

Canadian Revolver

On December 15, 2009, we entered into a credit agreement with a major international bank (the Canadian Facility) to finance the $15.1 million debt assumed in the acquisition of Powell Canada, and to provide additional working capital support for our operations in Canada. The Canadian Facility provides for a $20 million CAD (approximately $19.4 million) revolving credit facility (the Canadian Revolver), subject to certain limitations including a limitation on borrowings based upon certain financial ratios, as defined in the credit agreement.

The Canadian Revolver provides for the issuance of letters of credit which reduce the amounts which may be borrowed under the Canadian Revolver. As of September 30, 2011, there were no letters of credit outstanding under the Canadian Revolver.

There were no borrowings outstanding under the Canadian Revolver, and $19.4 million was available at September 30, 2011, subject to a borrowing base calculation. The amount available under the Canadian Revolver was reduced to $16.5 million based upon the available borrowing base as defined in the Canadian Facility. The Canadian Facility expires on February 29, 2012. 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 US Bank Rate. Once the applicable rate is determined, a margin of 0.375% to 1.125%, 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. As discussed above, the borrowings under the Canadian Revolver are subject to a borrowing base limitation. The Canadian Facility 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 Facility 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 Facility) occurs and is continuing, on the terms and subject to the conditions set forth in the Canadian Facility, amounts outstanding under the Canadian Facility may be accelerated and may become immediately due and payable. As of September 30, 2011, we were in compliance with all of the financial covenants of the Canadian Facility, and no borrowings were outstanding under this facility at September 30, 2011.

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 are in compliance at September 30, 2011. While the Bonds mature in 2021, the reimbursement agreement requires annual redemptions of $400,000 that commenced on October 25, 2002. A sinking fund is used for the redemption of the Bonds. At September 30, 2011, the balance in the restricted sinking fund was approximately $434,000 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 0.51% per year on September 30, 2011.

I. Income Taxes

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

	Year Ended September 30,		
	2011	2010	2009
Current:			
Federal	$5,470	$18,126	$18,028
State	939	1,750	2,910
Foreign	563	1,071	1,146
	6,972	20,947	22,084
Deferred:			
Federal	(122)	(1,189)	(930)
State	(76)	23	(113)
Foreign	(62)	113	(307)
	(260)	(1,053)	(1,350)
Total income tax provision	$6,712	$19,894	$20,734

Income before interest, income taxes and minority interest was as follows (in thousands):

	Year Ended September 30,		
	2011	2010	2009
U.S.	$ 19,850	$53,467	$56,115
Other than U.S.	(15,853)	(8,406)	4,544
Income from continuing operations before provision for income taxes	$ 3,997	$45,061	$60,659

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,		
	2011	2010	2009
Statutory rate	35%	35%	35%
State income taxes, net of federal benefit	14	3	3
International withholding tax	(9)	—	(1)
Other permanent tax items	5	—	—
Foreign rate differential	33	1	(1)
Domestic production activities deduction	(16)	(2)	(2)
Foreign valuation allowance and other	106	7	—
Effective rate	168%	44%	34%

Our provision for income taxes reflects an effective tax rate on earnings before income taxes of 168% in fiscal year 2011 compared to 44% and 34% in fiscal years 2010 and 2009, respectively. The increase in the effective tax rates for fiscal years 2011 and 2010 resulted from a valuation allowance against deferred tax assets in Canada.

We have not recorded deferred income taxes on $16.0 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 a few international jurisdictions, primarily the U.K. and in Canada since December 15, 2009. For U.S. Federal income tax purposes, all years prior to 2008 are closed. We do not consider any state in which we do business to be a major tax jurisdiction. We remain open to examination in the U.K. for tax years 2008 to the present.

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

	September 30,	
	2011	2010
Current deferred income taxes:		
Gross assets	$ 6,801	$ 7,252
Gross liabilities	(3,221)	(4,165)
Net current deferred income tax asset	3,580	3,087
Noncurrent deferred income taxes:		
Gross assets	2,133	2,649
Gross liabilities	(114)	(562)
Net noncurrent deferred income tax asset	2,019	2,087
Net deferred income tax asset	$ 5,599	$ 5,174

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At September 30, 2011 and 2010, the noncurrent deferred income tax asset was included in other assets on the Consolidated Balance Sheets.

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

	September 30, 2011	September 30, 2010
Deferred Tax Assets:		
Allowance for doubtful accounts	$ 89	$ 110
Workers' compensation	39	200
Stock-based compensation	354	390
Reserve for accrued employee benefits	1,579	1,638
Warranty accrual	935	1,672
Depreciation and amortization	956	1,291
Deferred compensation	1,343	999
Postretirement benefits liability	460	350
Accrued legal	182	84
Other	41	—
Uniform capitalization and inventory	4,667	3,813
Goodwill impairment	1,360	2,122
Net operating loss	3,144	903
Gross deferred tax asset	15,149	13,572
Less: valuation allowance	6,215	3,671
Deferred tax asset	8,934	9,901
Deferred Tax Liabilities:		
Uncompleted contracts	(3,221)	(4,164)
Software development costs	—	(461)
Other	(5)	—
Capital lease	(109)	(102)
Deferred tax liability	(3,335)	(4,727)
Net deferred tax asset	$ 5,599	$ 5,174

At September 30, 2011, we had $11.7 million of gross foreign operating loss carryforward, which is subject to a 20-year carryforward. During the fiscal year ended September 30, 2011, we recorded a net valuation allowance of $6.2 million against our Canadian deferred tax assets, which we expect cannot be realized through future reversals of existing taxable temporary differences and our estimate of future taxable income. We believe that our deferred tax assets in other tax jurisdictions are more likely than not realizable through future reversals of existing taxable temporary differences and our estimate of future taxable income.

In the first quarter of fiscal year 2008, we adopted accounting guidance on the accounting for uncertainty in income taxes. Upon adoption of the guidance, we recorded a $0.3 million increase in our tax reserves, an offsetting decrease of $0.2 million to retained earnings for uncertain tax positions and an increase in deferred income tax assets of $0.1 million. As of the adoption date, we had total tax reserves of $1.2 million. This reserve includes an estimate of potential interest and penalties on estimated liabilities for uncertain tax positions, which were recorded as components of income tax expense, in the amount of $220,000 as of September 30, 2011. A reconciliation of the beginning and ending amount of the unrecognized tax liabilities follows (in thousands):

Balance as of September 30, 2010	$ 841
Increases related to tax positions taken during a prior period	155
Decreases related to expectations of statute of limitations	(233)
Balance as of September 30, 2011	$ 763

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, 2011, was not material.

There was no material change in the net amount of unrecognized tax benefits in the year ended September 30, 2011. Management believes that it is reasonably possible that within the next 12 months, the total unrecognized tax benefits will decrease by approximately 33% due to the expiration of certain statutes of limitations in various state and local jurisdictions.

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, we do not believe it is reasonably possible that our unrecognized tax benefits would materially change in the next 12 months.

J. Derivative Instruments and Hedging Strategies

We operate in various countries and have operations in the United Kingdom and Canada. These international operations expose us to market risk associated with foreign currency exchange rate fluctuations. We have entered into certain forward contracts to hedge the risk of certain foreign currency rate fluctuations. To the extent we choose to manage volatility associated with the net exposures, we enter into various financial transactions which we account for using the applicable accounting guidance for derivative instruments and hedging activities. Our objective is to hedge the variability in forecasted cash flow due to the foreign currency risk associated with certain long-term sales. As of September 30, 2011, we held no derivatives.

In order for a derivative to qualify for hedge accounting, the derivative must be formally designated as a hedge by documenting the relationship between the derivative and the hedged item. The documentation includes a description of the hedging instrument, the hedge item, the risk being hedged, our risk management objective and strategy for undertaking the hedge, the method for assessing the effectiveness of the hedge and the method for measuring hedge ineffectiveness. Additionally, the hedge relationship must be expected to be highly effective at offsetting changes in either the fair value or cash flows of the hedged item at both inception of the hedge and on an ongoing basis. We assess the ongoing effectiveness of our hedges in accordance with the Cumulative Dollar-Offset Approach, and measure and record hedge ineffectiveness at the end of each fiscal quarter, as necessary.

All derivatives are recognized on the Consolidated Balance Sheets at their fair value and classified based on the instrument's maturity date. There were no outstanding derivatives as of September 30, 2011.

The following table presents the fair value of derivative instruments included with the Consolidated Balance Sheets as of September 30, 2010:

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
		(in thousands)		
Derivatives designated as hedging instruments:				
Foreign exchange forwards	Prepaid expenses and other current assets	$ —	Other accrued expenses	$ 47
Total derivatives		$ —		$ 47

The following table presents the amounts affecting the Consolidated Statements of Operations for the year ended September 30, 2011:

Derivatives Designated	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives[1] Year Ended September 30, 2011	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income[1] Year Ended September 30, 2011
Derivatives designated as cash flow hedges:			
Foreign exchange forwards	$ (290)	Revenues	$ 40
Total designated cash flow hedges	$ (290)		$ 40

(1) For the year ended September 30, 2011, we recorded in other (income) expense an immaterial amount of ineffectiveness from cash flow hedges.

Refer to Note C for a description of how the above financial instruments are valued in accordance with the fair value measurement accounting guidance for the year ended September 30, 2011.

The following table presents the amounts affecting the Consolidated Statements of Operations for the year ended September 30, 2010:

Derivatives Designated	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives[1] Year Ended September 30, 2010	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income[1] Year Ended September 30, 2010
Derivatives designated as cash flow hedges:			
Foreign exchange forwards	$ 757	Revenues	$ (89)
Total designated cash flow hedges	$ 757		$ (89)

(1) For the year ended September 30, 2010, we recorded in other (income) expense an immaterial amount of ineffectiveness from cash flow hedges.

Refer to Note C for a description of how the above financial instruments are valued in accordance with the fair value measurement accounting guidance for the year ended September 30, 2010.

