

POWELL INDUSTRIES INC  
Form 10-Q  
May 08, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-12488

Powell Industries, Inc.

(Exact name of registrant as specified in its charter)

Delaware

88-0106100

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(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

8550 Mosley Drive,  
Houston, Texas 77075-1180  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:

(713) 944-6900

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

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

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

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

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

At May 1, 2013, there were 11,955,989 outstanding shares of the registrant's common stock, par value \$0.01 per share.



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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

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## PART I — FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements

## POWELL INDUSTRIES, INC. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	March 31, 2013 (Unaudited)	September 30, 2012
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 114,062	\$ 90,040
Accounts receivable, less allowance for doubtful accounts of \$912 and \$1,399, respectively	112,354	125,771
Costs and estimated earnings in excess of billings on uncompleted contracts	72,077	86,734
Inventories	32,246	32,917
Income taxes receivable	1,712	485
Deferred income taxes	4,798	4,598
Prepaid expenses and other current assets	6,334	5,865
Total Current Assets	343,583	346,410
Property, plant and equipment, net	105,863	78,652
Goodwill	1,003	1,003
Intangible assets, net	12,439	13,317
Other assets	10,537	8,930
Total assets	\$ 473,425	\$ 448,312
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Current maturities of long-term debt and capital lease obligations	\$ 463	\$ 725
Income taxes payable	988	3,516
Accounts payable	51,085	48,490
Accrued salaries, bonuses and commissions	19,304	25,822
Billings in excess of costs and estimated earnings on uncompleted contracts	58,202	37,144
Accrued product warranty	5,242	5,714
Other accrued expenses	5,998	9,462
Total Current Liabilities	141,282	130,873

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Long-term debt and capital lease obligations, net of current maturities	3,200	3,630
Deferred compensation	3,364	2,891
Other liabilities	921	815
Total Liabilities	148,767	138,209

Commitments and Contingencies (Note H)

Stockholders' Equity:

Preferred stock, par value \$.01; 5,000,000 shares authorized; none issued	--	--
Common stock, par value \$.01; 30,000,000 shares authorized; 11,953,301 and 11,915,673 shares issued and outstanding, respectively	119	119
Additional paid-in capital	40,675	38,452
Retained earnings	286,114	271,911
Accumulated other comprehensive income (loss)	(2,250)	(379)
Total Stockholders' Equity	324,658	310,103
Total Liabilities and Stockholders' Equity	\$ 473,425	\$ 448,312

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

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## POWELL INDUSTRIES, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Operations (Unaudited)

(In thousands, except per share data)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Revenues	\$ 153,915	\$ 181,486	\$ 307,856	\$ 338,942
Cost of goods sold	122,200	147,249	242,357	284,327
Gross profit	31,715	34,237	65,499	54,615
Selling, general and administrative expenses	24,060	21,523	46,433	41,286
Amortization of intangible assets	413	704	828	1,407
Operating income	7,242	12,010	18,238	11,922
Other income	(1,709)	-	(1,709)	-
Interest expense	43	68	104	144
Interest income	(2)	(34)	(21)	(63)
Income before income taxes	8,910	11,976	19,864	11,841
Income tax provision	2,092	4,565	5,661	6,175
Net income	\$ 6,818	\$ 7,411	\$ 14,203	\$ 5,666
Earnings per share:				
Basic	\$ 0.57	\$ 0.63	\$ 1.19	\$ 0.48
Diluted	\$ 0.57	\$ 0.63	\$ 1.18	\$ 0.48
Weighted average shares:				
Basic	11,953	11,762	11,946	11,765
Diluted	12,029	11,835	12,021	11,836

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





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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Net income	\$ 6,818	\$ 7,411	\$ 14,203	\$ 5,666
Other comprehensive income (loss):				
Foreign currency translation adjustment	(1,575)	826	(1,871)	618
Other comprehensive income (loss)	(1,575)	826	(1,871)	618
Comprehensive income	\$ 5,243	\$ 8,237	\$ 12,332	\$ 6,284

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

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## POWELL INDUSTRIES, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Six Months Ended March 31,	
	2013	2012
Operating Activities:		
Net income	\$ 14,203	\$ 5,666
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,592	5,020
Amortization	835	1,413
Stock-based compensation	2,223	386
Bad debt expense (recoveries)	(380)	636
Deferred income taxes	39	304
Changes in operating assets and liabilities:		
Accounts receivable, net	11,303	11,755
Costs and estimated earnings in excess of billings on uncompleted contracts	14,292	(25,911)
Inventories	498	(5,964)
Prepaid expenses and other current assets	(1,778)	6,391
Accounts payable and income taxes payable	302	4,632
Accrued liabilities	(10,172)	(4,925)
Billings in excess of costs and estimated earnings on uncompleted contracts	21,223	24,015
Other	(4)	(41)
Net cash provided by operating activities	57,176	23,377
Investing Activities:		
Proceeds from sale of property, plant and equipment	639	70
Purchases of property, plant and equipment	(33,270)	(18,879)
Increase in cash held in escrow	--	(75)
Decrease in cash held in escrow	--	1,000
Net cash used in investing activities	(32,631)	(17,884)
Financing Activities:		
Borrowings on Canadian revolving line of credit	2,375	7,352
Payments on Canadian revolving line of credit	(2,375)	(7,352)
Payments on industrial development revenue bonds	(400)	(400)
Payments on short-term and other financing	(298)	19
Net cash used in financing activities	(698)	(381)

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Net increase in cash and cash equivalents	23,847	5,112
Effect of exchange rate changes on cash and cash equivalents	175	(513)
Cash and cash equivalents, beginning of period	90,040	123,466
Cash and cash equivalents, end of period	\$ 114,062	\$ 128,065

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

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

A. OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

Powell Industries, Inc. (we, us, our, Powell or the Company) was incorporated in the state of Delaware in 2004 as a successor to a Nevada company incorporated in 1968. The Nevada corporation was the successor to a company founded by William E. Powell in 1947, which merged into the Company in 1977. Our major subsidiaries, all of which are wholly-owned, include: Powell Electrical Systems, Inc.; 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.

