SJW CORP
Form 10-Q
August 06, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2010

Commission file number 1-8966

SJW Corp.

(Exact name of registrant as specified in its charter)

California	**77-0066628**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
110 West Taylor Street, San Jose, CA	**95110**
(Address of principal executive offices)	**(Zip Code)**

408-279-7800

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of July 22, 2010, there were 18,528,554 shares of the registrant s Common Stock outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SJW Corp. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

AND COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(in thousands, except share and per share data)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2010	2009	2010	2009
OPERATING REVENUE	$ 54,128	58,194	$ 94,539	98,215
OPERATING EXPENSE:				
Operation:				
Purchased water	11,335	12,601	17,154	20,390
Power	1,584	1,817	2,728	2,577
Groundwater extraction charges	6,238	9,480	11,233	14,532
Total production costs	19,157	23,898	31,115	37,499
Administrative and general	6,683	6,897	13,741	14,027
Other	4,524	4,547	8,992	8,524
Maintenance	3,289	3,216	6,065	6,132
Property taxes and other non-income taxes	2,060	2,392	3,763	4,682
Depreciation and amortization	7,070	6,238	14,181	12,789
Income taxes	3,101	2,975	3,783	3,076
Total operating expense	45,884	50,163	81,640	86,729
OPERATING INCOME	8,244	8,031	12,899	11,486
OTHER (EXPENSE) INCOME:				
Interest on senior notes	(3,636)	(3,488)	(7,258)	(6,747)
Mortgage and other interest expense	(569)	(500)	(1,069)	(1,029)
Dividends	327	325	654	649
Other, net	150	50	275	175
NET INCOME	4,516	4,418	5,501	4,534
Other comprehensive loss:				
Unrealized loss on investment	(2,101)	(5,522)	(1,232)	(10,549)
Less: income taxes related to other comprehensive loss	861	2,264	505	4,325
Other comprehensive loss, net	(1,240)	(3,258)	(727)	(6,224)
COMPREHENSIVE INCOME (LOSS)	$ 3,276	1,160	$ 4,774	(1,690)
EARNINGS PER SHARE				

Basic	$ 0.24	0.24	$ 0.29	0.25
Diluted	$ 0.24	0.23	$ 0.29	0.24
DIVIDENDS PER SHARE	$ 0.17	0.17	$ 0.34	0.33
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	18,528,497	18,482,670	18,523,794	18,476,307
Diluted	18,740,662	18,670,057	18,731,104	18,664,299

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW Corp. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except share and per share data)

	JUNE 30, 2010	DECEMBER 31, 2009
ASSETS		
Utility plant:		
Land	$ 8,563	8,558
Depreciable plant and equipment	946,512	913,071
Construction in progress	24,807	11,119
Intangible assets	13,092	11,278
	992,974	944,026
Less accumulated depreciation and amortization	309,914	298,921
	683,060	645,105
Real estate investment	88,000	88,000
Less accumulated depreciation and amortization	8,027	7,188
	79,973	80,812
CURRENT ASSETS:		
Cash and cash equivalents	3,495	1,416
Restricted cash	27,733	
Accounts receivable:		
Customers, net of allowances for uncollectible accounts	13,758	10,892
Other	577	677
Accrued unbilled utility revenue	16,577	12,435
Materials and supplies	988	994
Prepaid expenses	1,320	1,596
	64,448	28,010
OTHER ASSETS:		
Investment in California Water Service Group	39,268	40,500
Debt issuance costs and broker fees, net of accumulated amortization	3,783	3,098
Regulatory assets	78,274	78,525
Other	4,174	2,424
	125,499	124,547
	$ 952,980	878,474

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW Corp. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except share and per share data)

	JUNE 30, 2010	DECEMBER 31, 2009
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Shareholders equity:		
Common stock, $0.521 par value; authorized 36,000,000 shares; issued and outstanding 18,528,554 shares on June 30, 2010 and 18,499,602 on December 31, 2009	$ 9,650	9,635
Additional paid-in capital	22,646	22,046
Retained earnings	207,028	207,888
Accumulated other comprehensive income	12,460	13,187
Total shareholders equity	251,784	252,756
Long-term debt, less current portion	296,295	246,879
	548,079	499,635
CURRENT LIABILITIES:		
Line of credit	11,850	5,800
Current portion of long-term debt	1,108	1,081
Accrued groundwater extraction charges and purchased water	7,634	4,496
Purchased power	913	486
Accounts payable	17,965	6,562
Accrued interest	5,129	4,979
Accrued property taxes and other non-income taxes	725	1,481
Accrued payroll	3,479	2,412
Income tax payable	1,911	728
Other current liabilities	4,300	3,933
	55,014	31,958
DEFERRED INCOME TAXES	101,119	100,766
UNAMORTIZED INVESTMENT TAX CREDITS	1,585	1,615
ADVANCES FOR CONSTRUCTION	68,396	69,086
CONTRIBUTIONS IN AID OF CONSTRUCTION	122,026	121,420
DEFERRED REVENUE	1,117	1,179
POSTRETIREMENT BENEFIT PLANS	49,892	47,484
OTHER NONCURRENT LIABILITIES	5,752	5,331
COMMITMENTS AND CONTINGENCIES		
	$ 952,980	878,474

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW Corp. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	SIX MONTHS ENDED JUNE 30, 2010	2009
OPERATING ACTIVITIES:		
Net income	$ 5,501	4,534
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,181	12,789
Deferred income taxes	614	4,514
Share-based compensation	423	446
Changes in operating assets and liabilities:		
Accounts receivable and accrued unbilled utility revenue	(6,908)	(6,106)
Accounts payable, purchased power and other current liabilities	691	1,756
Accrued groundwater extraction charges and purchased water	3,138	2,856
Accrued taxes	449	(1,391)
Accrued interest	150	417
Accrued payroll	1,067	(14)
Postretirement benefits	2,689	2,218
Other changes, net	162	303
NET CASH PROVIDED BY OPERATING ACTIVITIES	22,157	22,322
INVESTING ACTIVITIES:		
Additions to utility plant:		
Company-funded	(38,507)	(22,163)
Contributions in aid of construction	(1,695)	(3,985)
Payments for business acquisition	(2,577)	(3,720)
Cost to retire utility plant, net of salvage	(196)	(125)
NET CASH USED IN INVESTING ACTIVITIES	(42,975)	(29,993)
FINANCING ACTIVITIES:		
Borrowings from line of credit	30,850	8,300
Repayments of line of credit	(24,800)	(23,700)
Long-term borrowings	22,267	30,000
Repayments of long-term borrowings	(391)	(369)
Debt issuance costs	(783)	
Dividends paid	(6,299)	(6,097)
Exercise of stock options and similar instruments	290	302
Tax benefits realized from share options exercised	4	80
Receipts of advances and contributions in aid of construction	2,769	1,582
Refunds of advances for construction	(1,010)	(1,062)
NET CASH PROVIDED BY FINANCING ACTIVITIES	22,897	9,036
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,079	1,365
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,416	3,406
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 3,495	4,771

Cash paid during the period for:		
Interest	$ 8,491	7,523
Income taxes	1,442	191
Supplemental disclosure of non-cash activities:		
Change in accrued payables for additions to utility plant	11,636	3,514
Utility property installed by developers	117	1,153
Loan proceeds held as restricted cash	27,733	

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010

(in thousands, except share and per share data)

Note 1. General

In the opinion of SJW Corp., the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary for the fair presentation of the results for the interim periods. These adjustments consist only of normal recurring adjustments.

