

POWELL INDUSTRIES INC
Form 10-K
December 02, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
Commission File Number 001-12488

Powell Industries, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	88-0106100 (I.R.S. Employer Identification No.)
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8550 Mosley Road

Houston, Texas (Address of principal executive offices)	77075-1180 (Zip Code)
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Registrant's telephone number, including area code:

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(713) 944-6900

Securities registered pursuant to section 12(b) of the Act:

Title of each class: registered:	Name of each exchange on which
Common Stock, par value \$.01 per share	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of Act:

None

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

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

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

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

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

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

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$403 million as of March 31, 2015, based upon the closing price on the NASDAQ Global Market on that date. For purposes of the calculation above only, all directors, executive officers and beneficial owners of 5% or more are considered to be "affiliates."

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At November 27, 2015, there were 11,414,584 outstanding shares of the registrant's common stock, par value \$0.01 per share.

Documents Incorporated By Reference

Portions of the registrant's definitive Proxy Statement for the 2016 annual meeting of stockholders to be filed not later than 120 days after September 30, 2015, are incorporated by reference into Part III of this Form 10-K.

POWELL INDUSTRIES, INC.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS;

RISK FACTORS

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

Forward-Looking Statements

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

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

PART I

Item 1. Business

Overview

Powell Industries, Inc. was incorporated in the state of Delaware in 2004 as a successor to a Nevada company incorporated in 1968. The Nevada corporation was the successor to a company founded by William E. Powell in 1947, which merged into the Company in 1977. We are headquartered in Houston, Texas, and our major subsidiaries, all of which are wholly owned, include: Powell Electrical Systems, Inc.; Powell (UK) Limited; Powell Canada Inc. and Powell Industries International, B.V.

Our website is powellind.com. We make available, free of charge on or through our website, copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as is reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). Additionally, all of our reports filed with the SEC are available via their website at <http://www.sec.gov>, or may be read and copied at the SEC Public Reference Room at 100 F Street, NE, Washington, DC 20549.

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

References to Fiscal 2015, Fiscal 2014 and Fiscal 2013 used throughout this Annual Report relate to our fiscal years ended September 30, 2015, 2014 and 2013, respectively.

Revenues from customers located in the United States of America (U.S.) accounted for approximately 72%, 56% and 58% of our consolidated revenues for Fiscal 2015, 2014 and 2013, respectively. Revenues from customers located in Canada accounted for approximately 15%, 21% and 18% of consolidated revenues for Fiscal 2015, 2014 and 2013, respectively. Approximately 62% of our long-lived assets were located in the U.S. at September 30, 2015, with the remaining long-lived assets located primarily in Canada and the United Kingdom (U.K.). Detailed geographic information is included in Note L of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

We previously reported two business segments: Electrical Power Products and Process Control Systems. In January 2014, we sold our wholly owned subsidiary Transdyn Inc. (Transdyn) which was reported in our Process Controls business segment. We have presented the results of these operations as income from discontinued operations, net of

tax, for each of the accompanying consolidated statements of operations. While this sale did not result in a material disposition of assets or material reduction to income before income taxes relative to our consolidated financial statements, the revenues, gross profit, income before income taxes and assets of Transdyn comprised a significant majority of those respective amounts previously reported in our Process Control Systems business segment. As we previously reported only two business segments, Electrical Power Products and Process Control Systems, we have removed the presentation of business segments in this Annual Report. Additionally, all current and historical financial information presented in this Annual Report excludes the financial information for Transdyn or presents it as discontinued operations where applicable. For more information about this disposition, see Note N of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Customers and Markets

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

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

Due to the nature and timing of large projects, a significant percentage of revenues in a given period may result from one specific contract or customer. Although we could be adversely impacted by a significant reduction in business volume from a particular industry, we do not believe the loss of any specific customer would have a material adverse effect on our business. However, from time to time, an individual manufacturing facility may have significant volume from one particular customer which would be material to that facility. No customer accounted for more than 10% of our revenues in Fiscal 2015, Fiscal 2014 or Fiscal 2013.

Competition

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

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

Backlog

Backlog represents the dollar amount of revenue that we expect to realize from work to be performed on uncompleted contracts, including new contractual agreements on which work has not begun. Our methodology for determining backlog may not be comparable to the methodology used by other companies. Orders included in our backlog are represented by customer purchase orders and contracts, which we believe to be firm. Our backlog at September 30, 2015 totaled \$441.4 million compared to \$507.1 million at September 30, 2014. We anticipate that approximately \$374 million of Fiscal 2015 ending backlog will be fulfilled during our fiscal year ending September 30, 2016. Backlog may not be indicative of future operating results as orders in our backlog may be cancelled or modified by

our customers.

Raw Materials and Suppliers

The principal raw materials used in our operations include steel, copper and aluminum and various electrical components. Material costs represented 46% of revenues in Fiscal 2015 compared to 48% of revenues in Fiscal 2014. Unanticipated changes in material requirements, disruptions in supplies or price increases could impact production costs and affect our results of operations.

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

Our business is subject to the effects of changing material prices. During the last three fiscal years, we have not experienced significant price volatility for raw materials or component parts used in the production of our products. While the cost outlook for commodities used in the production of our products is not certain, we believe we can manage this volatility through contract pricing adjustments, with material-cost predictive estimating and by actively pursuing internal cost reduction efforts. We did not enter into any derivative contracts to hedge our exposure to commodity price changes in Fiscal 2015, 2014 or 2013.

Employees

At September 30, 2015, we had 2,803 full-time employees located primarily in the United States, Canada and the United Kingdom. Our employees are not represented by unions, and we believe that our relationship with our employees is good.

Intellectual Property

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

Item 1A. Risk Factors

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

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

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

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

We have a backlog of uncompleted contracts. Backlog represents the dollar amount of revenue that we expect to realize from work to be performed on uncompleted contracts, including new contractual agreements on which work has not begun. From time to time, projects are cancelled that appeared to have a high certainty of going forward at the time the order was recorded. In the event of a project cancellation, or modification, we may be reimbursed for certain costs but may not have a contractual right to the total revenue reflected in our backlog. In addition to our being unable to recover certain direct costs, cancelled projects may also result in additional unrecoverable costs due to the underutilization of our assets. Accordingly, the amounts recorded in backlog may not be a reliable indicator of our future earnings.

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

As discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates” and in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report, the majority of our revenues are recognized on the percentage-of-completion method of accounting. Under the percentage-of-completion method of accounting, revenues are recognized as work is performed. The revenue earned to date is calculated by multiplying the total contract price by the percentage of performance to date, which is based on total costs or total labor dollars incurred to date compared to the total estimated costs or total labor dollars estimated at completion. The method used to determine the percentage of completion is typically the cost method, unless the labor method is a more accurate method of measuring the progress of the project. Application of the percentage-of-completion method of accounting requires the use of estimates of costs to be incurred for the performance of the contract. The cost estimation process is based upon the professional knowledge and experience of our engineers, project managers and

financial professionals. Contract losses are recognized in full when determined, and estimates of revenue and cost to complete are adjusted based on ongoing reviews of estimated contract performance. Previously recorded estimates are adjusted as the project progresses and circumstances change. In certain circumstances, it is possible that such adjustments to costs and revenues could have a significant impact on our operating results for any fiscal quarter or year.