Basis of Presentation

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

These unaudited condensed consolidated financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures, normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP), have been condensed or omitted pursuant to those rules and regulations. We believe that the disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly state the financial position, results of operations and cash flows with respect to the interim consolidated financial statements have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of Powell and its subsidiaries included in Powell's Annual Report on Form 10-K for the year ended September 30, 2012, which was filed with the SEC on December 5, 2012.

#### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed 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.

#### New Accounting Standards

In September 2011, the Financial Accounting Standards Board (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 amounts. 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 year 2013. Early adoption was permitted; however, we did not adopt this guidance until October 1, 2012. This guidance has not had a material impact on our reported results of operations or financial position, and is not expected to have a significant impact in the future.

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

In February 2013, the FASB issued accounting guidance which requires companies to provide information regarding the amounts reclassified out of accumulated other comprehensive income by component. A company will be required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required by U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, a company is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail regarding those amounts. This accounting guidance is effective for fiscal years beginning after December 15, 2012, on a prospective basis. The Company is currently evaluating the impact of this guidance on our consolidated financial statements, but since the guidance only affects presentation and disclosure of amounts reclassified out of accumulated other comprehensive income, the adoption of this guidance in the first quarter of fiscal year 2014 is not expected to have a significant impact on our consolidated financial position or results of operations.

In August 2012, the SEC adopted a rule mandated by the Dodd-Frank Act to require companies to publicly disclose their use of conflict minerals that originated in the Democratic Republic of the Congo or an adjoining country. The final rule applies to a company that used minerals including tantalum, tin, gold and tungsten. The final rule requires companies to provide disclosure on a new form filed with the SEC, with the first specialized disclosure report due on May 31, 2014, for the 2013 calendar year, and annually on May 31 each year thereafter. We are currently evaluating the impact of this rule.

Subsequent Events

We evaluated subsequent events through the time of filing this Quarterly Report on Form 10-Q. 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.

**B. 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 also 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 March 31, 2013 (in thousands):

	Fair Value Measurements at March 31, 2013			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at March 31, 2013
<b>Assets</b>				
Cash equivalents	\$ 10,325	\$ --	\$ --	\$ 10,325
Total	\$ 10,325	\$ --	\$ --	\$ 10,325
<b>Liabilities</b>				
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, 2012 (in thousands):

	Fair Value Measurements at September 30, 2012			
	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, 2012



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Assets				
Cash equivalents	\$ 45,888	\$ --	\$ --	\$ 45,888
Total	\$ 45,888	\$ --	\$ --	\$ 45,888
Liabilities				
Foreign currency forward contracts	\$ --	\$ --	\$ --	\$ --
Total	\$ --	\$ --	\$ --	\$ --

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

#### Fair Value of Other Financial Instruments

Fair value guidance requires certain fair value disclosures, such as those on our long-term debt, to be presented in both interim and annual reports. The estimated fair value amounts of financial instruments have been determined using available market information and valuation methodologies described below.

Industrial Development Revenue Bond – The fair value of our long-term debt depends primarily on the coupon rate of our industrial development revenue bonds. The carrying value of our long-term debt at March 31, 2013, approximates fair value based on the current coupon rate of the bonds, which is re-set weekly, and is classified as a Level 1 input in the fair value measurement hierarchy, as there is an active market for the trading of these industrial development revenue bonds.

There have been no transfers between levels with the fair value measurement hierarchy during the three months ended March 31, 2013.

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## C. EARNINGS PER SHARE

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Numerator:				
Net income	\$ 6,818	\$ 7,411	\$ 14,203	\$ 5,666
Denominator:				
Weighted average basic shares	11,953	11,762	11,946	11,765
Dilutive effect of stock options and restricted stock units	76	73	75	71
Weighted average diluted shares with assumed conversions	12,029	11,835	12,021	11,836
Net earnings per share:				
Basic	\$ 0.57	\$ 0.63	\$ 1.19	\$ 0.48
Diluted	\$ 0.57	\$ 0.63	\$ 1.18	\$ 0.48

All options were included in the computation of diluted earnings per share for the three and six months ended March 31, 2012, as the options' exercise price was less than the average market price of our common stock. All outstanding options expired in June 2012.

