POWELL

A Legacy *of* PROGRESS

POWELL INDUSTRIES 2010 ANNUAL REPORT

Our strategy from DAY ONE:

NEVER STOP moving forward

For 60 years, Powell has made it our commitment to go beyond customer expectations.

Our willingness to cross the traditional customer-supplier boundaries built a reputation for innovation and service. Our attitude allowed us to forge strategic relationships with our customers.

We continue to explore new territory through expanded technology, services and applied expertise. And because today's Powell customers need a solution more than a vendor, we are strategically expanding our capabilities and global presence.

Our forward-thinking past sets the stage for our future. We continue to evolve into a larger, more comprehensive version of the service-oriented company we have always been.

Growing through recovery

We are seeing signs of stability in our key markets after the dramatic slowdown of 2009, when all of our markets — oil and gas, utilities, transit, municipal, wastewater and traffic management — felt the effects of the global recession.

As a result of this slowdown in our core markets, we saw our backlog of business decline throughout 2010, as new projects and schedules were delayed.

Based on the projected improvement in our customers' business levels and the funding of new investments, combined with our efforts to build up capacity and presence for future expansion, we expect our business momentum to build over the next 12 months.

Benefiting from continuous improvement

Over the past two years, we have focused on operational simplification and standardization in an effort to become a more efficient provider. This is not to say we are moving to standardize our products. Our aim is to standardize the repetitive part of our processes and devote more time and resources, which add the value that makes Powell a leading supplier.

Much of the past year was dedicated to redefining and implementing new project management processes that greatly enhance our technical accuracy and throughput. Our planning and scheduling process makes cash flow more streamlined through tighter control over key project milestones. As a benefit, working capital has been significantly reduced.

Our new project management process enhances our manufacturing performance overall. Potential issues are resolved early and costly delays avoided down the line. We improve predictability in scheduling on the shop floor.

We have expanded our core competency, making Powell an even more reliable supplier and creating greater customer value.

Introducing new technology

We have also introduced this year two new offerings that improve safety in the field. The first is our PowlVac100 switchgear system designed exclusively for the IEC market. The other is a new thermal monitoring technology designed to place sensors and extract real-time data from "hot spots" that show the greatest potential for failure in all types of electrical distribution systems. Constant monitoring offers a safer alternative to periodic inspections and allows surveillance to be done remotely, which greatly improves safety for operators.

These innovations illustrate how Powell has traditionally approached progress — we listen to customers, drawing on our knowledge of their field and their circumstances. However, we don't just respond to the current needs — we respond in a way that sets new standards.

In the case of thermal monitoring we are introducing new levels of safety and reliability to the industry. This new technology can not only improve the performance of equipment but help avoid costly shutdowns.

Expanding our global reach

Another highlight of the year was Powell's acquisition of PowerComm, a Canadian provider of electrical and instrumentation construction and maintenance services. What is today Powell Canada, headquartered in Edmonton, improves our geographic reach into one of the most strategic oil and gas markets in the world. Many of our customers have existing projects to tap into the vast Canadian oil sands reserves, and Powell is ideally positioned to participate.

An important consideration in this acquisition was the addition of related services and products into our offering. A key element of our Canadian operation is one which specializes in placing skilled electrical and mechanical personnel on

“Change is a constant in today’s business environment. Over the past 60 years, Powell has proved our ability to adapt and truly thrive while meeting the changing needs of our customers.”

long-term contracts in plants and in the field. Another is the operation which designs, manufactures and sells medium-voltage switchgear, motor control centers and related electrical equipment. Powell Canada is another step along our strategic path to expansion. To be successful, we must be able to serve customers wherever they are in the world. We must also be able to fill more gaps and solve more problems than ever before.

We look forward to strengthening existing relationships and building new ones through our presence in Powell Canada.

Progress in the future

Change is a constant in today’s business environment. Over the past 60 years, Powell has proved our ability to adapt and truly thrive while meeting the changing needs of our customers.

That being said, much about the future is uncertain. We are keeping a careful watch on U.S. government activity such as tax policy and cap and trade that will impact how many of our customers plan their upcoming projects. We have seen a change in our legislative side of government with the mid-term elections of 2010. We will be waiting to see if this change will bring about the stabilization of the business world that will enable our customers to adequately forecast the business conditions upon which they will make their capital investments for the future.

As in years past, there is much talk about alternative energy sources — this topic, too, is of great interest to us. Our reassurance is that Powell is experienced in virtually every source of fuel that produces electricity and every type of power distribution system. Our role, whether the energy is provided by coal, petroleum, natural gas, nuclear or wind, remains the same.

We expect to see modest improvement in business activity over the coming year, primarily from capital projects outside of the United States. We continue to focus our efforts on obtaining new customers, strengthening our relationships with current customers, as well as expanding our products and services to support clients on projects not only in North America but around the world.

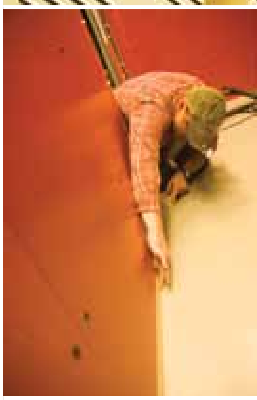
Internally, our energy is focused on expanding our consultative services, leveraging our experience to benefit customers making critical decisions on their critical projects.

We are confident that our legacy of progress will serve us well in the future as we strive to remain ahead in a rapidly changing world.

Patrick L. McDonald
President and Chief Executive Officer

PROGRESS THROUGH **INNOVATION**

Powell continues to launch new products and technology to make customers more efficient and reliable.




Next Train Platform 1

Not content to simply solve today's problem, we ask, "What would make a customer's life easier in the long run?"

Powell is known for thinking ahead.

When we introduced medium-voltage arc-resistant equipment to improve safety and reduce risk, when we developed the Power Control Room as a way to expedite project delivery, we were changing the way things had always been done.

We continue to change the future: Innovation is a natural endeavor for a company focused on customer service.

The challenge for today's complex equipment solutions — whether for electricity, water, traffic or other critical processes — is capturing, monitoring and filtering information. In response, Powell is using our knowledge of real-world conditions and real-time criticality to develop new technology that continuously gathers operating information and replaces the practice of periodic observations and tests.

The critical component is using this expanded intelligence to drive actions so that the correct alert is sounded, the critical part is replaced and the shutdown averted, crisis avoided.

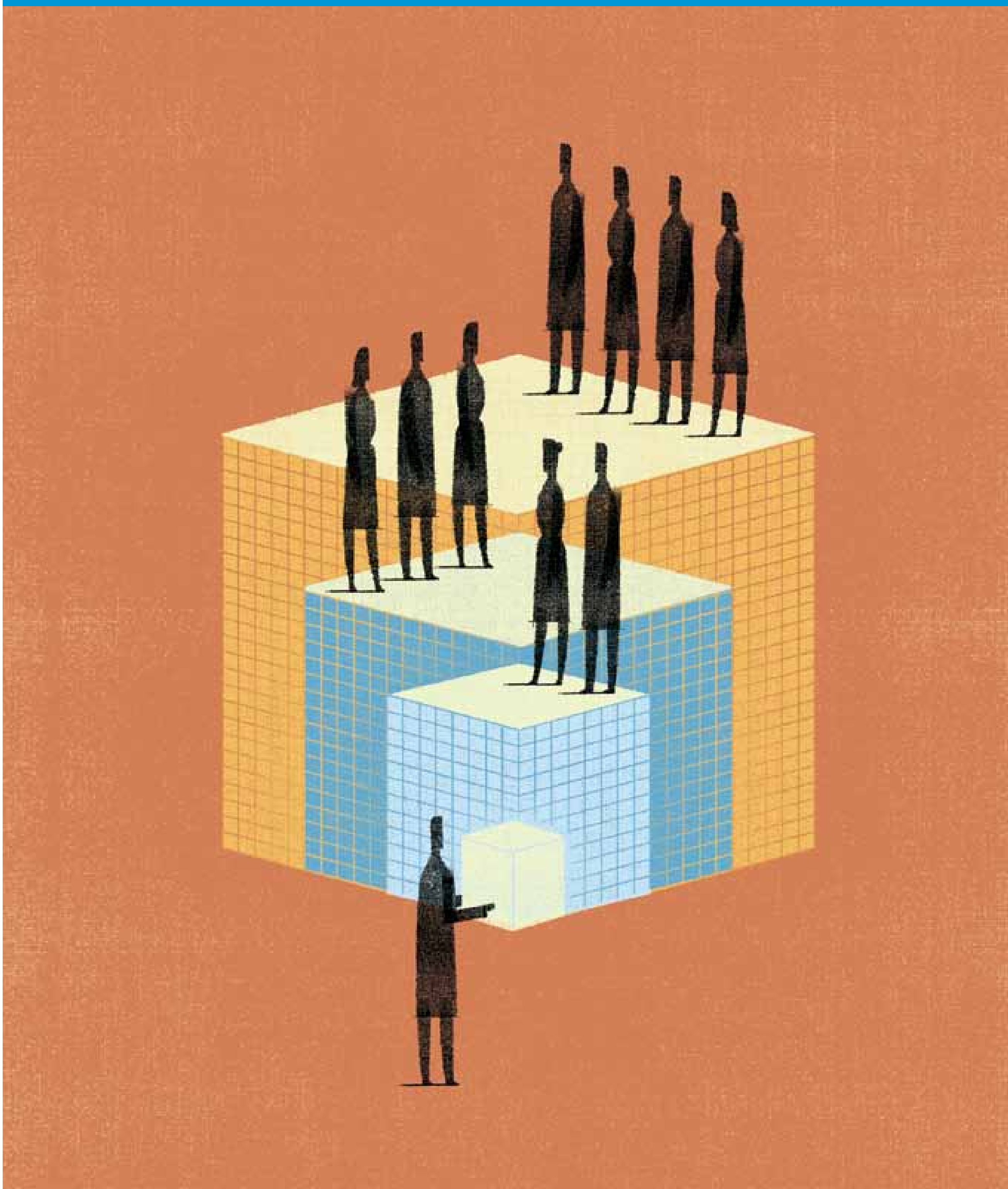
With our focus on developing new solutions, Powell has a keen eye on the importance of integration.