K. Employee Benefit Plans

401(k) Plan

We have a defined employee contribution 401(k) plan for substantially all of our U.S. employees. We match 100% of employee contributions up to an employee contribution of 4% of each employee’s salary. We recognized expenses of $3.4 million, $2.9 million and $3.0 million in fiscal years 2011, 2010 and 2009, respectively, under this plan primarily related to matching contributions.

Deferred Compensation

We offer an unfunded, 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, which has been established to administer the plan. The assets of the trust are subject to the claims of our creditors in the event that we become insolvent. Consequently, the trust qualifies as a grantor trust for income tax purposes (a Rabbi

Trust). The assets and liabilities of the plan are recorded in other assets and deferred compensation in the accompanying Consolidated Balance Sheets, respectively. Changes in the deferred compensation balance are charged to compensation expense. The plan is not qualified under Section 401 of the Internal Revenue code. There was no compensation expense related to this plan in fiscal year 2011. Total assets held by the trustee and deferred compensation liabilities were $2.3 million at September 30, 2011.

Certain 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 $1.0 million is recorded in deferred compensation in the accompanying Consolidated Balance Sheets 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 in the accompanying Consolidated Balance Sheets. The cash surrender value of life insurance policies was $4.0 million at September 30, 2011.

Retiree Medical Plan

We have a plan to extend to retirees health benefits which are 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, age 55 or older but less than 65, who retired on or after January 1, 2000. 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.

For the year ended September 30, 2011, the measurement of postretirement benefit expense was based on assumptions used to value the postretirement benefit liability as of October 1, 2010, our measurement date.

Amounts recognized in accumulated other comprehensive income as of September 30, 2011 and 2010, consisted of the following on a pretax basis (in thousands):

	September 30,	
	2011	2010
Net actuarial gain	$(827)	$(1,113)
Prior service cost	51	167
Total recognized in accumulated other comprehensive income	$(776)	$ (946)

Amounts in accumulated other comprehensive income as of September 30, 2011, expected to be recognized as components of net periodic postretirement benefit cost in 2012 were as follows (in thousands):

Net actuarial gain	$ (44)
Prior service cost	115
Total	$ 71

The following table illustrates the changes in accumulated postretirement benefit obligation, changes in fair value of assets and the funded status of the postretirement benefit plan (in thousands):

	September 30, 2011	September 30, 2010
Changes in postretirement benefit obligation:		
Balance at beginning of year	$ 663	$ 741
Service cost	40	33
Interest cost	39	39
Actuarial loss (gain)	248	(95)
Benefits paid	(95)	(55)
Balance at end of year	$ 895	$ 663
Change in plan assets:		
Fair value of assets at beginning of year	$ —	$ —
Employer contributions	95	55
Benefits paid	(95)	(55)
Fair value of assets at end of year	$ —	$ —
Reconciliation of funded status:		
Unfunded liability	$ (895)	$ (663)
Unrecognized prior service cost	51	167
Unrecognized net actuarial gain	(827)	(1,113)
Net liability recognized	$(1,671)	$(1,609)

	2011	2010
Weighted-average assumptions used to determine benefit obligations at September 30:		
Discount rate pre-retirement	0.00%	0.00%
Discount rate post-retirement	4.24	4.56
Current year trend rate	10.00	9.00
Ultimate trend rate	5.00	5.00
Year ultimate trend rate reached	2014	2013

If the medical care cost trend rate assumptions were increased or decreased by 1% as of September 30, 2011, the effect of this change on the accumulated postretirement benefit obligation and service and interest costs would be an increase of $64,000 and $10,000 or a decrease of $35,000 and $6,000, respectively.

	Year Ended September 30, 2011	2010	2009
Components of net periodic postretirement benefit cost:			
Service cost	$ 40	$ 33	$ 60
Interest cost	39	39	59
Prior service cost	115	115	115
Net gain recognized	(37)	(49)	(75)
Net periodic postretirement benefit cost	$ 157	$ 138	$ 159

	2011	2010
Weighted-average assumptions used to determine benefit costs at September 30:		
Discount rate pre-retirement	0.00%	0.00%
Discount rate post-retirement	4.56	5.45
Current year trend rate	10.00	9.00
Ultimate trend rate	5.00	5.00
Year ultimate trend rate reached	2013	2012

Future expected benefit payments as of September 30, 2011, related to postretirement benefits for the subsequent five years were as follows (in thousands):

Year Ending September 30,	Expected Benefit Payments
2012	$ 110
2013	92
2014	79
2015	68
2016	61
2016 through 2021	364

L. Commitments and Contingencies

Long-Term Debt

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

Leases

We lease certain offices, facilities and equipment under operating leases expiring at various dates through 2017. At September 30, 2011, 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
2012	$ 3,506
2013	2,494
2014	1,073
2015	174
2016	32
Thereafter	1
Total lease commitments	$ 7,280

Lease expense for all operating leases was $3.7 million, $3.3 million and $3.1 million for fiscal years 2011, 2010 and 2009, respectively.

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 for the periods reported. We were contingently liable for secured and unsecured letters of credit of $13.2 million as of September 30, 2011. We also had performance and maintenance bonds totaling $195.1 million that were outstanding, with additional bonding capacity of $404.9 million available, at September 30, 2011.

We have a facility agreement (Facility Agreement) between S&I and a large international bank. The $11.7 million facility agreement provides S&I the ability to enter into forward exchange contracts, currency options and performance bonds. At September 30, 2011, we had outstanding a total of $9.3 million of guarantees under this Facility Agreement.

The Facility Agreement provides for financial covenants, 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, on 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.

Litigation

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

M. Stock-Based Compensation

We have the following stock-based compensation plans:

We have a Restricted Stock Plan for the benefit of members of the Board of Directors of the Company who, at the time of their service, are not employees of the Company or any of its affiliates. Subject to certain conditions and restrictions as determined by the Compensation Committee of the Board of Directors 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 in the third fiscal quarter. In fiscal 2011, 17,500 shares of restricted stock were issued at a price of $33.49 per share. The maximum aggregate number of shares of stock that may be issued under the Restricted Stock Plan is 150,000 and will consist of authorized but unissued or reacquired shares of stock, or any combination thereof. The restricted stock grants vest 50% per year over a two-year period on each anniversary of the grant date. Unless terminated by the Board, the Restricted Stock Plan will terminate at the close of business on December 16, 2014, and no further grants shall be made under the plan after such date. Awards granted before such date shall continue to be subject to the terms and conditions of the plan and the respective agreements pursuant to which they were granted. The total number of shares of common stock available under the plan was 48,879 as of September 30, 2011.

The 2000 Non-Employee Stock Option Plan, as amended, previously had been adopted for the benefit of members of the Board of Directors of the Company who, at the time of their service, were not employees of the Company or any of its affiliates. Following the adoption of the Restricted Stock Plan described above, the Compensation Committee ceased the use of this plan in making new grants to directors. This plan will maintain its effectiveness until all options have been exercised or have expired. The total number of shares of our common stock available under this plan was 33,000 as of September 30, 2011. Stock options granted to the Directors under this plan were non-qualified and were granted at an exercise price equal to the fair market value of the common stock at the date of grant. Generally, options granted had expiration terms of seven years from the date of grant and vested in full one year from the grant date.

The 2006 Equity Compensation Plan (the 2006 Plan) grants any employee of the Company and its subsidiaries and consultants, the right to participate in the plan and receive awards. Awards can take the form of options, stock appreciation rights, stock awards and performance unit awards. The maximum aggregate number of shares of stock that may be issued under the 2006 Plan is 750,000 shares. The total number of shares of common stock available under the plan was 572,000 shares as of September 30, 2011.

During the first quarter of fiscal 2011, 26,000 shares of restricted stock were issued to certain officers and key employees of the Company with a fair value ranging from $30.79 to $32.12 per share under the 2006 Plan. The restricted stock grant vests 33% per year over a three-year period on each anniversary of the grant date. Compensation expense is recognized over a three-year period based on the price per share on the grant date. In conjunction with the separation of our former President and Chief Executive Officer (CEO) in September 2011, the remaining 7,601 shares that were unvested became immediately vested and were expensed in selling, general and administrative expenses.

In October 2009, 10,000 shares of restricted stock were issued to our former CEO at a price of $37.67 per share under the 2006 Plan. The restricted stock grant vests 20% per year over a five-year period on each anniversary of the grant date. Compensation expense is recognized over the five-year vesting period based on the $37.67 price per share on the grant date. In conjunction with the separation of our former CEO in September 2011, the remaining 8,000 shares that were unvested became immediately vested and were expensed in selling, general and administrative expenses.

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In October 2008, October 2009 and October 2010, we granted 32,900, 34,700 and 34,500 restricted stock units (RSUs), respectively, with a fair value of $40.81, $38.36 and $30.79 per unit, respectively, to certain officers and key employees of the Company. An additional 4,500 RSUs were granted in October 2010, with a fair value of $32.12. The RSUs vest over a three-year period from their date of issuance. The fair value of the RSUs was based on the closing price of our common stock as reported on the NASDAQ Global Market (NASDAQ) on the grant dates. The actual amount of the RSUs earned will be based on the cumulative earnings per share as reported relative to established goals for the three-year performance cycle which began October 1 of the year granted, and ranges from 0% to 150% of the target RSUs granted. At September 30, 2011, there were 69,378 RSUs outstanding. The RSUs do not have voting rights of common stock, and the shares of common stock underlying the RSUs are not considered issued and outstanding until actually issued.

RSU activity (number of shares) for us was as follows:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value Per Share
Outstanding at September 30, 2008	118,468	$ 33.40
Granted	32,911	40.48
Expired or cancelled	(23,230)	34.92
Vested/exercised	(33,560)	31.86
Outstanding at September 30, 2009	94,589	36.04
Granted	34,688	38.36
Expired or cancelled	—	—
Vested/exercised	(41,823)	31.86
Outstanding at September 30, 2010	87,454	38.96
Granted	39,048	30.94
Expired or cancelled	(35,746)	36.50
Vested/exercised	(21,378)	37.68
Outstanding at September 30, 2011	69,378	$ 36.10

For the year ended September 30, 2011, we recorded a credit to compensation expense of $1.7 million related to RSUs, as it is unlikely the estimated earnings per share goals will be met for the three-year cumulative performance cycle for all RSU awards currently outstanding. We recorded compensation expense of $1.3 million and $1.7 million related to RSUs for the years ended September 30, 2010 and 2009, respectively.