## D. DETAIL OF SELECTED BALANCE SHEET ACCOUNTS

## Allowance for Doubtful Accounts

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

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	Three Months		Six Months Ended	
	Ended March 31,		March 31,	
	2013	2012	2013	2012
Balance at beginning of period	\$ 1,050	\$ 588	\$ 1,399	\$ 391
Increase (decrease) to bad debt expense	(87)	451	(380)	636
Deductions for uncollectible accounts written off, net of recoveries	(28)	--	(85)	--
Increase (decrease) due to foreign currency translation	(23)	4	(22)	16
Balance at end of period	\$ 912	\$ 1,043	\$ 912	\$ 1,043

Warranty Accrual

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

	Three Months		Six Months Ended	
	Ended March 31,		March 31,	
	2013	2012	2013	2012
Balance at beginning of period	\$ 5,754	\$ 4,396	\$ 5,714	\$ 4,603
Increase to warranty expense	775	917	1,412	1,386
Deduction for warranty charges	(1,205)	(590)	(1,801)	(1,240)
Increase (decrease) due to foreign currency translations	(82)	60	(83)	34
Balance at end of period	\$ 5,242	\$ 4,783	\$ 5,242	\$ 4,783

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## Inventories

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

	March 31, 2013	September 30, 2012
Raw materials, parts and subassemblies	\$ 34,136	\$ 33,632
Work-in-progress	4,770	6,422
Provision for excess and obsolete inventory	(6,660)	(7,137)
Total inventories	\$ 32,246	\$ 32,917

## 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):

	March 31, 2013	September 30, 2012
Costs incurred on uncompleted contracts	\$ 577,270	\$ 635,714
Estimated earnings	140,977	168,480
	718,247	804,194
Less: Billings to date	704,372	754,604
Net underbilled position	\$ 13,875	\$ 49,590
Included in the accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 72,077	\$ 86,734
Billings in excess of costs and estimated earnings on uncompleted contracts	(58,202)	(37,144)
Net underbilled position	\$ 13,875	\$ 49,590

E. INTANGIBLE ASSETS

Intangible assets balances, subject to amortization, at March 31, 2013 and September 30, 2012 consisted of the following (in thousands):

	March 31, 2013			September 30, 2012		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Supply agreement	\$ 17,580	\$ (7,811)	\$ 9,769	\$ 17,580	\$ (7,225)	\$ 10,355
Purchased technology	11,767	(9,301)	2,466	11,818	(9,121)	2,697
Trade name	1,136	(932)	204	1,136	(871)	265

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Total	\$ 30,483	\$ (18,044)	\$ 12,439	\$ 30,534	\$ (17,217)	\$ 13,317
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All intangible assets disclosed above are reported in our Electrical Power Products business segment.

Amortization of intangible assets recorded for the six months ended March 31, 2013 and 2012 was \$0.8 million and \$1.4 million, respectively.

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## F. LONG-TERM DEBT

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

	March 31, 2013	September 30, 2012
Industrial development revenue bonds	\$ 3,600	\$ 4,000
Capital lease obligations	63	355
Subtotal long-term debt and capital lease obligations	3,663	4,355
Less current portion	(463)	(725)
Total long-term debt and capital lease obligations	\$ 3,200	\$ 3,630

## US Revolver

In March 2012, we amended our existing credit agreement (Amended Credit Agreement) with a major domestic bank. This amendment to our credit facility was made to increase the dollar limit on capital expenditures to allow us to support our continued expansions to support key markets, including the Canadian Oil Sands and offshore production markets. 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 0.5%, or the bank's prime rate. Once the applicable rate is determined, a margin ranging up to 1.75%, as determined by our consolidated leverage ratio, is added to the applicable rate.

The US Revolver provides for the issuance of letters of credit which reduce the amounts that may be borrowed under this revolver. The amount available under the US Revolver was reduced by \$20.9 million for our outstanding letters of credit at March 31, 2013.

There were no borrowings outstanding under the US Revolver as of March 31, 2013. Amounts available under the US Revolver were \$54.1 million at March 31, 2013. 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 restrictions on the amount of capital expenditures allowed. It also contains financial covenants defining various financial measures and the levels of these measures with which we must comply, as well as a “material adverse change” clause. A “material adverse change” is defined as a material change in our operations, business, properties, liabilities or condition (financial or otherwise) or a material impairment of our ability to perform our obligations under our credit agreements.

The Amended Credit Agreement is collateralized by a pledge of 100% of the voting capital stock of each of our domestic subsidiaries and 66% of the voting capital stock of each non-domestic subsidiary, excluding Powell Canada. The Amended Credit Agreement provides for customary events of default and carries cross-default provisions with other existing debt agreements. If an event of default (as defined in the Amended Credit Agreement) occurs and is continuing, on the terms and subject to the conditions set forth in the Amended Credit Agreement, amounts outstanding under the Amended Credit Agreement may be accelerated and may become immediately due and payable. As of March 31, 2013, 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 acquisition of Powell Canada and provide additional working capital support for our operations in Canada. In March 2012, we reduced the Canadian Facility to a \$10.0 million CAD (approximately \$9.8 million) revolving credit facility (the Canadian Revolver), and eliminated the restrictions on amounts which may be borrowed based on a borrowing base calculation.

The Canadian Revolver provides for the issuance of letters of credit which reduce the amounts that may be borrowed under the Canadian Revolver. The amount available under the Canadian Revolver was reduced by \$0.1 million for an outstanding letter of credit at March 31, 2013.

There were no borrowings outstanding under the Canadian Revolver, and \$9.7 million was available at March 31, 2013. The Canadian Facility expires on February 28, 2015. The interest rate for amounts outstanding under the Canadian Revolver is a floating



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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. 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 March 31, 2013, we were in compliance with all of the financial covenants of the Canadian Facility.

Industrial Development Revenue Bonds

We borrowed \$8.0 million in October 2001 through a loan agreement funded with proceeds from tax-exempt industrial development revenue bonds (Bonds). These Bonds were issued by the Illinois Development Finance Authority and were used for the completion of our Northlake, Illinois facility. Pursuant to the Bond issuance, a reimbursement agreement between us and a major domestic bank required an issuance by the bank of an irrevocable direct-pay letter of credit (Bond LC), as collateral, to the Bonds' trustee to guarantee payment of the Bonds' principal and interest when due. The Bond LC is subject to both early termination and extension provisions customary to such agreements, as well as various covenants, for which we were in compliance at March 31, 2013. 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 March 31, 2013, the balance in the restricted sinking fund was \$234,000 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 0.26% per year at March 31, 2013.