Design is crucial to create a seamless flow of critical system data and direct it to the people who must react to changes in status.

Here, our long-term experience in the field is invaluable. Our equipment is customized to work within each customer's specific circumstances, using interactive devices and sensors to monitor information, prompt decisions and suggest actions from among thousands of possibilities.

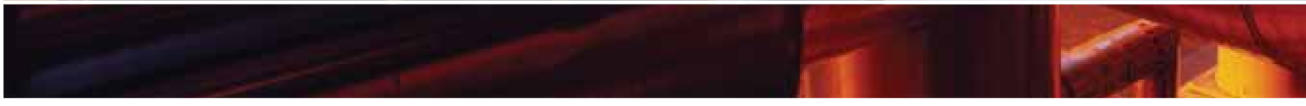
Thermal sensing technology — designed as an integrated component rather than an add-on — is an example of our recent pioneering work in remote intelligent distribution and communication technology.

We are constantly pushing the envelope of existing "smart" equipment to raise the levels of operator safety and customer reliability for the next generation.



PROGRESS THROUGH EXPANDED SERVICES

Today Powell is serving customers in more locations, in more industries and more capacities than ever before.



To increase our problem-solving capabilities, we ask, "Where are the gaps that need to be filled?"

Powell has always been more than a simple manufacturer. Throughout our history, we have changed our standard operating procedure to deliver more value to customers.

We applied our knowledge and design expertise to each of our custom-engineered products. We solved engineering challenges as projects grew larger and customers required services in demanding locations. We provided support in the servicing of equipment as it aged and regulations changed.

We stayed ahead of customers' changing needs in deliberate ways: By developing talent through constant training and mentoring. By opening offices and placing staff globally to be more accessible to clients. By acquiring companies whose expertise complemented ours. We also started operations from the ground up, leading us, for example, to power systems for the mass transit industry, to capture opportunity.

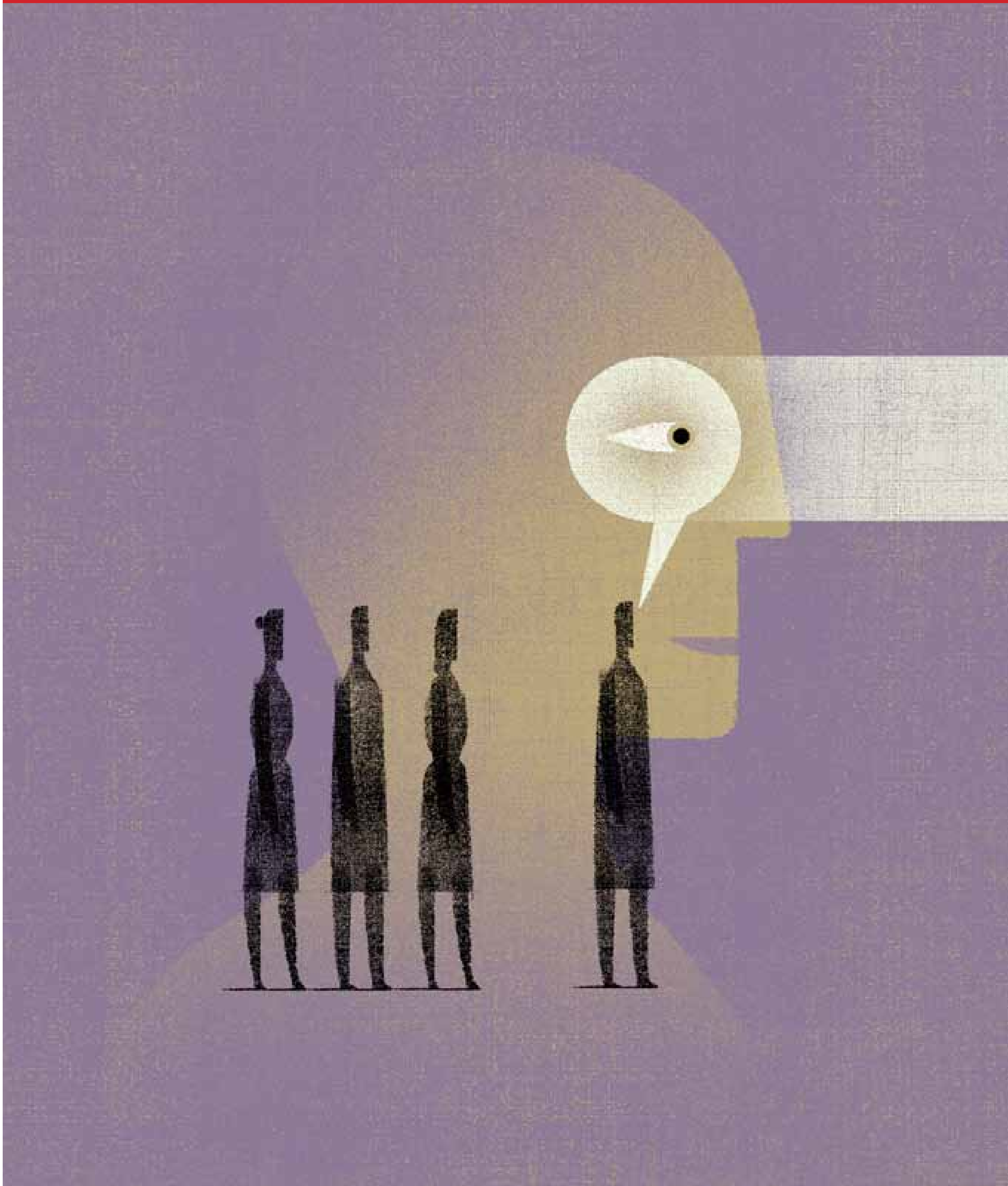
Today, our customers need our full-service approach more than ever.

Faced with limited resources, today's power, municipal, transportation and industrial customers rely on us for engineering expertise. They realize our knowledge means improved efficiency and reliability in the long run.

Two years ago, we enlarged both our global position and expertise in international standards with the acquisition of an IEC switchgear provider. This year, with our acquisition of Powell Canada, we gained a presence in this oil-rich country as well as an experienced workforce in the field. We continue to grow where our customers need us.

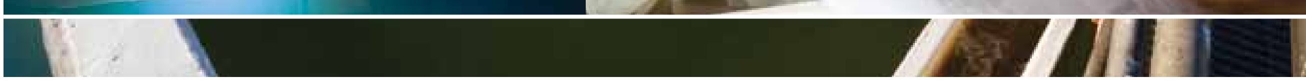
To help older power plants become safer, more energy-efficient and reliable, our service and maintenance group expanded its range of service. Again, our experience offers proven value to customers seeking technological and operational solutions to extend equipment life cycles.

Powell has always supplied control equipment for industrial and utility processes. As demand for energy increases and sources become more diverse, we expect our specialized solutions to apply to a wider range of customers.



PROGRESS
THROUGH
EXPERTISE

Over the years, our knowledge has transformed us from a reliable vendor of gray boxes to a valued provider of gray matter.



Customers rely on us to look for a solution. We're the ones who ask, "Have you thought about this?"

In another scenario, Powell might have been just another vendor supplying the switchgear piece of the puzzle in a power distribution substation.

But we earned a reputation for performance by developing relationships with our clients — taking on more responsibility — and assuming a wider view of our role in the design-construction process, especially with complex projects.

It was apparent that within the complexity of the delivery process, our experience could produce a dramatic improvement in the construction schedule and budget. Long-term clients also saw a marked difference in the long-term reliability and efficiency of their projects.

Today, our unique end-to-end perspective — supported by decades of experience — has become a marketable commodity.

Customers have come to depend on us not only for high-quality equipment and engineering design, but for information, guidance and education. Our knowledge has become a valued asset.

As a solutions provider, we see the equipment as simply the result of the process. The critical part for any complex project lies in the design, where issues are resolved and creative thinking is done.

Today, Powell is taking a more consultative role with our customers, applying our knowledge to current challenges they're facing.

We develop solutions, provide concept studies, offer facilitation for planning and scheduling, make recommendations on best practices — in short, we offer consulting services within our range of expertise.

We have always offered our services in a consultative fashion, collaborating with customers and sharing our knowledge base. But we are now, more than ever, on the customer's side of the table, continuing to push the edges of progress.

Progress ahead

Powell is a company with progressive vision.

We make it a point to see what conditions surround us and what might be coming next. We listen to customers in order to see the world through their eyes.

We have made the leap from listening to leading by imagining not only what is practical but also what is possible. What has potential. What could make it easier for our customers to do business, and for us to become a preferred supplier.

Along the course, we have become less of a vendor and more of an ally and advisor.

More and more, we are involved in the daily lives of our customers, ready to solve their problems and help them see and realize potential.

Our push for progress is what has led to growth and what will power our future. As always, Powell is ready to do what it takes to keep moving forward.

Board of Directors

Thomas W. Powell
Chairman of the Board
Powell Industries, Inc.

Patrick L. McDonald
President and CEO
Powell Industries, Inc.

Joseph L. Becherer
Executive Vice President
Eaton Corporation (Retired)

Eugene L. Butler
Director, Chairman and CFO
Deep Down, Inc.