The majority of our contracts contain performance obligations that may subject us to penalties or additional liabilities.

Most of our customer contracts have schedule and performance obligation clauses that, if we fail to meet them, could subject us to penalty provisions, liquidated damages or claims against our outstanding letters of credit or performance bonds. In addition, some customer contracts stipulate protection against gross negligence or willful misconduct. Each individual contract defines the conditions under which the customer may make a claim against us. It is possible that adjustments arising from such claims, or our failure to manage our contract risk, could have a significant impact on our operating results for any fiscal quarter or year.

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

Our material costs represented 46% of our consolidated revenues for Fiscal 2015. We purchase a wide variety of materials and component parts to manufacture our products, including steel, aluminum, copper and various electrical components. Unanticipated increases in raw material requirements, changes in supplier availability or price increases could increase production costs and adversely affect profitability as fixed-price contracts may prohibit our ability to charge the customer for the increase in raw material prices. Our supply base for certain key electrical components is limited. Our ability to meet customer commitments could be negatively impacted due to the time and effort associated with the selection and qualification of a new supplier and changes in our design to accommodate similar components from other suppliers. Additionally, we rely on certain competitors for key materials used in our products. This could put us at risk if the relationships change or become adversarial.

Our industry is highly competitive.

Some of our competitors are significantly larger and have substantially greater resources. Competition in the industry depends on a number of factors, including technical ability, production capacity, location and price. Certain of our competitors may have lower cost structures and may, therefore, be able to provide their products or services at lower prices than we are able to provide. Similarly, we cannot be certain that we will be able to maintain or enhance our competitive position within our industry, maintain our customer base at current levels or increase our customer base. New companies may enter the markets in which we compete, or industry consolidation may occur, further increasing competition in our markets which could affect future sales and have a material impact on our results of operations.

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

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

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

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

Our international operations expose us to risks that are different from, or possibly greater than, the risks we are exposed to domestically and may adversely affect our operations.

Revenues with customers located outside of the U.S., including sales from our operations in the United Kingdom and Canada, accounted for approximately 28% of our consolidated revenues in Fiscal 2015. While our manufacturing facilities are located in

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

Acquisitions involve a number of risks.

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

Our operating results may vary significantly from quarter to quarter.

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

The departure of key personnel could disrupt our business.

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

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

Our ability to maintain our productivity and profitability may be limited by our ability to employ, train and retain personnel necessary to meet our requirements. We may experience shortages of qualified personnel such as engineers,

project managers and select skilled trades. We cannot be certain that we will be able to maintain an adequate skilled labor force or key technical personnel necessary to operate efficiently and to support our growth strategy and operations. We cannot be certain that our labor expenses will not increase as a result of a shortage in the supply of skilled and technical personnel. Labor shortages or increased labor costs could impair our ability to maintain our business, meet customer commitments or grow our revenues, and may adversely impact our results of operations.

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

We could be named as a defendant in future legal proceedings that claim damages in connection with the operation of our business. Most of the actions against us arise out of the normal course of our performing services or manufacturing equipment. From time to time, we may be a plaintiff in legal proceedings against customers in which we seek to recover payment of contractual amounts due to us, as well as claims for increased costs incurred by us. When appropriate, we establish provisions against certain legal exposures, and we adjust such provisions from time to time according to ongoing developments related to each exposure, as well as any potential recovery from our insurance, if applicable. If, in the future, our assumptions and estimates related to such exposures prove to be

inadequate or wrong, or our insurance coverage is insufficient, our consolidated results of operations, cash flows and financial condition could be adversely affected. In addition, claims, lawsuits and proceedings may harm our reputation or divert management resources away from operating our business.

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

The efficient execution of our business is dependent upon the proper functioning of our Business Systems that support our production, engineering, human resources, estimating, financial, project management and customer systems. These systems may be susceptible to outages due to natural disaster, power loss, telecommunications failures, break-ins, computer viruses, cyber-attacks or other unauthorized access. Additionally, a material network breach of our ERP system could involve the theft of proprietary or customer data which may be used by competitors. The occurrence of any of these or other events could disrupt or damage our Business Systems and adversely affect our business or results of operations.

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

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

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

Changes in and compliance with environmental laws could adversely impact our financial results.

Private lawsuits or enforcement actions by federal, state, provincial or foreign regulatory agencies may materially increase our costs. Certain environmental laws may make us potentially liable for the remediation of contamination at or emanating from our properties or facilities. Although we seek to obtain indemnities against liabilities relating to historical contamination at the facilities we own or operate, we cannot provide any assurance that we will not incur liabilities relating to the remediation of potential contamination, including contamination we did not cause.

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

All of the products that we manufacture and sell depend upon the best available technology for success in the marketplace. This competitive environment is highly sensitive to technological innovation and customer requirements.

It is possible for competitors (both domestic and international) to develop products or production methods that will make current products or methods obsolete or at least hasten their obsolescence; therefore, we cannot be certain that our competitors will not develop the expertise, experience and resources to provide products and services that are superior in both price and quality.

Catastrophic events could disrupt our business.

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

Unforeseen difficulties with expansions, relocations or consolidations of existing facilities could adversely affect our operations.

From time to time we may decide to enter new markets, build additional facilities, expand our existing facilities or relocate or consolidate one or more of our operations. Increased costs and production delays arising from the staffing, relocation, expansion or consolidation of our facilities could adversely affect our operations and may adversely impact our profitability.

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

Oil and gas prices have been, and are expected to, remain unpredictable. Unfavorable commodity price levels can cause oil and gas companies to change their strategies, delay or cancel projects. The price for oil and gas can be influenced by many factors, including global economic growth, inventory levels and supply and demand for these commodities. These factors could cause oil and gas prices to decrease which could result in a decrease in customer projects that would adversely impact our business and our results. Continued periods of reduced oil and gas prices will negatively impact our business and our consolidated results of operations, cash flows and financial position.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

Our principal locations as of September 30, 2015, are as follows:

Location	Description	Acres	Approximate Square Footage	
			Owned	Leased
Houston, TX	Corporate office and manufacturing facility	21.4	428,515	—
Houston, TX	Office and manufacturing facility	53.4	290,554	—
Houston, TX	Office, fabrication facility and yard	63.3	82,320	—
North Canton, OH	Office and manufacturing facility	8.0	115,200	—
Northlake, IL	Office and manufacturing facility	10.0	103,500	—
Bradford, United Kingdom	Office and manufacturing facility	7.9	129,200	—
Acheson, Alberta, Canada	Office and manufacturing facility	20.1	330,168	—
Calgary, Alberta, Canada	Office and manufacturing facility	—	—	8,200

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

In Fiscal 2015, we completed the expansion of our Acheson, Alberta, Canada facility. The expansion cost approximately \$26 million, funded by cash on hand, and increased the manufacturing capacity of that facility by approximately 144,000 square feet.