The 1992 Stock Option Plan, as amended (the 1992 Plan), permits us to grant to key employees non-qualified options and stock grants, subject to certain conditions and restrictions as determined by the Compensation Committee of the Board of Directors and proportionate adjustments in the event of stock dividends, stock splits and similar corporate transactions. The maximum number of shares that may be issued under the 1992 Plan is 2.7 million shares. Stock options are granted at an exercise price equal to the fair market value of the common stock on the date of the grant. Generally, options granted have an expiration date of seven years from the grant date and vest in increments of 20% per year over a five-year period. Pursuant to the 1992 Plan, option holders who exercise their options and hold the underlying shares of common stock for five years, vest in a stock grant equal to 20% of the original option shares. While restricted until the expiration of five years, the stock grant is considered issued at the date of the stock option exercise and is included in earnings per share. During fiscal year 2010, 40,000 shares of restricted stock were issued to option holders who met specified requirements under the 1992 Plan. There were no restricted stock grants under the 1992 Plan during fiscal years 2011 and 2009. There have been no stock options granted since July 2005. There were 470,000 shares available to be granted under this plan as of September 30, 2011.

Stock option activity (number of shares) for us was as follows:

	Stock Options	Weighted Average Exercise Price	Remaining Weighted Average Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at September 30, 2008	267,300	$ 17.14		
Granted	—	—		
Exercised	(29,950)	17.15		
Forfeited	—	—		
Outstanding at September 30, 2009	237,350	17.14		
Granted	—	—		
Exercised	(108,750)	15.63		
Forfeited	—	—		
Outstanding at September 30, 2010	128,600	18.41		
Granted	—	—		
Exercised	(27,050)	18.30		
Forfeited	(4,000)	18.44		
Outstanding at September 30, 2011	97,550	$ 18.44	0.73	$ 1,799
Exercisable at September 30, 2011	97,550	$ 18.44	0.73	$ 1,799

The following table summarizes information about stock options outstanding as of September 30, 2011:

	Outstanding			Exercisable	
Range of Exercise Prices	Number Outstanding at 09/30/11	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 09/30/11	Weighted Average Exercise Price
$18.44	97,550	0.73	$ 18.44	97,550	$ 18.44
Total Options	97,550			97,550	

N. Business Segments

We manage our business through operating segments, which are comprised of two reportable business segments: Electrical Power Products and Process Control Systems. Electrical Power Products includes equipment and systems for the distribution and control of electrical energy. Process Control Systems consists principally of instrumentation, computer controls, communications and data management systems to control and manage critical processes.

The table below reflects certain information relating to our operations by business segment. All revenues represent sales from unaffiliated customers. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies. Corporate expenses are allocated to the operating business segments primarily based on revenues.

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Detailed information regarding our business segments is shown below (in thousands):

	Year Ended September 30,		
	2011	2010	2009
Revenues:			
Electrical Power Products	$533,339	$517,069	$630,032
Process Control Systems	29,058	33,623	35,819
Total	$562,397	$550,692	$665,851
Gross profit:			
Electrical Power Products	$ 91,730	$129,780	$129,480
Process Control Systems	8,200	12,277	15,569
Total	$ 99,930	$142,057	$145,049
Depreciation and amortization:			
Electrical Power Products	$ 15,188	$ 13,453	$ 10,778
Process Control Systems	162	177	175
Total	$ 15,350	$ 13,630	$ 10,953
Income before income taxes:			
Electrical Power Products	$ 3,888	$ 41,378	$ 53,076
Process Control Systems	109	3,683	7,583
Total	$ 3,997	$ 45,061	$ 60,659

Income before income taxes includes a $1.2 million gain recorded in the second quarter of fiscal 2011 resulting from cash received from the sale of our 50% equity investment in Kazakhstan. This gain was recorded in our Electrical Power Products business segment. Income before taxes for fiscal 2011 includes an impairment charge of $7.2 million, which was recorded in the fourth quarter, to reflect the impairment for the value of the intangible assets that were recorded in relation to the acquisition of Powell Canada. This loss was recorded in our Electrical Power Products business segment.

Income before income taxes for fiscal 2010 includes an impairment charge of $7.5 million to reflect the impairment for the value of goodwill that was recorded in relation to the acquisition of Powell Canada. This loss was recorded in our Electrical Power Products business segment.

The Process Control Systems business segment benefitted from revenues of $3.5 million and gross profit of $2.8 million during fiscal year 2009, resulting from a mediated settlement related to a previously completed contract that was in dispute for several years.

Geographic Information

Revenues are as follows (in thousands):

	Year Ended September 30,		
	2011	2010	2009
Europe (including former Soviet Union)	$ 7,107	$ 25,174	$ 30,582
Far East	17,172	24,998	62,155
Middle East and Africa	46,304	25,880	28,405
North, Central and South America (excluding U.S.)	112,949	81,506	28,737
United States	378,865	393,134	515,972
Total revenues	$562,397	$550,692	$665,851

The United States is the only country that accounted for more than 10% of consolidated revenues in fiscal years 2011, 2010 or 2009.

	September 30, 2011	2010
Long-lived assets:		
United States	$47,966	$50,211
United Kingdom	6,409	6,937
Canada	5,262	6,528
Total	$59,637	$63,676

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

O. Quarterly Results of Operations (Unaudited)

The table below sets forth the unaudited consolidated operating results by fiscal quarter for the years ended September 30, 2011 and 2010 (in thousands, except per share data):

	2011 Quarters First	Second	Third	Fourth	2011
Revenues	$124,674	$125,111	$141,369	$171,243	$562,397
Gross profit	25,865	24,877	21,864	27,324	99,930
Net income (loss) attributable to Powell Industries, Inc.	2,432	1,733	73	(6,953)	(2,715)
Basic earnings (loss) per share	0.21	0.15	0.01	(0.59)	(0.23)
Diluted earnings (loss) per share	0.21	0.15	0.01	(0.59)	(0.23)

	2010 Quarters First	Second	Third	Fourth	2010
Revenues	$135,916	$142,135	$138,880	$133,761	$550,692
Gross profit	37,817	36,533	38,244	29,463	142,057
Net income attributable to Powell Industries, Inc.	9,644	9,860	10,286	(4,782)	25,008
Basic earnings per share	0.84	0.86	0.89	(0.41)	2.17
Diluted earnings per share	0.83	0.85	0.88	(0.41)	2.14

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.

Income before income taxes includes a $1.2 million gain recorded in the second quarter of fiscal 2011 resulting from cash received from the sale of our 50% equity investment in Kazakhstan. Income before taxes for fiscal 2011 includes an impairment charge of $7.2 million, which was recorded in the fourth quarter, to reflect the impairment for the value of the intangible assets that were recorded in relation to the acquisition of Powell Canada.

Income before income taxes for fiscal 2010 includes an impairment charge of $7.5 million to reflect the impairment for the value of goodwill that was recorded in relation to the acquisition of Powell Canada.

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

None.

Item 9A. ***Controls and Procedures***

Restatement of Previously Issued Quarterly Financial Statements

On November 8, 2011, we announced that previously issued consolidated financial statements for the second and third quarters of fiscal 2011 contain certain accounting errors that originated at our Canadian operations (Powell Canada), and such financial statements could no longer be relied on. Subsequent to that announcement, we corrected the previously issued consolidated financial statements and filed Forms 10-Q\A for the fiscal periods ended March 31, 2011 and June 30, 2011. The accounting errors were the result of inaccurate recording of customer change orders, an erroneous journal entry, the incorrect close-out of estimated costs on certain jobs, and the incorrect application of a manufacturing overhead rate to construction contracts.

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 Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 , as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Commission 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, 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 Securities Exchange Act of 1934, as amended) as of September 30, 2011, the end of the fiscal period covered by this report. In designing and evaluating disclosure controls and procedures, our management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objective. As of September 30, 2011, based on the evaluation of these disclosure controls and procedures, and in light of the material weaknesses found in our internal controls over financial reporting, our CEO and CFO have concluded that our disclosure controls and procedures were not effective.

In light of the material weaknesses described below, we have performed additional analysis and other post-closing procedures to ensure our consolidated financial statements are prepared in accordance with generally accepted accounting principles. Accordingly, management concluded that the financial statements fairly present in all material respects our financial condition, results of operations and cash flows as at, and for, the periods presented in this annual report.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934, as amended. Internal control over financial reporting is a process designed by, or under the supervision of, our CEO and CFO, and effected by the Company's board of directors, management or other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

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.

Management of the Company has assessed the effectiveness of our internal control over financial reporting as of September 30, 2011, using the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. In our assessment of the effectiveness of internal control over financial reporting as of September 30, 2011, we determined that control deficiencies existed that constituted material weaknesses, as described below:

1) Financial close and reporting process, Powell Canada – Controls over the month-end financial close and reporting process, which provide for the completeness, accuracy, valuation and presentation of account balances at Powell Canada were not effective, which resulted in misstatements to cost of sales, inventory, work in progress and accounts payable. Specifically,

   - Significant account reconciliations, including reserve accounts, and trial balance reviews were not performed or reviewed,
   - Formal monthly reviews regarding budgeted revenues and costs for long-term construction projects were not held,
   - A supervisory review of significant account reconciliations was not performed, and
   - Conflicting duties were not appropriately mitigated for individuals that were assigned functions with system access to inventory, receiving, project costing and billing, project management, time entry, receivables and order management.

2) Revenue recognition process for long-term construction projects, Powell Canada – Controls over revenue recognition for long-term construction projects to ensure completeness, accuracy, existence, and presentation of revenue, cost and estimated earnings in excess of billings on uncompleted projects, billings in excess of cost and estimated earnings on uncompleted projects, and other accrued expenses at Powell Canada were not effective which resulted in misstatements related to these accounts. Specifically,

   - Customer acceptance of change orders was not obtained prior to revenue recognition for certain projects,
   - Formal monthly reviews regarding budgeted revenues and costs for long-term construction projects were not held, and
   - Conflicting duties were not appropriately mitigated for certain individuals with access to Powell Canada's project budgeting and project costing applications.