The unaudited interim financial information has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and in accordance with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (the SEC). The Notes to Consolidated Financial Statements in SJW Corp. s 2009 Annual Report on Form 10-K should be read with the accompanying unaudited condensed consolidated financial statements.

Water sales are seasonal in nature and influenced by weather conditions. The timing of precipitation and climatic conditions can cause seasonal water consumption by customers to vary significantly. Due to the seasonal nature of the water business, the operating results for interim periods are not indicative of the operating results for a 12-month period. Revenue is generally higher in the warm, dry summer months when water usage and sales are greater and lower in the winter months when cooler temperatures and increased rainfall curtail water usage and sales.

Basic earnings per share is calculated using income available to common shareholders, divided by the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated using income available to common shareholders divided by the weighted average number of shares of common stock including both shares outstanding and shares potentially issuable in connection with stock options, deferred restricted common stock awards under SJW Corp. s Long-Term Incentive Plan (as amended, the Incentive Plan) and shares potentially issuable under the Employee Stock Purchase Plan (ESPP). For the three months ended June 30, 2010 and 2009, 0 and 1,885 anti-dilutive restricted common stock units were excluded from the dilutive earnings per share calculation, respectively. For the six months ended June 30, 2010 and 2009, 2,433 and 3,780 anti-dilutive restricted common stock units were excluded from the dilutive earnings per share calculation, respectively.

Note 2. Long-Term Incentive Plan and Share-Based Compensation

Common stock

SJW Corp. accounts for share-based compensation based on the grant date fair value of the awards issued to employees in accordance with FASB ASC Topic 718 - Compensation - Stock Compensation, which requires the measurement and recognition of compensation expense based on the estimated fair value for all share-based payment awards.

As of June 30, 2010, the Incentive Plan allows SJW Corp. to provide employees, non-employee Board members or the Board of Directors, consultants, and other independent advisors who provide services to the company or any parent or subsidiary the opportunity to acquire an equity interest in SJW Corp. The types of awards included in the Incentive Plan are restricted stock awards, restricted stock units, performance shares, or other share-based awards. In addition, shares are issued under the ESPP. As of June 30, 2010, the remaining shares available for issuance under the Incentive Plan were 1,206,577, and 391,776 shares are issuable upon the exercise of outstanding options, restricted stock units, and deferred restricted stock units under the Incentive Plan.

The total compensation cost charged to income under the Incentive Plan for the three and six months ended June 30, 2010 was $182 and $423, respectively, and for the three and six months ended June 30, 2009 was $208 and $446, respectively. The compensation costs charged to income is recognized on a straight-line basis over the requisite service vesting period. A summary of compensation costs charged to income, proceeds from the exercise of stock options and similar instruments, and the tax benefit realized from stock options exercised, that are recorded to additional paid-in capital and common stock, by award type, are presented below for the six months ended June 30, 2010 and 2009.

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SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

(in thousands, except share and per share data)

	Six months ended June 30, 2010	Six months ended June 30, 2009
Compensation costs charged to income:		
Stock options	$	9
ESPP	46	44
Restricted stock and deferred restricted stock	377	393
Total compensation costs charged to income	$ 423	446
Excess tax benefits realized from share options exercised and stock issuance:		
Stock options	$ 4	3
Restricted stock and deferred restricted stock		77
Total excess tax benefits realized from share options exercised and stock issuance	$ 4	80
Proceeds from the exercise of stock options and similar instruments:		
Stock options	$ 32	29
ESPP	258	250
Restricted stock and deferred restricted stock		23
Total proceeds from the exercise of stock options and similar instruments	$ 290	302

Stock Options

No options were granted during the three months ended June 30, 2010 and 2009.

As of June 30, 2010, there are no unrecognized compensation costs related to stock options as all costs have been recognized.

Restricted Stock and Deferred Restricted Stock Plans

On January 4, 2010, restricted stock units covering an aggregate of 14,389 shares of common stock of SJW Corp. were granted to several executives of SJW Corp. and its subsidiaries. These units will vest in four equal successive installments upon completion of each year of service with no dividend equivalent rights. Share-based compensation expense is being recognized at grant date fair value of $20.64 per unit over the vesting period beginning in 2010.

On January 26, 2010, market performance-vesting restricted stock units granted to a key executive of SJW Corp. on January 25, 2007 and covering 7,000 shares of common stock of SJW Corp. were cancelled because the market performance objective was not attained. However, since the requisite service over the three-year service period of the award was rendered even though the market condition was not achieved, compensation cost over the three-year requisite service period was not reversed.

On January 26, 2010, restricted stock units covering an aggregate of 49,850 shares of common stock of SJW Corp. were awarded to a key executive of SJW Corp. These units do not include dividend equivalent rights. Such units include market performance-vesting restricted units covering 37,850 shares of common stock of SJW Corp. which will be issued if the market performance objective is attained and the executive continues in the Company s service through the completion of the five-year performance period. Share-based compensation expense is recognized over five years at $8.77 per unit. The remaining 12,000 restricted stock units are recognized over three years at $20.02 per unit. The fair value of the market performance-vesting restricted stock units was estimated using the fair value of SJW Corp. s common stock with the effect of market conditions and no dividend yield on the date of grant, and assumes the market performance goals will be attained.

On April 26, 2010, a total of 207 shares of common stock were distributed to a retired member of SJW Corp. s Board of Directors. There was no excess tax benefit realized from this stock issuance.

As of June 30, 2010, the total unrecognized compensation costs related to restricted and deferred restricted stock plans amounted to $1,445. This cost is expected to be recognized over a weighted-average period of 1.98 years.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

(in thousands, except share and per share data)

Dividend Equivalent Rights

Under the Incentive Plan, certain holders of options, restricted stock, and deferred restricted stock awards may have the right to receive dividend equivalent rights (DERs) each time a dividend is paid on common stock after the grant date. Stock compensation on DERs is recognized as a liability and recorded against retained earnings on the date dividends are issued. For the three and six months ended June 30, 2010, $31 and $62, respectively, related to DERs were recorded against retained earnings and were accrued as a liability. For the three and six months ended June 30, 2009, $30 and $62, respectively, related to DERs were recorded against retained earnings and were accrued as a liability.

SJW Corp. s Deferred Restricted Stock and Deferral Election Programs for non-employee Board members were amended effective January 1, 2008, to allow the DERs with respect to the deferred shares to remain in effect only through December 31, 2017. Accordingly, the last DERs conversion into deferred restricted stock units will occur on the first business day in January 2018. Previously, no such time limitation was placed in the Deferred Restricted Stock and Deferral Election Programs.

Employee Stock Purchase Plan

The ESPP allows eligible employees to purchase shares of SJW Corp. s common stock at 85% of the fair market value of shares on the purchase date. Under the ESPP, employees can designate up to a maximum of 10% of their base compensation for the purchase of shares of common stock, subject to certain restrictions. A total of 270,400 shares of common stock have been reserved for issuance under the ESPP.

After considering the estimated employee terminations or withdrawals from the plan before the purchase date, SJW Corp. s recorded expenses were $24 and $39 for the three and six months ended June 30, 2010, respectively, and $22 and $36 for the three and six months ended June 30, 2009, respectively, related to the ESPP.

The total unrecognized compensation costs related to the semi-annual offering period that ends July 31, 2010 for the ESPP is approximately $8. This cost is expected to be recognized during the third quarter of 2010.