Item 3. Legal Proceedings

We are involved in various legal proceedings, claims and other disputes arising from our commercial operations, projects, employees and other matters which, in general, are subject to uncertainties and in which the outcomes are not predictable. Although we can give no assurances about the outcome of pending legal proceedings, claims and other disputes, we do not believe that the ultimate conclusion of these disputes could materially affect our results of operations, cash flow and financial position.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Price Range of Common Stock

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

	High	Low
Fiscal 2014:		
First Quarter	\$68.86	\$60.87
Second Quarter	69.50	59.17
Third Quarter	65.40	60.20
Fourth Quarter	67.65	40.86
Fiscal 2015:		
First Quarter	\$51.33	\$38.12
Second Quarter	49.93	31.54
Third Quarter	39.45	32.54
Fourth Quarter	35.44	25.60

As of November 27, 2015, the closing price of our common stock on the NASDAQ was \$34.96 per share. As of November 27, 2015, there were 416 stockholders of record of our common stock. All common stock held in street names are recorded in the Company’s stock register as being held by one stockholder.

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

Dividend Policy

In November 2013, our Board of Directors (the Board) elected to begin the payments of quarterly cash dividends. In Fiscal 2014, we paid \$12.0 million in dividends. In November 2014, the Board elected to increase our quarterly cash dividend by 4% to \$0.26 per share from \$0.25 per share. This increase was effective beginning with the first quarter of Fiscal 2015 and in Fiscal 2015 we paid \$12.4 million in dividends. The Board anticipates declaring cash dividends in future quarters; however, there is no assurance as to future dividends or their amounts because they depend on future earnings, capital requirements and financial condition.

Issuer Purchases of Equity Securities

The table below summarizes information about our purchases of common stock, based on settlement date, during the quarter ended September 30, 2015:

	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Average Price Paid per Share ⁽¹⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
July 1 - July 31	—	\$ —	—	\$12,477,375
August 1 - August 31	170,000	27.97	170,000	7,722,717
September 1 - September 30	137,220	29.02	137,220	3,740,770
Total activity for the quarter ended September 30, 2015	307,220	\$ 28.44	307,220	\$3,740,770

(1) Includes commissions.

(2) On December 18, 2014, we announced that on December 17, 2014 our Board of Directors authorized a repurchase program (the Repurchase Program) under which we may repurchase up to \$25 million of our outstanding stock. The Repurchase Program will expire as of the close of business on December 31, 2015.

Performance Graph

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

The following graph compares, for the period from October 1, 2010 to September 30, 2015, the cumulative stockholder return on our common stock with the cumulative total return on the NASDAQ Market Index and the Industrial Electrical Equipment Group (a select group of peer companies – Altra Industrial Motion Corp.; Ameresco, Inc.; AZZ Inc.; Belden Inc.; Daktronics Inc./SD; Electro Scientific Industries, Inc.; EnerSys; Franklin Electric Co, Inc.; GrafTech International Ltd; Littelfuse Inc./DE; LSI Industries Inc.; Preformed Line Products; A O Smith Corporation and Woodward, Inc.). The comparison assumes that \$100 was invested on October 1, 2010, in our common stock, the NASDAQ Market Index and the Industrial Electrical Equipment Group, and that all dividends were re-invested. The stock price performance reflected on the following graph is not necessarily indicative of future stock price performance.

Item 6. Selected Financial Data

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

	Years ended September 30,				
	2015	2014	2013	2012	2011
Statement of Operations:	(In thousands, except per share data)				
Revenues	\$661,858	\$647,814	\$640,867	\$690,741	\$536,623
Cost of goods sold	553,597	522,340	502,375	557,938	444,861
Gross profit	108,261	125,474	138,492	132,803	91,762
Selling, general and administrative expenses	76,801	87,756	79,707	76,961	71,934
Research and development expenses	6,980	7,608	7,615	6,286	6,435
Amortization of intangible assets	435	779	1,659	2,599	4,752
Restructuring and relocation expenses	3,397	—	3,927	—	—
Impairments	—	—	—	—	7,158
Operating income	20,648	29,331	45,584	46,957	1,483
Gain on sale of investment	—	—	—	—	(1,229)
Gain on settlement	—	—	(1,709)	—	—
Other income	(2,402)	(1,522)	—	—	—
Interest expense (net)	59	165	167	158	194
Income from continuing operations before income taxes	22,991	30,688	47,126	46,799	2,518
Income tax provision (1)	13,552	11,068	7,387	18,056	6,190
Income (loss) from continuing operations	9,439	19,620	39,739	28,743	(3,672)
Income from discontinued operations, net of tax	—	9,604	2,337	914	957
Net income (loss)	\$9,439	\$29,224	\$42,076	\$29,657	\$(2,715)
Earnings (loss) per share:					
Continuing operations	\$0.80	\$1.63	\$3.32	\$2.43	\$(0.31)
Discontinued operations	—	0.80	0.20	0.07	0.08
Basic earnings (loss) per share	\$0.80	\$2.43	\$3.52	\$2.50	\$(0.23)
Continuing operations	\$0.79	\$1.62	\$3.32	\$2.41	\$(0.31)
Discontinued operations	—	0.80	0.19	0.08	0.08
Diluted earnings (loss) per share	\$0.79	\$2.42	\$3.51	\$2.49	\$(0.23)

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

	Years ended September 30,				
	2015	2014	2013	2012	2011
Balance Sheet Data:	(In thousands)				
Cash and cash equivalents	\$43,569	\$103,118	\$107,411	\$89,669	\$123,161
Property, plant and equipment, net	154,594	156,896	144,495	78,489	59,416

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Total assets	468,824	541,443	530,903	448,312	421,676
Long-term debt and capital lease obligations, including current maturities	2,800	3,200	3,616	4,355	5,441
Total stockholders' equity	333,262	371,097	355,226	310,103	275,343
Total liabilities and stockholders' equity	468,824	541,443	530,903	448,312	421,676
Dividends paid on common stock	12,358	11,998	—	—	—

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

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

Overview

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

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

Our operating results have been negatively impacted by factors such as our operational inefficiencies, our inability to meet contractual commitments on existing projects, customer approval of engineering and design specifications and delays in customer construction schedules, all of which impact the timing and costs related to project execution. These factors resulted in an imbalance of our factory resources with our customer commitments, resulting in higher production costs due to inefficiencies. Our operating results were also negatively impacted by the timing and resolution of change orders, project close-out and resolution of potential liquidated damage claims, all of which impacted gross margins during the period in which these items are resolved with our customers.

We anticipate that demand for our solutions in the western Canadian oil and gas markets will continue to be a contributor to our strategic position in the Canadian market place. We completed the construction of our new Canadian facility and relocated operations in the fall of 2013 and completed a \$26 million expansion of this manufacturing facility in the third quarter of Fiscal 2015. The stabilization of our Canadian operations has presented challenges resulting in inefficiencies that led to extended project delivery times, delayed project revenues, higher operating costs, gross margin deterioration and operating losses. We have taken actions in an effort to mitigate the risks associated with replicating our U.S. project-based integration model which allows for the design, fabrication, integration and testing of our products at a single location. Prior to the construction of our new Canadian facility, we performed only final assembly operations in Canada.