James F. Clark
Vice President
Square D Corporation (Retired)

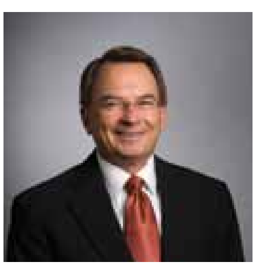
Christopher E. Cragg
Senior Vice President – Operations
Oil States International, Inc.

Bonnie Hancock
Executive Director – Enterprise
Risk Management Initiative
North Carolina State University

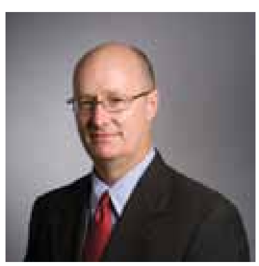
Stephen W. Seale, Jr.
Consultant,
Registered Professional Engineer

Robert C. Tranchon
President and CEO
Westinghouse Motor Company
(Retired)

Corporate Officers

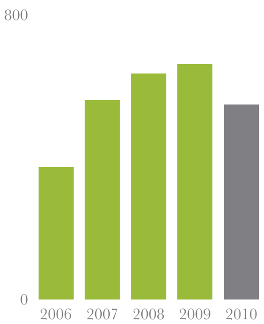


Don R. Madison
Executive Vice President,
Chief Financial and
Administrative Officer

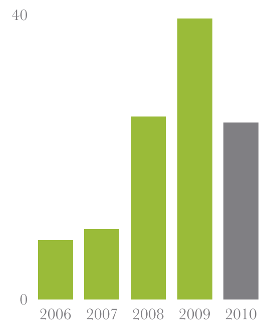


Milburn E. Honeycutt
Vice President and
Corporate Controller

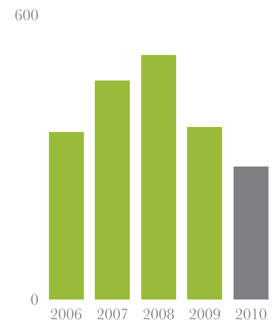
Consolidated Financial Highlights



Revenues
(in millions of dollars)



Net Income
(in millions of dollars)



Ending Backlog
(in millions of dollars)

	Years Ended September 30,				
	2006	2007	2008	2009	**2010**
(In thousands, except per-share data)					
Consolidated Statement of Operations Data					
Revenues	$ 374,547	$ 564,282	$ 638,704	$ 665,851	**$ 550,692**
Gross Profit	69,058	95,591	126,406	145,049	**142,057**
Net Income	8,409	9,913	25,847	39,717	**25,008**
Per-Share Data					
Basic Earnings	0.77	0.90	2.29	3.48	**2.17**
Diluted Earnings	0.76	0.88	2.26	3.43	**2.14**
Consolidated Balance Sheet Data					
Working Capital	94,888	101,274	150,699	165,861	**187,445**
Total Assets	292,678	341,015	397,634	404,840	**400,712**
Long-Term Debt	33,886	27,372	33,944	4,800	**5,202**
Total Stockholders' Equity	156,931	173,549	206,874	246,761	**277,303**

POWELL INDUSTRIES

2010 Financial Review

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 refer to the Company's filings with the Securities and Exchange Commission, copies of which are available from the Company without charge.

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.

Throughout fiscal years 2007 and 2008, we experienced strong market demand for our products and services. New investments in oil and gas infrastructure, as well as new investments by municipal and transit authorities to expand and improve public transportation, were key drivers of increased business volume with favorable margins in fiscal year 2009. Customer inquiries and requests for proposals remained strong throughout fiscal 2008 and the first half of fiscal 2009. Accordingly, we entered fiscal 2009 with a strong backlog of orders which resulted in record revenues in fiscal year 2009. Throughout the second half of 2009, customer inquiries and requests for proposal activity decreased and an increasing number of our customers began to cancel or delay the start of new capital projects for various reasons. This decreased our backlog of orders during 2009, and we began fiscal year 2010 with a backlog of $365.8 million, a $152.8 million decrease from the backlog of orders at the beginning of fiscal year 2009. The order backlog at September 30, 2010, was $282.3 million. This decline in orders related to large capital projects with favorable margins in the second half of fiscal 2009 and throughout fiscal year 2010 will reduce our revenues and gross profits in fiscal year 2011, as compared to fiscal years 2009 and 2010.

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 and maintenance 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. The operating results of Powell Canada are included in our Electrical Power Products business segment from the acquisition date. In conjunction with the acquisition of Powell Canada, on April 1, 2010, we finalized the acquisition of a 50% ownership in a joint venture in Kazakhstan. The Company has made a strategic decision to exit this joint venture. For further information on the Powell Canada acquisition, see Note D of Notes to Consolidated Financial Statements.

RESULTS OF OPERATIONS

Twelve Months Ended September 30, 2010 (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 as discussed above. 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 approximately $51.1 million of our international revenues during Fiscal 2010. Gross profit in Fiscal 2010 decreased by approximately $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 $524.2 million in Fiscal 2010, compared to $637.9 million in Fiscal 2009. In Fiscal 2010, revenues from public and private utilities were approximately $148.6 million compared to $154.3 million in Fiscal 2009. The acquisition of Powell Canada contributed approximately $51.1 million of revenue during Fiscal 2010. Revenues from commercial and industrial customers totaled $338.0 million in Fiscal 2010, a decrease of $94.5 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 25.5% in Fiscal 2010 compared to 20.9% 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 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 $26.5 million, a decrease from $28.0 million in Fiscal 2009. Business segment gross profit, as a percentage of revenues, decreased to 31.3% for Fiscal 2010, compared to 40.8% 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 approximately $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.

Impairment of Goodwill

An impairment of goodwill of approximately $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 approximately $0.2 million compared to Fiscal 2009. The decrease in interest expense was primarily due to lower amounts outstanding under our U.S. and U.K. credit facilities 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 approximately $7.5 million and the valuation allowance recorded on foreign deferred tax assets of approximately $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 will continue to negatively impact our revenues going into 2011.

FISCAL 2009 COMPARED TO TWELVE MONTHS ENDED SEPTEMBER 30, 2008 (FISCAL 2008)

Revenue and Gross Profit

Consolidated revenues increased $27.2 million to $665.9 million in Fiscal 2009 compared to $638.7 million in Fiscal 2008. Revenues increased as we responded to strong market demand by increasing our capacity and throughput. Domestic revenues increased by 10.0% to $516.0 million in Fiscal 2009 compared to $469.1 million in Fiscal 2008. International revenues decreased from $169.6 million in Fiscal 2008 to $149.9 million in Fiscal 2009, primarily as the result of changes in the British Pound Sterling-to-U.S. Dollar exchange rate. The increase in consolidated revenues was primarily due to an increased sales effort and strong market demand in Fiscal 2008 and the first half of Fiscal 2009. Gross profit in Fiscal 2009 increased by approximately $18.6 million compared to Fiscal 2008 as a result of our ability to absorb our fixed costs and improved pricing as a result of strong market activity.

Electrical Power Products

Our Electrical Power Products business segment recorded revenues of $637.9 million in Fiscal 2009, compared to $611.5 million in Fiscal 2008. In Fiscal 2009, revenues from public and private utilities were approximately $154.3 million compared to $171.8 million in Fiscal 2008. Revenues from commercial and industrial customers totaled $432.5 million in Fiscal 2009, an increase of $32.5 million compared to Fiscal 2008. Municipal and transit projects generated revenues of $51.1 million in Fiscal 2009 compared to $39.7 million in Fiscal 2008.

Business segment gross profit, as a percentage of revenues, was 20.9% in Fiscal 2009 compared to 19.3% in Fiscal 2008. The increase in gross profit as a percentage of revenues was attributable to efficiencies resulting from an increase in production volume and improved pricing as a result of strong market activity.

Process Control Systems

In Fiscal 2009, our Process Control Systems business segment recorded revenues of $28.0 million, up from $27.2 million in Fiscal 2008. Business segment gross profit increased as a percentage of revenues, to 40.8% for Fiscal 2009, compared to 30.2% for Fiscal 2008. This increase resulted from a favorable mix of jobs and increased efficiencies through regionalization of operations. Revenues and gross profit benefited in Fiscal 2009 by approximately $3.5 million and $2.8 million, respectively, due to 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 decreased to 12.0% of revenues in Fiscal 2009 compared to 12.6% of revenues in Fiscal 2008. Selling, general and administrative expenses decreased to $80.0 million in Fiscal 2009 compared to $80.4 million in Fiscal 2008. This decrease was primarily a result of decreased commissions and incentive compensation. Selling, general and administrative expenses as a percentage of revenues decreased primarily due to our ability to leverage our existing infrastructure to support our increased production volume, along with the timing of commissions related to new orders.

Interest Income and Expense

Interest expense was $1.1 million in Fiscal 2009, a decrease of approximately $1.8 million compared to Fiscal 2008. The decrease in interest expense was primarily due to lower interest rates and the lower amounts outstanding under our credit facility during Fiscal 2009.

Interest income was $0.1 million in Fiscal 2009 compared to $0.4 million in Fiscal 2008. This decrease resulted from lower interest rates being earned on amounts invested.

Income Tax Provision

Our provision for income taxes reflects an effective tax rate on earnings before income taxes of 34.2% in Fiscal 2009 compared to 35.3% in Fiscal 2008. The decrease in the effective tax rate resulted primarily from an agreement reached with the taxing authorities in the United Kingdom resulting in a reduction in tax expense of approximately $568,000 related to foreign tax credits from previous years.

Net Income Attributable to Powell Industries, Inc.