Note 3. Real Estate Investments

The major components of real estate investments as of June 30, 2010 and December 31, 2009 are as follows:

	June 30, 2010	December 31, 2009
Land	$ 22,385	22,381
Buildings and improvements	65,384	65,388
Intangibles	231	231
Subtotal	88,000	88,000
Less: accumulated depreciation and amortization	8,027	7,188
Total	$ 79,973	80,812

Depreciation and amortization is computed using the straight-line method over the estimated service lives of the assets, ranging from 5 to 39 years.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

(in thousands, except share and per share data)

Note 4. Employee Benefit Plans

The components of net periodic benefit costs for San Jose Water Company s pension plan, its Executive Supplemental Retirement Plan and other postretirement benefit plan for the three and six months ended June 30, 2010 and 2009 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Service cost	$ 822	678	$ 1,644	1,356
Interest cost	1,403	1,238	2,807	2,476
Other cost	712	642	1,423	1,284
Expected return on assets	(935)	(765)	(1,871)	(1,530)
	$ 2,002	1,793	$ 4,003	3,586

The following table summarizes the fair values of plan assets by major categories as required by FASB ASC Topic 715, as of June 30, 2010:

			Fair Value Measurements at June 30, 2010		
Asset Category	**Benchmark**	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash and cash equivalents		$ 2,896	$ 2,896	-	-
Actively Managed (a):					
U.S. Large Cap Equity	Russell 1000 Growth	3,293	3,293	-	-
U.S. Small Cap Equity	Russell 2000	1,249	1,249	-	-
U.S. Small Mid Cap Equity	Russell 2500	3,067	3,067	-	-
Non-U.S. Large Cap Equity	MSCI EAFE Net	2,234	2,234	-	-
Passive Index Fund ETFs (b):					
U.S. Large Cap Equity	S&P 500	7,361	7,361	-	-
U.S. Small Mid Cap Equity	Russell 2500	1,819	1,819	-	-
Emerging Market Equity	MSCI Emerging Markets Net	2,046	2,046	-	-
Non-U.S. Large Cap Equity	MSCI EAFE Net	2,322	2,322	-	-
REIT	Nareit Equity Reits	862	862	-	-
Fixed Income (c)	(c)	19,012	19,012	-	-
Total		**$46,161**	**$46,161**	**-**	**-**

The Plan has a target allocation of 60% invested in a diversified array of equity securities to provide long-term capital appreciation and 40% invested in a diversified array of fixed income securities to provide preservation of capital plus generation of income.

(a) Actively managed portfolio of securities with the goal to exceed the stated benchmark performance.
(b) Open-ended fund of securities with the goal to track the stated benchmark performance.
(c) Actively managed portfolio of fixed income securities with the goal to exceed the Barclays Capital Aggregate Bond and Merrill Lynch High Yield Master II performance.

In 2010, San Jose Water Company is required by the Internal Revenue Service to make minimum contributions of $2,870 and $499 to the pension plan and other postretirement benefit plan, respectively. For the three and six months ended June 30, 2010, $642 and $1,159, respectively, has been contributed to the pension plan and other postretirement benefit plan.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

(in thousands, except share and per share data)

Note 5. Segment and Nonregulated Business Reporting

SJW Corp. is a holding company with four subsidiaries: (i) San Jose Water Company, a water utility operation with both regulated and nonregulated businesses, (ii) SJW Land Company and its consolidated variable interest entity, 444 West Santa Clara Street, L.P., which operates commercial building rentals (Real Estate Services), (iii) SJWTX, Inc. which is doing business as Canyon Lake Water Service Company, a regulated water utility located in Canyon Lake, Texas and (iv) Texas Water Alliance Limited, a nonregulated water utility operation which is undertaking activities that are necessary to develop a water supply project in Texas. In accordance with FASB ASC Topic 280 Segment Reporting, SJW Corp. has determined that it has two reportable business segments. The first segment is that of providing water utility and utility-related services to its customers through SJW Corp. s subsidiaries, San Jose Water Company, Canyon Lake Water Service Company, and Texas Water Alliance Limited, together referred to as Water Utility Services. The second segment is property management and investment activity conducted by SJW Land Company, referred to as Real Estate Services.

SJW Corp. s reportable segments have been determined based on information used by the chief operating decision maker. SJW Corp. s chief operating decision maker is its President and Chief Executive Officer (CEO). The CEO reviews financial information presented on a consolidated basis that is accompanied by disaggregated information about operating revenue, net income and total assets, by subsidiaries.

The tables below set forth information relating to SJW Corp. s reportable segments and distribution of regulated and nonregulated business activities within the reportable segments. Certain allocated assets, revenue and expenses have been included in the reportable segment amounts. Other business activity of SJW Corp. not included in the reportable segments is included in the All Other category.

For Three Months Ended June 30, 2010

	Water Utility Services		Real Estate Services	All Other*	SJW Corp.		
	Regulated	Non regulated	Non regulated	Non regulated	Regulated	Non regulated	Total
Operating revenue	$ 52,172	1,134	822		52,172	1,956	54,128
Operating expense	43,958	949	624	353	43,958	1,926	45,884
Operating income (loss)	8,214	185	198	(353)	8,214	30	8,244
Net income (loss)	5,225	172	(311)	(570)	5,225	(709)	4,516
Depreciation and amortization	6,563	87	420		6,563	507	7,070
Interest expense	3,762		443		3,762	443	4,205
Income tax expense (benefit) in operating income	3,402	121	(215)	(207)	3,402	(301)	3,101
Assets	$ 822,391	9,440	81,816	39,333	822,391	130,589	952,980

For Three Months Ended June 30, 2009

	Water Utility Services		Real Estate Services	All Other*	SJW Corp.		
	Regulated	Non regulated	Non regulated	Non regulated	Regulated	Non regulated	Total
Operating revenue	$ 56,099	1,247	848		56,099	2,095	58,194
Operating expense	47,700	1,023	1,054	386	47,700	2,463	50,163
Operating income (loss)	8,399	224	(206)	(386)	8,399	(368)	8,031
Net income (loss)	5,069	224	(674)	(201)	5,069	(651)	4,418
Depreciation and amortization	5,733	85	420		5,733	505	6,238
Interest expense	3,514		463	11	3,514	474	3,988
Income tax expense (benefit) in operating income	3,514	152	(497)	(194)	3,514	(539)	2,975

Assets	$ 740,253	5,384	82,977	41,741	740,253	130,102	870,355

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

(in thousands, except share and per share data)

	For Six Months Ended June 30, 2010	
ices Non ulated	**Real Estate Services Non regulated**	**All Other* Non regulated**
1,978	1,629	
1,631	1,115	584
347	514&nbsmily:Times New Roman;font-size:10pt;font-weight:normal;font-style:normal;text-transform:none;font-variant: normal;">	
9,305		$26,794
0.76		$1.43
0.02		0.80
0.78		$2.23
0.76		$1.43
0.02		0.80
0.78		$2.23
11,941		12,004
12,016		12,063
—		$0.75

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

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Net income	$2,947	$9,305	$26,794	$23,508
Foreign currency translation adjustment	2,711	(1,801)	(325)	(3,672)
Comprehensive income	$5,658	$7,504	$26,469	$19,836

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

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity (Unaudited)

(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance, September 30, 2013	11,971	$ 119	$ 43,193	$313,987	$ (2,073)	$355,226
Net income	—	—	—	26,794	—	26,794
Foreign currency translation adjustments	—	—	—	—	(325)	(325)
Stock-based compensation, net of tax of $451	28	—	2,414	—	—	2,414
Issuance of restricted stock	16	1	—	—	—	1
Dividends paid	—	—	—	(8,995)	—	(8,995)
Balance, June 30, 2014	12,015	$ 120	$ 45,607	$331,786	$ (2,398)	$375,115