3) Cost accumulation process, Powell Canada – Controls over the accumulation and reporting of construction job costs, including the application of overhead and recording labor, to provide for the accurate reporting of revenue and cost and estimate earnings in excess of billings on uncompleted projects at Powell Canada were not effective. This resulted in a misstatement related to these accounts. Specifically,

   - Formal monthly reviews regarding budgeted revenues and costs for long-term construction projects were not held, and
   - Conflicting duties were not appropriately mitigated for certain individuals with access to Powell Canada's project costing and payroll applications.

4) Revenue and accounts receivable process for service contracts, Powell Canada – The following controls over the revenue and accounts receivable process for service contracts to ensure the completeness, accuracy, existence, valuation, rights and presentation of service contract revenues and accounts receivable were not effective or adequate to prevent or detect material misstatements of these accounts in our consolidated financial statements. Specifically,

   - Service contract invoices, credit memos and invoice adjustments could be processed without proper authorization and approval,

- A monthly review of service contract credit memos and invoice adjustments was not performed,
- Significant reserve accounts were not reviewed, and
- Conflicting duties were not appropriately mitigated related to invoicing, collection and processing invoice adjustments.

The material weaknesses described above could result in further misstatements of the aforementioned accounts and disclosures that would result in a material misstatement of the consolidated financial statements that would not be prevented or detected.

As a result of the material weaknesses described above, management has concluded that we did not maintain effective internal control over financial reporting as of September 30, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by COSO.

The effectiveness of the Company's internal control over financial reporting as of September 30, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Remediation Plan

As of September 30, 2011, there were control deficiencies which constituted material weaknesses in our internal control over financial reporting. Management has taken, and is taking steps to strengthen our internal control over financial reporting. Specifically,

- A new Controller and other accounting staff members have been hired at Powell Canada where the control deficiencies exist.
- Members of project management and the accounting staff have and will receive additional training related to policies, procedures and internal controls, including Powell's policies regarding monthly reconciliations and supervisory review procedures for all significant accounts.
- Additional training has and will be provided related to the ERP business system that was implemented at Powell Canada in April 2011 to foster utilization of tools available for timely review of projects in progress.
- User access and segregation of duties will be reviewed to determine and implement the appropriate steps necessary to prevent or mitigate potential conflicts.
- A consultant was hired and is on-site to evaluate, make recommendations and implement corrective actions over the contract revenue and cost accumulation processes of Powell Canada's field operations.
- Our internal audit department will review and assess progress on the remediation plan noted above.

While we have taken certain actions to address the material weaknesses identified, additional measures may be necessary as we work to improve the overall effectiveness of our internal controls over financial reporting. Through the actions described above, we believe that we are addressing the deficiencies that affected our internal control over financial reporting as of September 30, 2011. However, until the above-described controls have operated for a sufficient period of time, we will not be able to conclude that the material weaknesses have been remediated. We will continue to monitor and assess our remediation activities to address the material weaknesses discussed above through remediation as soon as practicable.

Changes in Internal Control over Financial Reporting

Other than the changes discussed above in the Remediation Plan, there has been no change in our internal control over financial reporting that occurred during our fourth fiscal quarter that has materially affected, or is 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, 2011.

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 Drive, 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, 2011.

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, 2011.

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, 2011.

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, 2011.

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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	—	By-laws of Powell Industries, Inc. (filed as Exhibit 3.2 to our Form 8-A/A filed November 1, 2004, 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).
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).

Number		Description of Exhibits
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).

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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.
*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.

* 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/ Thomas W. Powell
Thomas W. Powell
Chairman of the Board
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 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/ James F. Clark James F. Clark	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/ Stephen W. Seale, Jr. Stephen W. Seale, Jr.	Director
/s/ Robert C. Tranchon Robert C. Tranchon	Director

Date: December 12, 2011

EXHIBIT INDEX

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*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.

* 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.

SEVERANCE AGREEMENT AND RELEASE

This Severance Agreement and Release (the "Agreement") is entered into by and between Patrick L. McDonald ("Executive") and Powell Industries, Inc. on behalf of itself and each of its subsidiaries and affiliates (the "Company") as follows:

1. Termination of Employment. Executive and the Company acknowledge that Executive resigned his employment with the Company on September 14, 2011 (the "Termination Date"). Further, effective on the Termination Date, Executive and the Company acknowledge that Executive resigned from any and all positions he held as a director, officer and employee of all subsidiaries and affiliates, both domestic and foreign, of the Company (such resignation including a resignation from any and all committees, benefit plans, or other fiduciary positions within or related to any of the foregoing entities). Except as expressly set forth below, Executive is entitled to no payment, compensation or other benefits after the Termination Date.

2. Payments After Termination. Provided that: (i) Executive signs this Agreement; (ii) Executive does not revoke this Agreement as provided below; (iii) Executive furnishes to the Company a written acknowledgment that Executive has not exercised Executive's right to revoke this Agreement dated not less than eight days after the date on which Executive signs this Agreement, and (iv) Executive complies with the terms of this Agreement, including the provisions for cooperation, confidentiality and non competition, the Company agrees to pay to Executive a severance benefit (the "Severance Benefit"), all as set forth on Exhibit "A" attached hereto and made a part hereof. Upon the death of Executive, any portion of the Severance Benefit that remains owed to Executive under this Agreement shall be paid in accordance with the terms of this Agreement to Executive's estate or to the executor of his estate.

3. Cooperation. During the time that Executive is entitled to receive the Severance Benefit (the "Benefit Period"), Executive shall make himself available to the Company at times mutually and reasonably agreed upon by Executive and the Company's officers or directors to answer questions, provide information and assist in the transition of Executive's duties to other individuals. Executive shall not be entitled to additional compensation for these services, and any reasonable expenses incurred by Executive to perform such services shall be promptly reimbursed by Company. All of such services shall be performed during reasonable working hours, and after reasonable notice to Executive.

4. Indemnity. The Company shall defend, indemnify and hold harmless Executive in accordance with the terms and conditions of the indemnification agreement previously entered into between Executive and the Company on February 27, 2009, a copy of which is attached hereto as Exhibit B (the "Indemnification Agreement").

5. Releases.

a. In consideration of the promises and covenants made herein, Executive, for Executive, Executive's heirs, executors, administrators and assigns, does hereby RELEASE, ACQUIT AND FOREVER DISCHARGE the Company, and each of its parent, subsidiary, related and affiliated corporations or other entities, and each of their respective present or former officers, directors, shareholders, executives, agents, representatives, successors and assigns (all of whom are hereinafter collectively referred to as “Releasees”) from any and all claims, demands, causes of action and liabilities of any kind or character, accrued or to accrue hereafter, which Executive ever had, now has or may hereafter have against Releasees, caused by, arising out of or relating to acts or omissions occurring through the date of this Agreement, arising out of any act, omission, statement, representation, transaction or occurrence, including, without limitation, those related to Executive’s employment by the Company or the termination thereof. Without limiting the generality of the foregoing, it is understood and agreed that this Release constitutes a release of any claim or cause of action for breach of any employment, commission or other agreement existing between Executive and the Company (all of which are hereby acknowledged to have terminated) or otherwise related, in any way, to Executive’s employment by the Company, including claims under Title VII of the Civil Rights Act of 1964 (and all of its amendments); the Americans with Disabilities Act of 1990, as amended; the Age Discrimination in Employment Act; the Older Workers Benefit Protection Act; the Anti-Retaliation provision of the Texas Workers Compensation Act; the Texas Commission on Human Rights Act; the Fair Labor Standards Act; the Texas Pay Day Law; the Texas Labor Code; the Family and Medical Leave Act; the National Labor Relations Act; the Fair Credit Reporting Act, as amended; the Rehabilitation Act; the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA); the Sarbanes-Oxley Act of 2002; the Executive Polygraph Protection Act; the Financial Institutions Reform, Recovery and Enforcement Act (and any other employment-related banking or statute regulation); the Uniform Services Employment and Reemployment Rights Act of 1994; and any other state or federal statute or regulation governing the employment relationship or Executive’s rights, or the Company’s obligations, in connection therewith. This release also constitutes a release of any claim or cause of action for invasion of privacy, intentional or negligent infliction of emotional distress, wrongful termination, promissory estoppel, false imprisonment, defamation, negligence, gross negligence, breach of contract, libel or slander, tortious interference with contract or business relationship, misrepresentation, deceptive trade practices, fraud, and any other employment-related claims, or for any personal injuries, however characterized, or by virtue of any fact(s), act(s) or event(s) occurring prior to the date of this Agreement.

b. **EXECUTIVE UNDERSTANDS THAT BY SIGNING AND NOT REVOKING THIS RELEASE, EXECUTIVE IS WAIVING ANY AND ALL RIGHTS OR CLAIMS WHICH EXECUTIVE MAY HAVE UNDER THE AGE DISCRIMINATION IN EMPLOYMENT ACT AND/OR THE OLDER WORKERS’ BENEFIT PROTECTION ACT FOR AGE DISCRIMINATION ARISING FROM EMPLOYMENT WITH THE COMPANY, INCLUDING, WITHOUT LIMITATION, THE RIGHT TO SUE THE COMPANY IN FEDERAL OR STATE COURT FOR AGE DISCRIMINATION. EXECUTIVE FURTHER ACKNOWLEDGES THAT EXECUTIVE (1) DOES NOT WAIVE ANY CLAIMS OR RIGHTS THAT MAY ARISE AFTER THE DATE THE AGREEMENT IS EXECUTED; (2) WAIVES CLAIMS OR RIGHTS ONLY IN EXCHANGE FOR CONSIDERATION IN ADDITION TO ANYTHING OF VALUE TO WHICH EXECUTIVE IS ALREADY ENTITLED; (3) HAS BEEN ADVISED BY THE**

COMPANY TO CONSULT WITH AN ATTORNEY BEFORE SIGNING THIS RELEASE; AND (4) AGREES THAT THIS AGREEMENT IS WRITTEN IN A MANNER CALCULATED TO BE UNDERSTOOD BY EXECUTIVE AND EXECUTIVE, IN FACT, UNDERSTANDS THE TERMS, CONTENTS, CONDITIONS AND EFFECTS OF THIS AGREEMENT AND HAS ENTERED INTO THIS AGREEMENT KNOWINGLY AND VOLUNTARILY.