On January 15, 2014, we sold our wholly-owned subsidiary Transdyn to a global provider of electronic toll collection systems, headquartered in Vienna, Austria. The purchase price from the sale of this subsidiary totaled \$16.0 million, subject to working capital adjustments. We received cash of \$14.4 million and the remaining \$1.6 million was placed into an escrow account and released to us in July 2015. We have presented the results of these operations as income from discontinued operations, net of tax, in the condensed consolidated statements of operations for all periods presented. Accordingly, we have removed Transdyn from the Results of Operations discussions below.

Results of Operations

Twelve Months Ended September 30, 2015 Compared to Twelve Months Ended September 30, 2014

Revenue and Gross Profit

Revenues increased 2.2% or \$14.0 million, to \$661.9 million in Fiscal 2015, primarily due to the increase in domestic revenues. Domestic revenues increased 30.0%, or \$109.6 million, to \$474.7 million in Fiscal 2015 primarily due to our production efforts on various large petrochemical projects awarded in Fiscal 2014. International revenues decreased 33.8%, or \$95.6 million, to \$187.2 million in Fiscal 2015 primarily due to the substantial completion of several large projects for both the Canadian market and the U.S. export projects. Revenues from commercial and industrial customers increased \$50.0 million to \$524.5 million in Fiscal 2015. Revenues from public and private utilities decreased \$41.9 million to \$85.1 million in Fiscal 2015. Revenues from municipal and transit projects increased \$5.9 million to \$52.2 million in Fiscal 2015.

Gross profit decreased 13.7%, or \$17.2 million, to \$108.3 million in Fiscal 2015. Gross profit as a percentage of revenues decreased to 16.4% in Fiscal 2015 compared to 19.4% in Fiscal 2014. Our gross profit and gross profit as a percentage of revenues decreased in Fiscal 2015 compared to Fiscal 2014, primarily due to inefficiencies resulting from our production efforts and incremental costs required to maintain our customer's schedules, as well as the overall mix of project types.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by \$11.0 million to \$76.8 million in Fiscal 2015 compared to Fiscal 2014. Selling, general and administrative expenses, as a percentage of revenues, decreased to 11.6% in Fiscal 2015 compared to 13.5% in Fiscal 2014. These decreases were primarily due to a decrease in performance-based compensation, sales commissions, personnel and administrative costs resulting from reductions in force, reduced bad debt expense and overall cost reduction efforts.

Restructuring and separation costs

In Fiscal 2015, we incurred \$3.4 million in restructuring and separation costs. Of this, \$2.6 million was from separation and severance costs and the remaining \$0.8 million resulted from the exit of a Canadian facility lease and the write-off of associated leasehold improvements.

Other Income

We recorded other income of \$2.4 million in Fiscal 2015, of which \$2.0 million related to the amortization of the deferred gain from the amended supply agreement, discussed in Note E of the Notes to Condensed Consolidated Financial Statements, and \$0.4 million was from a death benefit received from our company-owned life insurance policy. We recorded other income of \$1.5 million in Fiscal 2014, which was solely from the amortization of the deferred gain.

Income Tax Provision

Our provision for income taxes was \$13.6 million in Fiscal 2015 compared to \$11.1 million in Fiscal 2014. The effective tax rate in Fiscal 2015 was 58.9% compared to an effective tax rate of 36.1% for Fiscal 2014. This increase in effective tax rate in Fiscal 2015 was primarily due to the establishment of a valuation allowance against the Canadian net deferred tax assets, partially offset by the resolution of an IRS audit and the retroactive reinstatement of

the Federal Research and Development Tax Credit for the second through fourth quarter of Fiscal 2014 (for more detailed information, see Note H of the Notes to Condensed Consolidated Financial Statements included elsewhere in this Annual Report). The effective tax rate for Fiscal 2014 approximated the combined U.S. federal and state statutory rate as the majority of our income was attributable to the U.S.

Income from Continuing Operations

In Fiscal 2015, we recorded income from continuing operations of \$9.4 million, or \$0.79 per diluted share compared to \$19.6 million, or \$1.62 per diluted share in Fiscal 2014. This reduction to net income was primarily due to a valuation allowance recorded against our Canadian deferred tax assets (as discussed above) and higher domestic productions costs caused by inefficiencies resulting from our production efforts and incremental costs to maintain our customers' scheduling requirements. These reductions to net income were partially offset by lower selling, general and administrative costs.

Income from Discontinued Operations

In Fiscal 2014, we recorded \$9.6 million, or \$0.80 per diluted share, of income from discontinued operations which included the gain on the sale. For additional information about this disposition, see Note N of the Notes to Condensed Consolidated Financial Statements.

Backlog

Our backlog includes various projects, some of which are petrochemical, oil and gas construction and transportation infrastructure projects which take a number of months to produce. The order backlog at September 30, 2015 was \$441.4 million, compared to \$507.1 million at September 30, 2014. New orders placed in Fiscal 2015 totaled \$606.8 million, compared to \$725.8 million in Fiscal 2014. This decrease in orders was due to reduced capital investments by our customers primarily in oil and gas and petrochemical industries.

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

Revenue and Gross Profit

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

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

Selling, General and Administrative Expenses

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

Amortization of Intangible Assets

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

Other Income

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

Income Tax Provision

Our provision for income taxes for continuing operations was \$11.1 million in Fiscal 2014 compared to \$7.4 million in Fiscal 2013. The effective tax rate in Fiscal 2014 was 36.1%, which approximates the combined U.S. federal and state statutory rates as the majority of our income is attributable to the U.S. Additionally, the Federal Research and Development Tax Credit (R&D Credit) expired December 31, 2013. The effective tax rate for Fiscal 2013 was 15.7% and was favorably impacted by the release of the \$7 million valuation allowance recorded as an offset to the prior years' Canadian pre-tax losses and the R&D Credit as well as the

utilization of certain foreign tax credits. For further information on the effective tax rate for Fiscal 2013, see Note H of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Income from Continuing Operations

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

Income from Discontinued Operations

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

Backlog

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

Liquidity and Capital Resources

Cash and cash equivalents decreased to \$43.6 million at September 30, 2015, compared to \$103.1 million at September 30, 2014. As of September 30, 2015, current assets exceeded current liabilities by 2.4 times and our total debt-to-capitalization ratio was 0.83%.

We have a \$75.0 million revolving credit facility in the U.S., which expires in December 2018. As of September 30, 2015, there were no amounts borrowed under this line of credit. We also have a \$7.5 million revolving credit facility in Canada. At September 30, 2015, there was no balance outstanding under the Canadian revolving credit facility. Total long-term debt and capital lease obligations, including current maturities, totaled \$2.8 million at September 30, 2015, compared to \$3.2 million at September 30, 2014. Total letters of credit outstanding were \$21.1 million and \$21.5 million at September 30, 2015 and 2014, respectively, which reduce our availability under our U.S. credit facility and our Canadian revolving credit facility. Amounts available at September 30, 2015 under the U.S. and Canadian revolving credit facilities were \$53.9 million and \$7.5 million, respectively. For further information regarding our debt, see Notes F and G of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Approximately \$10.4 million of our cash at September 30, 2015 was held outside of the United States for international operations. It is our intention to indefinitely reinvest all current and future foreign earnings internationally in order to ensure sufficient working capital to support and expand these international operations. In the event that we elect to repatriate some or all of the foreign earnings that were previously deemed to be indefinitely reinvested outside the U.S., under current tax laws we would incur additional tax expense upon such repatriation.