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

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Nine Months Ended June 30, 2014			2013		
Operating Activities:						
Net income	$	26,794		$	23,508	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation		7,770			6,523	
Amortization		658			1,252	
Gain on sale of discontinued operations, net of tax		(8,563	)		—	
Stock-based compensation		2,865			3,247	
Bad debt expense/(recovery)		616			(310	)
Deferred income tax benefit		(2,682	)		(287	)
Gain on amended supply agreement		(1,014	)		—	
Cash received from amended supply agreement		10,000			—	
Changes in operating assets and liabilities:						
Accounts receivable, net		(11,598	)		12,777	
Costs and billings in excess of estimates on uncompleted contracts		(16,658	)		42,692	
Inventories		347			1,976	
Prepaid expenses and other current assets		335			(2,216	)
Accounts payable and income taxes payable		(16,650	)		6,763	
Accrued liabilities		(8,769	)		(6,035	)
Other, net		1,936			(1,224	)
Net cash provided by (used in) operating activities		(14,613	)		88,666	
Investing Activities:						
		118			711	

Proceeds from sale of property, plant and equipment						
Proceeds from sale of Transdyn		14,819			—	
Purchases of property, plant and equipment		(11,296	)		(53,728	)
Net cash provided by (used in) investing activities		3,641			(53,017	)
Financing Activities:						
Payments on industrial development revenue bonds		(400	)		(400	)
Taxes on stock-based compensation		(451	)		—	
Dividends paid		(8,995	)		—	
Payments on short-term and other financing		(16	)		(316	)
Net cash used in financing activities		(9,862	)		(716	)
Net increase (decrease) in cash and cash equivalents		(20,834	)		34,933	
Effect of exchange rate changes on cash and cash equivalents		1,186			(108	)
Cash and cash equivalents, beginning of period		107,411			90,040	
Cash and cash equivalents, end of period	$	87,763		$	124,865	

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

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

A. OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

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

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

Basis of Presentation

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

These unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X for interim financial information. Certain information and footnote disclosures, normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP), have been condensed or omitted pursuant to those rules and regulations. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly state the financial position, results of operations and cash flows with respect to the interim consolidated financial statements have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year. We believe that these financial statements contain all adjustments necessary so that they are not misleading. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

As discussed in Note I, on January 15, 2014, we sold our wholly-owned subsidiary Transdyn Inc. (Transdyn). We reclassified the assets and liabilities of Transdyn as held for sale within the accompanying condensed consolidated balance sheet as of September 30, 2013 and presented the results of these operations as income from discontinued operations, net of tax, for each of the accompanying condensed 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 Powell's 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 only reported two business segments, Electrical Power Products and Process Control Systems, we have removed the presentation of segments in our Notes to Condensed Consolidated

Financial Statements.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of Powell and its subsidiaries included in Powell's Annual Report on Form 10-K for the year ended September 30, 2013, which was filed with the Securities and Exchange Commission (SEC) on December 4, 2013.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the 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. Estimates may change as new events occur, additional information becomes available or operating environments change. Actual results may differ from our estimates.

New Accounting Standards

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

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

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

In May 2014, the FASB issued a new standard on revenue recognition that supersedes previously issued revenue recognition guidance. This standard provides a five-step approach to be applied to all contracts with customers and requires expanded disclosures about the nature, amount, timing and uncertainty of revenue (and the related cash flows) arising from customer contracts, significant judgments and changes in judgments used in applying the revenue model and the assets recognized from costs incurred to obtain or fulfill a contract. This new standard is effective for us beginning in fiscal year 2018. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method therefore we are evaluating the effect that this new guidance will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

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B. 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 restrictive stock units, as prescribed by the FASB guidance on earnings per share.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Numerator:				
Income from continuing operations	2,947	9,083	17,190	22,806
Income from discontinued operations	-	222	9,604	702
Net income	$2,947	$9,305	$26,794	$23,508
Denominator:				
Weighted average basic shares	12,015	11,941	12,004	11,932
Dilutive effect of restricted stock units	60	75	59	75
Weighted average diluted shares with assumed conversions	12,075	12,016	12,063	12,007
Net earnings per share:				
Continuing operations	$0.25	$0.76	$1.43	$1.91
Discontinued operations	—	0.02	0.80	0.06
Basic earnings per share	$0.25	$0.78	$2.23	$1.97
Continuing operations	$0.24	$0.76	$1.43	$1.90
Discontinued operations	—	0.02	0.80	0.06
Diluted earnings per share	$0.24	$0.78	$2.23	$1.96

C. DETAIL OF SELECTED BALANCE SHEET ACCOUNTS

Allowance for Doubtful Accounts

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Balance at beginning of period	$501	$818	$572	$1,297
Bad debt expense/(recovery)	676	20	616	(310)
Uncollectible accounts written off, net of recoveries	(38)	(19)	(46)	(156)

Change in foreign currency translation	5	(2)	2	(14)
Balance at end of period	$1,144	$817	$1,144	$817

Inventories:

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

	June 30, 2014	September 30, 2013
Raw materials, parts and subassemblies	$31,484	$ 30,077
Work-in-progress	1,551	3,818
Provision for excess and obsolete inventory	(4,326)	(4,932)
Total inventories	$28,709	$ 28,963

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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):

	June 30, 2014	September 30, 2013
Costs incurred on uncompleted contracts	$709,561	$618,570
Estimated earnings	182,506	159,962
	892,067	778,532
Less: Billings to date	(842,322)	(747,446)
Net underbilled position	$49,745	$31,086
Included in the accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts – underbilled	$83,999	$79,420
Billings in excess of costs and estimated earnings on uncompleted contracts – overbilled	(34,254)	(48,334)
Net underbilled position	$49,745	$31,086

Warranty Accrual

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

	Three Months Ended June 30, 2014	2013	Nine Months Ended June 30, 2014	2013
Balance at beginning of period	$4,833	$5,109	$5,282	$5,548
Increase to warranty expense	884	430	2,390	2,048
Deduction for warranty charges	(1,023)	(874)	(2,949)	(2,849)
Increase (decrease) due to foreign currency translations	61	(10)	32	(92)
Balance at end of period	$4,755	$4,655	$4,755	$4,655

D. INTANGIBLE ASSETS

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

	June 30, 2014			September 30, 2013		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Purchased technology	$11,749	$ (9,795)	$ 1,954	$11,749	$ (9,489)	$2,260
Trade name	1,136	(1,034)	102	1,136	(967)	169
Supply agreement	—	—	—	17,580	(8,397)	9,183
Total	$12,885	$ (10,829)	$ 2,056	$30,465	$ (18,853)	$11,612

Amortization of intangible assets recorded for the nine months ended June 30, 2014 and 2013 was $0.7 million and $1.2 million, respectively.

On August 7, 2006, we purchased certain assets related to the manufacturing of ANSI medium-voltage switchgear and circuit breaker business from General Electric Company (GE). In connection with the acquisition, we entered into a 15 year supply agreement with GE pursuant to which GE would purchase from the Company all of its requirements for ANSI medium-voltage switchgear and circuit breakers and other related equipment and components (the Products) In connection with the acquisition, we recorded an intangible asset related to this supply agreement. On December 30, 2013, the Company and GE amended the supply agreement to allow GE to manufacture similar Products for sale immediately and allow GE to begin purchasing Products from other suppliers beginning

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December 31, 2014. In return, GE paid us $10 million upon execution of the amended supply agreement and agreed to pay an additional $7 million over three years, subject to certain conditions. We have $2.3 million recorded in other current assets and the remaining $4.7 million is recorded as a long-term receivable. We wrote off the intangible asset related to the original supply agreement and recorded a deferred credit in the amount of $8.1 million, the amount by which the total proceeds from GE exceeded the unamortized balance of our intangible asset. We are amortizing this deferred credit over the four year life of the agreement and have recognized the $1.0 million gain in other income in the first nine months of fiscal year 2014.