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

d. Anything herein to the contrary notwithstanding, this Agreement does not release any of Executive's rights under the Indemnification Agreement heretofore entered into between Executive and the Company, including any obligation of the Company to obtain and maintain insurance pursuant to the Indemnification Agreement.

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

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

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

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

8. Confidentiality and Confidential Information.

a. Executive acknowledges that by reason of Executive's position as a Director and Chief Executive Officer of the Company, Executive has been given access to virtually all of the Company's trade secrets and confidential information regarding its business affairs. Executive shall not use or disclose any of the Company's Confidential Information or Trade Secrets (as defined herein) in any way or in any format, including written information, information stored by electronic means, information retained in Executive's memory, and any and all copies of these materials. In any event, Executive shall hold in confidence all non-public information which Executive has regarding the Company's marketing, business development, budgets, financial projections, pending contracts, proposals or solicitations. Executive acknowledges that all confidentiality, nondisclosure or other agreements, and the Company's Confidentiality and Non-Disclosure Policy, relating to the Company's confidential information or trade secrets, and any non-compete or other agreement containing post-employment obligations shall remain in full force and effect, and nothing contained in this Agreement constitutes a release, modification or waiver of any of Executive's obligations under any such prior agreement. Executive represents that Executive has complied with all of such agreements, and agrees to continue to comply with such agreements after the date hereof. Executive further agrees that Executive shall not use nor disclose any of the Company's Confidential Information or Trade Secrets as those terms are defined herein, for the benefit of Executive or any person or entity by or with which Executive is employed or associated.

b. For purposes of this agreement, Executive agrees that Confidential Information and Trade Secrets, as used in this Agreement, includes, but is not limited to, written, electronic, oral and visual information relating to:

(1) Lists of, and all information about, each person or entity to which Company has sold, or made a proposal to sell any products, goods, services or equipment which comprise any part of the Company's Business (all of which are hereinafter collectively referred to as "Customers"), except that such list will not include those names who have been released through either written or oral declarations by the Company into the media or common market;

(2) Lists of, and all information about, each person or entity from which the Company has acquired equipment, inventory, components, products or services used by the Company to design, manufacture, fabricate, sell or deliver any of the products or services which comprise the Company's Business (all of which are hereinafter collectively referred to as Supplier, except that such list will not include suppliers who are common to the electrical industry and were known to Executive in his previous experience in the electrical industry;

(3) All Customer or Supplier contact information, excepting those known to Executive prior to his employment by the Company, which includes information about the identity and location of individuals with decision-making authority and the particular preferences, needs or requirements of the Customer or Supplier, or such individual, with respect to any of the products, goods, services or equipment which comprise any part of the Company's Business, and all information about the particular needs or requirements of Customers or Suppliers based on geographical, economic or other factors;

(4) Financial information of any kind about Customers or Suppliers, including sales and purchase histories, trend information about the growth or shrinking of a particular Customer's or Supplier's needs, purchases or requirements; profit margins or markups, as well as all information about the costs and expenses which the Company incurs to provide products or services to its Customers, or obtain products or services from Suppliers;

(5) The Company's procedures, forms, methods, and systems for marketing to Customers and potential customers including all of its Customer development techniques and procedures, including training and other internal manuals, forms and documents;

(6) All of the Company's non-public business, expansion, marketing, development, financial or budgeting plans, strategies, forecasts or proposals;

(7) All of the Company's pricing and methodologies, practices and systems, including those based upon particular Customers, quantities, or geographic, seasonal, economic or other factors, including all information about the price, terms, quantities or conditions of any products or services sold or furnished by the Company to its Customers;

(8) Technical information about the Company, including designs, drawings, engineering and information regarding the configuration, assembly or contents of any of the Company's products or any of its hardware, equipment, tools, machinery or other manufacturing, fabrication or assembly devices or processes, or those of any of its Customers, consultants, vendors, suppliers, or any person or entity which provides manufacturing or fabrication services to the Company, except those that have been used in any and all technical publications or common manufacturing processes that Executive had actual knowledge of prior to joining the Company;

(9) Any non-public financial information of any kind about the Company or its operations;

(10) Information disclosed to the Company by third parties, concerning the Company's products, goods or services, bids or bidding processes, product or manufacturing specifications (except to the extent such information is publicly disclosed), contracts, procedures, or business practices;

(11) Employee lists, phone numbers and addresses, pay rates, benefits and compensation packages, training programs and manuals, and other confidential information regarding the Company's personnel, including their evaluations and performance histories.

c. In exchange for the consideration set forth in Exhibit A, including the accelerated vesting of restricted stock awards contained therein, and in order to protect the goodwill of the Company and its relationships with customers, employees, vendors and suppliers, Executive agrees that during the Benefit Period, Executive will not, whether on Executive's own behalf or on behalf of or in conjunction with any person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise whatsoever ("Person"), directly or indirectly:

(1) call upon, communicate with, solicit or assist in soliciting any Customer or Supplier, or any agent or employer of either, using any Confidential Information and Trade Secrets about the Company that Executive may have obtained during the course of his employment with the Company in any way;

(2) participate in, work on or otherwise be involved in or with any project, contract, proposal, work, sale, bid or other undertaking (collectively "Project"), if Executive worked on, participated in, was involved, or communicated with other employees of the Company, Customers, Suppliers or other third parties, with regard to any such Project during the twelve (12) months prior to the date of the termination of Executive's employment.

d. The foregoing provisions relating to non-competition and non-solicitation of customers, are a condition precedent to the Company's agreement to pay the Severance Benefit. If, for any reason, such provisions in this Agreement are deemed by any judicial or administrative agency to be unenforceable, in whole or in part, then within 45 days of such judicial or administrative agency finding or conclusion on the issue of non-competition and/or non-solicitation (assuming such finding or conclusion on such issue has not been appealed to a higher court, and if appealed then within 45 days of such finding or conclusion on appeal) the Executive and Company agree to submit to binding mediation the sole issue of whether Executive has breached the foregoing non-competition and/or non-solicitation provisions. The Parties agree that, in the event mediation is necessitated under this paragraph, the mediation will be: (i) final, exclusive, and binding on the Parties, with no right of appeal; (ii) the mediator must assume, for purposes of resolving the dispute, that the non-competition and non-solicitation provisions contained herein are, in accordance with the stated agreement of the Parties, reasonable and enforceable and, to the extent necessary, apply Texas law; (iii) the mediator will be chosen by the Parties (through a ranking process) from a panel of qualified mediators possessing a minimum of fifteen (15) years employment law experience, which will be requested from the American Arbitration Association ("AAA") in accordance with its Employment Mediation Procedures; (iv) the mediation will be held in Houston, Texas; (v) the Parties shall bear equally the mediator's fees and expenses, as well as any administrative costs assessed by the AAA; (v) each Party to the mediation shall be solely responsible for his/its own costs and attorneys' fees, if any, relating to the mediation; (vi) the mediator shall have the authority to allow limited discovery in accordance with the Federal Rules of Civil Procedure; and (vii) in the event the mediator determines that Executive breached the non-competition and/or non-solicitation provisions contained herein, in whole or in part, the Parties agree that the Company's obligation to pay or to continue to pay or provide the Severance Benefit or any portion thereof shall immediately cease and Executive shall repay to the Company all of the Severance Benefits (excepting restricted stock awards that vest pursuant to this Agreement) theretofore paid or provided to Executive. For avoidance of doubt, the restricted stock awards set forth in Exhibit A shall not be subject to any obligation of Executive to repay Severance Benefits.

e. Executive shall not disclose the terms, conditions or considerations of this Agreement, and shall maintain all of the same in strict confidence, except to the extent that disclosure is required by applicable law or court order, and except that Executive may disclose this Agreement to Executive's attorneys, financial advisors, and tax consultants in connection with the preparation of appropriate tax returns.

9. Judicial Modification; Severability. Except as provided in paragraph 8d of this Agreement, the provisions of this Agreement are severable, and, if any provision of this Agreement or application thereof is determined by a court of competent jurisdiction to be invalid, illegal or otherwise unenforceable, in whole or in part, the validity, legality or enforceability of all other applications of that provision, and of all provisions and applications of this Agreement, will not in any way be affected, and such invalid, illegal or unenforceable provision or application will be deemed not to be a part of this Agreement, and this Agreement will then be enforced to the maximum extent allowed by the applicable law. If any provision of this Agreement is invalid in part or in whole, it will be deemed to have been amended, whether as to time, area covered or otherwise, as and to the extent required for its validity under applicable law and, as so amended, will be enforceable. For avoidance of doubt, this paragraph shall not apply to paragraph 8d of this Agreement.

10. No Reemployment. Executive expressly waives and disclaims any right to reinstatement or reemployment with the Company at any time in the future unless requested to do so by the Company.

11. Tax Liability. The Company will deduct from the Severance Payment all applicable withholdings and deductions as required by federal or state law and the Company will pay its required portion under applicable federal and state laws. Executive will be solely responsible for his share of federal and state taxes for the Severance Benefit received hereunder.

12. Mutual Nondisparagement. Neither the Company nor Executive will make any verbal or written statement that criticizes, disparages or discredits the other party or any of such party's business practices, its officers, directors or employees, or any of its properties, products or services. Executive authorizes the Company to confirm to any subsequent employer the facts and dates of Executive's employment with the Company, but the Company shall not be obligated to provide any other or additional information regarding Executive.