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

Operating Activities

During Fiscal 2015, net cash provided by operating activities was \$12.9 million. During Fiscal 2014, net cash provided by operating activities was \$9.1 million and in Fiscal 2013, net cash provided by operating activities was \$91.4 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 2015, our cash provided by operations increased over Fiscal 2014 primarily due to a decrease in prepaid assets and income taxes receivable. In Fiscal 2014, we received the \$10.0 million payment related to the amended supply agreement discussed in Note E of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report. In Fiscal 2013, we received \$6.8 million in contract settlements related to Fiscal 2012 matters.

Investing Activities

Purchases of property, plant and equipment during Fiscal 2015 totaled \$34.7 million compared to \$16.5 million and \$74.4 million in Fiscal 2014 and 2013, respectively. A significant portion of the investments in Fiscal 2013 were to acquire land and build facilities in the United States and Canada to support continued expansion in our key markets, including the oil and gas markets and Canadian oil sands region. Costs related to the re-implementation and additional software added to our Business Systems were incurred during Fiscal 2013 and were placed into service in the third quarter of Fiscal 2014.

Financing Activities

Net cash used in financing activities was \$34.9 in Fiscal 2015, \$12.5 million in Fiscal 2014 and \$0.5 million in Fiscal 2013. The increase in the use of cash in Fiscal 2014 compared to Fiscal 2013 was primarily due to the payment of dividends. The increase in Fiscal 2015 was primarily due to our share repurchase program discussed below.

Share Repurchase Program

On December 17, 2014, our Board of Directors authorized a share repurchase program under which we may repurchase up to \$25 million of our outstanding stock. The purchases may be made from time to time in the open market, through privately negotiated transactions and Rule 10b5-1 trading plans in accordance with applicable laws, rules and regulations. The Repurchase Program is being funded from cash on hand and cash provided by operating activities. The Repurchase Program will expire as of the close of business on December 31, 2015. As of September 30, 2015, we had purchased 670,181 shares at a cost of \$21.3 million under the Repurchase Program. The average purchase price per share through September 30, 2015 was \$31.72.

Contractual and Other Obligations

At September 30, 2015, 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, 2015,	Long Term Debt Obligations	Operating Lease Obligations	Total
Payments Due by Period:			
Less than 1 year	\$ 404	\$ 3,768	\$4,172
1 to 3 years	806	4,992	5,798
3 to 5 years	803	2,641	3,444
More than 5 years	801	5,586	6,387
Total long-term contractual obligations	\$ 2,814	\$ 16,987	\$19,801

In Fiscal 2015, we exited one of our previously occupied leased facilities in Acheson, Alberta, Canada. The lease does not expire until October 2019; however, we are currently seeking to sublet the facility. In Fiscal 2014, we also exited one of our previously occupied leased facilities in Edmonton, Alberta, Canada. This lease does not expire until July 2023; however, we have sublet that facility through July 2019.

As of September 30, 2015, the total unrecognized tax benefit related to uncertain tax positions was \$0.8 million. We estimate that none of this will be paid within the next 12 months. However, we believe that it is reasonably possible that within the next 12 months, the total unrecognized tax benefits will decrease by approximately 4% due to the expiration of certain statutes of limitations in various state and local jurisdictions. We are unable to make reasonably reliable estimates regarding the timing of future cash outflows, if any, associated with the remaining unrecognized tax benefits.

Other Commercial Commitments

We are contingently liable for secured and unsecured letters of credit of \$25.2 million as of September 30, 2015, of which \$21.1 million reduces our borrowing capacity.

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

As of September 30, 2015,	Letters of Credit
Payments Due by Period:	
Less than 1 year	\$12,037
1 to 3 years	9,741
More than 3 years	3,386
Total long-term commercial obligations	\$25,164

We also had performance and maintenance bonds totaling \$318.8 million that were outstanding at September 30, 2015. Performance and maintenance bonds are primarily used to guarantee our contract performance to our customers.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements during the periods presented.

Outlook

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

A significant portion of our revenues are derived from the oil and gas markets. Unfavorable long-term commodity price levels can cause oil and gas companies to change their strategies, delay or cancel projects. Due to the precipitous decline in oil and gas prices over the past year, many of our customers have reduced their capital budgets and cut costs, and in certain instances have deferred or cancelled projects that we were pursuing. We believe that sustained lower oil and gas prices from a continued global supply/demand imbalance will negatively impact future orders due to reduced capital spending by our customers which may result in project deferrals and cancellations. The reduction in available projects, across the markets we serve, will increase market price pressures during this downward cycle. This reduction in new business opportunities and market price pressures will negatively impact our revenues, backlog, operating results and cash flows from operations. If commodity prices do not improve, or they continue to decline, the number of projects in our markets could further decline. We will continue to monitor our cost structure and continue to take actions to align our resources and facilities with expected production requirements.

Our operating results have been, and may continue to be, negatively impacted by factors such as the timing of new order awards, customer approval of final engineering and design specifications and delays in customer construction schedules, all of which have and may continue to have, a negative impact on the timing of project execution. These factors have resulted, and may continue to result in, periods when our factory resources are not in balance with our customers' scheduling requirements, resulting in higher production costs due to inefficiencies. Our operating results

also have been, and may continue to be, impacted by the timing and resolution of change orders, project close-out and resolution of potential contract claims, all of which could improve or deteriorate gross margins during the period in which these items are resolved with our customers.

We completed the construction of our new Acheson, Alberta facility and relocated operations in the fall of 2013 and completed a \$26 million expansion of this facility in the third quarter of Fiscal 2015. The production ramp and stabilization of our Canadian operations has presented and may continue to present challenges resulting in inefficiencies and extended project delivery times. These challenges resulted in delayed project revenues, incremental costs to hold customers' schedules, gross margin deterioration, back charges and operating losses. We have taken actions to stabilize our Canadian operations and mitigate the risks associated with replicating our U.S. project-based integration model which allows for the design, fabrication, integration and testing of our products at a single location. However, we may continue to incur operating losses in Canada as we continue to enhance our engineering and project management competencies and improve our overall project execution.

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

Effects of Inflation

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

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

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

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

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

differ from original assumptions.

Allowance for Doubtful Accounts

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

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Impairment of Long-Lived Assets

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

Accruals for Contingent Liabilities

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

Warranty Costs

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

Accounting for Income Taxes

We account for income taxes under the asset and liability method, based on the income tax laws and rates in the countries in which operations are conducted and income is earned. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Developing our provision for income taxes requires significant judgment and expertise in federal, international and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. In assessing the realizability of net deferred tax assets, we consider whether it is more-likely-than-not that some portion or all of the net deferred tax assets may not be realized. The ultimate realization of net deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. In light of the historical Canadian losses, and recent changes in projected losses in the near term, we are required under the more-likely-than-not accounting standard to record a valuation allowance against the Canadian net deferred assets because we may not be able to realize the benefits of the

net operating loss carryforwards and other deductible differences. Estimates may change as new events occur, estimates of future taxable income during the carryforward period are reduced or increased, additional information becomes available or operating environments change, which may result in a full or partial reversal of the valuation allowance. We will continue to assess the adequacy of the valuation allowance on a quarterly basis. Our judgments and tax strategies are subject to audit by various taxing authorities.

