POWELL INDUSTRIES INC
Form 10-Q
August 08, 2011

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**Form 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2011**

**OR**

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

**Commission File Number 001-12488**

**Powell Industries, Inc.**

*(Exact name of registrant as specified in its charter)*

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

**Registrant s telephone number, including area code:**
**(713) 944-6900**

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

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

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

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

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

At July 28, 2011, there were 11,744,909 outstanding shares of the registrant s common stock, par value $0.01 per share.

**POWELL INDUSTRIES, INC. AND SUBSIDIARIES**
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## PART I FINANCIAL INFORMATION

**Item 1.** ***Condensed Consolidated Financial Statements***

**POWELL INDUSTRIES, INC. AND SUBSIDIARIES**
**Condensed Consolidated Balance Sheets**
**(In thousands, except share and per share data)**

| | June 30, 2011 (Unaudited) | September 30, 2010 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 137,266 | $ 115,353 |
| Accounts receivable, less allowance for doubtful accounts of $759 and $907, respectively | 106,809 | 91,766 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 43,927 | 38,064 |
| Inventories, net | 41,344 | 38,244 |
| Income taxes receivable | 5,191 | 6,726 |
| Deferred income taxes | 5,307 | 3,087 |
| Prepaid expenses and other current assets | 6,870 | 8,951 |
| Total Current Assets | 346,714 | 302,191 |
| Property, plant and equipment, net | 59,874 | 63,676 |
| Goodwill | 1,003 | 1,003 |
| Intangible assets, net | 24,469 | 26,132 |
| Other assets | 7,722 | 7,710 |
| Total Assets | $ 439,782 | $ 400,712 |
| **LIABILITIES AND EQUITY** | | |
| Current Liabilities: | | |
| Current maturities of long-term debt and capital lease obligations | $ 1,378 | $ 1,683 |
| Income taxes payable | 3,408 | 1,500 |
| Accounts payable | 46,777 | 41,850 |
| Accrued salaries, bonuses and commissions | 16,220 | 25,064 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 64,565 | 31,009 |
| Accrued product warranty | 5,078 | 5,929 |
| Other accrued expenses | 6,729 | 7,711 |
| Total Current Liabilities | 144,155 | 114,746 |
| Long-term debt and capital lease obligations, net of current maturities | 4,387 | 5,202 |
| Deferred compensation | 3,279 | 2,730 |
| Other liabilities | 884 | 731 |
| Total Liabilities | 152,705 | 123,409 |
| Commitments and Contingencies (Note J) | | |
| Equity: | | |
| Stockholders Equity: | | |

| | | |
|---|---|---|
| Preferred stock, par value $.01; 5,000,000 shares authorized; none issued | | |
| Common stock, par value $.01; 30,000,000 shares authorized; 11,744,909 and 11,676,955 shares issued and outstanding, respectively | 117 | 117 |
| Additional paid-in capital | 35,204 | 33,569 |
| Retained earnings | 251,607 | 244,969 |
| Accumulated other comprehensive income (loss) | 149 | (1,352) |
| Total Stockholders Equity | 287,077 | 277,303 |
| Total Liabilities and Equity | $ 439,782 | $ 400,712 |

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

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**POWELL INDUSTRIES, INC. AND SUBSIDIARIES**
**Condensed Consolidated Statements of Operations (Unaudited)**
**(In thousands, except per share data)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | June 30, 2011 | June 30, 2010 | June 30, 2011 | June 30, 2010 |
| Revenues | $ 142,135 | $ 138,880 | $ 392,407 | $ 416,931 |
| Cost of goods sold | 118,637 | 100,636 | 317,401 | 304,337 |
| Gross profit | 23,498 | 38,244 | 75,006 | 112,594 |
| Selling, general and administrative expenses | 19,410 | 21,084 | 61,876 | 62,821 |
| Amortization of intangible assets | 1,237 | 1,132 | 3,658 | 3,193 |
| Operating income | 2,851 | 16,028 | 9,472 | 46,580 |
| Other income | | | (1,229) | |
| Interest expense | 88 | 228 | 296 | 638 |
| Interest income | (66) | (49) | (173) | (206) |
| Income before income taxes | 2,829 | 15,849 | 10,578 | 46,148 |
| Income tax provision | 1,122 | 5,530 | 3,940 | 16,199 |
| Net income | 1,707 | 10,319 | 6,638 | 29,949 |
| Net income attributable to noncontrolling interest | | (33) | | (159) |
| Net income attributable to Powell Industries, Inc. | $ 1,707 | $ 10,286 | $ 6,638 | $ 29,790 |
| Earnings per share attributable to Powell Industries, Inc.: | | | | |
| Basic | $ 0.15 | $ 0.89 | $ 0.57 | $ 2.59 |
| Diluted | $ 0.14 | $ 0.88 | $ 0.56 | $ 2.56 |
| Weighted average shares: | | | | |
| Basic | 11,740 | 11,556 | 11,730 | 11,518 |
| Diluted | 11,812 | 11,679 | 11,806 | 11,648 |