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

14. Acknowledgments.

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

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

15. Governing Law/Venue. This Agreement is made and entered into in the State of Texas and shall in all respects be interpreted, enforced, and governed under the laws of the State of Texas. All obligations hereunder shall be payable and performable in Houston, Harris County, Texas, and any interpretation or dispute regarding this Agreement shall be in the state or federal courts in Houston, Harris County, Texas. Both the Company and Executive irrevocably waive, to the fullest extent permitted by law, any objection the party may have to the laying of venue for any such suit, action or proceeding brought in such above court. If any one or more provisions of this Section 15 shall for any reason be held invalid or unenforceable, it is the specific intent of the parties that such provisions shall be modified to the minimum extent necessary to make it or its application valid and enforceable.

16. Savings Clause. Except as provided in paragraph 8d above, should any provision of this Agreement be declared to be determined by any court to be illegal or invalid, the validity of the remaining parts, terms, or provisions shall not be affected thereby and said illegal or invalid part, term, or provision shall be deemed not to be a part of this Agreement.

17. Entirety of Agreement. This Agreement sets forth the entire Agreement between the parties hereto, and fully supersedes any and all prior agreements or understandings between the parties hereto pertaining to the subject matter hereof, except that this Agreement does not in any way supersede or alter covenants not to compete, non-disclosure or non-solicitation agreements, or confidentiality agreements that may exist between Executive and the Company.

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

19. Time Period for Enforceability/Revocation of Agreement. The Company’s obligation to pay the Severance Payment described in Paragraph 2 is contingent upon Executive executing and returning this Agreement to the Company. Executive may take up to twenty-one (21) days to consider this Agreement prior to executing it. Executive may sign this Agreement at any time during this twenty-one (21) day period. Any changes made to this Agreement after presentation to Executive will not restart the running of the twenty-one (21) day period. After executing this Agreement, Executive shall have seven (7) days during which time Executive may revoke Executive’s consent to this Agreement by given written notification of the decision to revoke to the Company. This Agreement will not become effective or enforceable, and the

payment described in Paragraph 2 shall not become due, until such revocation period has expired and Executive has delivered a written waiver of Executive's right to revoke this Agreement (such written waiver attached and incorporated into this Agreement as Exhibit C) which is dated not less than eight (8) days after the date on which this Agreement is executed.

20. Notices.

a. Any notice of revocation to be given pursuant to the foregoing paragraph shall be sent by email transmission to: Robert B. Callahan at bob.callahan@powellind.com and to Ross Margraves at rmargraves@winstead.com. Executive understands and acknowledges that Executive will not receive any monies or benefits pursuant to this Agreement except upon the execution and non-revocation of this Agreement, and the fulfillment of the promises contained herein.

b. Any other notice permitted or required hereunder shall be effective on the earlier of the date on which it is physically received or the next business day after being transmitted by email or by facsimile transmission to the following addresses, or to any changed addresses which either party has given notice:

If to the Company:	Robert B. Callahan 8550 Mosley Road Houston, Texas 77075 bob.callahan@powellind.com (713) 947-4435 (fax)
With a copy to:	Ross D. Margraves, Jr. Winstead PC 600 Travis, Suite 1100 Houston, Texas 77002 rmargraves@winstead.com (713) 650-2400 (fax)
If to Executive:	Patrick L. McDonald 7165 Wild Blackberry Trail Winter Garden, FL 34787 mcdonaldpat@yahoo.com
With a copy to:	Jaime Ramon K&L Gates 1717 Main Street, Suite 2800 Dallas, Texas 75201 Jaime.ramon@klgates.com (214) 939-5849

21. Effective Date. The Effective Date of this Agreement shall be the 10th day after the date on which it is signed by the Executive, provided that it is also signed by the Company and provided that Executive does not revoke this Agreement in accordance with the provisions hereof.

22. Section 409A. It is intended that the payments made under this Severance Agreement shall be structured and administered to be exempt from Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”). For purposes of this Agreement, each amount to be paid or benefit to be provided will be construed as a separate indentified payment for purposes of Section 409A of the Code (“Section 409A”), and any payments that are due within the “short-term deferral period” as defined in Section 409A or are paid in a manner covered by Treas. Reg. Section 1.409A-1(b)(9)(iii) will not be treated as deferred compensation unless applicable law requires otherwise. Neither the Company nor Executive will have the right to accelerate or defer the delivery of any such payments or benefits except to the extent specifically permitted or required by Section 409A. The Company makes no representations or warranty and will have no liability to Executive or any other person, other than with respect to payments made by the Company in violation of the provisions of this Agreement, if any provisions of or payments under this Agreement are determined to constitute deferred compensation subjection to Section 409A but not to satisfy the conditions of that section. By Executive’s signature below, Executive attests that (i) Executive has reviewed this agreement with Executive’s own tax advisors, (ii) Executive is relying solely on the advice of such advisors as to whether 409A applies to any payments made under this letter, and (iii) Executive has not relied upon any statements or representations of Employer or any of its agents.

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

SIGNED by Executive this 7th day of October, 2011.

EXECUTIVE:

/s/ Patrick L. McDonald

PATRICK L. McDONALD

POWELL INDUSTRIES, INC.:

By: /s/ Don R. Madison

Name: Don R. Madison

Title: EUP

SEVERANCE BENEFIT

EXHIBIT “A”

The Severance Benefit as defined in paragraph 2 of this Agreement shall be paid by the Company to Executive as follows:

1. One million, two hundred twenty thousand dollars ($1,220,000) shall be paid by Company to Executive on the Effective Date of the Agreement.
2. One million, one hundred seventy thousand dollars ($1,170,000) shall be paid by the Company to Executive in forty-eight (48) equal bi-monthly installments of twenty-four thousand three hundred seventy-five dollars ($24,375), with the first such installation to be due and payable within thirty (30) days from the Effective Date and on the same days of each consecutive bi-monthly thereafter until paid in full.
3. Unvested Restricted Stock Award of 8,000 shares granted to Executive on October 1, 2009 and Unvested Restricted Stock Award of 7,601 granted to Executive on October 1, 2010 (collectively, 15,601 shares) issued under the terms of the Company’s 2006 Equity Incentive Plan shall fully vest on the Effective Date.
4. Executive shall continue to receive medical benefits under the Company’s Health Plans through September 30, 2011.
5. The Company will deduct from all payments made to Employee as a part of the Severance Benefit all applicable payments and deductions as required by federal or applicable state law. All taxes relating to the payments to Executive hereunder and the Company Stock received or to be received by Executive shall be paid by and be the sole responsibility of Executive.
6. No amounts due hereunder shall bear interest.

INDEMNIFICATION AGREEMENT

This INDEMNIFICATION AGREEMENT (the "**Agreement**") is made and entered into this 27th day of February, 2009 between Powell Industries, Inc., a Delaware corporation (the "**Company**") and Patrick L. McDonald ("**Indemnitee**").

WITNESSETH THAT:

WHEREAS, Indemnitee performs a valuable service for the Company; and

WHEREAS, the Board of Directors of the Company has adopted bylaws (the "**Bylaws**") providing for the indemnification of the directors, executive officers and other key employees of the Company to the maximum extent authorized by Section 145 of the Delaware General Corporation Law, as amended (the "**DGCL**"); and

WHEREAS, the Board of Directors has determined that for purposes of indemnification protection afforded by the Company, including as specifically used in this Agreement, the term "director" shall refer to members of the Board of Directors and any advisory director serving by appointment of the Board; and

WHEREAS, the Bylaws and the DGCL by their nonexclusive nature, permit contracts between the Company and the directors and officers of the Company with respect to indemnification of such directors and officers; and

WHEREAS, in accordance with the authorization as provided by the Bylaws and the DGCL, the Company may purchase and maintain a policy or policies of director's and officer's liability insurance ("**D & O Insurance**"), covering certain liabilities which may be incurred by its directors and/or officers in the performance of their obligations as directors and/or officers of the Company; and

WHEREAS, as a result of developments affecting the terms, scope and availability of D & O Insurance, there exists general uncertainty as to the extent of protection afforded Company directors and officers by such D & O Insurance and said uncertainty also exists under statutory and bylaw indemnification provisions; and

WHEREAS, in recognition of past services and in order to induce Indemnitee to continue to serve as a director and/or officer of the Company, the Company has determined and agreed to enter into this contract with Indemnitee;

NOW, THEREFORE, in consideration of Indemnitee's service as a director and/or officer after the date hereof, the parties hereto agree as follows;

1. INDEMNITY OF INDEMNITEE. The Company hereby agrees to hold harmless and indemnify Indemnitee to the full extent authorized or permitted by the provisions of the DGCL, as such may be amended from time to time, and the Bylaws, as such may be amended; provided that the parties hereto acknowledge that it is their intent that Indemnitee shall enjoy the greater of (i) the advancement and indemnification rights in place for directors and officers as of the date hereof or (ii) the benefits so afforded by such amendments. In furtherance of the foregoing indemnification, and without limiting the generality thereof:

(a) *Proceedings Other Than Proceedings by or in the Right of the Company*. Indemnitee shall be entitled to the rights of indemnification provided in this Section 1(a) if, by reason of his Corporate Status (as hereinafter defined), he is, or is threatened to be made, a party to or participant in any Proceeding (as hereinafter defined) other than a Proceeding by or in the right of the Company. Pursuant to this Section 1(a), Indemnitee shall be indemnified against all Expenses (as hereinafter defined), judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such Proceeding or any claim, issue or matter therein, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company and, with respect to any criminal Proceeding, had no reasonable cause to believe his conduct was unlawful.

(b) *Proceedings by or in the Right of the Company*. Indemnitee shall be entitled to the rights of indemnification provided in this Section 1(b) if, by reason of his Corporate Status, he is, or is threatened to be made, a party to or participant in any Proceeding brought by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 1(b), Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by him or on his behalf in connection with such Proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company; provided, however, that, if applicable law so provides, no indemnification against such Expenses shall be made in respect of any claim, issue or matter in such Proceeding as to which Indemnitee shall have been adjudged to be liable to the Company unless and to the extent that the Court of Chancery of the State of Delaware, or the court in which such Proceeding shall have been brought or is pending, shall determine that such indemnification may be made.