In Fiscal 2009, we recorded net income of $39.7 million, or $3.43 per diluted share, compared to $25.8 million, or $2.26 per diluted share, in Fiscal 2008. We generated higher revenues and improved gross profits for the Company as a whole, while leveraging our existing infrastructure to support our increased production volume. 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, 2009, was $365.8 million, compared to $518.6 million at September 30, 2008. New orders placed during Fiscal 2009 totaled $511.2 million compared to $705.4 million in Fiscal 2008. Our decline in backlog was due to the amount of projects completed being greater than the amount of orders received.

Liquidity and Capital Resources

Cash and cash equivalents increased to approximately $115.4 million at September 30, 2010, as a result of cash flow provided by operations of approximately $64.1 million for Fiscal 2010. The approximately $64.1 million of cash flow from operations resulted from net income and our continued efforts to manage inventory and billings to customers. As of September 30, 2010, current assets exceeded current liabilities by 2.6 times and our debt to total capitalization ratio was 2.4%.

At September 30, 2010, we had cash and cash equivalents of $115.4 million, compared to $97.4 million at September 30, 2009. We have a $58.5 million revolving credit facility in the U.S. and an additional £4.0 million (approximately $6.3 million) revolving credit facility in the United Kingdom, both of which expire in December 2012. As of September 30, 2010, there were no amounts borrowed under these lines of credit. We also have a $19.4 million revolving credit facility and a $2.4 million single advance term loan in Canada. At September 30, 2010, there was no balance outstanding under the Canadian revolving credit facility or the Canadian term loan. Total long-term debt and capital lease obligations, including current maturities, totaled $6.9 million at September 30, 2010, compared to $9.5 million at September 30, 2009. Letters of credit outstanding were $15.2 million and $17.6 million at September 30, 2010 and 2009, respectively, which reduce our availability under our credit facilities. Amounts available under the U.S. revolving credit facility and the revolving credit facility in the United Kingdom were approximately $43.3 million and $6.3 million, respectively, at September 30, 2010. Amounts available under the Canadian revolving credit facility were approximately $14.4 million at September 30, 2010. For further information regarding our debt, see Notes H and L of Notes to Consolidated Financial Statements.

Operating Activities

During Fiscal 2010, cash provided by operating activities was approximately $64.1 million. Cash flow from operations is primarily influenced by demand for our products and services and is impacted as our progress payment terms with our customers are matched with the payment terms with our suppliers. During Fiscal 2009, cash provided by operating activities was approximately $127.0 million. The increase in Fiscal 2009 cash flow from operations resulted primarily from net income and our increased efforts to manage inventory and billings to customers. During Fiscal 2008, cash used in operating activities was approximately $5.2 million. Cash flow from operations was negatively impacted as accounts receivable and inventories increased due to higher volume as a result of demand for our products and services.

Investing Activities

Investments in property, plant and equipment during Fiscal 2010 totaled approximately $4.4 million compared to $8.1 million and $3.4 million in Fiscal 2009 and 2008, respectively. During Fiscal 2010, we acquired Powell Canada for approximately $23.4 million. Additionally, approximately $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 enterprise resource planning system (ERP system).

There were no material proceeds from the sale of fixed assets in Fiscal 2010, 2009 or 2008. Proceeds from the sale of fixed assets in Fiscal 2009 were primarily from the sale of idled manufacturing facilities and equipment.

Financing Activities

Net cash used in financing activities was approximately $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 approximately $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. Net cash provided by financing activities was approximately $13.8 million in Fiscal 2008. The primary source of cash in financing activities in Fiscal 2008 was due to borrowings on the U.S. revolving line of credit and proceeds from the exercise of stock options, which were used to fund operations and capital expenditures.

Contractual and Other Obligations

At September 30, 2010, 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, 2010, Payments Due by Period:	Long-Term Debt Obligations	Capital Lease Obligations	Operating Lease Obligations	Total
Less than 1 year	$ 424	$ 1,403	$ 3,362	$ 5,189
1 to 3 years	842	830	5,002	6,674
3 to 5 years	833	23	729	1,585
More than 5 years	2,846	—	1	2,847
Total long-term contractual obligations	$ 4,945	$ 2,256	$ 9,094	$ 16,295

As of September 30, 2010, the total unrecognized tax benefit related to uncertain tax positions was approximately $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 due to 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 $18.2 million as of September 30, 2010, of which $15.2 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, 2010, Payments Due by Period:	Letters of Credit
Less than 1 year	$ 10,042
1 to 3 years	7,857
3 to 5 years	135
More than 5 years	156
Total long-term commercial obligations	$ 18,190

We also had performance and maintenance bonds totaling approximately $185.3 million that were outstanding at September 30, 2010. Performance and maintenance bonds are used to guarantee contract performance to our customers.

Outlook

We participate in large capital-intensive projects in the oil and gas, petrochemical, utility and transportation markets, which can take several years to plan and execute. Once our customers begin the construction phase, projects are typically completed. Our record revenues in Fiscal 2009 were driven by the large number and size of capital projects that were planned and initiated over the previous two years. However, our backlog of orders going into our fiscal year 2011 (Fiscal 2011) is approximately $282.3 million, a decrease of $83.5 million from the beginning backlog of orders going into Fiscal 2010. Throughout the second half of Fiscal 2009 and continuing into Fiscal 2010, customer inquiries and requests for proposal activity decreased and an increasing number of our customers cancelled or delayed the start of new capital projects. We believe these delays resulted from the short-term reduction in the demand for oil, uncertainty in the worldwide economy and financial markets, as well as increasing uncertainty as to the impact that potential regulatory changes could have on their business.

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 United States, 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 and pushed ridership to an all-time high, which will drive new investment in transit infrastructure. Opportunities for future projects continue; however, the timing of many of these projects is difficult to predict. The demand for our products and services will increase as investments in large capital-intensive infrastructure projects begins to receive funding and support.

We believe that cash available 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. 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.

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

We are subject to market risk resulting from changes in interest rates related to our floating rate bank credit facility. At September 30, 2010, $15.2 million was outstanding, bearing interest at approximately 2.5% per year. A hypothetical 100 basis point increase in variable interest rates would result in a total annual increase in interest expense of approximately $152,000. 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

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, 2010.

During Fiscal 2009 and Fiscal 2010, we entered into eight 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 are 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, 2010, we recorded a net liability of approximately $47,000 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.

POWELL INDUSTRIES, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	September 30, 2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 115,353	$ 97,403
Accounts receivable, less allowance for doubtful accounts of $907 and $1,607, respectively	91,766	114,274
Costs and estimated earnings in excess of billings on uncompleted contracts	38,064	46,335
Inventories, net	38,244	46,252
Income taxes receivable	6,726	695
Deferred income taxes	3,087	3,303
Prepaid expenses and other current assets	8,951	6,741
Total Current Assets	302,191	315,003
Property, plant and equipment, net	63,676	61,036
Goodwill	1,003	1,084
Intangible assets, net	26,132	21,305
Other assets	7,710	6,412
Total Assets	$ 400,712	$ 404,840
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital lease obligations	$ 1,683	$ 4,692
Income taxes payable	1,500	7,637
Accounts payable	41,850	48,124
Accrued salaries, bonuses and commissions	25,064	24,503
Billings in excess of costs and estimated earnings on uncompleted contracts	31,009	44,772
Accrued product warranty	5,929	7,558
Other accrued expenses	7,711	11,856
Total Current Liabilities	114,746	149,142
Long-term debt and capital lease obligations, net of current maturities	5,202	4,800
Deferred compensation	2,730	2,685
Postretirement benefit obligation	532	784
Other liabilities	199	212
Total Liabilities	123,409	157,623
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; 11,676,955 and 11,479,610 shares issued, respectively; 11,676,955 and 11,479,610 shares outstanding, respectively	117	115
Additional paid-in capital	34,546	29,970
Retained earnings	244,969	219,961
Accumulated other comprehensive income (loss)	(1,352)	(2,716)
Deferred compensation	(977)	(569)
Total Stockholders' Equity	277,303	246,761
Noncontrolling interest	—	456
Total Equity	277,303	247,217
Total Liabilities and Equity	$ 400,712	$ 404,840

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,	2010	2009	2008
Revenues	$ 550,692	$ 665,851	$ 638,704
Cost of goods sold	408,635	520,802	512,298
Gross profit	142,057	145,049	126,406
Selling, general and administrative expenses	84,457	79,954	80,416
Amortization of intangible assets	4,477	3,460	3,585
Impairment of goodwill	7,452	—	—
Operating income	45,671	61,635	42,405
Interest expense	870	1,107	2,892
Interest income	(260)	(131)	(355)
Income before income taxes	45,061	60,659	39,868
Income tax provision	19,894	20,734	14,072
Net income	25,167	39,925	25,796
Net (income) loss attributable to noncontrolling interest	(159)	(208)	51
Net income attributable to Powell Industries, Inc.	$ 25,008	$ 39,717	$ 25,847
Earnings per share attributable to Powell Industries, Inc.:			
Basic	$ 2.17	$ 3.48	$ 2.29
Diluted	$ 2.14	$ 3.43	$ 2.26
Weighted average shares:			
Basic	11,545	11,424	11,265
Diluted	11,693	11,591	11,452

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

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

(In thousands)