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

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

Foreign Currency Translation

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

New Accounting Standards

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

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

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

In May 2014, the FASB issued a new standard on revenue recognition that supersedes previously issued revenue recognition guidance. This standard provides a five-step approach to be applied to all contracts with customers and requires expanded disclosures about the nature, amount, timing and uncertainty of revenue (and the related cash flows) arising from customer contracts, significant judgments and changes in judgments used in applying the revenue model and the assets recognized from costs incurred to obtain or fulfill a contract. This guidance is now effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, which would be our fiscal year ending September 30, 2019. The standard permits the use of either the retrospective or cumulative effect transition method therefore we are evaluating the effect that this new guidance will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In June 2014, the FASB issued an amendment to the topic regarding share-based payments and instances where terms of an award provide that a performance target can be achieved after the requisite service period. This guidance has been provided to resolve the diversity in practice concerning employee share-based payments that contain performance targets that could be achieved after the requisite service period. The updated guidance requires that a performance target that affects vesting and that can be achieved after the requisite service period be treated as a performance condition. Compensation cost should be recognized in the period in which it

becomes probable that the performance target will be achieved and is attributable to the periods for which service has been rendered. If the performance target becomes probable of being achieved before the end of the service period, the remaining unrecognized compensation cost for which requisite service has not yet been rendered is recognized prospectively over the remaining service period. The total amount of compensation cost recognized during and after the service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The updated guidance is effective for annual and interim periods beginning after December 15, 2015, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on our consolidated financial position or results of operations.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Market Risk

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

Commodity Price Risk

We are subject to market risk from fluctuating market prices of certain raw materials. While such materials are typically available from numerous suppliers, commodity raw materials are subject to price fluctuations. We attempt to pass along such commodity price increases to our customers on a contract-by-contract basis to avoid a negative effect on our profit margin. While we may do so in the future, we have not currently entered into any derivative contracts to hedge our exposure to commodity risk. We continue to experience price volatility with some of our key raw materials and components. Fixed-price contracts may limit our ability to pass cost increases to our customers, thus negatively impacting our earnings. Fluctuations in commodity prices may have a material impact on our future earnings and cash flows.

Foreign Currency Transaction Risk

We have operations that expose us to currency risk in the British Pound Sterling, the Canadian Dollar and to a lesser extent the Euro. Amounts invested in our foreign operations are translated into U.S. Dollars at the exchange rates in effect at the balance sheet date. The resulting translation adjustments are recorded as accumulated other comprehensive income (loss), a component of stockholders' equity in our consolidated balance sheets. We believe the exposure to the effects that fluctuating foreign currencies have on our consolidated results of operations is limited because the foreign operations primarily invoice customers and collect obligations in their respective currencies or U.S. Dollars. Our international operations are financed utilizing local credit facilities denominated in local currencies. Additionally, expenses associated with these transactions are generally contracted and paid for in the same local currencies. During Fiscal 2015, our realized foreign exchange losses were \$0.6 million and are included in selling, general and administrative expenses in the Consolidated Statements of Operations.

We are exposed to the effects of fluctuations in foreign exchange rates (primarily Canadian Dollar, British Pound and Euro denominated) on the translation of the financial statements of our foreign operations into our reporting currency. The impact of this translation to U.S. dollars is recognized as a cumulative translation adjustment in accumulated other comprehensive income (loss). We do not hedge our exposure to potential foreign currency translation adjustments.

Interest Rate Risk

If we decide to borrow under one of our credit facilities, we will be subject to market risk resulting from changes in interest rates related to our floating rate bank credit facility. If we were to make such borrowings, a hypothetical 100 basis point increase in variable interest rates may result in a material impact to our financial statements. While we do not currently have any derivative contracts to hedge our exposure to interest rate risk, in the past we have entered and may in the future enter into such contracts. During each of the past three years, we have not experienced a significant effect on our business due to changes in interest rates.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors

and Stockholders of Powell Industries, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Powell Industries, Inc. and its subsidiaries at September 30, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2015 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, 2015, based on criteria established in Internal Control - Integrated Framework 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Houston, Texas
December 2, 2015

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	September 30,	
	2015	2014
ASSETS		
Current Assets:		
Cash and cash equivalents	\$43,569	\$103,118
Accounts receivable, less allowance for doubtful accounts of \$746 and \$1,577	101,784	107,162
Costs and estimated earnings in excess of billings on uncompleted contracts	104,793	95,970
Inventories	32,891	32,815
Income taxes receivable	1,232	2,804
Deferred income taxes	3,910	5,297
Prepaid expenses	5,004	5,870
Other current assets	3,916	4,291
Total Current Assets	297,099	357,327
Property, plant and equipment, net	154,594	156,896
Goodwill and intangible assets, net	2,393	2,907
Deferred income taxes	2,288	11,422
Other assets	10,117	8,224
Long-term receivable (Note E)	2,333	4,667
	\$468,824	\$541,443
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital lease obligations	\$400	\$400
Income taxes payable	784	705
Accounts payable	48,008	70,209
Accrued salaries, bonuses and commissions	19,223	25,206
Billings in excess of costs and estimated earnings on uncompleted contracts	42,057	48,702
Accrued product warranty	4,930	4,557
Other accrued expenses	7,521	6,291
Deferred credit - short term (Note E)	2,029	2,029
Total Current Liabilities	124,952	158,099
Long-term debt and capital lease obligations, net of current maturities	2,400	2,800
Deferred compensation	4,950	4,226
Other long-term liabilities	723	655
Deferred credit - long term (Note E)	2,537	4,566
Total Liabilities	\$135,562	\$170,346
Commitments and Contingencies (Note G)		
Stockholders' Equity:		
Preferred stock, par value \$.01; 5,000,000 shares authorized; none issued	—	—
Common stock, par value \$.01; 30,000,000 shares authorized; 12,100,459 and 12,031,243 shares issued and outstanding, respectively	121	120

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Additional paid-in capital	48,507	46,267
Retained earnings	328,294	331,213
Treasury stock, 670,181 shares at cost	(21,259)	—
Accumulated other comprehensive loss	(22,401)	(6,503)
Total Stockholders' Equity	333,262	371,097
Total Liabilities and Stockholders' Equity	\$468,824	\$541,443