G. INCOME TAXES

At the end of each interim reporting period, the Company makes an estimate for the annual effective income tax rate. Tax items included in the annual effective income tax rate are pro-rated for the full year and tax items discrete to a specific quarter are included in the effective income tax rate for that quarter. The estimate used in providing for income taxes on a year-to-date basis may change in subsequent interim periods. During the three months ended March 31, 2013 and 2012, the effective income tax rate was 23.5% and 38.1%, respectively, and for the six months

ended March 31, 2013 and 2012, the effective income tax rate was 28.5% and 52.2%, respectively.

The lower effective tax rate for the three months ended March 31, 2013, as compared to the same period of the prior year, was primarily due to the differences in the availability of the Federal Research and Development Tax Credit (Federal R&D Tax Credit), the utilization of loss carry forwards on Canadian income and the utilization of certain foreign tax credits. On January 2, 2013, the American Taxpayer Relief Act of 2012 was enacted which retroactively reinstated and extended the Federal R&D Tax Credit from January 1, 2012 to December 31, 2013. The current year effective tax rate reflects a full year benefit from the Federal R&D Tax Credit in the estimate of the annual effective income tax rate, whereas the prior year reflected only three months of the benefit. Additionally, the retroactive benefit for the previously expired period from January 1, 2012 to September 30, 2012 is reflected as a discrete item which lowered our effective tax rate for the three months ended March 31, 2013.

The lower effective tax rate for the six months ended March 31, 2013, as compared to the same period of the prior year, was primarily due to the favorable impact of the extension of the Federal R&D Tax Credit, the utilization of loss carry forwards on Canadian income and the utilization of certain foreign tax credits. The effective tax rates for the second quarter of fiscal year 2012 and the first six months of fiscal year 2012 were negatively impacted by our inability to record a tax benefit related to pre-tax losses in Canada in fiscal year 2012.

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H. COMMITMENTS AND CONTINGENCIES

Long-Term Debt

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

Letters of Credit and Bonds

Certain customers require us to post bank letter of credit guarantees or performance bonds issued by a surety. These guarantees and performance bonds assure that we will perform under the terms of our contract. In the event of default, the counterparty may demand payment from the bank under a letter of credit or performance by the surety under a performance bond. To date, there have been no significant expenses related to either for the periods reported. We were contingently liable for secured and unsecured letters of credit of \$21.0 million as of March 31, 2013. We also had performance and maintenance bonds totaling \$265.4 million that were outstanding with our sureties, with additional bonding capacity of \$134.6 million available, at March 31, 2013.

We have a facility agreement (Facility Agreement) between S&I and a large international bank. This \$11.4 million Facility Agreement provides S&I the ability to enter into forward exchange contracts, currency options and performance bonds. At March 31, 2013, we had outstanding a total of \$4.9 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. As of March 31, 2013, we were in compliance with all of the financial covenants of the Facility Agreement.

Litigation

We are involved in various legal proceedings, claims and other disputes arising in the ordinary course of business which, in general, are subject to uncertainties and the outcomes are not predictable. Although we can give no assurance about the outcome of pending or threatened litigation and the effect such outcomes may have on us, management believes that any ultimate liability resulting from the outcome of such proceedings, to the extent not

otherwise provided or covered by insurance, will not have a material adverse effect on our consolidated financial position or results of operations or liquidity.

In March 2013, we settled a lawsuit we had filed against the previous owners of Powell Canada in the amount of \$1.7 million, which was received in April 2013.

## I. STOCK-BASED COMPENSATION

Refer to our Annual Report on Form 10-K for the fiscal year ended September 30, 2012 for a full description of our existing stock-based compensation plans.

### Restricted Stock Units

Restricted stock units (RSUs) vest over a three-year period from their date of issuance. The fair value of the RSUs is based on the closing price of our common stock as reported on the NASDAQ Global Market (NASDAQ) on the grant dates. Sixty-percent of the actual RSUs granted will be based on the cumulative earnings as reported relative to the three-year performance cycle which begins October 1 of the year granted. The remaining forty-percent of the RSUs are time-based and vest over a three-year period. 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.

During the first quarter of fiscal year 2012 and fiscal year 2013, we granted 32,894 and 35,265 RSUs, respectively, with a fair value of \$31.18 and \$38.82 per unit, respectively, to certain officers and key employees of the Company. The RSU's vest over a three-year period from their date of issuance, and are earned over a three-year performance cycle.

During the first quarter of fiscal year 2012 and fiscal year 2013, we also granted 21,931 and 23,510 RSUs, respectively, with a fair value of \$31.18 and \$38.82 per unit, respectively, to certain officers and key employees. The RSUs vest over a three-year period from their date of issuance, and are time-based.

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

Weighted

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	Number of Restricted Stock Units	Average Grant Date Fair Value Per Share
Outstanding at September 30, 2011	69,378	\$ 36.10
Granted	54,825	31.18
Expired or cancelled	(24,478)	38.71
Vested/exercised	--	--
Outstanding at September 30, 2012	99,725	32.69
Granted	58,775	38.82
Expired or cancelled	--	--
Vested/exercised	(34,520)	31.18
Outstanding at March 31, 2013	123,980	\$ 36.02

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During the six months ended March 31, 2013 and 2012, we recorded compensation expense of \$1.5 million and \$0.2 million, respectively, related to the RSUs.