E. LONG-TERM DEBT

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

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

US Revolver

In fiscal year 2014, we amended and restated our existing credit agreement (Amended Credit Agreement) with a major domestic bank. We entered into this Amended Credit Agreement to, among other things, allow for the payment of dividends and to extend the expiration date of the facility. The Amended Credit Agreement provides for a $75.0 million revolving credit facility (U.S. Revolver). Obligations are collateralized by the stock of certain of our subsidiaries.

The interest rate for amounts outstanding under the Amended Credit Agreement for the U.S. Revolver is a floating rate based upon the higher of the Federal Funds Rate plus 0.5%, the bank's prime rate, or the Eurocurrency rate plus 1.00%. Once the applicable rate is determined, a margin ranging up to 1.75%, as determined by our consolidated leverage ratio, is added to the applicable rate.

The U.S. Revolver provides for the issuance of letters of credit which reduce the amounts that may be borrowed under this revolver. The amount available under the U.S. Revolver was reduced by $21.1 million for our outstanding letters of credit at June 30, 2014.

There were no borrowings outstanding under the U.S. Revolver as of June 30, 2014. Amounts available under the U.S. Revolver were $53.9 million at June 30, 2014. The U.S. Revolver expires on December 31, 2018.

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

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

Canadian Revolver

We have a $9.4 million credit agreement with a major international bank in Canada (the Canadian Revolver) to provide working capital support and letters of credit for our operations in Canada. The Canadian Revolver provides for the issuance of letters of credit which reduce the amounts that may be borrowed under this revolver. The amount available under the Canadian Revolver was reduced by $0.1 million for an outstanding letter of credit at June 30, 2014.

There were no borrowings outstanding under the Canadian Revolver as of June 30, 2014. Amounts available under the Canadian Revolver were $9.3 million at June 30, 2014. The Canadian Revolver expires on February 28, 2015. The interest rate for amounts

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outstanding under the Canadian Revolver is a floating interest rate based upon either the Canadian Prime Rate, or the lender's Bankers' Acceptance Rate. Once the applicable rate is determined, a margin of 0.50% to 1.75%, as determined by our consolidated leverage ratio, is added to the applicable rate.

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

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

Industrial Development Revenue Bonds

We borrowed $8.0 million in October 2001 through a loan agreement funded with proceeds from tax-exempt industrial development revenue bonds (Bonds). These Bonds were issued by the Illinois Development Finance Authority and were used for the completion of our Northlake, Illinois facility. Pursuant to the Bond issuance, a reimbursement agreement between us and a major domestic bank required an issuance by the bank of an irrevocable direct-pay letter of credit (Bond LC), as collateral, to the Bonds' trustee to guarantee payment of the Bonds' principal and interest when due. The Bond LC is subject to both early termination and extension provisions customary to such agreements, as well as various covenants, for which we were in compliance at June 30, 2014. While the Bonds mature in 2021, the reimbursement agreement requires annual redemptions of $0.4 million that commenced on October 25, 2002. A sinking fund is used for the redemption of the Bonds. At June 30, 2014, the balance in the restricted sinking fund was approximately $0.3 million and was recorded in cash and cash equivalents. The Bonds bear interest at a floating rate determined weekly by the Bonds' remarketing agent, which was the underwriter for the Bonds and is an affiliate of the bank. This interest rate was 0.25% as of June 30, 2014.

F. COMMITMENTS AND CONTINGENCIES

Long-Term Debt

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

Letters of Credit and Bonds

Certain customers require us to post bank letter of credit guarantees or performance bonds issued by a surety. These guarantees and performance bonds assure that we will perform under the terms of our contract. In the event of default, the counterparty may demand payment from the bank under a letter of credit or performance by the surety under a performance bond. To date, there have been no significant expenses related to either letters of credit or performance bonds for the periods reported. We were contingently liable for secured and unsecured letters of credit of $21.2 million as of June 30, 2014. We also had performance and maintenance bonds totaling $330.2 million that were outstanding, with additional bonding capacity of $269.8 million available, at June 30, 2014.

We have an $8.5 million facility agreement (Facility Agreement) between Powell (UK) Limited and a large international bank. This Facility Agreement provides Powell (UK) the ability to enter into various guarantees, such as forward exchange contracts, currency options and performance bonds. At June 30, 2014, we had outstanding guarantees totaling $3.7 million under this Facility Agreement. Amounts available under this Facility Agreement were $4.8 million as of June 30, 2014.

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

Litigation

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

G. STOCK-BASED COMPENSATION

Refer to our Annual Report on Form 10-K for the fiscal year ended September 30, 2013 for a full description of our existing stock-based compensation plans.

On February 26, 2014, our stockholders approved and adopted at the Annual Meeting of Stockholders the 2014 Equity Incentive Plan (the 2014 Plan). Persons eligible to receive awards under the 2014 Plan include our officers and employees. The 2014 Plan authorizes stock options, stock appreciation rights, restricted stock, restricted stock units and performance-based awards, as well as certain other awards. We have reserved 750,000 shares of common stock for issuance under the 2014 Plan. No further awards will be made under the 1992 Stock Option Plan or the 2006 Equity Compensation Plan.

We issue restricted stock units (RSUs) to certain officers and key employees of the Company. The RSUs vest over a three-year period from their date of issuance. The fair value of the RSUs is based on the closing price of our common stock as reported on the NASDAQ Global Market (NASDAQ) on the grant dates. Typically, sixty-percent of the actual amount of the RSUs are earned based on the cumulative earnings as reported relative to the three-year performance cycle which begins October 1 of the year granted, and ranges from 0% to 150% of the target RSUs granted and the remaining of the RSUs are time-based and vest over a three-year period. At June 30, 2014, there were 132,282 RSUs outstanding. The RSUs do not have voting rights and the shares of common stock underlying the RSUs are not issued until they vest.

RSU activity (number of shares) is summarized below:

	Number of Restricted Stock Units	Weighted Average Fair Value Per Share
Outstanding at September 30, 2013	81,555	$ 38.66
Granted	57,200	60.47
Vested	(5,973)	61.79
Forfeited	(500)	60.32
Outstanding at June 30, 2014	132,282	$ 46.97

During the nine months ended June 30, 2014 and 2013, we recorded compensation expense of $2.0 million and $2.2 million, respectively, related to the RSUs.

On February 26, 2014, our stockholders approved and adopted at the Annual Meeting of Stockholders the 2014 Non-Employee Director Equity Incentive Plan (the 2014 Director Plan). Persons eligible to receive awards under the 2014 Director Plan are non-employee directors of the Board. The 2014 Director Plan authorizes stock options, stock appreciation rights, restricted stock, restricted stock units, as well as certain other awards. We have reserved 150,000 shares of common stock for issuance under the 2014 Director Plan. No further awards will be made under the Non-Employee Director Restricted Stock Plan or the Non-Employee Director Stock Option Plan. In February 2014, 16,000 shares of restricted stock were issued to such directors at a price of $66.15 per share under the 2014 Director Plan. The annual restricted stock grants vest 50% per year over a two-year period on each anniversary of the grant date.

During the nine months ended June 30, 2014 and 2013, we recorded compensation expense of $0.9 million and $1.0 million, respectively, related to restricted stock grants.