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, 2011 | June 30, 2010 |
|---|---|---|
| Operating Activities: | | |
| Net income | $ 6,638 | $ 29,949 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation | 7,790 | 6,753 |
| Amortization | 3,708 | 3,244 |
| Stock-based compensation | 1,117 | 1,492 |
| Bad debt expense | 82 | 479 |
| Deferred income taxes | (5,440) | (2,087) |
| Gain on sale of investment in joint venture in Kazakhstan | (1,229) | |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (14,151) | 23,624 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | (5,846) | 11,107 |
| Inventories | (2,747) | 11,922 |
| Prepaid expenses and other current assets | 3,795 | 1,971 |
| Accounts payable and income taxes payable | 6,459 | (19,958) |
| Accrued liabilities | (10,910) | (6,383) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 33,511 | (9,978) |
| Other | 2,464 | 68 |
| Net cash provided by operating activities | 25,241 | 52,203 |
| Investing Activities: | | |
| Proceeds from sale of fixed assets | 308 | 14 |
| Purchases of property, plant and equipment | (4,072) | (3,461) |
| Proceeds from sale of investment in joint venture in Kazakhstan | 1,229 | |
| Buyout of noncontrolling interest Powell Asia | | (659) |
| Acquisition of Powell Canada | | (23,394) |
| Net cash used in investing activities | (2,535) | (27,500) |
| Financing Activities: | | |
| Borrowings on Canadian revolving line of credit | 4,947 | 891 |
| Payments on Canadian revolving line of credit | (4,955) | (3,265) |
| Payments on Canadian term loan | | (242) |
| Payments on industrial development revenue bonds | (400) | (400) |
| Payments on deferred acquisition payable | | (4,292) |
| Other | (250) | 1,308 |
| Net cash used in financing activities | (658) | (6,000) |

| | | |
|---|---|---|
| Net increase in cash and cash equivalents | 22,048 | 18,703 |
| Effect of exchange rate changes on cash and cash equivalents | (135) | 992 |
| Cash and cash equivalents at beginning of period | 115,353 | 97,403 |
| Cash and cash equivalents at end of period | $ 137,266 | $ 117,098 |

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

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**POWELL INDUSTRIES, INC. AND SUBSIDIARIES**

***Notes to Condensed Consolidated Financial Statements (Unaudited)***

A. OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Overview*

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

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

In December 2009, we acquired the business and certain assets of PowerComm Inc. and its subsidiaries (referred to herein as Powell Canada) for $23.4 million, not including acquisition-related expenses. Powell Canada is headquartered in Edmonton, Alberta, Canada, and provides electrical and maintenance services. Powell Canada is also a manufacturer of switchgear and related products, primarily serving the oil and gas industry in western Canada. The operating results of Powell Canada are included in our Electrical Power Products business segment from the acquisition date. For further information on the Powell Canada acquisition, see Note C.

*Basis of Presentation*

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

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

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of Powell and its subsidiaries included in Powell s Annual Report on Form 10-K for the year ended September 30, 2010, which was filed with the SEC on December 8, 2010.

*Reclassifications*

Certain reclassifications have been made in prior year s financial statements to conform to the presentation used in the current year. These reclassifications have not resulted in any changes to previously reported net income for any periods.

*Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying footnotes. The most significant estimates used in our financial statements affect revenue and cost recognition for construction contracts, the allowance for doubtful accounts, provision for excess and obsolete inventory, goodwill and other intangible assets, self-insurance, warranty accruals, income taxes and estimates related to acquisition valuations. The amounts recorded for insurance claims, warranties, legal, income taxes and other contingent liabilities require judgments regarding the amount of expenses that will ultimately be incurred. We base our estimates on historical experience and on various other assumptions, as well as the specific circumstances surrounding these contingent liabilities, in evaluating the amount of liability that should be recorded. Estimates may change as new events occur, additional information becomes available or operating environments change. Actual results may differ from our estimates.