Restricted Stock

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. In January 2013, 500 shares of restricted stock were issued to a newly appointed director at a price of \$42.54 per share. In February 2013, 16,000 shares of restricted stock were issued to such directors at a price of \$58.54 per share. The annual restricted stock grants vest 50% per year over a two-year period on each anniversary of the grant date.

Under the 2006 Equity Compensation Plan (the 2006 Plan), any employee of the Company and its subsidiaries and consultants are eligible to participate in the plan and receive awards. Awards can take the form of options, stock appreciation rights, stock awards and performance unit awards.

During the first half of fiscal year 2013 and fiscal year 2012, there was no restricted stock granted under the 2006 Plan.

During the six months ended March 31, 2013, we recorded compensation expense of \$1.1 million related to restricted stock grants. We recorded compensation expense of \$0.3 million related to restricted stock grants for the six months ended March 31, 2012.

J. 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 reportable 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 business segments primarily based on revenues. The corporate assets are mainly cash and cash equivalents.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
<b>Revenues:</b>				
Electrical Power Products	\$ 145,259	\$ 173,974	\$ 291,395	\$ 324,638
Process Control Systems	8,656	7,512	16,461	14,304
Total	\$ 153,915	\$ 181,486	\$ 307,856	\$ 338,942
<b>Gross profit:</b>				
Electrical Power Products	\$ 29,592	\$ 32,533	\$ 61,969	\$ 51,526
Process Control Systems	2,123	1,704	3,530	3,089
Total	\$ 31,715	\$ 34,237	\$ 65,499	\$ 54,615
<b>Income (loss) before income taxes:</b>				
Electrical Power Products	\$ 8,830	\$ 11,665	\$ 19,984	\$ 11,644
Process Control Systems	80	311	(120)	197
Total	\$ 8,910	\$ 11,976	\$ 19,864	\$ 11,841
<b>Depreciation and amortization:</b>				
Electrical Power Products	\$ 2,328	\$ 3,229	\$ 5,381	\$ 6,414
Process Control Systems	20	25	40	13
Total	\$ 2,348	\$ 3,254	\$ 5,421	\$ 6,427





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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended September 30, 2012 which was filed with the Securities and Exchange Commission (SEC) on December 5, 2012 and is available on the SEC's website at [www.sec.gov](http://www.sec.gov).

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

From time to time, our management or persons acting on our behalf make forward-looking statements to inform existing and potential shareholders about our Company. These statements may include projections and estimates concerning the timing and success of specific projects and our future backlog, revenues, income, acquisitions and capital spending. Forward-looking statements are generally accompanied by words such as "estimate," "project," "predict," "believe," "expect," "anticipate," "plan," "goal" or other words that convey the uncertainty of future events or outcomes. In addition, sometimes we will specifically describe a statement as being a forward-looking statement and refer to this cautionary statement.

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

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

- Our backlog is subject to unexpected adjustments and cancellations and, therefore, may not be a reliable indicator of our future earnings.
- Our volume of fixed-price contracts and use of percentage-of-completion accounting could result in volatility in our results of operations.
- A portion of our contracts contain terms with penalty provisions.
- Fluctuations in the price and supply of raw materials used to manufacture our products may reduce our profits and could materially impact our ability to meet commitments to our customers.
- Our industry is highly competitive.
- Our operations could be adversely impacted by the continuing effects from government regulations.
- International and political events may adversely affect our operations.
- Acquisitions involve a number of risks.
- Our operating results may vary significantly from quarter to quarter.
- We may be unsuccessful at generating profitable internal growth.
- The departure of key personnel could disrupt our business.
- Our business requires skilled labor, and we may be unable to attract and retain qualified employees.
- Actual and potential claims, lawsuits and proceedings could ultimately reduce our profitability and liquidity and weaken our financial condition.



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- Unforeseen difficulties with the implementation or operation of our enterprise resource planning system could adversely affect our internal controls and our business.
- We carry insurance against many potential liabilities, and our management of risk may leave us exposed to unidentified or unanticipated risks.
- We may incur additional healthcare costs arising from federal healthcare reform legislation.
- Technological innovations by competitors may make existing products and production methods obsolete.
- Catastrophic events could disrupt our business.
- Unforeseen difficulties with the construction, relocation and start-up of our two new facilities could adversely affect our operations.

We believe the items we have outlined above are important factors that could cause estimates included in our financial statements to differ materially from actual results and those expressed in a forward-looking statement made in this report or elsewhere by us or on our behalf. We have discussed many of these factors in more detail in our Annual Report on Form 10-K for the year ended September 30, 2012. These factors are not necessarily all of the factors that could affect us. Unpredictable or unanticipated factors we have not discussed in this report could also have material adverse effects on actual results of matters that are the subject of our forward-looking statements. We do not intend to update our description of important factors each time a potential important factor arises, except as required by applicable securities laws and regulations. We advise our shareholders that they should (1) be aware that factors not referred to above could affect the accuracy of our forward-looking statements and (2) use caution when considering our forward-looking statements.

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

We entered fiscal year 2012 with a backlog of unfilled orders of \$443.0 million comprised of large refining and offshore oil and gas construction projects which took several months to produce in fiscal year 2012. As of September 30, 2012, our order backlog remained strong and we entered fiscal year 2013 with a backlog of unfilled orders of \$436.7 million. Our order backlog includes various projects, some of which are for petrochemical, oil and gas construction and transportation infrastructure projects which take a number of months to produce.