	Other Comprehensive Income	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Deferred Compensation	Total
Balance, September 30, 2007		11,144	$ 111	$ 16,854	$ 154,572	$ 2,557	$ (545)	$ 173,549
Net income	$ 25,847	—	—	—	25,847	—	—	25,847
Foreign currency translation adjustments	(2,395)	—	—	—	—	(2,395)	—	(2,395)
Amortization of deferred compensation-ESOP	—	—	—	—	—	—	387	387
Exercise of stock options	—	239	3	4,234	—	—	—	4,237
Stock-based compensation	—	—	—	2,166	—	—	—	2,166
Income tax benefit from stock options exercised	—	—	—	2,510	—	—	—	2,510
Amortization of restricted stock	—	—	—	290	—	—	134	424
Deferred compensation — restricted stock	—	7	—	111	—	—	—	111
Issuance of restricted stock	—	14	—	716	—	—	(716)	—
Adjustment from adoption of accounting guidance on the accounting for uncertainty in income taxes	—	—	—	40	(175)	—	—	(135)
Postretirement benefit adjustment, net of tax of $97	173	—	—	—	—	173	—	173
Total comprehensive income	23,625	—	—	—	25,847	(2,222)	—	23,625
Balance, September 30, 2008		11,404	114	26,921	180,244	335	(740)	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	—	622	—	—	(463)	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	29,970	219,961	(2,716)	(569)	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	1,113	—	—	(322)	792
Income tax benefit from stock options exercised	—	—	—	878	—	—	—	878
Amortization of restricted stock	—	—	—	—	—	—	467	467
Issuance of restricted stock	—	30	—	886	—	—	(553)	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	$ 34,546	$ 244,969	$ (1,352)	$ (977)	$ 277,303

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Year Ended September 30,	**2010**	**2009**	**2008**
Operating Activities:			
Net income	$ 25,167	$ 39,925	$ 25,796
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	9,154	7,493	8,133
Amortization	4,549	3,469	3,740
Impairment of goodwill	7,452	—	—
Stock-based compensation	1,929	2,256	2,592
Bad debt expense	410	959	637
Deferred income taxes	(348)	(1,447)	318
Changes in operating assets and liabilities:			
Accounts receivable, net	39,687	15,392	(27,146)
Costs and estimated earnings in excess of billings on uncompleted contracts	8,243	35,701	(14,062)
Inventories	12,320	25,884	(25,513)
Prepaid expenses and other current assets	(5,813)	(3,432)	657
Other assets	440	(194)	—
Accounts payable and income taxes payable	(20,281)	(4,891)	(4,916)
Accrued liabilities	(5,392)	(40)	10,422
Billings in excess of costs and estimated earnings on uncompleted contracts	(13,762)	5,789	13,773
Other	378	120	381
Net cash provided by (used in) operating activities	64,133	126,984	(5,188)
Investing Activities:			
Proceeds from sale of fixed assets	14	30	—
Purchases of property, plant and equipment	(4,420)	(8,081)	(3,428)
Purchase of noncontrolling interest – Powell Asia	(659)	—	—
Acquisition of Powell Canada	(23,394)	—	—
Net cash used in investing activities	(28,459)	(8,051)	(3,428)
Financing Activities:			
Borrowings on US revolving line of credit	—	50,953	229,480
Payments on US revolving line of credit	—	(69,953)	(212,480)
Payments on UK revolving line of credit	—	(2,388)	(1,596)
Payments on UK term loan	—	(4,223)	(2,343)
Borrowings on Canadian revolving line of credit	891	—	—
Payments on Canadian revolving line of credit	(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)	(5,563)
Payments on short-term and other financing	(1,087)	(13)	(52)
Proceeds from exercise of stock options	1,700	515	4,236
Tax benefit from exercise of stock options	209	291	2,510
Net cash (used in) provided by financing activities	(19,392)	(30,438)	13,792
Net increase in cash and cash equivalents	16,282	88,495	5,176
Effect of exchange rate changes on cash and cash equivalents	1,668	(1,226)	(299)
Cash and cash equivalents at beginning of year	97,403	10,134	5,257
Cash and cash equivalents at end of year	$ 115,353	$ 97,403	$ 10,134

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

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.

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) for $23.4 million, not including expenses. Powell Canada is headquartered in Edmonton, Alberta, Canada, and provides electrical and maintenance 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. The operating results of Powell Canada are included in our Electrical Power Products business segment from the acquisition date. In conjunction with the acquisition of Powell Canada, on April 1, 2010, we finalized the acquisition of a 50% ownership in a joint venture in Kazakhstan. Our interest in the net assets of the 50% ownership in the joint venture is recorded at its estimated net realizable value, as the Company has made a strategic decision to exit this joint venture. 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, goodwill, self-insurance, warranty accruals, income taxes, postretirement benefit obligations 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.

Supplemental Disclosures of Cash Flow Information (in thousands):

Year Ended September 30,	2010	2009	2008
Cash paid during the period for:			
Interest	$ 563	$ 439	$ 1,447
Income taxes, net of refunds	31,993	21,527	3,641

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 London interbank offered rate (LIBOR) or the bank's prime rate.

The deferred acquisition payable was discounted based on a rate of approximately 6.6%, which approximated our incremental borrowing rate for obligations of a similar nature. The carrying value of this debt approximates fair value. For additional information regarding the deferred acquisition payable, see Note H.

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, 2010 and 2009, accounts receivable included retention amounts of $9.0 million and $8.1 million, respectively. Retention amounts are in accordance with applicable provisions of engineering and construction contracts and become due upon completion of contractual requirements. Approximately $1.3 million of the retained amount at September 30, 2010, is expected to be collected subsequent to September 30, 2011.

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. See Note L — Commitments and Contingencies for a discussion related to certain costs recorded in costs and estimated earnings in excess of billings on uncompleted contracts.

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.

Impairment of Long-Lived Assets and Amortization of Intangible 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 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 long-lived assets and other intangibles and periodically review these estimates to determine whether these lives are appropriate.

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. 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, 2010, 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 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 $6.5 million, $6.0 million and $6.6 million in fiscal years 2010, 2009 and 2008, respectively.

Foreign Currency Translation

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

Stock-Based Compensation

We measure stock-based compensation cost at the grant date based on the fair value of the award and recognize it as expense over the applicable vesting period of the stock award (generally five years) 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.

The adoption of this accounting guidance did not have an impact on our consolidated financial position or results of operations. As a result of the adoption of this guidance, we have expanded our disclosures regarding derivative instruments and hedging activities within Note J.

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.

Fair Value Measurements

On October 1, 2008, we adopted authoritative guidance issued by the Financial Accounting Standards Board (FASB) related to fair value measurements. The authoritative guidance defines fair value, establishes a framework for measuring fair value under U.S. GAAP and expands disclosures about fair value measurements. The authoritative guidance was effective for us beginning October 1, 2008, for financial assets and liabilities. Refer to Note C for additional information regarding our fair value measurements for financial assets and liabilities. The changes became effective for non-financial assets and liabilities recognized or disclosed at fair value on a nonrecurring basis beginning October 1, 2009. The application of the authoritative guidance, as it relates to non-financial assets and liabilities, had no impact on our consolidated financial statements.

New Accounting Standards

In December 2007, the FASB issued accounting guidance on business combinations. The guidance establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The accounting guidance also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. The guidance is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008, and was adopted by us on October 1, 2009. Refer to Note D for additional information regarding our recent acquisition of Powell Canada and the impact of this guidance.

In December 2007, the FASB issued accounting guidance for noncontrolling interests in consolidated financial statements. This guidance establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The accounting guidance also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. The guidance is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008, and was adopted by us on October 1, 2009. This guidance did not have an impact on our consolidated financial position or results of operations, but did change the presentation of noncontrolling interests in our Consolidated Balance Sheets and Consolidated Statements of Operations.

In December 2008, the FASB issued accounting guidance on employers' disclosures about postretirement benefit plan assets. The disclosures about plan assets required by this guidance shall be provided for fiscal years beginning after December 15, 2009, and will be adopted by us in the first quarter of fiscal year 2011. We do not expect adoption of this guidance to have a material impact on our consolidated financial statements.

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 will become 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 will not have a material impact on our consolidated financial statements.

In April 2010, the FASB issued accounting guidance for the milestone method of revenue recognition. This guidance allows entities to make a policy election to use the milestone method of revenue recognition and provides guidance on defining a milestone and the criteria that should be met for applying the milestone method. The scope of this guidance is limited to transactions involving milestones relating to research and development deliverables. The guidance includes enhanced disclosure requirements about each arrangement, individual milestones and related contingent consideration, information about substantive milestones and factors considered in the determination. This guidance is effective prospectively to milestones achieved in fiscal years, and interim periods within those years, beginning after June 15, 2010. Early application and retrospective application are permitted. We have evaluated this new guidance and have determined that it will not currently have a significant impact on the determination or reporting of our financial results.

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.

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	**Significant Other Observable Inputs**	**Significant Unobservable Inputs**	**Fair Value at September 30, 2010**
	(Level 1)	**(Level 2)**	**(Level 3)**	
Assets				
Cash equivalents	$ 64,014	$ —	$ —	$ 64,014
Total	$ 64,014	$ —	$ —	$ 64,014
Liabilities				
Foreign currency forward contracts	$ —	$ 47	$ —	$ 47
Total	$ —	$ 47	$ —	$ 47

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, 2009 (in thousands):

	Fair Value Measurements at September 30, 2009			
	Quoted Prices in Active Markets for Identical Assets	**Significant Other Observable Inputs**	**Significant Unobservable Inputs**	**Fair Value at September 30, 2009**
	(Level 1)	**(Level 2)**	**(Level 3)**	
Assets				
Cash equivalents	$ 59,324	$ —	$ —	$ 59,324
Total	$ 59,324	$ —	$ —	$ 59,324
Liabilities				
Foreign currency forward contracts	$ —	$ 752	$ —	$ 752
Total	$ —	$ 752	$ —	$ 752

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, 2010. 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. ACQUISITION

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 and maintenance 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 expenses of approximately $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, approximately $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.

An additional contingent payment of up to approximately $7.6 million could have been payable after March 31, 2010, based on the earnings performance of Powell Canada and PowerComm's joint venture operations in Kazakhstan for the 12-month period ended March 31, 2010 (the Earnout). We have not recorded a liability related to the Earnout as it was not earned.