*New Accounting Standards*

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

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

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

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

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

*Subsequent Events*

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

B. FAIR VALUE MEASUREMENTS

We measure certain financial assets and liabilities at fair value. Fair value is defined as an exit price which represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in valuing an asset or liability. The accounting guidance 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, 2011 (in thousands):

| | Fair Value Measurements at June 30, 2011 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Fair Value at June 30, 2011 |
| Assets | | | | |
| Cash equivalents | $ 88,807 | $ | $ | $ 88,807 |
| Total | $ 88,807 | $ | $ | $ 88,807 |
| Liabilities | | | | |
| Foreign currency forward contracts | $ | $ 32 | $ | $ 32 |
| Total | $ | $ 32 | $ | $ 32 |

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

| | Fair Value Measurements at September 30, 2010 | |
|---|---|---|
| | | Significant |

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Fair Value at September 30, 2010 |
|---|---|---|---|---|
| Assets | | | | |
| Cash equivalents | $ 64,014 | $ | $ | $ 64,014 |
| Total | $ 64,014 | $ | $ | $ 64,014 |
| Liabilities | | | | |
| Foreign currency forward contracts | $ | $ 47 | $ | $ 47 |
| Total | $ | $ 47 | $ | $ 47 |

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Cash equivalents, primarily funds held in money market 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.

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

C. ACQUISITIONS

On December 15, 2009, we acquired the business and certain assets of PowerComm Inc. and its subsidiaries, Redhill Systems, Ltd., Nextron Corporation, PCG Technical Services Inc. and Concorde Metal Manufacturing Ltd (the business of which is referred to herein as Powell Canada). Powell Canada is headquartered in Edmonton, Alberta, Canada, and provides electrical and maintenance services in western Canada. Powell Canada is also a manufacturer of switchgear and related products, primarily serving the oil and gas industry in western Canada. This acquisition supports our strategy to expand our geographic presence into Canada, as well as increasing our service and maintenance capabilities.

We paid $23.4 million, plus expenses of approximately $2.4 million, for the acquisition from our existing cash and cash equivalents and assumed $15.1 million of existing bank debt. See the table below for assets acquired and liabilities assumed. In December 2009, approximately $2.4 million of the $23.4 million purchase price was placed into an escrow account related to the purchase of PowerComm s 50% interest in the operations of a joint venture in Kazakhstan. This transaction closed in April 2010 and the escrow was released. The finalization of the net asset adjustment related to the Kazakhstan transaction and the calculation of the management fee agreement related to the operating results of the Kazakhstan joint venture from December 16, 2009, through March 31, 2010, as defined in the acquisition agreement, resulted in a refund to the Company of approximately $472,000. This refund was received by the Company subsequent to September 30, 2010, and reduced the corresponding receivable.

Intangible assets recorded are approximately $9.0 million and are being amortized over an initial weighted average life of approximately 8.4 years. Goodwill was initially recorded at approximately $7.2 million and was not amortized. Goodwill represented the excess purchase price over the estimated fair value allocated to the net assets acquired. During fiscal 2010, our impairment analysis indicated that the goodwill related to the acquisition of Powell Canada was completely impaired, thus a loss on impairment of approximately $7.5 million was recorded in the fourth quarter of fiscal 2010.

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

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

Operating results of Powell Canada are included in our Electrical Power Products business segment in our Condensed Consolidated Statements of Operations from December 15, 2009. Pro forma results, including the results of Powell Canada since the beginning of fiscal year 2009 would not be materially different than the actual results reported.
In the fourth quarter of fiscal year 2010, the Company made a strategic decision to exit the 50% owned joint venture in Kazakhstan. We did not record our share of revenue and expense or assets and liabilities as financial information was not available and based on

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the fact that this information was not material to the consolidated financial position, results of operations or cash flows of the Company. We received approximately $1.2 million in the second quarter of fiscal 2011 resulting from the sale of our 50% investment in a joint venture in Kazakhstan, which is recorded in other income in our Condensed Consolidated Statements of Operations.

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

D. 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, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| *Numerator:* | | | | |
| Net income attributable to Powell Industries, Inc. | $ 1,707 | $ 10,286 | $ 6,638 | $ 29,790 |
| *Denominator:* | | | | |
| Weighted average basic shares | 11,740 | 11,556 | 11,730 | 11,518 |
| Dilutive effect of stock options and restricted stock units | 72 | 123 | 76 | 130 |
| Weighted average diluted shares with assumed conversions | 11,812 | 11,679 | 11,806 | 11,648 |
| *Net earnings per share:* | | | | |
| Basic | $ 0.15 | $ 0.89 | $ 0.57 | $ 2.59 |
| Diluted | $ 0.14 | $ 0.88 | $ 0.56 | $ 2.56 |

All options were included in the computation of diluted earnings per share for the three and nine months ended June 30, 2011 and 2010, respectively, as the options exercise prices were less than the average market price of our common stock.

E. 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, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Balance at beginning of period | $ 1,508 | $ 1,930 | $ 907 | $ 1,607 |
| Increase (decrease) in bad debt expense | (524) | | | |