The first half of fiscal year 2012 was negatively impacted by execution challenges on certain large jobs at Powell Canada. These challenges resulted from scope changes and cost overruns on certain Canadian projects. We are currently pursuing recovery of certain of these costs, including \$1.4 million which is recorded in Other Assets; however, there is no assurance these costs can be recovered. Revenues have not been recognized on cost overruns as recovery has not been deemed probable until change orders are approved by the customer.

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Results of Operations

Revenue and Gross Profit

Consolidated revenues decreased 15.2%, or \$27.6 million, to \$153.9 million in the second quarter of fiscal year 2013, compared to the second quarter of fiscal year 2012, primarily due to completion of certain complex domestic and international petrochemical and oil and gas construction projects that were in process during fiscal year 2012 in our Electrical Power Products business segment. Domestic revenues decreased by 8.5%, or \$8.9 million, to \$96.4 million in the second quarter of fiscal year 2013, compared to the second quarter of fiscal year 2012, and international revenues decreased 24.5%, or \$18.7 million, in the second quarter of fiscal year 2013, compared to the second quarter of fiscal year 2012. Gross profit for the second quarter of fiscal year 2013 decreased 7.4%, or \$2.5 million, to \$31.7 million, compared to the second quarter of fiscal year 2012. Gross profit as a percentage of revenues increased to 20.6% in the second quarter of fiscal year 2013, compared to 18.9% in the second quarter of fiscal year 2012 primarily due to the margins associated with the mix of projects in process during fiscal years 2012 and 2013.

For the six months ended March 31, 2013, consolidated revenues decreased 9.2%, or \$31.1 million, to \$307.9 million, compared to the six months ended March 31, 2012, primarily due to completion of certain complex domestic and international petrochemical and oil and gas construction projects that were in process during fiscal year 2012 in our Electrical Power Products business segment. Domestic revenues decreased by 6.4%, or \$12.9 million, to \$189.5 million in the first six months of fiscal year 2013, compared to the first six months of fiscal year 2012. Total international revenues decreased 13.3%, or \$18.2 million, to \$118.3 million in the first six months of fiscal year 2013, compared to the first six months of fiscal year 2012. Gross profit for the first six months of fiscal year 2013 increased 19.9%, or \$10.9 million, to \$65.5 million, compared to the first six months of fiscal year 2012. Gross profit as a percentage of revenues increased to 21.3% for the first six months of fiscal year 2013, compared to 16.1% for the first six months of fiscal year 2012 primarily as a result of project execution challenges on certain large projects at Powell Canada during the first half of fiscal year 2012 and the margins associated with the mix of projects in process during fiscal years 2012 and 2013.

Electrical Power Products

Our Electrical Power Products business segment revenues decreased 16.5%, or \$28.7 million, to \$145.3 million in the second quarter of fiscal year 2013, compared to the second quarter of fiscal year 2012, primarily due to completion of certain complex domestic and international petrochemical and oil and gas construction projects that were in process during fiscal year 2012. Revenues from public and private utilities increased \$9.6 million to \$34.2 million in the second quarter of fiscal year 2013 compared to the second quarter of fiscal year 2012. Revenues from commercial and industrial customers decreased \$40.4 million to \$99.2 million in the second quarter of fiscal year 2013 compared to the second quarter of fiscal year 2012. Revenues from municipal and transit projects increased \$2.1 million to \$11.9 million in the second quarter of fiscal year 2013 compared to the second quarter of fiscal year 2012.

Our Electrical Power Products business segment gross profit decreased 9.0%, or \$2.9 million, to \$30.0 million during the second quarter of fiscal year 2013, compared to the second quarter of fiscal year 2012. Gross profit, as a percentage of revenues, increased to 20.4% in the second quarter of fiscal year 2013, compared to 18.7% in the second quarter of fiscal year 2012, primarily as a result of the margins associated with the mix of projects in process during fiscal years 2012 and 2013.

For the six months ended March 31, 2013, our Electrical Power Products business segment revenues decreased 10.2%, or \$33.2 million, to \$291.4 million, compared to the first six months of fiscal year 2012 primarily due to completion of certain complex domestic and international petrochemical and oil and gas construction projects that were in process during fiscal year 2012. Revenues from public and private utilities increased \$8.2 million to \$65.6 million in the first six months of fiscal year 2013, compared to the first six months of fiscal year 2012. Revenues from commercial and industrial customers decreased \$40.9 million to \$205.1 million in the first six months of fiscal year 2013 compared to the first six months of fiscal year 2012, as discussed above. Revenues from municipal and transit projects decreased \$0.5 million to \$20.7 million in the first six months of fiscal year 2013, compared to the first six months of fiscal year 2012.

For the six months ended March 31, 2013, gross profit from the Electrical Power Products business segment increased 20.3%, or \$10.4 million, to \$62.0 million compared to the six months ended March 31, 2012. Gross profit, as a percentage of revenues, increased to 21.3% for the first six months of fiscal year 2013, compared to 15.9% for the first six months of fiscal year 2012, primarily as a result of project execution challenges on certain large projects at Powell Canada during the first half of fiscal year 2012 and the margins associated with the mix of projects in process during fiscal years 2012 and 2013.

#### Process Control Systems

Our Process Control Systems business segment revenues increased 15.2%, or \$1.1 million, to \$8.7 million during the second quarter of fiscal year 2013, compared to the second quarter of fiscal year 2012. This revenue increase has been driven by the increase in projects that were awarded during fiscal year 2012. Business segment gross profit, as a percentage of revenues, increased to 24.5% for the second quarter of fiscal year 2013 compared to 22.7% for the second quarter of fiscal year 2012. This increase in gross profit as a percentage of revenues was related to the mix of project types.