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

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 approximately $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. Our interest in the net assets of the 50% ownership in the joint venture is recorded at its estimated net realizable value as the Company has made a strategic decision to exit this joint venture.

Intangible assets recorded are approximately $9.0 million and will be amortized over an estimated weighted average life of approximately 8.4 years. Goodwill was recorded at approximately $7.2 million and will not be amortized. Goodwill represents the excess purchase price over the estimated fair value allocated to the net assets acquired and will be deductible for income tax purposes. The amount paid in excess of the fair value of the net assets acquired was to obtain an existing service and manufacturing presence in Canada and to strengthen our strategic position in the electrical power business, utilizing the combined capabilities of Powell Canada with our existing operations. See discussion of impairment in Note E.

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		7,180
Intangible assets		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

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

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, 2007, (in thousands, except per share data):

Year Ended September 30,	2009	2008
Revenues	$ 718,156	$ 706,830
Net income attributable to Powell Industries, Inc.	34,077	21,678
Earnings per share attributable to Powell Industries, Inc.:		
Basic	$ 2.98	$ 1.92
Diluted	$ 2.94	$ 1.89

Pro forma results for fiscal year 2010 are not included above as 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 9½ 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 approximately $7.5 million was recorded in fiscal year 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. No impairment was identified as a result of performing our annual impairment test for fiscal years 2009 or 2008.

Changes in our goodwill and intangible assets balances for the years ended September 30, 2010 and 2009, consisted of the following (in thousands):

	Goodwill	Intangible Assets
Balance at September 30, 2008	$ 1,084	$ 25,014
Amortization	—	(3,460)
Foreign currency translation adjustment	—	(249)
Balance at September 30, 2009	1,084	21,305
Acquisition of Powell Canada	7,180	9,043
Amortization	—	(4,477)
Impairment	(7,452)	—
Foreign currency translation adjustment	272	261
Other	(81)	—
Balance at September 30, 2010	$ 1,003	$ 26,132

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, 2010, 2009 and 2008, was approximately $4.5 million, $3.5 million and $3.6 million, respectively.

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

Years Ending September 30,	Total
2011	$ 3,444
2012	2,422
2013	2,209
2014	1,473
2015	1,375

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,	2010	2009	2008
Numerator:			
Net income attributable to Powell Industries, Inc.	$ 25,008	$ 39,717	$ 25,847
Denominator:			
Weighted average basic shares	11,545	11,424	11,265
Dilutive effect of stock options, restricted stock and restricted stock units	148	167	187
Weighted average diluted shares with assumed conversions	11,693	11,591	11,452
Net earnings per share:			
Basic	$ 2.17	$ 3.48	$ 2.29
Diluted	$ 2.14	$ 3.43	$ 2.26

All options were included in the computation of diluted earnings per share for the years ended September 30, 2010, 2009 and 2008, respectively, as the options' exercise prices were less than the average market price of our common stock.

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,	2010	2009
Balance at beginning of year	$ 1,607	$ 1,180
Increase to bad debt expense	422	959
Deductions for uncollectible accounts written off, net of recoveries	(1,168)	(631)
Increase due to foreign currency translation	46	99
Balance at end of year	$ 907	$ 1,607

Warranty Accrual

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

September 30,	2010	2009
Balance at beginning of year	$ 7,558	$ 6,793
Increase to warranty expense	1,118	5,124
Deductions for warranty charges	(2,703)	(4,008)
Decrease due to foreign currency translation	(44)	(351)
Balance at end of year	$ 5,929	$ 7,558

Inventories

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

September 30,	2010	2009
Raw materials, parts and subassemblies	$ 40,325	$ 43,968
Work-in-progress	4,646	8,597
Provision for excess and obsolete inventory	(6,727)	(6,313)
Total inventories	$ 38,244	$ 46,252

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,	2010	2009
Costs incurred on uncompleted contracts	$ 482,149	$ 552,805
Estimated earnings	138,836	136,603
	620,985	689,408
Less: Billings to date	613,930	687,845
Net underbilled position	$ 7,055	$ 1,563
Included in the accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts – underbilled	$ 38,064	$ 46,335
Billings in excess of costs and estimated earnings on uncompleted contracts – overbilled	(31,009)	(44,772)
Net underbilled position	$ 7,055	$ 1,563

Property, Plant and Equipment

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

	September 30, 2010	2009	Range of Asset Lives
Land	$ 7,641	$ 7,268	—
Buildings and improvements	52,627	51,056	3 - 39 Years
Machinery and equipment	61,877	51,977	3 - 15 Years
Furniture and fixtures	3,332	3,050	3 - 10 Years
Construction in process	1,384	3,771	—
	126,861	117,122	
Less: Accumulated depreciation	(63,185)	(56,086)	
Total property, plant and equipment, net	$ 63,676	$ 61,036	

Included in property and equipment are assets under capital lease of approximately $4.2 million and $246,000 at September 30, 2010 and 2009, with related accumulated depreciation of approximately $2.2 million and $246,000, respectively. Depreciation expense, including the depreciation of capital leases, was approximately $9.2 million, $7.5 million and $8.1 million for fiscal years 2010, 2009 and 2008, respectively.

H. LONG-TERM DEBT

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

September 30,	2010	2009
Industrial development revenue bonds	$ 4,800	$ 5,200
Capital lease obligations	2,085	—
Deferred acquisition payable	—	4,292
Subtotal long-term debt and capital lease obligations	6,885	9,492
Less current portion	(1,683)	(4,692)
Total long-term debt and capital lease obligations	$ 5,202	$ 4,800

The annual maturities of long-term debt as of September 30, 2010, were as follows (in thousands):

Year Ending September 30,	Long-Term Debt Maturities
2011	$ 1,683
2012	917
2013	662
2014	423
2015	400
Thereafter	2,800
Total long-term debt maturities	$ 6,885

US and UK Revolvers

In December 2007 and 2008, we amended our existing credit agreement (Amended Credit Agreement) with a major domestic bank and certain other financial institutions. These amendments to our credit facility were made to expand our US borrowing capacity to provide additional working capital support for the Company. The Amended Credit Agreement provides for a 1) $58.5 million revolving credit facility (US Revolver); 2) £4.0 million (pound sterling) (approximately $6.3 million) revolving credit facility (UK Revolver) and 3) £6.0 million (approximately $9.5 million) single advance term loan (UK Term Loan). The UK Term Loan was repaid in September 2009 and may not be reborrowed. Expenses associated with the issuance of the original credit agreement are classified as deferred loan costs, totaled $576,000 and are being amortized as a non-cash charge to interest expense. 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 from negative 0.5% to 0.5%, as determined by our consolidated leverage ratio, is added to the applicable rate. The floating interest rate for amounts outstanding under the Amended Credit Agreement for the UK Revolver is a floating rate based upon the LIBOR plus a margin which can range from 1.25% to 2.25%, as determined by our consolidated leverage ratio as defined within the Amended Credit Agreement.

The US Revolver and the UK Revolver provide for the issuance of letters of credit which would reduce the amounts available under the respective revolvers. The amount available under the US Revolver was reduced by approximately $15.2 million for our outstanding letters of credit at September 30, 2010. There were no letters of credit outstanding under the UK Revolver.

There were no borrowings under the US Revolver or the UK Revolver as of September 30, 2010. Amounts available under the US Revolver and the UK Revolver were approximately $43.3 million and $6.3 million, respectively, at September 30, 2010. The US Revolver and the UK Revolver expire on December 31, 2012.

The Amended Credit Agreement contains certain restrictive and maintenance-type covenants, including a restriction on our ability to pay dividends. 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 Tangible Net Worth — The Amended Credit Agreement requires consolidated tangible net worth (stockholders' equity, less intangible assets) as of the end of each quarter to be greater than the sum of $172,500,000, plus an amount equal to 50% of our consolidated net income for each fiscal quarter, plus an amount equal to 100% of the aggregate increase in stockholders' equity by reason of the issuance and sale of any equity interests.

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 the UK 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 for the quarter ended September 30, 2010, and thereafter. 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, 2010, 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. Expenses associated with the Canadian Facility were approximately $0.1 million and are classified as deferred loan costs in other assets and are being amortized as a non-cash charge to interest expense over two years.

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, 2010, there were no letters of credit outstanding under the Canadian Revolver.

There were no borrowings outstanding under the Canadian Revolver, and approximately $14.4 million was available at September 30, 2010. The amount available under the Canadian Revolver was reduced to approximately $14.4 million based upon the available borrowing base as defined in the Canadian Facility credit agreement. 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 0.3755% 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 US Revolver facility above. 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 credit agreement) occurs and is continuing, on the terms and subject to the conditions set forth in the Canadian Facility credit agreement, amounts outstanding under the Canadian Facility may be accelerated and may become immediately due and payable. As of September 30, 2010, we were in compliance with all of the financial covenants of the Canadian Facility credit agreement.

Canadian Term Loan

The Canadian Facility also provided for a single advance term loan of $2.5 million CAD (approximately $2.3 million) (the Canadian Term Loan). The Canadian Term Loan provided a single advance of $2.4 million for financing the acquisition of Powell Canada. The Canadian Term Loan was repaid in September 2010 and may not be reborrowed.

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) 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, 2010. 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, 2010, 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 0.55% per year on September 30, 2010.

Deferred Acquisition Payable

In connection with the acquisition of the Power/Vac® product line, $8.5 million of the total purchase price of $32.0 million was paid to General Electric Company at closing on August 7, 2006. The remaining balance of the purchase price of $23.5 million was payable in four installments every 10 months over the 40 months following the acquisition date, with the final installment being paid in December 2009. At September 30, 2010, there was no balance remaining related to the deferred acquisition payable.