(c) *Indemnification for Expenses of a Party Who is Wholly or Partly Successful*. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his Corporate Status, a party to and is successful, on the merits or otherwise, in any Proceeding, he shall be indemnified to the maximum extent permitted by law against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by him or on his behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Section 1 and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

2. ADDITIONAL INDEMNITY.

(a) Subject only to the exclusions set forth in Section 2(b) hereof, the Company hereby further agrees to hold harmless and indemnify Indemnitee against any and all expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee in connection with any Proceeding (including an action by or on behalf of the Company) to which Indemnitee is, was or at any time becomes a party, or is threatened to be made a party, by reason of his Corporate Status; provided, however, that with respect to actions by or on behalf of the Company, indemnification of Indemnitee against any judgments shall be made by the Company only as authorized in the specific case upon a determination that Indemnitee acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company; and

(b) No indemnity pursuant to this Section 2 shall be paid by the Company:

(i) In respect to remuneration paid to Indemnitee if it shall be determined by a final judgment or other final adjudication that such remuneration was in violation of law;

(ii) On account of any suit in which judgment is rendered against Indemnitee for an accounting of profits made from the purchase or sale by Indemnitee of securities of the Company pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local statutory law;

(iii) On account of Indemnitee's conduct which is finally adjudged to have been knowingly fraudulent or deliberately dishonest, or to constitute willful misconduct; or

(iv) If a final decision by a court having jurisdiction in the matter shall determine that such indemnification is not lawful.

3. CONTRIBUTION. If the indemnification provided in Sections 1 and 2 is unavailable and may not be paid to Indemnitee for any reason other than those set forth in paragraphs (i), (ii), (iii) and (iv) of Section 2(b), then in respect to any Proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such Proceeding), the Company shall contribute to the amount of Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by Indemnitee in such proportion as is appropriate to reflect (i) the relative benefits received by the Company on the one hand and by the Indemnitee on the other hand from the transaction from which such Proceeding arose, and (ii) the relative fault of the Company on the one hand and of the Indemnitee on the other hand in connection with the events which resulted in such Expenses, judgments, fines or settlement amounts, as well as any other relevant equitable considerations. The relative fault of the Company on the one hand and of the Indemnitee on the other hand shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the circumstances resulting in such Expenses, judgments, fines or settlement amounts. The Company agrees that it would not be just and equitable if contribution pursuant to this Section 3 were determined by pro rata allocation or any other method of allocation which does not take account of the foregoing equitable considerations.

4. INDEMNIFICATION FOR EXPENSES OF A WITNESS. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his Corporate Status, a witness in any Proceeding to which Indemnitee is not a party, he shall be indemnified against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith.

5. ADVANCEMENT OF EXPENSES. The Company shall advance all reasonable Expenses incurred by or on behalf of Indemnitee in connection with any Proceeding by reason of Indemnitee's Corporate Status within ten (10) days after the receipt by the Company of a statement or statements from Indemnitee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee and shall include or be preceded or accompanied by an undertaking by or on behalf of Indemnitee to repay any Expenses advanced

if it shall ultimately be determined that Indemnitee is not entitled to be indemnified against such Expenses. Any advances and undertakings to repay pursuant to this Section 5 shall be unsecured and interest free. Notwithstanding the foregoing, the obligation of the Company to advance Expenses pursuant to this Section 5 shall be subject to the condition that, if, when and to the extent that the Company determines that Indemnitee would not be permitted to be indemnified under applicable law, the Company shall be entitled to be reimbursed, within thirty (30) days of such determination, by Indemnitee (who hereby agrees to reimburse the Company) for all such amounts theretofore paid; provided, however, that if Indemnitee has commenced or thereafter commences legal proceedings in a court of competent jurisdiction to secure a determination that Indemnitee should be indemnified under applicable law, any determination made by the Company that Indemnitee would not be permitted to be indemnified under applicable law shall not be binding and Indemnitee shall not be required to reimburse the Company for any advance of Expenses until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed).

6. PROCEDURE FOR DETERMINATION OF ENTITLEMENT TO INDEMNIFICATION.

(a) To obtain indemnification (including, but not limited to, the advancement of Expenses and contribution by the Company) under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification. The Secretary of the Company shall, promptly upon receipt of such a request for indemnification, advise the Board of Directors in writing that Indemnitee has requested indemnification.

(b) Upon written request by Indemnitee for indemnification pursuant to the first sentence of Section 6(a) hereof, a determination, if required by applicable law, with respect to Indemnitee’s entitlement thereto shall be made in the specific case: (i) if a Change in Control (as hereinafter defined) shall have occurred, by Independent Counsel (as hereinafter defined) in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnitee (unless Indemnitee shall request that such determination be made by the Board of Directors or the stockholders, in which case the determination shall be made in the manner provided in Clause (ii) below), or (ii) if a Change in Control shall not have occurred, (A) by the Board of Directors by a majority vote of a quorum consisting of Disinterested Directors (as hereinafter defined), or (B) if a quorum of the Board of Directors consisting of Disinterested Directors is not obtainable or, even if obtainable, said Disinterested Directors so direct, by Independent Counsel in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnitee, or (C) if so directed by said Disinterested Directors, by the stockholders of the Company; and, if it is determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within ten (10) days after such determination. Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee’s entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any Independent Counsel, member of the Board of Directors, or stockholder of the Company shall act reasonably and in good faith in making a determination under the

Agreement of the Indemnitee's entitlement to indemnification. Any costs or expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom.

(c) If the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 6(b) hereof, the Independent Counsel shall be selected as provided in this Section 6(c). If a Change in Control shall not have occurred, the Independent Counsel shall be selected by the Board of Directors, and the Company shall give written notice to Indemnitee advising him of the identity of the Independent Counsel so selected. If a Change in Control shall have occurred, the Independent Counsel shall be selected by Indemnitee (unless Indemnitee shall request that such selection be made by the Board of Directors, in which event the preceding sentence shall apply), and Indemnitee shall give written notice to the Company advising it of the identity of the Independent Counsel so selected. In either event, Indemnitee or the Company, as the case may be, may, within ten (10) days after such written notice of selection shall have been given, deliver to the Company or to Indemnitee, as the case may be, a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "Independent Counsel" as defined in Section 14(f) of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If a written objection is made and substantiated, the Independent Counsel selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court has determined that such objection is without merit. If, within twenty (20) days after submission by Indemnitee of a written request for indemnification pursuant to Section 6(a) hereof, no Independent Counsel shall have been selected, or Independent Counsel has been selected and objected to, and such objection has not been resolved, either the Company or Indemnitee may petition the Court of Chancery of the State of Delaware or other court of competent jurisdiction for resolution of any objection which shall have been made by the Company or Indemnitee to the other's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by the court or by such other person as the court shall designate, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel under Section 6(b) hereof. The Company shall pay any and all reasonable fees and expenses of Independent Counsel incurred by such Independent Counsel in connection with acting pursuant to Section 6(b) hereof, and the Company shall pay all reasonable fees and expenses incident to the procedures of this Section 6(c), regardless of the manner in which such Independent Counsel was selected or appointed. Upon the due commencement of any judicial proceeding or arbitration pursuant to Section 8 of this Agreement, Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

(d) The Company shall not be required to obtain the consent of the Indemnitee to the settlement of any Proceeding which the Company has undertaken to defend if the Company assumes full and sole responsibility for such settlement and the settlement grants the Indemnitee a complete and unqualified release in respect of the potential liability.

7. PRESUMPTIONS AND EFFECT OF CERTAIN PROCEEDINGS.

(a) In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 6(a) of this Agreement, and the Company shall have the burden of proof to overcome that presumption in connection with the making by any person, persons or entity of any determination contrary to that presumption.

(b) If the person, persons or entity empowered or selected under Section 6 of this Agreement to determine whether Indemnitee is entitled to indemnification shall not have made a determination within thirty (30) days after receipt by the Company of the request therefore, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee sha1l be entitled to such indemnification, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee’s statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law; provided, however, that such 30-day period may be extended for a reasonable time, not to exceed an additional fifteen (15) days, if the person, persons or entity making the determination with respect to entitlement to indemnification in good faith requires such additional time for obtaining or evaluating documentation and/or information relating thereto; and provided, further, that the foregoing provisions of this Section 7(b) shall not apply (i) if the determination of entitlement to indemnification is to be made by the stockholders pursuant to Section 6(b) of this Agreement and if (A) within fifteen (15) days after receipt by the Company of the request for such determination the Board of Directors or the Disinterested Directors, if appropriate, resolve to submit such determination to the stockholders for their consideration at an annual meeting thereof to be held within seventy-five (75) days after such receipt and such determination is made thereat, or (B) a special meeting of stockholders is called within fifteen (15) days after such receipt for the purpose of making such determination, such meeting is held for such purpose within sixty (60) days after having been so called and such determination is made thereat, or (ii) if the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 6(b) of this Agreement.

(c) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement (with or without court approval), conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that his conduct was unlawful.

(d) For purposes of any determination of good faith, Indemnitee shall be deemed to have acted in good faith if a majority of Disinterested Directors, the stockholders, or Independent Counsel through a written opinion determines that such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and in the case of a criminal proceeding, such person had no reasonable cause to believe his conduct was unlawful. In addition, the knowledge and/or actions, or failure to act, of any director, officer, agent or employee of the Enterprise shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement. The provisions of this Section 7(d) shall not be deemed to be exclusive or to limit in any way the other circumstances in which the Indemnitee may be deemed to have met the applicable standard of conduct set forth in this Agreement.

8. REMEDIES OF INDEMNITEE.

(a) In the event that (i) a determination is made pursuant to Section 6 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 5 of this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 6(b) of this Agreement within ninety (90) days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Section 3 or 4 of this Agreement within ten (10) days after receipt by the Company of a written request therefore, or (v) payment of indemnification is not made within ten (10) days after a determination has been made that Indemnitee is entitled to indemnification or such determination is deemed to have been made pursuant to Section 6 or 7 of this Agreement, Indemnitee shall be entitled to an adjudication in an appropriate court of the State of Delaware, or in any other court of competent jurisdiction, of his entitlement to such indemnification. Alternatively, Indemnitee, at his option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. Indemnitee shall commence such proceeding seeking an adjudication or an award in arbitration within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 8(a). The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

(b) In the event that a determination shall have been made pursuant to Section 6(b) of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 8 shall be conducted in all respects as a de novo trial, or arbitration, on the merits and Indemnitee shall not be prejudiced by reason of that adverse determination.