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For the six months ended March 31, 2013, our Process Control Systems business segment revenues increased 15.1%, or \$2.2 million, to \$16.5 million, compared to the first six months of fiscal year 2012. Business segment gross profit, as a percentage of revenues, decreased to 21.4% for the six months ended March 31, 2013, compared to 21.6% for the first six months ended March 31, 2012. This decrease was primarily due to the overall mix of project types.

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

Consolidated Selling, General and Administrative Expenses

Selling, general and administrative expenses, as a percentage of revenues, increased to 15.6% during the second quarter of fiscal year 2013 from 11.9% during the second quarter of fiscal year 2012. Consolidated selling, general and administrative expenses increased \$2.5 million to \$24.1 million during the second quarter of fiscal year 2013 compared to the second quarter of fiscal year 2012. This increase is primarily related to increased personnel costs and long-term incentive compensation resulting from higher levels of operating performance over the three-year performance cycle and increased legal expenses primarily related to the efforts to recover both the project cost overruns in Canada and the settlement of a lawsuit in Canada which is discussed below. These increases in selling, general and administrative expenses were offset by a decrease in depreciation as our enterprise resource planning system became fully depreciated.

Selling, general and administrative expenses, as a percentage of revenues, increased to 15.1% during the first six months of fiscal year 2013 from 12.2% during the first six months of fiscal year 2012. Consolidated selling, general and administrative expense increased \$5.1 million to \$46.4 million during the first six months of fiscal year 2013, compared to the first six months of fiscal year 2012. This increase is primarily related to increased personnel costs and commissions associated with orders received, as well as increased long-term incentive compensation resulting from higher levels of operating performance over the three-year performance cycle and increased legal expenses primarily related to the efforts to recover both the project cost overruns in Canada and the settlement of a lawsuit in Canada which is discussed below. These increases in selling, general and administrative expenses were offset by a decrease in depreciation as our enterprise resource planning system became fully depreciated.

Amortization of Intangible Assets

Amortization of intangible assets decreased to \$0.4 million during the second quarter of fiscal year 2013, compared to \$0.7 million during the second quarter of fiscal year 2012 as certain intangible assets have become fully amortized.

Amortization of intangible assets decreased to \$0.8 million during the first six months of fiscal year 2013, compared to \$1.4 million during the first six months of fiscal year 2012 as certain intangible assets have become fully amortized.

#### Other Income

In March 2013, we settled a lawsuit we had filed against the previous owners of Powell Canada in the amount of \$1.7 million, which was received in April 2013.

#### Income Tax Provision

Our provision for income taxes was \$2.1 million in the second quarter of fiscal year 2013, compared to \$4.6 million in the first quarter of fiscal year 2012. For the first six months of fiscal year 2013, our provision for income taxes was \$5.7 million compared to \$6.2 million for the first six months of fiscal year 2012. The effective tax rates for the second quarter of fiscal year 2013 and the first six months of fiscal year 2013 were 23.5% and 28.5%, respectively. These rates are below the statutory rate due to the differences in the availability of the Federal Research and Development Tax Credit, the utilization of loss carry forwards on Canadian income and the utilization of certain foreign tax credits. The effective tax rates for the second quarter of fiscal year 2012 and the first six months of fiscal year 2012 were negatively impacted by our inability to record a tax benefit related to pre-tax losses in Canada in fiscal year 2012.

#### Net Income

In the second quarter of fiscal year 2013, we recorded net income of \$6.8 million, or \$0.57 per diluted share, compared to \$7.4 million, or \$0.63 per diluted share, in the second quarter of fiscal year 2012. For the six months ended March 31, 2013, we recorded net income of \$14.2 million, or \$1.18 per diluted share, compared to \$5.7 million, or \$0.48 per diluted share, for the six months ended March 31, 2012. The first six months of fiscal year 2012 were negatively impacted by the execution-related challenges of certain large projects at Powell Canada and our inability to record the tax benefits of pre-tax losses in Canada.

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Backlog

The order backlog at March 31, 2013, was \$521.8 million, compared to \$436.7 million at September 30, 2012 and \$497.0 million at March 31, 2012. New orders placed during the second quarter of fiscal year 2013 totaled \$124.1 million compared to \$203.3 million in the second quarter of fiscal year 2012. Backlog has increased primarily due to continued strength in oil and gas production projects, refining projects and transportation markets.

Liquidity and Capital Resources

Cash and cash equivalents increased to \$114.1 million at March 31, 2013, compared to \$90.0 million at September 30, 2012. Such increase primarily resulted from cash flow provided by operations of \$57.2 million, which was partially used to fund the construction of our two new facilities in the United States and Canada during the first six months of fiscal year 2013 to support our continued expansion of our key markets, including the offshore oil and gas markets and the Canadian Oil Sands market. As of March 31, 2013, current assets exceeded current liabilities by 2.4 times and our debt to total capitalization was 1.1%.

We have a \$75.0 million revolving credit facility in the United States, which expires in December 2016. As of March 31, 2013, there were no amounts borrowed under this line of credit. We also have a \$9.8 million revolving credit facility in Canada. At March 31, 2013, there was no balance outstanding under the Canadian revolving credit facility. Total long-term debt and capital lease obligations, including current maturities, totaled \$3.7 million at March 31, 2013, compared to \$4.4 million at September 30, 2012. Letters of credit outstanding were \$21.0 million at March 31, 2013, compared to \$36.6 million at September 30, 2012, which reduce our availability under our U.S. revolving credit facility and our Canadian revolving credit facility. Amounts available under the U.S. revolving credit facility were \$54.1 million at March 31, 2013. Amounts available under the Canadian revolving credit facility were \$9.7 million at March 31, 2013. For further information regarding our debt, see Notes F and H of Notes to Condensed Consolidated Financial Statements.