I. INCOME TAXES

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

Year Ended September 30,	2010	2009	2008
Current:			
Federal	$ 18,126	$ 18,028	$ 10,487
State	1,750	2,910	1,628
Foreign	1,071	1,146	1,601
Deferred	(1,053)	(1,350)	356
Total income tax provision	$ 19,894	$ 20,734	$ 14,072

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

Year Ended September 30,	2010	2009	2008
U.S.	$ 53,467	$ 56,115	$ 35,089
Other than U.S.	(8,406)	4,544	4,779
Income from continuing operations before provision for income taxes	$ 45,061	$ 60,659	$ 39,868

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,	2010	2009	2008
Statutory rate	35 %	35 %	35 %
State income taxes, net of federal benefit	3	3	3
International withholding tax	—	(1)	—
Other permanent tax items	—	—	(1)
Foreign rate differential	1	(1)	(1)
Domestic production activities deduction	(2)	(2)	(1)
Foreign valuation allowance	7	—	—
Effective rate	44 %	34 %	35 %

Our provision for income taxes reflects an effective tax rate on earnings before income taxes of 44% in fiscal year 2010 compared to 34% and 35% in fiscal years 2009 and 2008, respectively. The increase in the effective tax rate resulted from a valuation allowance against deferred tax assets in Canada.

The revaluation of deferred taxes represents the impact of paying current taxes at a higher state effective tax rate than the effective tax rate that will be in effect when the resulting deferred tax asset or liability is scheduled to reverse. We have not recorded deferred income taxes on approximately $20.0 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 United States, multiple state jurisdictions and a few international jurisdictions, primarily the United Kingdom and in Canada as of December 15, 2009. For United States Federal income tax purposes, all years prior to 2007 are closed. The Internal Revenue Service (IRS) recently completed an examination of the returns for the 2005 and 2006 tax years. No material adjustments were identified during the examination. We do not consider any state in which we do business to be a major tax jurisdiction. We remain open to examination in the United Kingdom for tax years 2008 to the present.

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

September 30,	2010	2009
Current deferred income taxes:		
Gross assets	$ 8,057	$ 9,457
Gross liabilities	(4,970)	(6,154)
Net current deferred income tax asset	3,087	3,303
Noncurrent deferred income taxes:		
Gross assets	7,721	3,894
Gross liabilities	(5,634)	(2,703)
Net noncurrent deferred income tax asset	2,087	1,191
Net deferred income tax asset	$ 5,174	$ 4,494

At September 30, 2010 and 2009, the noncurrent deferred income tax asset was included in other assets on the Consolidated Balance Sheets.

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

September 30,	2010	2009
Allowance for doubtful accounts	$ 110	$ 40
Workers' compensation	200	388
Stock-based compensation	390	458
Reserve for accrued employee benefits	1,638	2,431
Warranty accrual	1,672	2,900
Uncompleted long-term contracts	(4,164)	(6,155)
Depreciation and amortization	1,291	(627)
Deferred compensation	999	1,062
Postretirement benefits liability	350	396
Accrued legal	88	93
Uniform capitalization and inventory	3,813	3,495
Software development costs	(461)	(488)
Goodwill impairment	2,122	—
Net operating loss	903	—
Valuation allowance on foreign deferred tax assets	(3,729)	—
Other	(48)	501
Net deferred income tax asset	$ 5,174	$ 4,494

At September 30, 2010, we had approximately $2.7 million of foreign net operating loss carryforward, which is subject to a 20-year carryforward. During the fourth quarter of the fiscal year ended September 30, 2010, we recorded a valuation allowance of $3.7 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 approximately $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 $135,000 as of September 30, 2010. A reconciliation of the beginning and ending amount of the unrecognized tax benefits follows (in thousands):

Balance as of September 30, 2009	$ 588
Increases related to tax positions taken during a prior period	331
Decreases related to expectations of statute of limitations	(78)
Balance as of September 30, 2010	$ 841

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, 2010, was not material.

There was no material change in the net amount of unrecognized tax benefits in the year ended September 30, 2010. Management believes that it is reasonably possible that within the next 12 months, the total unrecognized tax benefits will decrease by approximately 1% due to the expiration of certain statutes of limitations in various state and local jurisdictions.

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, 2010, we held only derivatives that were designated as cash flow hedges related to the U.S. Dollar/British Pound Sterling exchange rate.

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. The total notional amount of outstanding derivatives as of September 30, 2010, was approximately $1.5 million.

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	
(in thousands)	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
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 fair value of derivative instruments included with the Consolidated Balance Sheets as of September 30, 2009:

	Asset Derivatives		Liability Derivatives	
(in thousands)	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments				
Foreign exchange forwards	Prepaid expenses and other current assets	$ —	Other accrued expenses	$ 752
Foreign exchange forwards	Deferred income taxes	164	Other liabilities	—
Total derivatives		$ 164		$ 752

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

	Year Ended September 30, 2010		Year Ended September 30, 2010
	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives([1])	**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])**
Derivatives Designated			
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.

The following table presents the amounts affecting the Consolidated Statements of Operations for the year ended September 30, 2009:

	Year Ended September 30, 2009		Year Ended September 30, 2009
	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives([1])	**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])**
Derivatives Designated			
Derivatives designated as cash flow hedges:			
Foreign exchange forwards	$ (467)	Revenues	$ 22
Total designated cash flow hedges	$ (467)		$ 22

([1]) For the year ended September 30, 2009, 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.

Cash Flow Hedges

The purpose of our foreign currency hedging activities is to protect us from the risk that the eventual cash flows resulting from transactions that are denominated in currencies other than the U.S. Dollar will be adversely affected by changes in exchange rates. We are currently hedging our exposure to the reduction in value of forecasted foreign currency cash flows through foreign currency forward agreements through August 15, 2011, for transactions denominated in the British Pound Sterling.

All changes in the fair value of outstanding cash flow hedge derivatives, except the ineffective portion, are recorded in accumulated other comprehensive income, until net income is affected by the variability of cash flows of the hedged transaction, or until it is probable that the forecasted transaction will not occur. In most cases, amounts recorded in accumulated other comprehensive income will be released to net income some time after the maturity of the related derivative. The Consolidated Statements of Operations' classification of effective hedge results is the same as that of the underlying exposure. Results of hedges of revenue and product costs are recorded in revenue and costs of sales, respectively, when the underlying hedged transaction affects net income. Results of hedges of selling and administrative expense are recorded together with those costs when the related expense is recorded. In addition, any ineffective portion of the changes in the fair value of the derivatives designated as cash flow hedges are reported in the Consolidated Statements of Operations as the changes occur.

As of September 30, 2010, approximately $11,000 of deferred net losses (net of tax) on outstanding derivatives recorded in accumulated other comprehensive income are expected to be reclassified to net income during the next 12 months as a result of underlying hedged transactions being recorded in net income. Actual amounts ultimately reclassified to net income are dependent on the exchange rates in effect when the derivative contracts that are currently outstanding mature. As of September 30, 2010, the maximum term over which we are hedging exposure to the variability of cash flows for our forecasted and recorded transactions is 11 months.

We formally assess both at a hedge's inception and on an ongoing basis, whether the derivatives that are used in the hedging transaction have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. Effectiveness for cash flow hedges is assessed based on forward rates.

We discontinue hedge accounting prospectively when (1) we determine that the derivative is no longer highly effective in offsetting changes in the cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated or exercised; (3) it is no longer probable that the forecasted transaction will occur or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When we discontinue hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income and is reclassified to net income when the forecasted transaction affects net income. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were accumulated in other comprehensive income will be recognized immediately in net income. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, we will carry the derivative at its fair value on the balance sheet, recognizing future changes in the fair value in selling, general and administrative expense. For the year ended September 30, 2010, we recorded in selling, general and administrative expense an immaterial amount of ineffectiveness from cash flow hedges.

Credit Risk

We are exposed to credit-related losses in the event of non-performance by counterparties to hedging instruments. Recently, the ability of financial counterparties to perform under financial instruments has become less certain. We attempt to take into account the financial viability of counterparties in both valuing the instruments and determining their effectiveness as hedging instruments. If a counterparty was unable to perform, our ability to qualify for hedging certain transactions would be compromised and the realizable value of the financial instruments would be uncertain. As a result, our results of operations and cash flows would be impacted.

K. EMPLOYEE BENEFIT PLANS

401(k) Plan

We have a defined employee contribution 401(k) plan for substantially all of our employees. We match 100% of employee contributions up to an employee contribution of 4% of each employee's salary. We recognized expenses of $2.9 million, $3.0 million and $2.2 million in fiscal years 2010, 2009 and 2008, respectively, under this plan primarily related to matching contributions.

Employee Stock Ownership Plan

We had an employee stock ownership plan (ESOP) which initially purchased 793,525 shares of the Company's common stock from a major stockholder. The funding for this plan was provided through a loan from the Company of $4.5 million in 1992. This loan was repaid by the ESOP as of September 30, 2009. The Company has no current plans to contribute additional shares to the ESOP and has transferred the employees' shares in the ESOP to their respective 401(k) plan and terminated the ESOP during fiscal year 2010.

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 2010. Total assets held by the trustee and deferred compensation liabilities were $1.6 million at September 30, 2010.

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 $1.2 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 $3.8 million at September 30, 2010.

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 retire 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, 2010, the measurement of postretirement benefit expense was based on assumptions used to value the postretirement benefit liability as of October 1, 2009, our measurement date.