(c) If a determination shall have been made pursuant to Section 6(b) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 8, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) In the event that Indemnitee, pursuant to this Section 8, seeks a judicial adjudication of or an award in arbitration to enforce his rights under, or to recover damages for breach of, this Agreement, Indemnitee shall be entitled to recover from the Company, and shall be indemnified by the Company against, any and all expenses (of the types described in the definition of "Expenses" in Section 14(e) of this Agreement) actually and reasonably incurred by him in such judicial adjudication or arbitration, but only if he prevails therein. If it shall be determined in said judicial adjudication or arbitration that Indemnitee is entitled to receive part but not all of the indemnification sought, the expenses incurred by Indemnitee in connection with such judicial adjudication or arbitration shall be appropriately prorated. The Company shall indemnify Indemnitee against any and all expenses and, if requested by Indemnitee, shall (within ten (10) days after receipt by the Company of a written request therefore) advance such expenses to Indemnitee, which are incurred by Indemnitee in connection with any action brought by Indemnitee to recover under any directors' and officers' liability insurance policies maintained by the Company, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advancement of expenses or insurance recovery, as the case may be.

(e) The Company shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 8 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement.

9. NON-EXCLUSIVITY; SURVIVAL OF RIGHTS; INSURANCE; SUBROGATION.

(a) The rights of indemnification as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the certificate of incorporation of the Company, the Bylaws, any agreement, a vote of stockholders or a resolution of directors, or otherwise. No amendment, alteration or repeal of this Agreement, the certificate of incorporation of the Company, the Bylaws or of any respective provision thereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in his Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in the DGCL, whether by statute or judicial decision, permits greater indemnification than would be afforded currently under the Bylaws and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees, or agents or fiduciaries of the Company or of any other Enterprise which such person serves at the request of the Company, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, employee or agent under such policy or policies.

(c) In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(d) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

10. EXCEPTION TO RIGHT OF INDEMNIFICATION AND EXPENSE ADVANCEMENT. Notwithstanding any other provision of this Agreement, Indemnitee shall only be entitled to indemnification or advancement of expenses under this Agreement with respect to any Proceeding brought by Indemnitee, or any claim therein, if (a) the bringing of such Proceeding or making of such claim shall have been approved by the Board of Directors; or (b) such Proceeding is being brought by the Indemnitee to assert his rights under this Agreement; provided, however, that Indemnitee shall in no event be entitled to the advancement of expenses under the Agreement if a determination has been made by a judicial authority or governmental entity or agency or, absent such determination, any such authority, entity or agency has taken a postion or issued any guidance stating, that the advancement of expenses to an Indemnitee in a manner similar to that contemplated in Section 5 of the Agreement constitutes a personal loan in contravention of Section 402 of the United States Sarbanes-Oxley Act of 2002, to the extent then applicable, or any similar law or regulation.

11. DURATION OF AGREEMENT. All agreements and obligations of the Company contained herein shall apply to the period Indemnitee is or was a director or officer of the Company, including any such period prior to this Agreement, (or the period Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other Enterprise) and shall continue thereafter so long as Indemnitee shall be subject to any Proceeding (or any proceeding commenced under Section 8 hereof) by reason of his Corporate Status, whether or not he is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under this Agreement. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), assigns, spouses, heirs, executors and personal and legal representatives. This Agreement shall continue in effect regardless of whether Indemnitee continues to serve as a director or officer of the Company or any other Enterprise at the Company’s request.

12. SECURITY. To the extent requested by the Indemnitee and approved by the Board of Directors, the Company may at any time and from time to time provide security to the Indennitee for the Company’s obligations hereunder through an irrevocable bank line of credit, funded trust or other collateral. Any such security, once provided to the Indemnitee, may not be revoked or released without the prior written consent of the Indemnitee.

13. ENFORCEMENT.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to serve as a director or officer of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving as a director or officer of the Company.

(b) This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof.

14. DEFINITIONS. For purposes of this Agreement:

(a) “**Change in Control**” means a change in control of the Company occurring after the date of this Agreement of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”) or in response to any similar item on any similar schedule or form under the equivalent laws of another jurisdiction, whether or not the Company is then subject to such reporting requirement; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred if after the date of this Agreement (i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company’s then outstanding securities (other than any such person or any affiliate thereof that is such a 20% beneficial owner as of the date hereof) without the prior approval of at least two-thirds of the members of the Board of Directors in office immediately prior to such person attaining such percentage interest; (ii) there occurs a proxy contest, or the Company is a party to a merger, consolidation, sale of assets, plan of liquidation or other reorganization, as a consequence of which members of the Board of Directors in office immediately prior to such transaction or event constitute less than a majority of the Board of Directors thereafter; or (iii) during any period of two consecutive years, other than as a result of an event described in clause (a)(ii) of this Section 14, individuals who at the beginning of such period constituted the Board of Directors (including for this purpose any new director whose election or nomination for election by the Company’s stockholders was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board of Directors. A Change in Control shall not be deemed to have occurred under item (i) above if the “person” described under item (i) is entitled to report its ownership on Schedule 13G promulgated under the Exchange Act and such person is able to represent that it acquired such securities in the ordinary course of its business and not with the purpose nor with the effect of changing or influencing the control of the Company, nor in connection with or as a participant in any transaction having such purpose or effect. If the “person” referred to in the previous sentence would at any time not be entitled to continue to report such ownership on Schedule 13G pursuant to Rule 13d-1(b)(3)(i)(B) of the Exchange Act, then a Change in Control shall be deemed to have occurred at such time.

(b) “**Corporate Status**” describes the status of a person who is or was a director, officer, employee or agent or fiduciary of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person is or was serving at the express written request of the Company, provided that the approval by the Board of Directors of such person to such position in a resolution adopted by the Board of Directors shall for all purposes qualify as such a written requirement.

(c) “**Disinterested Director**” means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(d) “**Enterprise**” shall mean the Company and any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise of which Indemnitee is or was serving at the express written request of the Company as a director, officer, employee, agent or fiduciary provided that the approval by the Board of Directors of such position in a resolution adopted by the Board of Directors shall for all purposes qualify as such a written requirement.

(e) “**Expenses**” shall include all reasonable attorneys’ fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, participating, or being or preparing to be a witness in a Proceeding.

(f) “**Independent Counsel**” means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning the Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements) or any other party to the Proceeding giving rise to a claim for indemnification hereunder, or otherwise has any substantial business or personal relationship with the Company or Indemnitee or any other party to the Proceeding giving rise to a claim for indemnification hereunder that could reasonably be considered to influence the independent judgment of the Independent Counsel. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee’s rights under this Agreement. The Company agrees to pay the reasonable fees of the Independent Counsel referred to above and to fully indemnify such counsel against any and all expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

(g) “**Proceeding**” includes any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought by or in the right of the Company or otherwise and whether civil, criminal, administrative or investigative, in which Indemnitee was, is or will be involved as a party or otherwise, by reason of Indemnitee’s Corporate Status, by reason of any action taken by him or of any inaction on his part while acting as a director or officer of the Company, or by reason of the fact that he is or was serving as a director, officer, employee or agent of another Enterprise at the request of the Company, in each case whether or not he is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under this Agreement; including one pending on or before the date of this Agreement and excluding one initiated by an Indemnitee pursuant to Section 8 of this Agreement to enforce his rights under this Agreement.

15. SEVERABILITY. If any provision or provisions of this Agreement shall be held by a court of competent jurisdiction to be invalid, void, illegal or otherwise unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; and (b) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any section of

this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

16. MODIFICATION AND WAIVER. No supplement, modification, termination, waiver or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

17. NOTICE BY INDEMNITEE. Indemnitee agrees promptly to notify the company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification covered hereunder. The failure to so notify the Company shall not relieve the Company of any obligation which it may have to the Indemnitee under this Agreement or otherwise.

18. NOTICES. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

(a) If to Indemnitee, to:

At the last address of Indemnitee in the records of the Company.

(b) If to the Company, to:

Powell Industries, Inc.
8550 Mosley Drive
Houston, TX 77075-1180
Attention: President and Chief Executive Officer

or to such other address as may have been furnished to Indemnitee by the Company or to the Company by Indemnitee, as the case may be.

19. IDENTICAL COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

20. HEADINGS. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

21. GOVERNING LAW. The parties agree that this Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without application of the conflict of laws principles thereof.

22. GENDER. Use of the masculine pronoun shall be deemed to include usage of the feminine pronoun where appropriate.

[Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the day and year first above written.

POWELL INDUSTRIES, INC.

By: /s/ Don R. Madison
Name: Don R. Madison
Title: Executive Vice President

INDEMNITEE

By: /s/ Patrick L. McDonald
Name: Patrick L. McDonald
Title: Director, Chief Executive Officer and President

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, Inc.	Delaware
Powell International Europe B.V.	Netherlands
Switchgear & Instrumentation Ltd	United Kingdom
Switchgear & Instrumentation Properties Ltd	United Kingdom
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 post effective amendment No. 1 to the Registration Statement on Form S-8 (No. 333-63740) of Powell Industries, Inc. of our report dated December 12, 2011 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 12, 2011

EXHIBIT 31.1

CERTIFICATION

I, Thomas W. Powell, 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/ Thomas W. Powell
Thomas W. Powell
Chairman of the Board
President and Chief Executive Officer
(Principal Executive Officer)

Date: December 12, 2011

EXHIBIT 31.2

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 12, 2011

**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, 2011, as filed with the Securities and Exchange Commission on the date hereof, I, Thomas W. Powell, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas W. Powell
Thomas W. Powell
Chairman of the Board
President and Chief Executive Officer

Date: December 12, 2011

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, 2010, 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 12, 2011