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,		
	2015	2014	2013
Revenues	\$661,858	\$647,814	\$640,867
Cost of goods sold	553,597	522,340	502,375
Gross profit	108,261	125,474	138,492
Selling, general and administrative expenses	76,801	87,756	79,707
Research and development expenses	6,980	7,608	7,615
Amortization of intangible assets	435	779	1,659
Restructuring and relocation expenses	3,397	—	3,927
Operating income	20,648	29,331	45,584
Gain on settlement	—	—	(1,709)
Other income (See Note E)	(2,402)	(1,522)	—
Interest expense	145	178	202
Interest income	(86)	(13)	(35)
Income from continuing operations before income taxes	22,991	30,688	47,126
Income tax provision	13,552	11,068	7,387
Income from continuing operations	9,439	19,620	39,739
Income from discontinued operations, net of tax (Note N)	—	9,604	2,337
Net income	\$9,439	\$29,224	\$42,076
Earnings per share:			
Continuing operations	\$0.80	\$1.63	\$3.32
Discontinued operations	—	0.80	0.20
Basic earnings per share	\$0.80	\$2.43	\$3.52
Continuing operations	\$0.79	\$1.62	\$3.32
Discontinued operations	—	0.80	0.19
Diluted earnings per share	\$0.79	\$2.42	\$3.51
Weighted average shares:			
Basic	11,869	12,003	11,948
Diluted	11,908	12,058	11,994
Dividends per share	\$1.04	\$1.00	\$—

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Year Ended September 30,		
	2015	2014	2013
Net income	\$9,439	\$29,224	\$42,076
Foreign currency translation adjustments	(16,104)	(4,447)	(1,719)
Postretirement benefit adjustment, net of tax	206	17	25
Comprehensive income (loss)	\$(6,459)	\$24,794	\$40,382

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

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	Common Stock		Treasury Stock		Additional	Retained	Accumulated Other Comprehensive	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	Income/(Loss)	
Balance, September 30, 2012	11,916	\$ 119	—	\$—	\$ 38,452	\$271,911	\$ (379)	\$310,103
Net income	—	—	—	—	—	42,076	—	42,076
Foreign currency translation adjustments	—	—	—	—	—	—	(1,719)	(1,719)
Stock-based compensation	39	—	—	—	2,369	—	—	2,369
Excess tax benefit from share-based compensation	—	—	—	—	464	—	—	464
Shares withheld in lieu of employee tax withholding	—	—	—	—	(187)	—	—	(187)
Amortization of restricted stock	—	—	—	—	2,095	—	—	2,095
Issuance of restricted stock	17	—	—	—	—	—	—	—
Retirement of stock	(1)	—	—	—	—	—	—	—
Postretirement benefit adjustment, net of tax of \$14	—	—	—	—	—	—	25	25
Balance, September 30, 2013	11,971	\$ 119	—	\$—	\$ 43,193	\$313,987	\$ (2,073)	\$355,226
Net income	—	—	—	—	—	29,224	—	29,224
Foreign currency translation adjustments	—	—	—	—	—	—	(4,447)	(4,447)
Stock-based compensation	44	—	—	—	3,385	—	—	3,385
Excess tax benefit from share-based compensation	—	—	—	—	407	—	—	407
Shares withheld in lieu of employee tax withholding	—	—	—	—	(718)	—	—	(718)
Issuance of restricted stock	16	1	—	—	—	—	—	1
Dividends paid	—	—	—	—	—	(11,998)	—	(11,998)
Postretirement benefit adjustment, net of tax of \$9	—	—	—	—	—	—	17	17
Balance, September 30, 2014	12,031	\$ 120	—	\$—	\$ 46,267	\$331,213	\$ (6,503)	\$371,097
Net income	—	—	—	—	—	9,439	—	9,439
Foreign currency translation adjustments	—	—	—	—	—	—	(16,104)	(16,104)

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Stock-based compensation	53	—	—	—	3,171	—	—	3,171
Excess tax benefit from share-based compensation	—	—	—	—	(191)	—	—	(191)
Shares withheld in lieu of employee tax withholding	—	—	—	—	(740)	—	—	(740)
Issuance of restricted stock	16	1	—	—	—	—	—	1
Purchase of treasury shares	—	—	(670)	(21,259)	—	—	—	(21,259)
Dividends paid	—	—	—	—	—	(12,358)	—	(12,358)
Postretirement benefit adjustment, net of tax of \$123	—	—	—	—	—	—	206	206
Balance, September 30, 2015	12,100	\$ 121	(670)	\$(21,259)	\$ 48,507	\$ 328,294	\$ (22,401)	\$ 333,262

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,		
	2015	2014	2013
Operating Activities:			
Net income	\$9,439	\$29,224	\$42,076
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	13,120	11,386	8,519
Amortization	435	779	1,671
Gain on sale of discontinued operations, net of tax	—	(8,563)	—
Stock-based compensation	3,171	3,385	4,464
Excess tax benefit from stock-based compensation	191	(407)	(464)
Bad debt expense/(recovery)	(29)	1,074	(544)
Deferred income tax expense (benefit)	10,521	(3,212)	(6,720)
Gain on amended supply agreement	(2,029)	(1,522)	—
Cash received from amended supply agreement	2,333	10,000	—
Changes in operating assets and liabilities:			
Accounts receivable, net	391	1,959	5,838
Costs and billings in excess of estimates on uncompleted contracts	(17,430)	(17,089)	23,054
Inventories	(572)	(3,959)	3,881
Prepaid expenses and other current assets	2,656	(1,101)	(3,530)
Accounts payable and income taxes payable	(5,073)	1,002	13,029
Accrued liabilities	(3,373)	(4,997)	(633)
Other, net	(833)	1,524	784
Net assets held for sale	—	(10,355)	—
Net cash provided by operating activities	12,918	9,128	91,425
Investing Activities:			
Proceeds from sale of property, plant and equipment	112	118	885
Proceeds from sale of Transdyn	—	14,819	—
Purchases of property, plant and equipment	(34,719)	(16,495)	(74,369)
Net cash used in investing activities	(34,607)	(1,558)	(73,484)
Financing Activities:			
Payments on industrial development revenue bonds	(400)	(400)	(400)
Excess tax benefit from stock-based compensation	(191)	407	464
Shares withheld in lieu of employee tax withholding	(740)	(499)	(187)
Purchase of treasury shares	(21,259)	—	—
Dividends paid	(12,358)	(11,998)	—
Payments on short-term and other financing	—	(16)	(329)
Net cash used in financing activities	(34,948)	(12,506)	(452)
Net increase (decrease) in cash and cash equivalents	(56,637)	(4,936)	17,489
Effect of exchange rate changes on cash and cash equivalents	(2,912)	643	(118)
Cash and cash equivalents, beginning of period	103,118	107,411	90,040

Cash and cash equivalents, end of period	\$43,569	\$103,118	\$107,411
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The accompanying notes are an integral part of these consolidated financial statements.

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Business and Organization

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

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

References to Fiscal 2015, Fiscal 2014 and Fiscal 2013 used throughout these Notes to Consolidated Financial Statements relate to our fiscal years ended September 30, 2015, 2014 and 2013, respectively.

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

B. Summary of Significant Accounting Policies

Principles of Consolidation

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

Reclassifications

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying footnotes. The most significant estimates used in our financial statements affect revenue and cost recognition for construction contracts, the allowance for doubtful accounts, provision for excess and obsolete inventory, goodwill and other intangible assets, self-insurance, warranty accruals and income taxes. The amounts recorded for insurance claims, warranties, legal, income taxes and other contingent liabilities require judgments regarding the amount of expenses that will ultimately be incurred. We base our

estimates on historical experience and on various other assumptions, as well as the specific circumstances surrounding these contingent liabilities, in evaluating the amount of liability that should be recorded. Additionally, the recognition of deferred tax assets requires estimates related to future income and other assumptions regarding timing and future profitability. Estimates may change as new events occur, additional information becomes available or operating environments change. Actual results may differ from our estimates.