Amounts recognized in accumulated other comprehensive income as of September 30, 2010 and 2009, consisted of the following on a pretax basis (in thousands):

September 30,	2010	2009
Net actuarial gain	$ (1,113)	$ (1,067)
Prior service cost	167	282
Total recognized in accumulated other comprehensive income	$ (946)	$ (785)

Amounts in accumulated other comprehensive income as of September 30, 2010, expected to be recognized as components of net periodic postretirement benefit cost in 2011 were as follows (in thousands):

Net actuarial gain	$ (58)
Prior service cost	116
Total	$ 58

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,	2010	2009
Changes in postretirement benefit obligation:		
Balance at beginning of year	$ 741	$ 807
Service cost	33	60
Interest cost	39	59
Actuarial loss (gain)	(95)	(147)
Benefits paid	(55)	(38)
Balance at end of year	$ 663	$ 741
Change in plan assets:		
Fair value of assets at beginning of year	$ —	$ —
Employer contributions	55	38
Benefits paid	(55)	(38)
Fair value of assets at end of year	$ —	$ —
Reconciliation of funded status:		
Unfunded liability	$ (663)	$ (741)
Unrecognized prior service cost	167	282
Unrecognized net actuarial gain	(1,113)	(1,067)
Net liability recognized	$ (1,609)	$ (1,526)

	2010	2009
Weighted-average assumptions used to determine benefit obligations at September 30:		
Discount rate pre-retirement	0.00%	0.00%
Discount rate post-retirement	4.56	5.45
Current year trend rate	9.00	9.00
Ultimate trend rate	5.00	5.00
Year ultimate trend rate reached	2013	2012

If the medical care cost trend rate assumptions were increased or decreased by 1% as of September 30, 2010, the effect of this change on the accumulated postretirement benefit obligation and service and interest costs would be an increase of approximately $28,000 and $5,000 or a decrease of approximately $25,000 and $4,000, respectively.

Year Ended September 30,	2010	2009	2008
Components of net periodic postretirement benefit cost:			
Service cost	$ 33	$ 60	$ 52
Interest cost	39	59	49
Prior service cost	115	115	115
Net gain recognized	(49)	(75)	(79)
Net periodic postretirement benefit cost	$ 138	$ 159	$ 137

	2010	2009
Weighted-average assumptions used to determine benefit costs at September 30:		
Discount rate pre-retirement	0.00%	0.00%
Discount rate post-retirement	5.45	7.45
Current year trend rate	9.00	9.00
Ultimate trend rate	5.00	5.00
Year ultimate trend rate reached	2012	2011

Future expected benefit payments as of September 30, 2010, related to postretirement benefits for the subsequent five years were as follows (in thousands):

Year Ending September 30,	Expected Benefit Payments
2011	$ 62
2012	68
2013	58
2014	65
2015	55
2016 through 2020	284

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, 2010, 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
2011	$ 3,362
2012	3,014
2013	1,988
2014	728
2015	1
Thereafter	1
Total lease commitments	$ 9,094

Lease expense for all operating leases was $3.3 million, $3.1 million and $2.7 million for fiscal years 2010, 2009 and 2008, 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 $15.2 million as of September 30, 2010. We also had performance and maintenance bonds totaling approximately $185.3 million that were outstanding, with additional bonding capacity of approximately $114.7 million available, at September 30, 2010.

In March 2007, we renewed and amended our facility agreement (Facility Agreement) between S&I and a large international bank. The Facility Agreement provides S&I with 1) approximately $15.8 million in bonds; 2) approximately $4.0 million of forward exchange contracts and currency options and 3) the ability to issue bonds and enter into forward exchange contracts and currency options. At September 30, 2010, we had outstanding a total of approximately $3.0 million of contingent obligations under this Facility Agreement.

The Facility Agreement is secured by a guarantee from Powell. The Facility Agreement's principal financial covenants are the same as those discussed in Note H for the Amended Credit Facility. The Facility Agreement provides for 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. We do not believe that the ultimate conclusion of these disputes could materially affect our financial position or results of operations.

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 2010, 16,000 shares of restricted stock were issued at a price of $28.95 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 66,379 as of September 30, 2010.

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 approximately 33,000 as of September 30, 2010. 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.

In September 2006, our Board of Directors adopted, and in February 2007, our stockholders approved, the 2006 Equity Compensation Plan (the 2006 Plan), which became retroactively effective to September 29, 2006. Under 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. 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 common stock available under the plan was approximately 566,000 shares as of September 30, 2010.

In October 2009, 10,000 shares of restricted stock were issued to our President and Chief Executive Officer 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 October 2007, October 2008 and October 2009, we granted approximately 34,300, 32,900 and 34,700 restricted stock units (RSUs), respectively, with a fair value of $37.89, $40.81 and $38.36 per unit, respectively, to certain officers and key employees. 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, 2010, there were approximately 87,500 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, 2007	106,706	$ 31.86
Granted	31,353	37.68
Expired or cancelled	(19,591)	31.86
Vested/exercised	—	—
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

A total of approximately 566,000 shares of our common stock are available for issuance under the 2006 Plan at September 31, 2010.

We recorded compensation expense of approximately $1.3 million, $1.7 million and $2.3 million related to RSUs for the years ended September 30, 2010, 2009 and 2008, 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. There have been no stock options granted since July 2005. There were approximately 470,000 shares available to be granted under this plan as of September 30, 2010. During fiscal year 2010, approximately 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 2009 and 2008.

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

(in thousands)	Stock Options	Weighted Average Exercise Price	Remaining Weighted Average Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at September 30, 2007	505,450	$ 17.44		
Granted	—	—		
Exercised	(235,350)	17.79		
Forfeited	(2,800)	17.85		
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	1.72	$ 2,367
Exercisable at September 30, 2010	128,600	$ 18.41	1.72	$ 2,367

The following table summarizes information about stock options outstanding as of September 30, 2010:

	Outstanding			Exercisable	
Range of Exercise Prices	Number Outstanding at 09/30/10	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 09/30/10	Weighted Average Exercise Price
16.30 - 18.44	128,600	1.72	$ 18.41	128,600	$ 18.41
Total Options	128,600			128,600	

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. The operating results of Powell Canada are included in our Electrical Power Products business segment from December 16, 2009. 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.

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

Year Ended September 30,	2010	2009	2008
Revenues:			
Electrical Power Products	$ 524,236	$ 637,845	$ 611,470
Process Control Systems	26,456	28,006	27,234
Total	$ 550,692	$ 665,851	$ 638,704
Gross profit:			
Electrical Power Products	$ 133,778	$ 133,629	$ 118,171
Process Control Systems	8,279	11,420	8,235
Total	$ 142,057	$ 145,049	$ 126,406
Income (loss) before income taxes:			
Electrical Power Products	$ 44,557	$ 56,700	$ 38,241
Process Control Systems	504	3,959	1,627
Total	$ 45,061	$ 60,659	$ 39,868

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,	2010	2009	2008
Europe (including former Soviet Union)	$ 25,174	$ 30,582	$ 50,807
Far East	24,998	62,155	13,092
Middle East and Africa	25,880	28,405	55,960
North, Central and South America (excluding U.S.)	81,506	28,737	49,772
United States	393,134	515,972	469,073
Total revenues	$ 550,692	$ 665,851	$ 638,704

The United States is the only country that accounted for more than 10% of consolidated revenues in fiscal years 2010, 2009 or 2008.

September 30,	2010	2009
Long-lived assets:		
United States	$ 50,211	$ 53,503
United Kingdom	6,937	7,481
Canada	6,528	—
Other	—	52
Total	$ 63,676	$ 61,036

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, 2010 and 2009 (in thousands, except per share data):

	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 (loss) attributable to Powell Industries, Inc.	9,644	9,860	10,286	(4,782)	25,008
Basic earnings (loss) per share	0.84	0.86	0.89	(0.41)	2.17
Diluted earnings (loss) per share	0.83	0.85	0.88	(0.41)	2.14

	2009 Quarters				
	First	Second	Third	Fourth	2009
Revenues	$ 170,489	$ 164,099	$ 165,942	$ 165,321	$ 665,851
Gross profit	34,502	33,844	41,107	35,596	145,049
Net income attributable to Powell Industries, Inc.	7,853	8,852	13,138	9,874	39,717
Basic earnings per share	0.69	0.78	1.15	0.86	3.48
Diluted earnings per share	0.68	0.77	1.14	0.85	3.43

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.

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 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, 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 Securities Exchange Act of 1934, as amended) 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 Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934. Our internal control system was 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. Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become 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, 2010. Management evaluated the effectiveness of internal control over financial reporting based on the criteria in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management's evaluation, management has concluded that internal control over financial reporting was effective at the reasonable assurance level as of September 30, 2010, based on criteria in Internal Control — Integrated Framework issued by the COSO.

The evaluation did not include an assessment of internal control over financial reporting related to Powell Canada as it was acquired in December 2009 in a purchase business combination. Total revenues and total assets of Powell Canada represents 9% and 10%, respectively, of the related consolidated financial statement amounts as of and for the year ended September 30, 2010 (see Note D to the Notes to Consolidated Financial Statements).

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited and issued their report on the effectiveness of our internal control over financial reporting as of September 30, 2010, which appears in their report to the financial statements included herein.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the year ended September 30, 2010, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2010 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A on page xx of the Powell Industries, Inc. 2010 Annual report to Shareholders under the heading "Management's Report on internal Controls Over Financial Reporting." Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

As described in Management's Report on Internal Control over Financial Reporting appearing under Item 9A on page xx of the Powell Industries, Inc. 2010 Annual report to Shareholders under the heading "Management's Report on internal Controls Over Financial Reporting.", management has excluded Powell Canada from its assessment of internal control over financial reporting as of September 30, 2010 because it was acquired by the Company in a purchase business combination in December 2009. We have also excluded Powell Canada from our audit of internal control over financial reporting. Powell Canada is a wholly-owned subsidiary whose total assets and total revenues represent 10% and 9%, respectively, of the related consolidated financial statement amounts as of and for the year ended September 30, 2010.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Houston, Texas
December 8, 2010

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