H. FAIR VALUE MEASUREMENTS

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

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

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

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

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

The following table summarizes the fair value of our assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2014 (in thousands):

	Fair Value Measurements at June 30, 2014			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at June 30, 2014
Assets:				
Cash equivalents	$10,434	$ —	$ —	$10,434
Total	$10,434	$ —	$ —	$10,434

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

	Fair Value Measurements at September 30, 2013		
	Quoted Prices in Active Markets for	Significant Other Observable	Significant

	Identical Assets (Level 1)	Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value at September 30, 2013
Assets:				
Cash equivalents	$ 10,531	$ —	$ —	$ 10,531
Total	$ 10,531	$ —	$ —	$ 10,531

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

Fair Value of Other Financial Instruments

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

Industrial Development Revenue Bond The fair value of our long-term debt depends primarily on the coupon rate of our industrial development revenue bonds. The carrying value of our long-term debt at June 30, 2014 approximates fair value based on the current coupon rate of the bonds, which is reset weekly, and is classified as a Level 2 input in the fair value measurement hierarchy as there is an active market for the trading of these industrial development revenue bonds.

There were no transfers between levels within the fair value measurement hierarchy during the nine months ended June 30, 2014.

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I. DISCONTINUED OPERATIONS

On January 15, 2014, we sold our wholly-owned subsidiary Transdyn to a global provider of electronic toll collection systems, headquartered in Vienna, Austria. The purchase price from the sale of this subsidiary totaled $16.0 million, of which we received cash of $14.4 million. The remaining $1.6 million was placed into an escrow account until April 2015, to be released subject to certain contingent obligations, and was recorded to other assets. We received additional cash of $0.4 million after the final working capital adjustment was calculated in March 2014. We recorded a gain on this transaction of $8.6 million, net of tax, which has been included in income from discontinued operations for the nine months ended June 30, 2014 in the accompanying condensed consolidated statements of operations. Transdyn's results were previously reflected in the Process Control Systems business segment.

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

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Revenues	$—	$7,786	$13,923	$22,743
Income from discontinued operations, net of tax of $0, $206, $633 and $652, respectively	—	222	1,041	702
Gain on sale of discontinued operations, net of tax of $0, $0, $5,218 and $0, respectively	—	—	8,563	—
Net income from discontinued operations, net of tax	$—	$222	$9,604	$702
Earnings per share information:				
Basic	$—	$0.02	$0.80	$0.06
Diluted	$—	$0.02	$0.80	$0.06

The following table presents the assets and liabilities of Transdyn as of September 30, 2013 (in thousands):

	September 30, 2013

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

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J. INCOME TAXES

The calculation of the effective tax rate is as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Income from continuing operations before income taxes	$5,180	$12,080	$27,416	$31,017
Income tax provision	2,233	2,997	10,226	8,211
Income from continuing operations	$2,947	$9,083	$17,190	$22,806
Effective tax rate	43 %	25 %	37 %	27 %

Our provision for income taxes for continuing operations was $2.2 million in the third quarter of fiscal year 2014, compared to $3.0 million in the third quarter of fiscal year 2013. The effective tax rate for the third quarter of fiscal year 2014 was 43.1% which is above the combined U.S. federal and state statutory rates primarily due to discrete tax items recognized during the quarter as well as the nondeductibility of certain executive compensation costs. The effective tax rate for the third quarter of fiscal year 2013 was 24.8% and was favorably impacted by the utilization of loss carryforwards on Canadian income and the retroactive availability of the Federal Research and Development Tax Credit.

Our provision for income taxes for continuing operations was $10.2 million for the nine months ended June 30, 2014, compared to $8.2 million for the nine months ended June 30, 2013. The effective tax rate for nine months ended June 30, 2014 was 37.3% which approximates the combined U.S. federal and state statutory rates as the majority of our income is attributable to the U.S. The effective tax rate for the nine months ended June 30, 2013 was 26.5% and was favorably impacted by the utilization of loss carryforwards on Canadian income as well as the extension of the Federal Research and Development Tax Credit.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

From time to time, our management or persons acting on our behalf make forward-looking statements to inform existing and potential shareholders about our Company. These statements may include projections and estimates concerning the timing and success of specific projects and our future backlog, revenues, income, acquisitions and capital spending. Forward-looking statements include information concerning future results of operations and financial condition. Statements that contain words such as “believes,” “expects,” “anticipates,” “intends,” “estimates,” “continu “should,” “could,” “may,” “plan,” “project,” “predict,” “will” or similar expressions may be forward-looking statements. In ad sometimes we will specifically describe a statement as being a forward-looking statement and refer to this cautionary statement.

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

- Economic uncertainty and financial market conditions may impact our customer base, suppliers and backlog.
- Our backlog is subject to unexpected adjustments and cancellations and, therefore, may not be a reliable indicator of our future earnings.
- The use of percentage-of-completion accounting on our fixed-price contracts could result in volatility in our results of operations.
- A portion of our contracts contain terms with penalty provisions.
- Fluctuations in the price and supply of raw materials used to manufacture our products may reduce our profits and could materially impact our ability to meet commitments to our customers.
- Our industry is highly competitive.
- Our operations could be adversely impacted by the effects of government regulations.
- 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.
- Acquisitions involve a number of risks.
- Our operating results may vary significantly from quarter to quarter.
- The departure of key personnel could disrupt our business.
- Our business requires skilled labor, and we may be unable to attract and retain qualified employees.
- Actual and potential claims, lawsuits and proceedings could ultimately reduce our profitability and liquidity and weaken our financial condition.
- Unforeseen difficulties with our enterprise resource planning, engineering and manufacturing process systems (Business Systems) could adversely affect our internal controls and our business.
- We carry insurance against many potential liabilities, but our management of risk may leave us exposed to unidentified, uninsured or unanticipated risks.
- Technological innovations by competitors may make existing products and production methods obsolete.
- Catastrophic events could disrupt our business.

- Unforeseen difficulties with the ramp-up of our two new facilities could adversely affect our operations.

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We believe the items we have outlined above are important factors that could cause estimates included in our financial statements to differ materially from actual results and those expressed in a forward-looking statement made in this report or elsewhere by us or on our behalf. We have discussed many of these factors in more detail in our Annual Report on Form 10-K for the year ended September 30, 2013. These factors are not necessarily all of the factors that could affect us. Unpredictable or unanticipated factors we have not discussed in this report could also have material adverse effects on actual results. We do not intend to update our description of important factors each time a potential important factor arises, except as required by applicable securities laws and regulations. We advise our shareholders that they should (1) be aware that factors not referred to above could affect the accuracy of our forward-looking statements and (2) use caution when considering our forward-looking statements.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended September 30, 2013 which was filed with the Securities and Exchange Commission (SEC) on December 4, 2013 and is available on the SEC's website at www.sec.gov.

Overview

We develop, design, manufacture and service custom engineered-to-order equipment and systems for the management and control of electrical energy. Headquartered in Houston, Texas, we serve the energy, industrial, utility and traction power industries. Revenues and costs are primarily related to custom engineered-to-order equipment and systems which precludes us from providing detailed price and volume information.

The markets in which we participate are capital intensive and cyclical in nature. Cyclicality is predominantly driven by customer demand, global economic conditions and anticipated environmental or regulatory changes which affect the manner in which our customers proceed with capital investments. Our customers analyze various factors including the demand for oil, gas and electrical energy, the overall financial environment, governmental budgets, regulatory actions and environmental concerns. These factors influence the release of new capital projects by our customers, which are traditionally awarded in competitive bid situations. Scheduling is matched to the customer requirements and projects may take a number of months to produce; schedules also may change during the course of any particular project. Our operating results are impacted by factors outside of our control, for example, many of our projects have contracting arrangements where the approval of engineering and design specifications may affect the timing of the project execution. In the third quarter of fiscal year 2014, we experienced schedule changes on various U.S. projects which negatively impacted our results as the revenues have been pushed into subsequent quarters.