Cash and Cash Equivalents

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

Supplemental Disclosures of Cash Flow Information (in thousands):

	Year Ended September 30,		
	2015	2014	2013
Cash paid during the period for:			
Interest, net of interest income	\$ 70	\$ 149	\$ 164
Income taxes, net of refunds	2,298	18,889	14,783
Non-cash capital expenditures	147	13,527	2,807

Fair Value of Financial Instruments

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

Accounts Receivable

Accounts receivable are stated net of allowances for doubtful accounts. We maintain and continually assess the adequacy of the allowance for doubtful accounts representing our estimate for losses resulting from the inability of our customers to pay amounts due to us. This estimated allowance is based on historical experience of uncollected accounts, the level of past due accounts, the overall level of outstanding accounts receivable, information about specific customers with respect to their inability to make payments and expectations of future conditions that could impact the collectability of accounts receivable. Future changes in our customers' operating performance and cash flows, or in general economic conditions, could have an impact on their ability to fully pay these amounts, which could have a material impact on our operating results. In most cases, receivables are not collateralized. However, we utilize letters of credit to secure payment on sales when possible. At September 30, 2015 and 2014, accounts receivable included retention amounts of \$5.4 million and \$6.7 million, respectively. Retention amounts are in accordance with applicable provisions of contracts and become due upon completion of contractual requirements. Approximately \$0.7 million of the retained amount at September 30, 2015, is expected to be collected subsequent to September 30, 2016.

Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts

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

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

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

Inventories

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

Property, Plant and Equipment

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

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

Intangible Assets

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

Goodwill

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

Income Taxes

We account for income taxes under the asset and liability method, based on the income tax laws and rates in the countries in which operations are conducted and income is earned. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Developing our provision for income taxes requires significant judgment and expertise in federal, international and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. The recognition of deferred tax assets requires estimates related to future income and other assumptions regarding timing and future profitability. Estimates may change as new events occur, estimates of future taxable income during the carryforward period are reduced or increased, additional information becomes available or operating environments change, which may result in a full or partial reversal of the valuation allowance. We will continue to assess the adequacy of the valuation allowance on a quarterly basis. Our judgments and tax strategies are subject to audit by various taxing authorities.

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax

position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Accounting literature also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our financial statements.

Revenue Recognition

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

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

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

Warranties

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

Research and Development Expense

Research and development activities are directed toward the development of new products and processes as well as improvements in existing products and processes. These costs, which primarily include salaries, contract services and supplies, are expensed as incurred. Such amounts were \$7.0 million, \$7.6 million and \$7.6 million in Fiscal 2015, 2014 and 2013, respectively.

Foreign Currency Translation

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

Stock-Based Compensation

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

New Accounting Standards

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

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

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

In May 2014, the FASB issued a new standard on revenue recognition that supersedes previously issued revenue recognition guidance. This standard provides a five-step approach to be applied to all contracts with customers and requires expanded disclosures about the nature, amount, timing and uncertainty of revenue (and the related cash flows) arising from customer contracts, significant judgments and changes in judgments used in applying the revenue model and the assets recognized from costs incurred to obtain or fulfill a contract. This guidance is now effective for fiscal

years, and interim periods within those years, beginning after December 15, 2017, which would be our fiscal year ending September 30, 2019. The standard permits the use of either the retrospective or cumulative effect transition method therefore we are evaluating the effect that this new guidance will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In June 2014, the FASB issued an amendment to the topic regarding share-based payments and instances where terms of an award provide that a performance target can be achieved after the requisite service period. This guidance has been provided to resolve the diversity in practice concerning employee share-based payments that contain performance targets that could be achieved after the requisite service period. The updated guidance requires that a performance target that affects vesting and that can be achieved after the requisite service period be treated as a performance condition. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and is attributable to the periods for which service has been rendered. If the performance target becomes probable of being achieved before the end of the service period, the remaining unrecognized compensation cost for which requisite service has not yet been rendered is recognized prospectively over the remaining service period. The total amount of compensation cost recognized during and after the service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The updated guidance is effective for annual and

interim periods beginning after December 15, 2015, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on our consolidated financial position or results of operations.

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

C. Earnings Per Share

We compute basic earnings per share by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common and potential common share includes the weighted average of additional shares associated with the incremental effect of dilutive restricted stock and restrictive stock units, as prescribed by the FASB guidance on earnings per share.

The following table reconciles basic and diluted weighted average shares used in the computation of earnings per share for the years ended September 30, 2015, 2014 and 2013 (in thousands, except per share data):

	Year Ended September 30,		
	2015	2014	2013
Numerator:			
Income from continuing operations	\$9,439	\$19,620	\$39,739
Income from discontinued operations	—	9,604	2,337
Net income	\$9,439	\$29,224	\$42,076
Denominator:			
Weighted average basic shares	11,869	12,003	11,948
Dilutive effect of restricted stock units	39	55	46
Weighted average diluted shares with assumed conversions	11,908	12,058	11,994
Net earnings per share:			
Continuing operations	\$0.80	\$1.63	\$3.32
Discontinued operations	—	0.80	0.20
Basic earnings per share	\$0.80	\$2.43	\$3.52
Continuing operations	\$0.79	\$1.62	\$3.32
Discontinued operations	—	0.80	0.19
Diluted earnings per share	\$0.79	\$2.42	\$3.51

D. Detail of Selected Balance Sheet Accounts

Allowance for Doubtful Accounts

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

	September 30,	
	2015	2014
Balance at beginning of period	\$1,577	\$572
Bad debt expense (recovery)	(29)	1,074
Uncollectible accounts written off, net of recoveries	(749)	(58)
Change in foreign currency translation	(53)	(11)
Balance at end of period	\$746	\$1,577

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Inventories

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

	September 30,	
	2015	2014
Raw materials, parts and subassemblies	\$36,575	\$35,349
Work-in-progress	1,084	2,035
Provision for excess and obsolete inventory	(4,768)	(4,569)
Total inventories	\$32,891	\$32,815

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,	
	2015	2014
Costs incurred on uncompleted contracts	\$912,237	\$604,939
Estimated earnings	271,640	157,562
	1,183,877	762,501
Less: Billings to date	(1,121,141)	(715,233)
Net underbilled position	\$62,736	\$47,268

Included in the accompanying balance sheets under the following captions:

Costs and estimated earnings in excess of billings on uncompleted contracts – underbilled	\$104,793	\$95,970
Billings in excess of costs and estimated earnings on uncompleted contracts – overbilled	(42,057)	(48,702)
Net underbilled position	\$62,736	\$47,268

Property, Plant and Equipment

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

	September 30,		Range of Asset Lives
	2015	2014	
Land	\$22,380	\$23,545	—
Buildings and improvements	120,983	100,901	3 - 39 Years
Machinery and equipment	100,306	100,922	3 - 15 Years
Furniture and fixtures	3,564	3,852	3 - 10 Years
Construction in process	1,013	15,878	