Approximately \$13.4 million of our cash at March 31, 2013, was held outside of the United States for international operations. It is our intention to indefinitely reinvest all current and future foreign earnings internationally in order to ensure sufficient working capital and support and expand these operations. In the event that we elect to repatriate some or all of the foreign earnings that were previously deemed to be indefinitely reinvested outside the United States, under current tax laws we would incur additional tax expense upon such repatriation.

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

conditions.

#### Operating Activities

Cash provided by operating activities was \$57.2 million during the first six months of fiscal year 2013 and \$23.4 million during the first six months of fiscal year 2012. 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. Cash flow from operations increased during the first six months of fiscal year 2013 compared to the same period in the prior year, primarily due to increased net income, as well as the billing and collection of contracts receivable based on the progress billing milestones.

#### Investing Activities

Purchases of property, plant and equipment during the first six months of fiscal year 2013 totaled \$33.3 million, compared to \$18.9 million during the first six months of fiscal year 2012. A significant portion of the investments during the first six months of fiscal year 2013 was used to build facilities in the United States and Canada to support our continued expansion in our key markets, including the oil and gas markets and Canadian Oil Sands. Upgrades and enhancements to our enterprise resource planning system were also incurred during the first six months of fiscal year 2013, which is expected to be placed into use in the second quarter of fiscal year 2014. During the first six months of fiscal year 2012, the investments in property, plant and equipment were primarily for the purchase of land in the United States and Canada to support our continued expansion as discussed above.

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### Financing Activities

Net cash used in financing activities was \$0.7 million during the first six months of fiscal year 2013 and \$0.4 million for the first six months of fiscal year 2012.

### New Accounting Standards

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

### Critical Accounting Policies

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

There have been no material changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the year ended September 30, 2012.

### Outlook

The markets in which Powell participates are capital-intensive and cyclical in nature. Cyclicity is predominantly driven by customer demand, global economic conditions and anticipated environmental or regulatory changes which affect the manner in which our customers proceed with capital investments. Market cycles are many months or years in length and require our customers to analyze factors that include the demand for oil, gas and electrical energy, the overall financial environment, governmental budgets, the outlook for regulatory actions and environmental concerns. Orders take a number of months to produce, are traditionally awarded in competitive bid situations and scheduling is matched to the customer requirements which may change during the course of any particular project.

Growth in demand for energy is expected to continue over the long term. This, when coupled with the need for replacement of existing infrastructure that is at the end of its life cycle, demonstrates a continued need for products and services produced by us. A heightened environmental concern has expanded the popularity of urban transit systems. This should increase demand for investment in transit infrastructure, contingent upon the availability of government financing. A sluggish global economy and uncertain market conditions in various locations around the world will place competitive market pressure on revenues and margins. Our operation in the United Kingdom has been negatively impacted by these competitive issues and is currently analyzing its workforce requirements in line with current market conditions. The outlook for continued opportunities for our products and services remain positive; however, the timing and pricing of many of these projects are difficult to predict.

Our operating results are frequently impacted by the timing and resolution of change orders and project close-out which could cause gross margins to improve during the period in which these items are approved and finalized with customers. As a result of these issues, the timing and ultimate financial outcome on some projects are often difficult to predict.

We are currently constructing a new facility in Houston, Texas, and one near Edmonton, Alberta, Canada. We estimate the total cost of these facilities, including the land, will be approximately \$75 million, of which \$38.9 million has been incurred to date. Such costs are expected to be funded from our existing cash and cash equivalents and future cash flows from operations. We anticipate that the construction of these new facilities will be completed in the summer of 2013. Once completed, we will vacate the existing leased facilities. We plan to relocate our existing operations to the two new facilities in the fourth quarter of fiscal year 2013. Additionally, we will attempt to sublease the current facility in Canada which expires in July 2023. There are no assurances that we will be able to obtain a sublease that will cover our existing lease costs, which are approximately \$1.2 million per year.

Strength in the Canadian Oil Sands region continues to be a major contributor to our improved operations and backlog in Canada. The relocation to our new facility, the sublease of our current facility and the expansion of our operations in Canada pose various risks and uncertainties in the near term. Our previous net operating losses in Canada have resulted in recording deferred tax assets of \$6.3 million, with a corresponding valuation allowance. These unrecognized deferred tax assets could be realized in the future as our outlook for continued profitability in Canada improves.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

If we decide to borrow under one of our credit facilities, we will be subject to market risk resulting from changes in interest rates related to our floating rate bank credit facility. If we were to make such borrowings, a hypothetical 100 basis point increase in variable interest rates may result in a material impact to our financial statements. While we do not currently have any derivative contracts to hedge our exposure to interest rate risk, 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 March 31, 2013.

At March 31, 2013, we had no foreign currency forward contracts.

## 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 engineering, procurement and construction 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 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

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

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

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Item 6. Exhibits

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

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\* Filed herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date

POWELL INDUSTRIES, INC.  
(Registrant)

Date: May 8, 2013 By: /s/ Michael A. Lucas  
Michael A. Lucas  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: May 8, 2013 By: /s/ Don R. Madison  
Don R. Madison  
Executive Vice President  
Chief Financial and Administrative Officer  
(Principal Financial Officer)

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