We entered fiscal year 2014 with a backlog of unfilled orders of $437.9 million at September 30, 2013, an increase of $72.0 million compared to our backlog of orders at September 30, 2012. Our backlog includes various projects, some of which are for complex petrochemical and oil and gas construction projects which take a number of months to produce. The timing of project execution and revenues can be difficult to predict due to the complexity and duration of these projects.

The strength in the western Canadian oil and gas markets continues to be a major contributor to our increase in revenue this year. We completed the construction of our new Canadian facility and relocated operations from our previous facility in the fall of 2013. The production ramp of our Canadian operations has presented challenges resulting in inefficiencies that have led to custom material shortages, extended project delivery times, higher costs, gross margin deterioration and revenues being pushed into subsequent quarters. We continue to take actions to mitigate these challenges.

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

Results of Operations

Quarter Ended June 30, 2014 Compared to the Quarter Ended June 30, 2013 (Unaudited)

Revenue and Gross Profit

Revenues decreased 12.2%, or $20.9 million, to $150.8 million in the third quarter of fiscal year 2014, compared to the third quarter of fiscal year 2013, primarily due to schedule delays and the timing of certain projects. Domestic revenues decreased by 15.6%, or $15.7 million, to $85.3 million in the third quarter of fiscal year 2014, compared to the third quarter of fiscal year 2013, and international revenues decreased by 7.3%, or $5.2 million, to $65.5 million in the third quarter of fiscal year 2014, compared to the third quarter of fiscal year 2013. Revenues from commercial and industrial customers decreased $9.8 million to $112.8 million in the third quarter of fiscal year 2014, compared to the third quarter of fiscal year 2013. Revenues from public and private utilities decreased $3.5 million to $28.2 million in the third quarter of fiscal year 2014, compared to the third quarter of fiscal year 2013. Revenues from municipal and transit projects decreased $7.7 million to $9.8 million in the third quarter of fiscal year 2014, compared to the third quarter of fiscal year 2013.

Gross profit for the third quarter of fiscal year 2014 decreased 19.0%, or $7.0 million, to $29.6 million, compared to the third quarter of fiscal year 2013. Gross profit as a percentage of revenues decreased to 19.7% in the third quarter of fiscal year 2014, compared to 21.3% in the third quarter of fiscal year 2013. This decrease in gross profit as a percentage of revenue was primarily driven by the margins associated with the mix of projects in process, overhead costs that were not fully absorbed as a result of the reduction in revenue and higher costs resulting from efficiency and utilization challenges associated with the ramp of our Canadian operations.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, as a percentage of revenues, increased to 15.3% during the third quarter of fiscal year 2014, compared to 11.8% during the third quarter of fiscal year 2013, due to the decrease in revenues. Selling, general and administrative expenses increased by $2.8 million to $23.0 million during the third quarter of fiscal year 2014, compared to the third quarter of fiscal year 2013, primarily due to increased personnel costs, travel, bad debt expense and administrative expenses associated with our strategic growth initiatives.

Other Income

We recorded other income of $0.5 million in the third quarter of fiscal year 2014 which was the amortization of the deferred gain from the amended supply agreement.

Income Tax Provision

Our provision for income taxes for continuing operations was $2.2 million in the third quarter of fiscal year 2014, compared to $3.0 million in the third quarter of fiscal year 2013. The effective tax rate for the third quarter of fiscal year 2014 was 43.1% which is above the combined U.S. federal and state statutory rates primarily due to discrete tax items recognized during the quarter as well as the nondeductibility of certain executive compensation costs. The effective tax rate for the third quarter of fiscal year 2013 was 24.8% and was favorably impacted by the utilization of loss carryforwards on Canadian income and the retroactive availability of the Federal Research and Development Tax Credit.

Income from Continuing Operations

In the third quarter of fiscal year 2014, we recorded income from continuing operations of $2.9 million, or $0.24 per diluted share, compared to $9.1 million, or $0.76 per diluted share, in the third quarter of fiscal year 2013. This decrease in income from continuing operations was primarily due to decreased revenue and margins which resulted from project delays and the mix of projects in process. Additionally, the efficiency and utilization challenges associated with the ramp of our Canadian operations contributed to the decrease in income from continuing operations compared to the prior year.

Income from Discontinued Operations

We had no income from discontinued operations in the third quarter of fiscal year 2014; however, we recorded $0.2 million, or $0.02 per diluted share in the third quarter of fiscal year 2013. For additional information about this disposition, see Note I in the Notes to Condensed Consolidated Financial Statements.

Backlog

The order backlog at June 30, 2014 was $477.4 million, compared to $452.2 million at March 31, 2014. New orders placed during the third quarter of fiscal year 2014 totaled $171.7 million compared to $150.2 million in the third quarter of fiscal year 2013. Orders have increased primarily due to continued strength in oil and gas production and refining projects.

Nine Months Ended June 30, 2014 Compared to the Nine Months Ended June 30, 2013 (Unaudited)

Revenue and Gross Profit

Revenues increased 4.4% or $20.3 million, to $485.0 million for the nine months ended June 30, 2014, compared to the nine months ended June 30, 2013, primarily due to increased demand for our products as a result of our Canadian expansion. Domestic revenues decreased 3.9%, or $10.8 million, to $266.2 million for the nine months ended June 30, 2014, compared to the nine months ended June 30, 2013, and international revenues increased 16.6%, or $31.1 million, to $218.8 million for the nine months ended June 30, 2014, compared to the nine months ended June 30, 2013. The increase in international revenues was primarily driven by the expansions of our Canadian operations. Revenues from commercial and industrial customers increased $22.9 million to $351.8 million for the nine months ended June 30, 2014, compared to the nine months ended June 30, 2013. Revenues from public and private utilities increased $0.8 million to $98.3 million for the nine months ended June 30, 2014, compared to the nine months ended June 30, 2013. Revenues from municipal and transit projects decreased $3.3 million to $34.9 million for the nine months ended June 30, 2014, compared to the nine months ended June 30, 2013.

Gross profit for the nine months ended June 30, 2014 increased 1.2%, or $1.2 million, to $99.7 million, compared to the nine months ended June 30, 2013. Gross profit as a percentage of revenues was 20.6% for the nine months ended June 30, 2014, compared to 21.2% for the nine months ended June 30, 2013. Our gross profit as a percentage of revenues declined in the first nine months of fiscal year 2014, compared to fiscal year 2013, primarily due to higher costs resulting from the efficiency and utilization challenges associated with the ramp of our Canadian operations. Excluding the operational challenges in Canada, gross profit as percentage of revenue improved overall as a result of various cost savings and productivity initiatives.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, as a percentage of revenues, increased to 13.8% during the nine months ended June 30, 2014, compared to 13.0% during the nine months ended June 30, 2013. Selling, general and administrative expenses increased by $6.3 million to $66.8 million during nine months ended June 30, 2014, compared to the nine months ended June 30, 2013, primarily due to increased personnel costs, travel and administrative expenses associated with our strategic growth initiatives. 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. However, going forward, the favorable impact of depreciation expense and capitalization of certain personnel costs will no longer be realized.

Other Income

We recorded other income of $1.0 million in the nine months ended June 30, 2014 which was the amortization of the deferred gain from the amended supply agreement, compared to other income of $1.7 million in the same period in fiscal year 2013 which resulted from the settlement of a lawsuit filed against the previous owners of Powell Canada.

Income Tax Provision

Our provision for income taxes for continuing operations was $10.2 million for the nine months ended June 30, 2014, compared to $8.2 million for the nine months ended June 30, 2013. The effective tax rate for nine months ended June 30, 2014 was 37.3% which approximates the combined U.S. federal and state statutory rates as the majority of our income is attributable to the U.S. The effective tax rate for the nine months ended June 30, 2013 was 26.5% and was favorably impacted by the utilization of loss carryforwards on Canadian income as well as the extension of the Federal Research and Development Tax Credit.

Income from Continuing Operations

For the nine months ended June 30, 2014, we recorded income from continuing operations of $17.2 million, or $1.43 per diluted share, compared to $22.8 million, or $1.90 per diluted share, for the nine months ended June 30, 2013. This decrease in income from continuing operations was primarily due to schedule delays and the mix of projects in process at our domestic operations as well as the efficiency and utilization challenges associated with the ramp of our Canadian operations.

Income from Discontinued Operations

For the nine months ended June 30, 2014, we recorded $9.6 million, or $0.80 per diluted share, of income from discontinued operations compared to $0.7 million, or $0.06 per diluted share, recorded for the nine months ended June 30, 2013 as the current fiscal year includes the gain on the sale. For additional information about this disposition, see Note I in the Notes to Condensed Consolidated Financial Statements.

Backlog

The order backlog at June 30, 2014 was $477.4 million, compared to $437.9 million at September 30, 2013. New orders placed during the nine months ended June 30, 2014 totaled $526.5 million compared to $519.3 million for the nine months ended June 30, 2013. The year over year increase in new orders was primarily due to the continued strength in oil and gas production and refining projects.

Liquidity and Capital Resources

Cash and cash equivalents decreased to $87.8 million at June 30, 2014, compared to $107.4 million at September 30, 2013. As of June 30, 2014, current assets exceeded current liabilities by 2.8 times and our debt to total capitalization was 0.85%.

We have a $75.0 million revolving credit facility in the U.S. which expires in December 2018. As of June 30, 2014, there were no amounts borrowed under this line of credit. We also have a $9.4 million revolving credit facility in Canada. At June 30, 2014, there was no balance outstanding under the Canadian revolving credit facility. Total long-term debt and capital lease obligations, including current maturities, totaled $3.2 million at June 30, 2014, compared to $3.6 million at September 30, 2013. Total letters of credit outstanding were $21.2 million at June 30, 2014 compared to $20.1 million at September 30, 2013, which reduced our availability under our U.S. credit facility and our Canadian revolving credit facility. Amounts available at June 30, 2014 under the U.S. and Canadian revolving credit facilities were $53.9 million and $9.3 million, respectively. For further information regarding our debt, see Notes E and F of Notes to Condensed Consolidated Financial Statements.

Approximately $7.5 million of our cash at June 30, 2014, was held outside of the United States for international operations. It is our intention to indefinitely reinvest all current and future foreign earnings internationally in order to ensure sufficient working capital and support and expand these international operations. In the event that we elect to repatriate some or all of the foreign earnings that were previously deemed to be indefinitely reinvested outside the U.S., under current tax laws we would incur additional tax expense upon such repatriation.

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

Operating Activities

Cash used in operating activities was $14.6 million during the first nine months of fiscal year 2014, compared to cash provided by operating activities of $88.7 million during the first nine months of fiscal year 2013. Cash flow from operations is primarily influenced by demand for our products and services and is impacted as our progress payment terms with our customers are matched with the payment terms with our suppliers. The change in the first nine months of fiscal year 2014, compared to the same period in the prior year, was primarily due to the billing and collection of contracts receivable based on the progress billing milestones, as well as an unfavorable change in receivables due to a temporary delay in the processing of customer invoices caused by the re-implementation of our Business Systems. These uses of cash were partially offset by the $10.0 million received from the amended supply agreement. For further information regarding the amended supply agreement, see Note D in the Notes to Condensed Consolidated Financial Statements.

Investing Activities

Cash provided by investing activities during the first nine months of fiscal year 2014 was $3.6 million compared to cash used in investing activities for the same period in fiscal year 2013 of $53.0 million. Purchases of property, plant and equipment during the first nine months of fiscal year 2014 totaled $12.2 million compared to $53.7 million during the first nine months of fiscal year 2013. This decrease results from the completion of the construction of our new facilities in fiscal year 2013, offset by the implementation of our Business Systems upgrade in the third quarter of fiscal year 2014. Additionally, cash provided by investing activities in fiscal year 2014 includes the proceeds from the sale of Transdyn of $14.8 million.

Financing Activities

Net cash used in financing activities was $9.9 million during the first nine months of fiscal year 2014 and $0.7 million during the same period of fiscal year 2013. This increase in the use of cash in the first nine months of fiscal year 2014 was primarily driven by the payment of $9.0 million in cash dividends.

New Accounting Standards

See Note A in the Notes to Condensed Consolidated Financial Statements included in this report for information on new accounting standards.

Critical Accounting Policies

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

There have been no material changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the year ended September 30, 2013.

Outlook

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

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

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

The strength in the western Canadian oil and gas markets continues to provide project opportunities for Powell. Demand for our products and solutions in the Canadian market are placing pressure on our production ramp plan. We completed the construction of our new Canadian facility and relocated operations from our previous facility in the fall of 2013. The production ramp of our Canadian operations may continue to present challenges resulting in inefficiencies which could lead to custom material shortages and extended project delivery times which could result in higher costs, gross margin deterioration and delay the recognition of revenues. We continue to take actions to mitigate these challenges.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

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

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. All revenues and expenses are translated at average rates during the respective period. 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 generally financed utilizing local credit facilities denominated in local currencies. Additionally, expenses associated with these transactions are generally contracted and paid for in the same local currencies. A 10% unfavorable change in the U.S. Dollar exchange rate, relative to other functional currencies in which we operate, would not materially impact our consolidated balance sheet at June 30, 2014.

Commodity Price Risk

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

Market Risk

We are also exposed to general market risk and its potential impact on accounts receivable or costs and estimated earnings in excess of billings on uncompleted contracts. The amounts recorded may be at risk if our customers' ability to pay these obligations is negatively impacted by economic conditions. Our customers and their industries are typically EPC firms, oil and gas producers, oil and gas pipelines, refineries, petrochemical plants, electrical power generators, public and private utilities, co-generation facilities, mining/metals operations, pulp and paper plants, transit authorities, governmental agencies and other large industrial customers. We maintain ongoing discussions with customers regarding contract status with respect to payment status, change orders and billing terms in an effort to monitor collections of amounts billed.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

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

In 2013, we began to re-implement our enterprise resource planning, engineering and manufacturing process systems (Business Systems) and add additional software that is designed to improve our processes and enhance operational efficiency. We went "live" in early May 2014. Although we believe the new software enhances our internal control over financial reporting, we continue to conduct post-implementation monitoring and process modification through and around the Business Systems to provide reasonable assurance that our internal controls continue to be effective.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

Item 6. Exhibits

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

*32.2	—Certification of Chief Financial Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101.INS	—XBRL Instance Document
*101.SCH	—XBRL Taxonomy Extension Schema Document
*101.CAL	—XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	—XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	—XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	—XBRL Taxonomy Extension Presentation Linkbase Document

*Filed herewith

SIGNATURES

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

	POWELL INDUSTRIES, INC. (Registrant)	
Date: August 6, 2014	By:	/s/ Michael A. Lucas Michael A. Lucas President and Chief Executive Officer (Principal Executive Officer)
	By:	/s/ Don R. Madison Don R. Madison Executive Vice President Chief Financial and Administrative Officer (Principal Financial Officer)

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